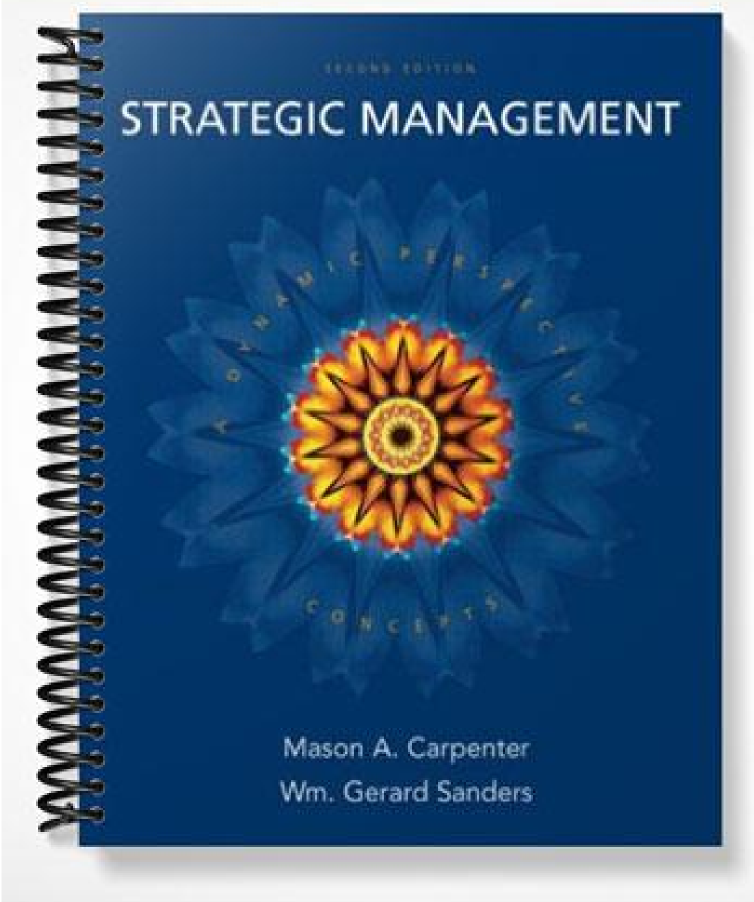
# SOLUTIONS MANUAL



# 2

# Leading Strategically Through Effective Vision and Mission

## I. PURPOSE OF THE CHAPTER

After studying this chapter, students should be able to:

1. Explain how strategic leadership is essential to strategy formulation and implementation.
2. Understand the relationships among vision, mission, values, and strategy.
3. Understand the roles of vision and mission in determining strategic purpose and strategic coherence.
4. Identify a firm's stakeholders and explain why such identification is critical to effective strategy formulation and implementation.
5. Explain how ethics and biases may affect strategic decision making.

This chapter introduces students to strategic leadership and how this leadership impacts the strategic choices of the firm and its competitive advantage. Two specific enabling mechanisms that are highlighted are organizational vision and mission. While vision and mission can take on a superficial air in annual reports and the business press, this chapter strives to give it substance by linking it to strategy implementation via stakeholder analysis and concludes by clearly differentiating vision and mission from strategy.

The concept of strategic leadership is crucial to effective strategy formulation and implementation. However, because this chapter reviews some of the "softer" sides of strategic management, some students (and instructors!) may dread having to discuss such concepts as vision and mission. One way to hit this resistance head on and diffuse the issue through humor is to use one of the experiential exercises included in the Appendix to this chapter's Instructor's Manual. Using the "Vision-Craft-O-Meter" early in the discussion can work as a nice hook to get students interest and allows for the instructor to then use that exercise as a bridge to discuss why leadership does matter, how leaders help steer the organization, and how vision and mission assist or detract from effective strategy formulation and implementation.

