

THE LINK BETWEEN LEADERSHIP, STRATEGIC MANAGEMENT AND FIRM PERFORMANCE: A CRITICAL LITERATURE REVIEW

By

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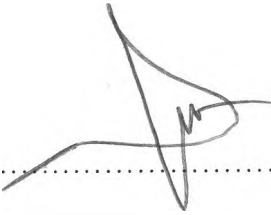
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DECLARATION

This independent study paper is my original work and has not been presented for a degree in any other University.

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ABSTRACT

This paper reviews two main concepts: leadership and strategic management. It outlines the concepts of strategy and strategic management and what they entail in the context of dynamic operating business environment and their impact on firm performance. It also looks at the role of leaders in organizational strategy formulation, execution or implementation and evaluation.

Existing conceptual and empirical contributions indicate that the two concepts are closely related and influence the performance of organizations. Development in modern strategic management started over five decades ago with the seminal work of Chandler (1962) on the relationship between strategy and structure. Leadership on the other hand, was first documented by Bernard (1926) and further expounded by Tannenbaum (1957) and has since advanced to the levels where transformational leadership is the buzzword. According to O'Reilly et al (2005) leadership has been a central, and sometimes a controversial, topic in the study of organizations.

As environmental turbulence increases, strategic issues that challenge the way organizations plan and implement their strategies emerge with greater frequency. It also brings into question responsibilities as well as the balance of power and decision – making between those who manage and those who govern. O'Reagan and Ghobadian (2004) assert that the quality of leadership and strategy is widely viewed as instrumental in maintaining and improving competitive performance. Indeed, the literature suggests

that the formulation and deployment of strategic actions by effective leaders result in strategic competitiveness and above average returns.

Developments of the last few years that highlight corporate and executive misconduct along with the unprecedented challenge faced by companies seeking to survive and prosper in a dynamic, constantly changing global business environment highlight the critical need for solid leadership more than ever before (Pearce and Robinson, 2007). Empirical research supports the propositions that leadership and strategy are positively related.

More recent studies conclude that strategic leadership is a requirement of strategic success (Northouse, 2007). The relationship between strategy and performance is also well documented by the research. The growing importance of leadership and strategy in corporate performance creates a circular relationship between the three variables that requires more study. The circularity suggests that that there is no beginning or end to the relationship and the interplay between these variables is complex and dynamic.

The focus in 1970s was in strategic planning, then strategic management in 1980s and transformational versus transactional leadership. This was subsequently followed by strategic leadership with more emphasis on effective boards and executive coaching for the chief executives and the top teams in the late 1990s and early 2000s. This is likely to continue for some time before other leadership aspects applicable in turbulent business environments take their rightful place as Perott (2008) asserts that organizations face a

challenging future where managers will need to work smarter to achieve growth and profit targets. Senior managers and boards perceive the market place as becoming more complex and challenging by the day. This will call for a proper mix of leadership styles and strategic management tactics and techniques in the context of various operating environments.

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PART ONE

1.1 Introduction

The two concepts of strategic management and leadership have been subjects of major academic discourses for some time now. This paper reviews the literature of the concepts and how they affect performance of organizations. We start by reviewing strategy and strategic management followed by a review of organizational leadership and culture, change management and board management. They are all as old as the management profession. The origin of strategy dates back to 400 BC when the Greeks applied it in military to outwit their opponents. Various leadership theories and styles too have developed along similar periods albeit with more emphasis in the last twenty years.

An integration of these concepts paves the way to strategic leadership as an area that is of great interest to scholars and practitioners. Strategic leadership refers to a manager's ability to articulate a strategic vision for the company, or part of the company, and to motivate others to buy into that vision (Hill and Jones, 2004). Many scholars and strategists have found the two closely related and interwoven and influence firm performance. Consequently, there is need to critically review the literature of the two concepts and relate them to firm performance.

1.2 Theory of Strategy

The term, strategy, is derived from the Greek word 'strategia' which implies the science, art, tact and quality of being an efficient and effective army general. According to Greek generals, strategy was more than fighting a battle (Bhattacharya, 1998). The most famous examples of this are the writings of Sun Tzu – The Art of War – completed in the fourth century BC in the court of Ho Lu. These have been translated and applied to the modern business world for over two thousand years now. European countries utilized several strategies to outshine their neighbours back at home and in their colonies in Africa and India.

The importance of strategy has been underlined by the definitions of various leading strategic management scholars and practitioners (Chandler, 1962; Porter, 1980 and

Ansoff, 1987). Some authors have defined the concept broadly to include both goals and the means to achieve them (Chandler, 1962; Andrews, 1971; Chaffee, 1985). Others define strategy narrowly by including only the means to achieve goals (Ansoff, 1965; Glueck and Jauch, 1984).

Mintzberg (1990) asserts that strategy should be a controlled, conscious process of thought. Responsibility for that control and consciousness must rest with the chief executive officer: that the person is the strategist, and that the model of strategy formation must be kept simple and informal. Glueck and Jauch (1984) bring in the added dimension by defining strategy as a consistent, unifying and integrative plan for the whole organization which is meant to provide guidance and direction for the activities of the organization. This idea of strategy may be seen as an amplification of earlier views by Ansoff (1965) who saw strategy as the "common thread" among an organization's activities. Glueck and Jauch (1984) also view strategy as a company's response to the external environment given the resources the company possesses. They refer to these as opportunities and threats facing the firm and the strengths and weaknesses of the firm.

Whittington (1993) in trying to explain more about strategy identifies four main concepts of strategy namely: that it may either be rational; fatalistic; pragmatic or relativist – all have radically different implications of how to develop a strategy. Each of them has assumptions underlying them. He expounds the four as classical, evolutionary, processual and systemic in nature respectively. The four approaches to strategy differ fundamentally along two dimensions namely the outcomes of strategy and the processes by which it is made. For classical school, strategy is best made through rational analysis undertaken at once to understand the busy market place. The supreme goal is profitability. Under the evolutionary school, strategists should have open minds and since the options many and the best option has to be selected. Processualists see effective strategies as emerging directly from involvement in everyday operations. Finally, systemic approaches argue that strategies must be sociologically efficient and appropriate to particular social events.

Mintzberg (1987) argued that we could not afford to rely on a single definition of strategy despite our tendency to want to do so. He proposed five definitions of strategy. To him, strategy could be seen in terms of 5Ps and explains the Ps as a plan, a ploy, a pattern, a position and a perspective. As a plan, strategy specifies a consciously intended course of action of a company. The strategy is designed in advance of actions and is developed purposefully. As a ploy, strategy is seen as a manoeuvre intended to outwit a competitor. As a pattern, strategy is seen as a pattern emerging in a stream of actions. Here strategy is seen as a consistency in behaviour. The strategy develops (emerges) in the absence of intentions. As a position, strategy is a means of locating an organization in its environment. Lastly, as a perspective, strategy consists of a position and of an ingrained way of perceiving the world. It gives a company an identity or a personality.

On the other hand, the concept of strategy has been defined by Johnson and Scholes (1999) as *the direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a changing environment to meet the needs of the market and to fulfill stakeholders' expectations*. In defining a firm's strategy, it is essential to answer two basic questions regarding the firm's longevity: 'What has to be done in order to safeguard the firm's long term survival?' and 'How has this to be done?'

Porter (1980) noted that strategy is all about competition and trying to gain competitive advantage. Strategy can be viewed as building defenses against the competitive forces, or as finding positions in the industry which forces are weakest (Pearce & Robinson, 2007). Strategy articulates the means by which an organization endeavours to convert its intentions into organizational capability. This enables the organization to take advantage of its external opportunities and minimize the threats that it faces (O'Regan and Ghobadian, 2004).

It appears that the common consensus is that strategy is many things. It can simply be defined as the matching of the opportunities in the business environment to the competencies or strengths of the organization. This agrees with Hill and Jones (2004)

who assert that strategy is an action that managers take to attain one or more of the organization's goals. For most, if not all organizations, an overriding goal is to achieve superior performance by creating a competitive advantage. According to Thompson et al (2007), a company's strategy is a management's action plan for running and conducting operations.

The crafting of a strategy represents a managerial commitment to pursue a particular set of actions in growing the business, attracting and pleasing customers, competing successfully, conducting operations, and improving the company's financial and market performance. The various definitions highlighted above suggest that the authors have given selective attention to various aspects of strategy.

1.3 Strategic Management

Strategic management has a long history and is derived from strategy. It can be traced back to 400 BC with its origin in military application in Greece. By 1850, industrial advancement was significant with achievements in strategic management. This gained a lot of momentum during both world wars one and two. The subject has evolved over the last five decades to contribute to the modern thinking about strategy, environment and structure and their significance to the success of business entities. In academic circles, it began as a subject of study in business schools known as business policy.

Modern strategic management can be traced back to the 1950s in the United States of America (USA) and since its origin, significant developments have taken place. The main contributors were (Chandler, 1962; Selznick, 1957; Ansoff, 1965 and Drucker, 1954). Many definitions of strategic management exist in literature. Pearce and Robinson (2007) define strategic management as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objective and highlight nine critical tasks. Aosa (2000) defines it as the formulation and implementation of strategies to achieve corporate success. It involves specifying the

mission and objectives of an organization, undertaking strategic analysis and choices and implementing the formulated strategies.

According to David (2007) there are three phases of strategic management namely strategy formulation, strategy implementation and strategic control. The three main phases of strategic management are interrelated and one phase leads to the other and back again in a circular form. It is also possible to accept research findings such as those by Gluck, Kaufman and Walleck, (1980). They provide empirical evidence of a four-phase progression from basic financial planning, to forecast-based planning (predicting the future) to externally oriented planning (thinking strategically), to strategic management (creating the future). It is important to remember that in practice all the phases co-exist. Other contributors like (Greenley, 1989; Smith, 1999) also support the four chronological phases that gave rise to strategic management. The financial planning phase focused on meeting the budgets and was prevalent in 1950s and earlier.

Pearce and Robinson (2007) highlight nine critical tasks of strategic management. These tasks are not only futuristic, complex, and requiring considerable resources but they also require top management involvement. They also assert that it is a three – tier process involving corporate – level, business – level and functional or operational – level planners, and support personnel. The justification for this is such that implementation can be achieved at ease.

Mintzberg (1990) identifies some basic premises of strategic management. He reckons that among the schools of thought on strategy formation is design school. This school proposes a simple model that views the process as one of design to achieve an essential fit between external threat and opportunity and internal distinctive competence. The premises that underlie this model include: that the process should be one of consciously controlled thought, specifically by the chief executive; that the model must be kept simple and informal; that the strategies produced should be unique, explicit, and simple; and fully formulated before implementation.

According to Thompson et al (2007), the heart and soul of any strategy and the quest for competitive advantage are the actions and moves in the marketplace that managers are taking to improve the company's financial performance, strengthen its long-term competitive position and gain a competitive edge over rivals. Further, a winning strategy must fit the enterprise's external and internal situation, build sustainable competitive advantage and improve company performance. This is the essence of strategic management.

Organizations regularly scan their operating business environments and design relevant strategies to optimize their profitability, achieve shareholder value and be responsible corporate citizens (Perott, 2008). Appropriate strategic management systems are necessary to achieve effective and sustainable corporate performance. Strategic management can further be defined broadly as an attempt to influence the future by forecasting changes in the organization and its environment, setting objectives, and developing strategies for the achievement of these objectives (Capon, 1987; Wildavsky, 1973). The vision, mission and core values of the organization are important in achieving the aims and objectives of the organization.

Strategic management is closely related to strategic planning (Smith, 1999; Capon and Hubert, 1994). The latter is based on two fundamental concepts: market environment and strategic fit – that is, the way in which a company organizes its resources in order to attract and secure profitable relationships with its customers. In order to be effective a firm's strategic planning system must be designed to reflect its specific situational setting (Lorange, 1979). According to Bhattacharya (1998), strategic planning is about projecting the future courses of action for the business as a whole. It is an intellectual approach that signifies the use of rational approach to the solution to the problem and for improved efficiency and better results; short-range plans should be properly co-ordinated with long-range plans. Without an effective strategy, a company is open to buffeting from its competitors (Fitzroy, 2005).