In this chapter, the three differentiators – and hence a good approach to presenting the chapter material – are manifested in the following ways:

- **Dynamic strategy:** Students encounter the dynamics of strategy in the opening vignette, where Xerox CEO Anne Mulcahy successfully turns around the flagging company's fortunes. While dynamism is not the central focus of this chapter, students are shown how vision and mission, and the strategic leadership that fosters or stewards them, help firms survive in both stable and dynamic contexts.
- **Formulation and implementation interdependency:** Staffing is normally considered part of strategy implementation. In this case we happen to start with the CEO and other top executives who are collectively the strategic leadership of the firm. The student is shown early in the chapter how such leadership flows through vision and mission to the effective formulation and execution of the strategy. The treatment of stakeholder analysis and its application in How Would You Do That (2.2) reinforces the interdependence theme by demonstrating the importance of early engagement with stakeholders prior to and during formulation to more effectively implement the strategy.
- **Strategic leadership:** The opening vignette shows how the strategic leadership of CEO Anne Mulcahy contributed to the turnaround of Xerox. It is only appropriate that the introductory section in the Chapter is "Strategic Leadership" which walks students through the roles that strategic leadership plays. These are summarized in Exhibit 2.1. Students are also shown how the firm's vision and mission are the imprint of effective (or ineffective) strategic leadership. The second How Would You Do That (2.2) shows how strategic leadership makes a difference through effective stakeholder analysis. Finally, the chapter closes with the treatment of ethics and biases, and how certain factors may negatively affect strategic leaders' decision-making processes.

Additional readings:

Execution: The Discipline of Getting Things Done by Larry Bossidy, Ram Charan, Charles Burck, 2002, NY: Crown Business

Level 5 Leadership by Jim Collins, Harvard Business Review, Jan. 2001: 66-76.

Built to Last : Successful Habits of Visionary Companies by Jim Collins, Jerry I. Porras, 2002, NY: Harper Business Essentials

Ways Women Lead, by J. Rosener, Harvard Business Review, November-December, 1990: 119-125.

Jack Welch & The G.E. Way: Management Insights and Leadership Secrets of the Legendary CEO by Robert Slater, 1998, NY: McGraw-Hill

The First 90 Days by Michael Watkins, 2003, Boston, MA: Harvard Business School Press.

Good to Great: Why Some Companies Make the Leap…and Others Don't by Jim Collins, 2001, New York, NY: Harper Collins Publishers

Primal Leadership: Realizing the Power of Emotional Intelligence by Daniel Goleman, Annie McKee, and Richard E. Boyatzis, 2002, Boston, MA: Harvard Business School Publishing

## II. BRIEF CHAPTER OUTLINE

The purpose of this chapter is to explain strategic leadership in strategy formulation and implementation by addressing:

1. vision, mission, values and strategy
2. shaping purpose and coherence
3. understanding the role of stakeholders; and 4)recognizing the role ethics and biases play in decision making.

**OPENING VIGNETTE: HOW TO PULL A $15 BILLION DOLLAR COW OUT OF A DITCH?**

Insight is gained into the complexity of the role of a firm's strategic leaders with the opening vignette. Once a member of the "Nifty 50" (the 50 stocks most favored by institutional investors), Xerox began a downward slide in the 1970s. Unable to compete with the Japanese and unable to bring their laboratory innovations to market, their sales declined until in late 2001, the company reported its first quarterly loss in 16 years. With debt piling up and an SEC investigation into their accounting practices, it was time for a change.

Anne Mulcahy was brought in to lead Xerox at this troubled time. While not the obvious choice for the job, the Board was confident in her strategic mind and toughness. When Mulcahy's promotion to CEO was announced, Xerox stock dropped 15%. The first female CEO in Xerox history, she knew she had a lot to prove. She called a meeting of all senior Xerox leaders and told them they were free to leave – and four did. Those remaining were onboard and actively supported her.

The Xerox turnaround was engineered by using the revised vision statement and its core values to provide a decision-making framework to guide people at all levels of the organization. Mulcahy aligned the firm's operations with its refined statement of mission and values. In addition, she sold half of the company's stake in a joint venture with Fuji and closed a unit making desktop printers in Rochester, New York. The company's stock dividend was eliminated and PARC was spun off as a separate company.