Strategic management and planning cannot be complete without some basic techniques used in formulating and implementing key strategies. Allio (2006), outlines key strategic analysis techniques used in strategic planning and include the following: market segmentation, the lifecycle, strengths weaknesses opportunities and threats (SWOT) Analysis as developed by Selznick (1957) to look at internal and external environment of the business, Industry Structure (consists of five-force analysis) as developed by Porter (1980). These techniques are important in strategic management of organizations. According to Hill and Jones (2004), much of strategic management is about identifying and describing the strategies that managers can pursue to attain superior performance and competitive advantage.

Another useful technique that was developed in 1970s is the Profit Impact of Marketing Strategies (PIMS). It was started in General Electric (GE) to address size, growth and portfolio in the company. It attempted to explain how these variables affected market share and by extension profit. Debate on market share and profitability was long-winded and took about nineteen years to crystallize (Buzzell and Gale, 1987). Alfred Sloan of GM addressed decentralization or diversification of organization into semi-autonomous strategic business units (SBUs). Other techniques of 1970s to analyze portfolio were Boston Consulting Group (BCG) and General Electric (GE) Multi-factoral model. The main thrust in strategic management in 1970s was on marketing revolution. Theodore Levitt in 1970s promoted the concept of “pulling the products through the market”, hence, market-orientation as opposed to pushing them to the customers popularly known as production oriented philosophy.

In the early 1980s, there was what strategists have called The Japanese Challenge. This period witnessed the introduction of Total Quality Management (TQM) by Edward Demmings. Pascale and Athos (1981) claimed that Japanese were successful because of superior management techniques. They proposed what came to be called 7S: Strategy, Structure, Systems, Skills, Staff, Style, Subordinate goals (now Shared Values). Ohmae (1982) compared strategy in America and in Japan and claimed that strategy in America

was too analytical while the Japanese culture in which vagueness, ambiguity, and tentative decisions were acceptable.

Other contributors in quality management included Juran (1992) and Crosby (1979) who promoted Total Quality Management (TQM), Continuous improvement, lean manufacturing, six sigma, and return on quality (ISO). Peters and Waterman (1982) analyzed what makes an excellent company. They proposed eight keys for achieving corporate excellence and these were: action - orientation, customer focus, entrepreneurship, high productivity, simplifying things, value - orientation, sticking to the knitting, centralization and decentralization. These were popular and in use even up to now although new thoughts have replaced some of the keys.

Towards the end of the 1980s and early 1990s there was a lot of talk and literature on gaining competitive advantage. Hamel and Prahalad (1989) came up with terms such as strategic intent, strategic architecture and core competency. Packard and Hewlett also known as HP came up with a concept they called 'management by wandering around' (MBWA). The concept was later popularized in Peters and Austin (1985). Porter (1980, 1985) introduced five-force model for sustainable competitive advantage, generic strategies and the value chain clusters. He modified Chandler's dictum about strategy and structure.

Porter's generic strategies included cost (minimization) leadership strategies; product differentiation and market focus strategies are still in use in different proportions in modern businesses. Drucker (1968) coined the phrase Management by Objective (MBO) to describe the practice of stating clear overall objectives and allowing people the flexibility to work toward them in ways they determine are best. MBO is implemented as a structured methodology to develop integrated plans with specific expected results. This technique was applied a lot by HP in 1980s.

Finally, strategic management has both sides of the coin. Many theories of strategic management have tended to undergo brief or limited periods of popularity. Some of them tend to be either too narrow in focus to build a complete corporate focus or too general to be applicable to specific situations. Gary (2002) coined the term **strategic convergence** to explain the limited scope of strategies being used by rivals in greatly different circumstances. He argued that strategies converge more than they should because the more successful ones get imitated by the firms that do not understand that the strategic process involves designing a customized strategy specific to their situations. On the positive side, when strategy is internalized into a corporate culture, it makes the work of strategists easier and simple.

PART TWO

2.0 Organizational Leadership

The word 'leadership' has been widely used. Political orators, business executives, social workers, and scholars apply it in speech and in writing (Tannenbaum, 1957). According to O'Reilly et al (2005) leadership has been a central, and sometimes a controversial topic in the study of organizations. Kotter (1990) predicted that the evolving role of leadership is about coping with change especially now that there is heightened volatility and competitiveness of the business world. It means that more change demands more leadership. Leadership may be described both in terms of behaviour and function (Zaccaro, 2001). De Vries (2006) looks at it as both a property and a process.

Leaders can create an environment in which others are motivated to put in their best (Bhargava, 2003). Past and recent researches on leadership have produced different results on effective leadership. Studies looking at behavioural aspects of leadership were conducted in Ohio State University in 1940s and by the University of Michigan in 1950s. The findings of these studies indicate that for leaders to be effective, there must always be an optimal balance. The job of leading a company has never been more demanding, and it will only get more challenging amidst the global dynamism businesses face today (Pearce and Robinson, 2007). In today's business environment, leadership is one of the

most talked about topics among managers, employees, academics and business commentators.

According to Zaccaro (2001), organizational leadership involves processes and proximal outcomes (such as worker commitment) that contribute to the development and achievement of organizational purpose; is identified by the application of non-routine influence on the organizational life; and is inherently bounded by system characteristics and dynamics hence leadership is contextually defined and caused. Leader influence is grounded in cognitive, social, and political processes. It is incumbent upon the leader to provide direction and purpose for the organization and to carry everyone along with him or her.

Leadership is defined as 'the art or process of influencing people so that they will strive willingly and enthusiastically toward the achievement of the group's mission' (Drucker, 1996; Barghava, 2003). Northouse (2007) adds that in the past 60 years, as many as 65 different classification systems have been developed to define the dimensions of leadership. He supports Bass (1985) definition that views leadership as the focus of group processes. Further conceptualizations include leadership from a personality perspective and also as an act or behavior.

From a practical viewpoint, the principal task of leadership is to ensure the effective deployment of corporate strategy (O'Regan and Ghobadian, 2004). Tannenbaum (1957) defined leadership as interpersonal influence, exercised in situation and directed, through the communication process, toward the attainment of a specified goal or goals. It involves attempts on the part of a leader of a leader (influencer) to affect (influence) the behaviour of a follower (influencee) or followers in situation.

Despite the multitude of ways in which leadership has been conceptualized, the following components can be identified as central to the phenomenon: (a) leadership is a process; (b) leadership involves influence, (c) leadership occurs in a group context, and (d) leadership involves goal attainment (Northouse, 2007). From the foregoing therefore,

leadership may be defined as the process of influencing a group of individuals to attain predetermined common goal under given circumstances.