Mulcahy also kept the channels of communication open. With a regular memo called "Turnaround Talk", she kept employees informed. By 2002, expenses were cut, long-term debt was reduced, and Xerox had returned to profitability. After the turnaround, the challenge was to re-ignite growth. This was achieved in part with large investments in R&D. By funding research, the company was able to introduce 49 new products in 2005. A focus on service businesses paid off with 70 percent of the firm's revenue coming from supplies and service in the first quarter of 2007.

While her commitment to the company has take a toll on her personal life, Mulcahy was quoted as saying that is "the kind of effort it takes to pull a $15-billion cow out of a ditch – and then try to make it run."

### 🗁 *Additional Teaching Points*

Students might be reminded that the organization's strategic leadership is not always effective. That is, leadership does not always produce successful outcomes as in the case of Xerox. The following summary may be used to demonstrate this point:
The job of CEO is more difficult than ever before with an increasing number of these CEO's being fired. Boards want to see results delivered – or else. Carly Fiorina was fired from her job as CEO of Hewlett-Packard after a high profile acquisition of Compaq. Responding to the board's direction to improve HP's competitive position, Fiorina sought the acquisition of Compaq to shore up HR's PC market position. After overcoming major resistance form board members, stockholders, and some internal management, Compaq was acquired. Unfortunately, even after three years, the synergies expected never materialized and HP's stock price ultimately suffered as a result. Some observers suggested that as an outsider, Fiorina was almost destined to fail. She was never able to achieve her vision of HP. Ironically enough, Fiorina's successor, Mark Hurd, was viewed as an operations guy (focusing on short term performance) with little vision (focusing on the long-term). It should be stressed that strategic leadership requires this focus on the long-term.

**Learning Objective 1**

## STRATEGIC LEADERSHIP

Strategic leadership is defined as the task of managing an overall enterprise and influencing key organizational outcomes. This is significantly broader in scope than general leadership – which is defined as the task of exerting influence on other people's pursuit of goals in an organizational context. Strategic leadership includes (but certainly is not limited to) responsibility for firm performance, competitive superiority, innovation, strategic change, and survival. An ability to model and communicate the vision and mission is essential to strategic leadership. The complexity of strategic leadership continues to increase and as a result, teams of top executives are filling this strategic leadership role.

### The Roles Leaders Fill

Henry Mintzberg's classic study of managers' work provides a framework for breaking down the complex responsibilities performed. Mintzberg's typology suggests that leaders fill twelve key roles that are grouped into three major categories:

a. **Interpersonal Roles:** figurehead (ceremonial), liaison (with external stakeholders), leader (authority to provide motivation and direction).
b. **Informational Roles:** monitor(collecting information), disseminator (passing along information to the appropriate internal stakeholders), spokesperson (passing along information to external stakeholders).
c. **Decision Roles:** entrepreneur (designing firm strategy), disturbance handler (handling conflicts – both internal and external), resource allocator (allocating firm resources by balancing tradeoffs), and negotiator (managing non-routine transactions with other organizations).

**Discussion Point**

Ask students to think about their own company's CEO's. Have them discuss some of the roles these CEO's have performed. If students don't work, have them review current news articles or broadcasts for examples of CEO's that have acted in some of these managerial roles. For example a CEO might have been shown in the figurehead role in a local ribbon cutting ceremony.

**Discussion Point**

Ask students how many of them have managerial/supervisory roles. Students might be asked to explore how many of them perform the classic managerial roles outlined by Mintzberg. Is there a difference in the roles of managers as they move up the organizational hierarchy? For example, is a Jack Welch likely to fill more of one category of roles than the manager of the local McDonald's restaurant?

### *Additional Teaching Points*

The research of Robert Katz might be introduced here. Robert Katz, a well-known organizational behavior researcher, suggested that there are three essential managerial competencies: technical, human, and conceptual. Technical skills reflect proficiency in accomplishing specialized tasks; human skills involve interpersonal skills; and conceptual skills are described as the ability to see the big picture and to understand the interconnectedness of the organization's parts. As managers move up the organizational hierarchy, the relative importance of these three skills will change. At lower organizational levels, managers directly supervise those performing the work of the organization and therefore the technical skills are deemed the most important. These technical skills decrease in importance as one moves up the organizational hierarchy. At senior management levels, however, conceptual skills become the most important – as they engage in more strategic activities. Human skills remain consistent throughout the management ranks.

**The Surprised CEO**

The complex role of CEO often surprises many who take on the position. Some are caught off guard by the level of uncertainty (and lack of information) in the job, an inability to focus on day-to-day operations, the responsibility that comes with such power inherent in the CEO position (to avoid abusing that power), the difficulty in winning over the support of the Board, and the sacrifice of their personal lives.

**The Skill Set of the Effective Strategic Leader: The Level 5 Hierarchy**

A great deal of curiosity surrounds the skill set required to be an effective strategic leader. In his book, *From Good to Great,* Jim Collins provided the results of his research into great companies and their leaders. Collins provided a hierarchy of leadership skills as follows:

- Level 1 reflects the capable individual. One must first be individually highly competent to become an effective leader.
- Level 2 reflects a contributing team member. An effective leader must be able to work as part of a team.
- At level 3, the team player demonstrates an ability to manage others.

- Level 4 reflects the ability to lead a group to superior levels of performance.
- Finally, Level 5 leaders have an unusual, paradoxical set of skills – they exhibit professional will and professional modesty.

**Professional Will** is the ability to carry out bold strategy by translating strategic intent into the resolve to pursue a strategy. Charles Walgreen III demonstrated just such resolve when transforming the drugstore chain into a new model.

**Professional Modesty** is a fairly rare trait among people with upward career trajectories. Collins points out that the great companies are led by people who prefer to share credit rather than hog it.

**What does it take to be CEO?**
There is no single answer to this question. There is little consensus on whether personality or background matter more. The actions of leaders, however, can provide valuable insights in understanding their success.

**Personality Differences** have been researched extensively to offer explanations for the success of one leader over another. Tolerance for ambiguity is a particularly interesting personality attribute.

### *Additional Teaching Points*

Introduce students to emotional intelligence through reading excerpts of Daniel Goleman's book, *Primal Leadership*. Some researchers have indicated that one's emotional intelligence is more important than one's general intelligence to be effective in the workplace. Goleman makes a great case for the essential role of emotional intelligence in leaders. This can be integrated into a discussion of the iterative nature of strategy formulation and implementation. Emotional intelligence helps strategic leaders more effectively work with others – and therefore help in the execution of strategies.

**Discussion Point**

Exhibit 2.3, *Can You Tolerate Ambiguity*, on page 40 provides a great student activity. Students can have the opportunity to see how they stack up against MBA students and CEOs. You can incorporate exercises into class for students to gauge their profile compared to the skill set that might be needed to run a complex organization.

### *Additional Teaching Points*

The age-old debate of whether a leader is born or made can also be addressed here. Training Magazine publishes a "State of Industry" survey each year. It might be interesting to provide students with the details of how much money is spent in leadership development and at what levels of the organization those funds are spent.

**Background and Demographic Differences**
Background differences refer to factors such as work experience and education. Demographic differences refer to factors such as gender, nationality, race, religion, or network ties. The historical profile of the typical Fortune 500 top executive is a 45-60 year-old white male with a law, finance, or accounting degree from an Ivy League school. Legal and social influences have slowly started to diversify management ranks. In 2005, there were 9 female CEOs among the largest 500 U.S. companies (1.8%). This has doubled from 1994. Sixteen percent of the corporate officers of these same companies are female.

Besides being unethical (and, in many countries, illegal) to discriminate, explanations for increasing diversity include: 1) a college education is available to more people than ever before; 2) heterogeneous groups tend to make better decisions; 3) companies need top managers with strong international skills; and 4) firms increasingly seek competitive advantage through their people.