The history and development of leadership concept highlights the shifting focus in theoretical orientation. Early leadership researches focused on the 'leader' himself to the virtual exclusion of other variables such as followers (Tannenbaum and Masarik, 1957; Zaccaro, 2001). This assumes that leadership effectiveness could be explained by isolating psychological and physical characteristics, or traits, which were presumed to differentiate the leader from other members of his group.

Higgs and Rowland (2002) trace the developments in leadership as follows: in 1920s, the school of thought was on trait theory that focused on characteristics of great leaders; and in 1950s, the emphasis was style theory where leadership effectiveness was explained and developed by appropriate styles and behaviours. Contingency theory of leadership was predominant in 1960s in which leadership was seen as contextual and situational. In 1970s, the emphasis was in charismatic leadership which was concerned with leaders' behaviour and their ability to transform organizations.

The Table below explains this.

Table 1: Leadership Theories

Period	Leadership Theory
Up to late 1940s	Trait Approach
Late 1940s to Mid 1960s	Behaviour/Style Approach
Late 1960s to early 1970s	Contingency Approach
1970s to early 1980s	Charismatic Leadership
Early 1980s to date	Transformational Theory

Source: Bryman, A. (1981) Leadership and Culture in organizations, *Public Money and Management*, Autumn, pp. 35-41

In 1980s, a distinction between management and leadership was emphasized. Leaders required a transformational focus that encompassed a range of characteristics and behaviours in addition to charisma. This was labeled New Leadership/ Neo-charismatic

School. Late 1990s saw two emerging approaches to leadership. They include strategic leadership and change leadership.

Leadership has been a major topic of research in psychology and business for almost a century and has spawned thousands of empirical and conceptual studies (Drucker, 1996). The dynamics of leadership is dependent on the leader's many skills that include communication and perceptual capacities of the leader and the follower. The personality of the follower also has an impact on the leader – follower relationship (Tannenbaum, 1957). Kellerman (2007), highlights the key issues that leaders need to know about their followers. He states that the distinctions among followers are every bit as consequential as those among leaders – and have critical implications for how managers should manage.

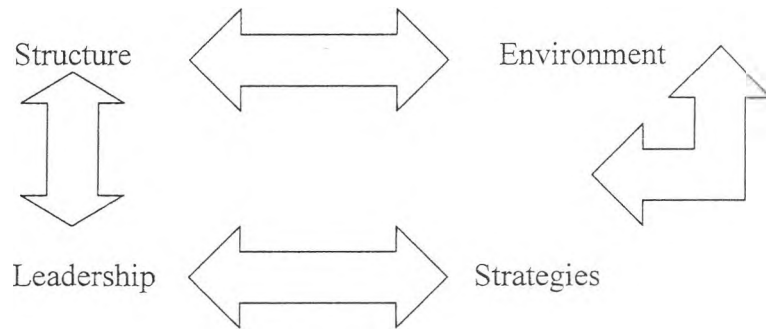
2.1 Strategic Planning, Leadership and Change

Most organizations operate in turbulent business environments. A strategic planning system has two major functions: to develop an integrated, co-ordinated and consistent long term plan of action, and to facilitate long term corporate adaptation to changes in the environment. Strategic planning systems can either be complex or flexible. Perrott (2008) asserts that organizations face a challenging future where managers will need to work smarter to achieve growth and profit targets. As environmental turbulence increases, strategic issues that challenge the way an organization plans and executes its strategy emerge with greater frequency. Appropriate planning system should be applied to relevant environment.

Companies faced with a complex environment will tend to have a more flexible strategic planning system. On the other hand, companies faced with a less complex environment will tend to employ a less flexible planning system (Johnson, Scholes and Whittington, 2005). Thompson (2007) states that the central strategy making challenge in a turbulent market environment is managing change. For leaders to be effective issues related to culture and adaption to change must be clearly identified (Ouchi, 1981; Baron 1995). A company operating in a high velocity change can assume any of the following strategic

postures: it can either react to change or anticipate change or it can lead change. If it chooses to react then it tends towards defensive strategy. However, if on the other hand it chooses to lead change, then it will go on the offensive. Either of the strategies may be applicable depending on the situation. In both cases, planning is required for effective implementation and successful performance for the organizations that practice it.

Figure 2.1: Leadership – Strategy – Environment Relationship



Source: Researcher

It is important to note that there is a closer relationship between the various variables and the environment and structure of the organization. The leadership of any organization when formulating strategic decisions has to watch their operating environment. From there on, the leadership will design relevant organizational structure to enable it implement all the appropriate strategies. Chandler (1962) in his seminal work studied about the various aspects of strategy and structure and concluded that the two are related.

According to Kachaner (2008), leading companies have learned to focus on developing great strategists – teams and individuals who are prepared to spot shifts early on, and are agile enough to do what it takes to seize or retain market leadership. In a race for strategic foresight, companies are stretching their strategy process along three mutually exclusive dimensions. These are: stretching time horizons to give the short, medium and long term their dues; stretching their thinking with new techniques to boost creativity and insight and stretching the engagement process so as to foster dialogue, preparedness, and alignment across the organization. It can be stated that if companies or organizations have

to remain competitive a clear focus should be in strategic planning and effective leadership of the various teams in the organization. This will ensure that synergies among members are promoted and enhanced.

Strategic planning does not only pay attention to what management wants (Smith, 1999). It also concerns the analysis of the firm's environment, leading to defining what the firm given its environment, should achieve. Environmental scanning and analysis allows the firm to be connected to its environment and guarantees the alignment between both, through adapting the firm to its environment or through a process of 'changing' the environment so that the needs of the environment fit the firm's objective, resources or corporate values.

Operational measures of strategic planning are as follows: Organization size, organization structure, organization environment, market life-cycle, capital intensity, role of corporate planning staff, planning extensiveness that consist it of planning horizon and plan revision. According to Fubara (1986) basic steps in corporate planning include the following: environmental appraisal, company appraisal, corporate strategy, operating plans, annual plans and reviews.

Adegbite (1986) and Woodburn (1984) assert that in the process of environmental analysis, management will identify the structure of its environment and will discover the dynamic interaction patterns between the structural elements and the overall evolutions to which the environment is subject. Particular attention will be on the 'competitive forces' in the environment (potential entrants, competitors, clients, suppliers, substitute products or services) and the political, economic, societal and technological dynamics determining the interactions and evolutions of these competitive forces Porter (1980).