> **Discussion Point**
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> Ask the students what their companies' top managers look like. Do they fit this traditional profile? What about the next line of executives?

**Competence and Actions**
A "talent for strategic thinking" often distinguishes superior executives. They also must demonstrate a certain "toughness" or a willingness and ability to change an organization's strategic course even when change represents departure from its traditional business practices.

> **Discussion Point**
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> Students can take the self assessment in Exhibit 2.4, Are You a Strategist? The original HBR article that this was drawn from may be used to further discuss the differences between managers and strategists.

**What Makes an Effective Executive Team?**

A mark of great leadership is knowing when and how to follow the lead of others.

### *Additional Teaching Points*

Students might discuss the value of learning to be an effective follower. Even the best of leaders will find themselves in situations where they must take on the role of follower. The linking pin concept proposed by Likert suggests that the very structure of organizations creates these linking pin positions – whereby a manager may lead one group of subordinates and then be the subordinate in the next higher level unit in the organization. It helps to actually draw a simplified organizational chart on the chalkboard and then circle each of the departmental units using one position as the linking pin.

**Teamwork and Diversity** Effective teamwork requires four criteria: the team responds to a complex, changing environment, manages the needs of interdependent and diverse units, has an effective social network, and develops a coherent plan for executive succession.
**Social Networks** represent both a collection of ties between people and the strength of those ties. These social networks can allow some management teams to be more effective by virtue of the information or other resources the network allows them to access.

**Discussion Point**

How Would You Do That 2.1 provides students an opportunity to map their own social network. Students might be asked to complete these individually prior to class and then placed in groups in class to discuss these. Each group might then share their strategies for how individuals use these networks and any plans they may have to expand them.

**Succession Planning** Succession planning has become increasingly important. With the increase in CEO dismissals and declining average tenure, a succession plan is essential to ensure successful transition. A failure to address succession planning can result in undermining investor confidence, depressing stock prices, creating dissension on the board, and even crippling the organization for years.

**Discussion Point**

According to Mike Freedman "…a CEO is the ultimate custodian of strategic well-being. The most enduring contribution to the organization and its stakeholders – and the hallmark of a great leader – is the legacy of a clear, exciting, and robust strategy, paired with a deep reservoir of talent ready to assume the responsibilities for the art and discipline of strategic leadership." This quote from Freedman's book, *The Art and Discipline of Strategic Leadership*, can be used to foster student discussion about the importance of this role.

**Discussion Point**

From 1980-2000, external candidates selected for new CEO positions soared from 7% to 50%; however, these candidates were not always the cure-all. Boards are trying to promote from within more rather go outside the firm. Careful selection should:

- assess a candidate's passion, convictions, and ability to lead;
- map the firm's strategy to operating needs to understand how a CEO can affect the success. Due to gaps in understanding the firms' value-creation process, boards should "map" the firm's strategy at a high level to visualize why and how activities help to achieve objectives and goals along critical dimensions.
- do background checks of their own. Personal conversations often yield unexpected insight into a candidate's personality.

> **Discussion Point**
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> Students can often relate to the analogy of a sports team with bench strength. Having a great A team (starting team) and no one sitting on the bench can spell disaster for a sports team. The same thing happens in organizations.

**Learning Objective 2**

**THE IMPRINT OF STRATEGIC LEADERSHIP: VISION & MISSION**
Top executives provide the context for strategy formulation and implementation through modeling the vision and mission.

**Defining *Vision* and *Mission*.** Vision is a simple statement or understanding of what the firm will be in the future. This vision is forward looking and identifies the desired long-term status. Mission is a declaration of what a firm is and stands for – reflecting its values and purpose. Vision and mission reinforce and support strategy; conversely, strategy provides a coherent plan for realizing the vision and mission.

> **Discussion Point**
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> Students enjoy sharing their own organization's mission and vision statements. It might be interesting to note how many students even know their own organization's mission and vision.