2.2 Leadership styles and Power

Although there is no agreement to date on the accepted styles of leadership, the more commonly accepted styles are transformational and transactional. Other styles include strategic, laissez faire, charismatic and human resource orientation (O'Regan and

Ghobadian, 2004). Over the years, leadership styles have been studied extensively in various contexts and with various theoretical foundations. While leaders have been traditionally seen in many cultures as those who have been advantaged by their heritage, current theorists and researchers view leadership as learned behaviour (Benard, 1926; Blake, Shepard and Moulton, 1964; Drath and Palus, 1994; Fiedler, 1967; House and Mitchell, 1974). There are several theories for analyzing leadership styles and effectiveness: starting from the traditional trait theory (Stogdill, 1974) to behavioral theories that lead to the development of contingency theories (Fiedler, 1967). These theories have identified several forms of leadership: charismatic (Conger and Kanungo, 1988), transactional leadership (Burns, 1978), transformational leadership (Bass, 1985) and visionary leadership (Nanus, 1992; Sashkin, 1988). No one leadership style is appropriate in all situations. Leaders will therefore apply different styles at different times and situations.

According to Northouse (2007), the concept of power is related to leadership because it is part of the influence process. Power is the capacity or potential to influence others through beliefs, attitudes and action. Two types of power exist, namely position power and personal power. Position power that consists of legitimate, coercive and reward powers is derived from a particular office or rank in a formal organizational system. Personal power on the other hand consists of referent and expert power. Power rests on the shoulders of a few leaders. They may use for the good of their organizations or misuse the power for their personal interests.

The quality of leadership and strategy is widely viewed as instrumental in maintaining and improving competitive performance. Indeed the literature suggests the formulation and deployment of strategic actions by effective leaders result in strategic competitiveness and above - average returns (O'Regan and Ghobadian, 2004). Leaders influence the destiny of their organizations. Through the organizations' and their own vision, the leadership focuses at the desired end from the beginning. Visionary leaders drive the operations of their organizations to achieve results as set out in their corporate goals.

Besterfield (2003) asserts that visionary leadership is for an organization's senior leaders to set directions and create a customer focus, clear and visible values, and high expectations. The directions, values, and high expectations should balance the needs of all your stakeholders. Zaccaro (2001), states that senior organizational leaders generally carry the construction of organizational purpose and direction. The leadership performance imperatives that derive from the organizational context become entwined in this obligation as well as in the content of organizational direction. It should be recognized that any strategy or management style is appropriate only in a particular set of circumstances; therefore the search for universally applicable strategies and management styles should be abandoned. Strategic fit, however, enables an organization to operate in its particular competitive situation at peak effectiveness (Chorn,1991).

Present times call for a new brand of leadership: namely, transformational leadership. Following the major work of Bass (1985) on transformational leadership, extensive research worldwide has revealed that transformational leaders are those who are value driven, courageous and lifelong learners, and have the ability to deal with ambiguity, complexity and uncertainty (Bhargava, 2003). The corporate structure adopted by the leaders should match the strategy employed to maximize the achievement of corporate performance objectives. The twenty-first century leader will have to be a visionary, a change agent, a change leader, and a knowledge manager. It is for the leader to create the organization's vision and align it with the corporate strategy so it shares the company's customer – centric value proposition with employees across all levels and facilitates internal cohesiveness (Bhargava, 2003).

2.3 Leadership and organizational culture

As leadership research has grown and expanded a broader focus has emerged which encompasses organizational culture (Schein,1985). For leaders to be effective, according to this view, issues related to culture must be clearly identified. Thompson (2007) notes that every organization has its own unique culture or work climate that executives espouse. The corporate culture is as derived from core values, business principles and ethical standards. Some of the most successful corporate cultures include strong work

ethic, customer focus, listening to customers and employees. Strong cultures are those that support the formulation and implementation of strategies.

Three factors contribute to the development of strong cultures: a founder or a strong leader who establishes values, principles and practices that are consistent and sensible in the light of customer needs, competitive conditions and strategic requirements; a sincere, long standing company commitment to operating the business according to these established traditions thereby creating an internal environment that supports decision making and strategies based on cultural norms; and a genuine concern for the well – being of the organization’s three biggest constituencies- customers, employees and shareholders. Leaders affect the culture among the people through teams, innovation, and productivity.

Many years ago, Bass (1985) observed a correlation between transformational leaders and team effectiveness. The leaders served as a role model for the team members and increased cooperation among the members. Therefore, organizations benefit from having leaders at all functional levels (King, 1994; Waldman, 1987). However, the spread of transformational elements to all levels of an organization can lead to conflicts with the transactional bureaucracy (Bass & Avolio, 1993). Nevertheless, transformational energy leads people to greater effectiveness as they reach common goals for the organization and for themselves.

Leaders, especially chief executive officers craft strategies that ensure sustainability of the business operations. To be effective in this aspiration or vision, the leaders nurture strong cultures that see to it that proper strategies are formulated, adjusted where necessary and implemented as planned. According to Northouse (2007), globalization has created a need to understand how cultural differences affect leadership performance. Since globalization brings about competition among firms it is important for leaders to understand multicultural and diverse nature of their business environments. Multicultural implies an approach or system that takes more than one culture into account. It refers to the existence of multiple cultures such as African, American, Asian, European and

Middle Eastern. It may also refer to a set of subcultures like race, gender, age and ethnicity. Diversity refers to the existence of different cultures or ethnicities within an organization.

2.31 Upper Echelon's Theory

There is a growing emphasis within the field of strategic management on the importance of top management teams (TMTs) and their influence on firm performance. Upper echelon theory suggests that the demographic characteristics of top management influence decision-making processes which, in turn, affect organizational outcomes. Corporate ideology is expected to mediate the relationship between top management demographics and firm performance (Goll et al, 2001).

Upper echelon theory suggests that the characteristics of an organization's key decision-makers influence strategy and subsequent performance and that managers bring a cognitive base and values to the decision-making process that restrict their field of vision. (Hambrick and Mason, 1984). Thus, the characteristics of top management team such as age or education have been found to influence strategy formulation and implementation by either promoting or inhibiting it (Bantel, 1993).

2.4 Leadership and governance

According to Gay (2002) despite the growth of global economy, national differences remain strongly differentiated. Differences in national economic structures, values, cultures institutions and histories contribute profoundly to competitive success. The national differences are also found in governance and in the legal frameworks regulating corporate activity on the basis of the nations' histories. Governance is different from management. If management is about running businesses, governance is about seeing that the business is run properly.

Governance is the manner in which power is exercised in the management of organizations. It essentially addresses the leadership role in the institutional or corporate framework. Corporate governance therefore refers to the manner in which the power of

the corporation is exercised in the stewardship of corporation's total portfolio of assets and resources with the objective of maintaining and increasing shareholder value and satisfaction of other stakeholders in the context of its corporate mission. Hill and Jones (2004) observe that governance mechanisms are mechanisms that principals put in place to align incentives between principals and agents and monitor and control agents. The Board of Directors is the centre piece of the corporate governance system in the United States and the United Kingdom and some developing countries. In the private sector and in some public sector, board members are directly elected by stockholders and by corporate law are expected to represent the stockholders' interests. The board can be held legally accountable for the company's actions.

Further according to Gay (2002), eight characteristics of governance were identified and all had legal, institutional and cultural dimensions include the following: the prevailing concept of the firm; the board system; the salient stakeholders' ability to exert influence on managerial decision-making; the importance of stock markets in national economy; the presence or absence of an external market for corporate control; the ownership structure; the extent to which executive compensation was dependent on corporate performance and the time horizon of economic relationship.

2.41 The Board of Directors

Formal leaders consist of the Board of directors, the Chief Executive Officer and the management team. These are charged with the responsibility of crafting appropriate strategies for their organizations that will ensure the attainment of the long term aspiration of the organization. Besterfield (2003) asserts that leaders should ensure the creation of strategies, systems, and methods for achieving excellence, stimulating innovation, and building knowledge and capabilities.

Bhattacharya (1998) restates McKinsey's 7S framework that was developed towards the end of 1970s by the McKinsey Company. The company viewed effective organizational change as a complex relationship between strategy, structure, systems, style, skills, staff and super-ordinate goals. The values and strategies should help guide all activities and

decisions of their organizations. Senior leaders should inspire and motivate your entire workforce and should encourage all employees to contribute, to develop and learn, to be innovative and creative.

According to Thompson (2007), boards of directors have a duty to shareholders to play a vigilant role in overseeing management's handling of a company's strategy-making, strategy-executing process. According to Pearce and Robinson (2007), every corporation should be led by an effective Board of Directors which is a group of stockholder representatives and strategic managers responsible for overseeing the creation and accomplishment of the company mission.

The Board's major responsibilities are: to establish and update the company mission; to elect the company's top officers, the foremost of whom is the CEO; to establish the compensation levels of the top officers, including their salaries and bonuses; to determine the amount and timing of the dividends paid to stockholders; to set broad company policy on such matters as labour – management relations, product or service lines of business, and employee benefit packages ; to set company objectives and to authorize managers to implement the long term strategies that the top officers and the board have found agreeable and to mandate company compliance with legal and ethical dictates.

Hill and Jones (2004) further reckon that the typical board of directors is composed of a mix of inside and outside directors. The inside directors are senior employees of the organization such as the chief executive officer (CEO). They are required on the board because they have valuable information about the company's activities and operations.

According to Lowy (2008), the best leaders are remembered for how they articulated a crucial issue that contained trade offs and risk and then blazed a new path for their group or organization. Every Leader needs to have a dilemma agenda that addresses the shifting needs, drivers and opportunities occurring around them, and they should be actively working at understanding, defending and capitalizing on these agendas.

Senior leaders should serve as role models through their ethical behaviour and their personal involvement in planning, communications, coaching, development of future leaders, review of organizational performance, and employee recognition. As role models, they can reinforce values and expectations while building leadership, commitment, and initiative throughout the organization (Besterfield, 2003). Senior leaders of any organization will consist of the board of directors, the Chief Executive Officer (CEO) and the senior management team. These are specifically explained here below.

2.42 The Chief Executive Officer (CEO)

According to Pearce and Robinson (2007), The Chief Executive Officer (CEO) plays a dominant role in strategic planning process. The CEO's principal duty often is defined as giving long term direction to the firm, and he/she is ultimately responsible for the firm's success and therefore the success of the strategy. Zaccaro (2001) asserts that the performance demands and problematics that the chief executive officers (CEOs) need to manage or otherwise address if they and their organizations are to be successful.

Hill and Jones (2004) spell out the role of the CEO as the general manager whose role in consultation with other senior executives is to oversee the development of strategies for the whole organization. This role includes defining the mission and goals of the organization, determining what business it should be in, allocating resources among different businesses, formulating and implementing strategies that span individual businesses, and providing leadership for the organization.

2.43 Management Team

Thompson (2007) reckons that a crafted strategy requires execution. Good strategy execution requires team effort. All managers have strategy-executing responsibility in their areas of authority, and all employees are participants in the strategy execution process. Management's handling of the strategy implementation process can be considered successful if and when the company achieves the targeted strategic and financial performance and shows good progress in making its strategic vision a reality.

Thompson (2007) has identified eight managerial bases for effective execution of strategy. These are as follows: building an organization with the competencies, capabilities, and resource strengths to execute strategy successfully; marshalling sufficient money and people behind the drive for strategy execution; instituting policies and procedures that facilitate rather than impede strategy execution adopting best practices and pushing for continuous improvement in how value chain activities are performed; installing information and operating systems that enable company personnel to carry out their strategic roles proficiently; tying rewards directly to the achievement of strategic and financial targets and to good strategy execution ; shaping the work environment and corporate culture to fit the strategy and exercising strong leadership to drive execution forward, keep improving on the details of execution, and achieve operating excellence as rapidly as feasible.

In the twentieth century organization – characterized by structured, hierarchical centralized systems – the leader was the boss, key actor, the decision maker, and he determined the destiny of the organization Bhargava (2003). This has changed in the twenty first century where corporations are flatter, decentralized, and loosely structured, and their operations globally dispersed. Bhattacharya (1998), further reckons that in today's changing business environment, a successful organization may make need based structural changes to cope with specific tasks in a systematic procedure. This entails the use of appropriate leadership styles. The McKinsey framework according to Bhattacharya (1998), proposes that appropriate staffing of an organization with human resources with dominant skills and competences give it a character with super-ordinate goals.