**What Should Vision and Mission Statements Encompass?**
Vision and mission statements provide direction but not strategies in and of themselves. They convey organizational identity and purpose to stakeholders.

**Vision: The Uses of Ambition and Ambiguity** Visions express long-term action horizons. As a result they are ambitious (requiring the firm to stretch) and ambiguous (enabling flexibility for changes).

**Mission: The Uses of Core Values** The mission statement identifies core concepts, eg. purpose, values and beliefs, standards of behavior, or corporate-level aims. These core values can provide the guides for effective decision making within the organization.

> **Discussion Point**
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> *In Search of Excellence* by Peters and Waterman can be introduced as an additional resource here to discuss the role of core values. Peters and Waterman suggested that strong core values were one of the key characteristics of excellent companies. Quotes may be drawn from the chapter on values.

**Why Vision and Mission Statements Are Not Substitutes for Strategy** Vision and mission can be powerful tools, but they must be realized through carefully crafted and executed strategy. Vision and mission reinforce and support strategy; conversely, strategy provides a coherent plan for realizing vision and mission. The vision must be anchored in specific goals and objectives derived from a focused strategy.

**Goals and Objectives** To be effective, visions and mission must be translated into specific quantitative or qualitative goals and objectives to direct strategic actions. Superordinate goals serve as an overarching reference point for other goals and objectives. The balanced scorecard has been adopted in a large number of firms now. This provides a system for tracking strategic progress. Tangible performance is measured by such criteria as return on sales, sales growth, and customer retention.

**Discussion Point**

The annual report of 3M might be explored at this point. The superordinate goal surrounds innovation. A discussion of how that superordinate goal breaks down throughout the organization might be addressed.

**Learning Objective 3**

## STRATEGIC PURPOSE ANE STRATEGIC COHERENCE

The two most important aspects of vision and mission are strategic purpose and coherence.

**Strategic purpose** guides executives in making difficult corporate decisions and provides employees with a widely shared mental model or picture of the organization and its future, including anticipated environmental changes.

**Trade-offs, options, and other decisions** Most major strategic decisions require tradeoffs. Selecting one strategic course of action may eliminate other options; while this course of action may satisfy the needs of some stakeholders it may adversely affect others. The trade-offs experienced by Newman's Own and Dell Computers provide excellent examples from the text.

**The Challenge of Closing the Gap** The challenge posed by a strategic purpose is to close the gap between a firm's aspirations and its current capabilities and market positions. An effective strategic purpose, then must be tied to a coherent set of activities, near-term goals, and objectives anchored in measurable strategic outcomes (strategic coherence).

**Strategic Coherence** is the symmetrical co-alignment of the five elements of the firm's strategy, the alignment of functional unit policies, and the overarching fit of various businesses under the corporate umbrella.

**Applying the Strategy Diamond** To achieve strategic coherence firms must be committed to and communicate shared their shared organizational vision and values. The strategy diamond framework can be used to test the coherence of a strategy.

**The Clear and Compelling Vision Statement** Strong vision statements function as guidelines for clear and compelling strategies that distinguish a firm from its competitors.

## STAKEHOLDERS AND STAKEHOLDER ANALYSIS

**Learning Objective 4**

Stakeholders are individuals or groups with an interest in an organization's quantitative and qualitative outcomes. Organizations are accountable to a broad range of stakeholders. These stakeholders with their unique interests will impact the formulation and implementation of strategy.

**Stakeholders and strategy** Stakeholder analysis is performed to gain a better understanding of those individuals and groups who may influence firm performance and have a vested interest in the firm's strategy. Vision and mission statements should meet or exceed the needs of key stakeholders. The benefits of using a stakeholder-based approach are that you can use the opinions of the most powerful stakeholders to share your strategy (making it more likely that they will support you), you can gain support to help you win more resources, you can ensure that they understand what you are doing and the benefits of your project, and you can anticipate what their reactions may be and build actions to win support into your plan.