PART THREE

3.0 Leadership, Strategy and Change

Empirical research has established that the major factor which distinguishes successful firms from their less successful counterparts is the presence of dynamic and effective leadership (Adair, 2007). Thompson (2007) commented that leadership is one of the many factors, which can impact upon the crafting or development and implementation of strategy. For today's business elite, leadership qualities matter. Management is about

providing the order and procedures necessary to cope with everyday complexity of big business. Leadership by contrast, is about coping with change (Whittington, 1993). For change to occur in any organization, each individual must think, feel, or do something different. Even in large organizations, which depend on thousands of employees understanding company strategies well enough to translate them into appropriate actions, leaders must win their followers one by one (Duck, 1993).

Leadership is about coping with change. Part of the reason is that it has become so important in recent years is because the business world has become more competitive and more. Major changes are more and strong leadership is necessary to survive and compete effectively in this new environment (Kotter, 2001). Most organizations operate in turbulent business environments. They have to continuously plan and review their strategies to ensure competitiveness.

Strategic planning system has two major functions: to develop an integrated, co-ordinated and consistent long term plan of action, and to facilitate long term corporate adaptation to changes in the environment. Strategic planning systems can either be complex or flexible. Perrott (2008) asserts that organizations face a challenging future where managers will need to work smarter to achieve growth and profit targets. As environmental turbulence increases, strategic issues that challenge the way an organization plans and executes its strategy emerge with greater frequency.

Without an effective strategy, a company is open to buffeting from its competitors (Fitzroy, 2005). Allio (2006), outlines that strategic analysis techniques include the following: market segmentation, the lifecycle, strengths weaknesses opportunities and threats (SWOT) Analysis, Industry Structure (consists of five-force analysis). These techniques are important in strategic management of organizations. According to Hill and Jones (2004), much of strategic management is about identifying and describing the strategies that managers can pursue to attain superior performance and competitive advantage.

Appropriate strategies should be applied to relevant environment. Companies faced with a complex environment will tend to have a more flexible strategic planning system. On the other hand, companies faced with a less complex environment will tend to employ a less flexible planning system (Johnson, Scholes and Whittington, 2005). Thompson (2007) states that the central strategy making challenge in a turbulent market environment is managing change. A company operating in a high velocity change can assume any of the following strategic postures: it can either react to change or anticipate change or it can lead change. If it chooses to react then it tends towards defensive strategy. However, if on the other hand it chooses to lead change, then it will go on the offensive. Either of the strategies may be applicable depending on the situation. In both cases, planning is required for effective implementation and successful performance for the organizations that practice it.

According to Kachaner (2008), leading companies have learned to focus on developing great strategists – teams and individuals who are prepared to spot shifts early on, and are agile enough to do what it takes to seize or retain market leadership. In a race for strategic foresight, companies are stretching their strategy process along three mutually exclusive dimensions. These are: stretching time horizons to give the short, medium and long term their dues; stretching their thinking with new techniques to boost creativity and insight and stretching the engagement process so as to foster dialogue, preparedness, and alignment across the organization. It can be stated that if companies or organizations have to remain competitive a clear focus should be in strategic planning and effective leadership of the various teams in the organization. This will ensure that synergies among members are promoted and enhanced.

3.1 Firm Performance

Firms are in business to succeed. Success is measured in several ways. The level of success is measured in terms of business performance (Waweru, 2008). In order to measure the extent of success, firms measure among others profitability using traditional performance measures. The measures that have been used may either be historical or comparative. Stakeholders influence how firm performance is measured and presented.

The stakeholders include the employees, shareholders, government, customers, competitors and the general publics. According to Kantabutra and Avery (2003) cited customer and employee satisfaction among small and medium enterprises (SMEs) as one of the main measures of firm performance. Kaplan and Norton (1992) came up with balance score card as means of measuring performance of firms.

Firm performance relates to the efficiency and effectiveness of the organization. In the face of business environment changes and dynamism, strategies formulated and different leadership styles firms have to continuously monitor their performances for survival.

3.2 Leadership, Strategic Management and Performance

The proposition that leadership and performance are positively related is widely supported. Studies have examined the role of a broad set of leaders including the CEO, board and top management of formulating and implementing strategy and found that particular styles of leadership impact more profoundly on performance compared with others (O'Regan and Ghobadian, 2004). Empirical research supports the propositions that leadership and strategy are positively related.

More recent studies conclude that strategic leadership is a requirement of strategic success. The relationship between strategy and performance is also well documented by the research. Tannenbaum and Masarik (1957), state that for the effectiveness of any attempt to influence, it must always be assessed with reference to the leader's intended goal or goals. Thompson (2007) asserts that for the most part, leading the strategy execution process is a top-down responsibility driven by mandates to get things on the right track and show good results. It must start with a perceptive diagnosis of the requirements for good strategy execution, given the company's circumstances.

Some researchers have chosen to look at leadership and strategic management by developing theoretical models around the dual concepts of leadership versus management (see table 3.0 below).

Table 3.0: Leadership versus management descriptions

Source	Leadership Behaviours	Management Behaviours
Zaleznik (1977)	Adopts a personal and active attitude towards goals, are proactive, develop fresh ideas, explore new options, develop excitement in others, accept high level risk, seek out opportunities, concerned with ideas, relates to people in intuitive ways, focus on what events mean to people, attract strong feelings of identity, are able to intensify individual motivation	Adopts an impersonal/passive attitude towards goals, reactive, emphasis on rationality and control, focus on strategies and decision-making, planning, rewarding, punishments, emphasis on acceptable compromises, limit choices, operates using a survival instinct, tolerates mundane and practical work, relates to people according to other person's role, focuses on how things get done, communicates to subordinates indirectly, uses inconclusive signals when communicating
Bennis & Nanus (1985)	Innovative, original thinking, develops, focuses on people, inspires trust, long-range perspective, originates, challenging, does the right thing	Administers, copies, maintains, focuses on systems and structure, relies on control, short-range view, imitates, accepts status quo, does things right
Kotter (1990)	Coping with change, setting a direction, aligning people, motivating and inspiring	Coping with complexity, planning and budgeting, organizing and staffing, controlling and problem solving
Eicher (1998)	Guiding others and the organization, personally developing others, promoting opportunities for growth, being future-oriented, embracing uncertainty, communicating organization direction, developing key relationships, inspiring others	Administering rules and policies, demonstrating and clarifying expectations, setting standards of performance, improving operations, maintaining focus on present needs, directing operations, developing the organization, reinforcing performance