### Identifying stakeholders

Stakeholders may be individuals or groups. Larger stakeholder groups can even be segmented into smaller stakeholder groups. External stakeholders may include governmental bodies, community organizations, social and political action groups, trade unions and guilds, and even journalists. Internal stakeholders may include shareholders, business units, employees, and managers.

**Steps in Identifying Stakeholders** To simplify an overwhelming process of identifying all of the firm's stakeholders, groups may be identified as falling into one of four categories: *organizational, capital market, product market,* and *social.*

- **Step 1: Determine influences on strategy formulation** In analyzing the importance and roles of key stakeholder group, mangers must identify who should be consulted as strategy is developed or who has a role in implementation. Organizational stakeholders are high-level managers and frontline employees. Capital-market stakeholders include shareholder, venture capitalists, banks, and other financial intermediaries – those affecting the availability or cost of capital. Product-market stakeholders are those groups with whom the firms shares it industry (such as suppliers and customers). The social stakeholders are those groups who may be affected by or exercise influence over firm strategy and performance (including unions, governments, and activist groups).
- **Step 2: Determine the effects of strategic decisions on stakeholders** Strategic leaders must determine the nature of the effect of the firm's strategic decisions on each relevant stakeholder group. All stakeholders will not be impacted equally.
- **Step 3: Determine Stakeholders' Power and Influence over Decisions** The third step is to determine the degree to which a stakeholder group can exercise power and influence over the decisions the firm makes. Strategic leaders should consider whether the stakeholder groups have direct control, veto power, or perhaps no influence over what is decided. Armed with this information, managers then have a basis on which to allocate prominence in the strategy formulation and strategy implementation processes.

> 🗁 **Discussion Point**
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> Exhibit 2.11 on page 57 should be used to try out this framework. Students can even discuss stakeholder analysis for their own college/university.

**Stakeholder Planning**
Once key stakeholders are identified, managers must develop a plan to manage them. Communications and actions should be mapped out to win stakeholder support of their strategy. The steps in stakeholder planning using Exhibit 2.12 include:

- **Step 1. Fill in Names of Key Stakeholders** from the stakeholder analysis.
- **Step 2. Plan Your Approach to Stakeholder Management** Managers must consider the amount of time that will be taken to manage this approach and the time needed for communication.
- **Step 3. Evaluate What You Want From Each Stakeholder** It is important to consider the levels of support needed from each stakeholder and the roles they need to play.
- **Step 4: Identify the Messages You Need to Convey** These messages should communicate the benefits of the strategy focusing on key performance drivers.
- **Step 5: Identify Actions and Communications** Focusing on the high-power/high-effect stakeholders first, a practical plan is developed that communicates the right amount of information, how to win over skeptics, where active support is needed, and how these individuals can be engaged.

**Learning Objective 5**

## ETHICS, BIASES, AND STRATEGIC DECISION MAKING

Two additional factors to be considered when making strategic decisions are whether the decision is ethical and whether any potential biases have clouded the decision making process.

**Ethics & Strategy** Questionable strategies can be disastrous for shareholders, clients, and even decision makers themselves. Enron, Adelphia, and Tyco are high profile cases where executives have been indicted (and some convicted) for diverting firm resources to private use.

**Why Organizations Are Vulnerable to Ethics Violations.** Organizations are often vulnerable to ethics violations due to organization-level conditions such as *authority structures* and *incentive systems*.

**Authority Structures** Organizational authority structures may foster opportunities for exploiting the system and/or discourage potential whistleblowers. When responsibility is distributed, people tend to assume that someone else will blow the whistle on suspicious activity. The authority structure may also inhibit lower level employees from disclosing questionable practices – taking a more subservient position.

**Incentive Systems** With large potential rewards, people are more likely to compromise standards.

**The Role of Corporate Governance.** Good corporate governance can reduce the risk of unethical and illegal activities; *poor* corporate governance provides a breeding ground for *un*ethical behavior.