Source: Eppard, R.G. (2004). *A quantitative Study of Leadership Styles and Organizational Culture* unpublished PhD Dissertation, Virginia Polytechnic Institute & State University p.19

Zaccaro (2001) contends that models of strategic decision making and management argue that organizational effectiveness emerges from a co alignment between the organization and its environment; the role of senior organizational leaders is to create and manage this fit (Northouse, 2007; Kotter, 1990; Stogdill, 1974; Vroom, 1973 and Tannenbaum and Masarik, 1957). The major unit of analysis in this leadership research tradition is the strategic decision-making activities of top executives. Thus, strategic management

models describe how executives make the strategic decisions that are intended to facilitate organization-environment co-alignment.

Organizational systems approach emphasizes the importance of leadership processes for organizational effectiveness (Zaccaro, 2001). According to Imoisili (1978) performance of corporate organizations is usually measured by economic indicators and non-economic indicators. Economic indicators consist of return on investments (ROI), productivity of assets, sales margin and net operating margin. On the other hand, non-economic indicators of performance consist of employee turnover, ability to retain management talents and competitiveness of compensation schemes. These quantitative performance measures are closely linked to both strategy and leadership. They indicate whether the organization is successful or not.

To provide effective leadership in complex and dynamic business environments, a drastic shift in leadership styles will be essential. Corporations will need leaders who can bring about renaissance and a renewal Bhargava (2003). The key to this will lie in the ability of leaders to touch the consciousness of people, inspire and provide a unique sense of meaning, leadership through personal power rather than through old style authority.

Bhargava (2003) further asserts that it is established that leadership skills can be learnt and developed in accordance with individual attitude.

Nutt, P.C. & Backhoff R.W. (1993), studied how public sector organizations can be transformed using strategic management and strategic leadership. They established that the theory and process of strategic management and strategic leadership techniques can be used to identify key questions for the transformational change of public organizations. They considered the unique needs of the public sector, the way transformational or radical changes must be carried out in and for this type of organization, and how a transformation will redirect and channel the energies of strategic leaders in the future.

Ring and Perry (1985) argue that public and private sector strategic managers operate in different contexts that generate distinctive constraints on their behaviors and choices. It is

argued that application of private sector models to the public sector is problematic: that general models of strategic management are needed. According to Perott (2008), organizations face a challenging future where managers will need to work smarter to achieve growth and profit targets. Senior managers and boards perceive the market place as becoming more complex and challenging by the day. As environmental turbulence increases, strategic issues that challenge the way organizations plan and implement their strategies emerge with greater frequency. It also brings into question responsibilities as well as the balance of power and decision – making between those who manage and those who govern.

Empirical research supports the propositions that leadership and strategy are positively related. More recent studies conclude that strategic leadership is a requirement of strategic success (Northhouse, 2007). The relationship between strategy, leadership and performance is also well documented by the research. The growing importance of leadership and strategy in corporate performance creates a circular relationship between the three variables that requires more study. The circularity suggests that that there is no beginning or end to the relationship and the interplay between these variables is complex and dynamic. Indeed, at business – unit level, two studies on corporate managers (Barling, Weber, & Kelloway, 1996; Howell & Avolio, 1993) reported significant relationships between charismatic leadership and performance. Further, according to Schendel and Hofer (1979), organizational performance is crucial for the survival and provides the test of leadership and strategy in the long run.

PART FOUR

Conclusion

Times change and, with them, our approaches to strategy and its execution. In the 1970s, strategic planning was the corporate mantra in most companies. But as we moved into a new decade, strategic planning was tarred with the brush of “failure to implement.” In the 1980s, the corporate and consulting world was a-buzz with strategic management—the new and improved version of setting direction and creating shareholder wealth.

In the 1990s, the focus was strategic leadership (Wilson, 1996). In the late 1990s and early 2000s, the focus has been transformational leadership that seeks to stamp the role of leaders in bringing about strategic change.

Strategic leadership refers to a manager's ability to articulate a strategic vision for the company, or part of the company, and to motivate others to buy into that vision (Hill and Jones, 2004). The senior leadership of organizations led by the CEO formulates appropriate strategies for implementation by management teams with structured monitoring and evaluation mechanisms. The current day environment is replete with pioneers, who with their vision are transforming the way businesses are run and wealth created. Dynamic leaders steer their organizations towards achieving a pre-determined vision and strategy that accommodates emergent changes that may not have been anticipated at the planning stage.

According Thompson et al (2007), a winning strategy must fit the enterprise's external and internal situation, build sustainable competitive advantage and improve company performance. Success in an organization can be attributed to a combination of factors. These include effective strategic management characterized by crafting, executing and monitoring of key strategies. To achieve this, organizations require proper strategic planning, balanced boards that provide effective leadership, committed CEO and management team as well as clear implementation structures and strong corporate culture.

Developments of the last few years that highlight corporate and executive misconduct along with the unprecedented challenge faced by companies seeking to survive and prosper in a dynamic, constantly changing global business environment highlight the critical need for solid leadership more than ever before (Pearce and Robinson, 2007). Leadership and governance have continued to be of significant importance to the organizations or companies' success. The need for effective and balanced board consisting of both inside and outside directors is now in high demand than before.

According to Perott (2008), organizations face a challenging future where managers will need to work smarter to achieve growth and profit targets. Senior managers (top management teams) and boards perceive the market place as becoming more complex and challenging by the day. As environmental turbulence increases, strategic issues that challenge the way organizations plan and implement their strategies emerge with greater frequency. It also brings into question responsibilities as well as the balance of power and decision – making between those who manage and those who govern.

Firm performance is highly dependent on both strategic management and leadership. The link is both direct and indirect. More empirical research to confirm or otherwise this relationship needs to be conducted in this area. In leadership, emphasis now is on coaching and mentoring of future generation leaders who are expected to assure sustainable corporate performance on the face of paradigm shifts brought about by changes in the society.

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