**The Role of Decision Making Lapses** The quality of strategic decision making is bound to suffer when biases influence their judgment and decision making.

**Theories About Ourselves** One's self-perceptions influence their judgment and decisions. Overconfidence may cloud a manger's decisions and lead them to take more credit for their successes and less responsibility for their failures. This can influence their perception of future situations and their control of those situations. Escalation of commitment is the willingness to commit additional resources to a failing course of action. In addition, confidence-related biases may cause executives to believe that they are not subject to the same rules as everyone else – deluding themselves into believing that they can get away with unethical (or criminal) behavior.

**Theories about other people.** Our theories about other people reflect our theories about ourselves. Biases about others can be tied to such far-reaching negative outcomes as industry over-expansion, which often occurs because each industry incumbent assumes that the others won't take competitive action when in fact every firm almost certainly will. *Ethnocentrism* is a belief in the superiority of one's own ethnic group or more broadly as a conviction that one's own national, group, or cultural characteristics are "normal" and ordinary. *Stereotyping* relies on a conventional or formulaic conception of another group based on some common characteristic. The fallacy of stereotyping lies in ascribing limiting characteristics to an entire set of people.

Stereotyping increases the risk of making unethical, unfair, and sometimes illegal decisions because evaluations are limited to group affiliation and ignoring individual qualities. Ethnocentrism may lead to rationally and ethically unsound decisions because it exaggerates the differences between us and them.

**Theories about the world**. It is important to know what you don't know. While it is impossible to foresee all possible consequences of a strategic choice, it is essential to recognize that all actions have multiple consequences – both intended and unintended.

## III. POWERPOINT NOTES

**Slide 1**
The purpose of the chapter is to explain strategic leadership in strategy formulation and implementation by addressing: 1) vision, mission, values and strategy; 2) shaping purpose and coherence; 3) role of stakeholders; and 4) ethics and biases.

**Slide 2**
Opening Vignette: How to Pull a $15 Billion Dollar Cow Out of A Ditch?
Mulcahy was brought in to lead Xerox after the first quarterly loss in 16 years.
While not the obvious choice for the job, the Board was confident in her strategic mind and toughness. The Xerox turnaround was engineered by using the revised vision statement and

its core values to provide a decision making framework to guide people at all levels of the organization. By 2002, Xerox had returned to profitability under the leadership of Mulcahy.

**Slide 3**

Strategic leadership involves managing an overall enterprise and influencing key outcomes as opposed to a narrower definition of general leadership.

- The effective strategic leader must model and communicate the vision and mission; their decisions and behavior have both symbolic and a substantive impact on the outcomes.

Given the complexity of strategic leadership, top management teams have taken on growing importance.

**Slide 4**

Executive Roles: Mintzberg's typology suggests managers perform 12 key roles that are classified into three categories: interpersonal roles, informational roles, and decisional roles.

Interpersonal Roles: figurehead (ceremonial tasks), liaison (with external stakeholders), leader (provide motivation and direction).

Informational Roles: monitor (ear to the ground), disseminator (passing information to those inside the organization), spokesperson (passing information to external stakeholders).

Decision Roles (may be the most important): entrepreneur (rolling out major strategic changes), disturbance handler (unforeseen situations), resource allocator (crucial in executing strategy; managing trade-offs), and negotiator (involving other organizations).

The job of CEO catches many off guard. Must answer to the Board.

**Slide 5**

Jim Collins suggests leadership requires a wide range of abilities which are hierarchical in nature. (*From Good to Great*)

Level 1 – Capable Individual (must be highly competent in your work to then become an effective leader)

Level 2 – Contributing Team Member

Level 3 – Competent Managers (must be able to manage other people)

Level 4 – Effective Leaders (need to marshal collective abilities)

Level 5 – Executives (The paradox is that they have resolve/professional will to meet higher goals, but also need professional modesty.)

**Slide 6:**

Level 5 leaders have an unusual paradoxical set of skills:

1. Professional Will - to carry out bold strategy by translating strategic intent into the resolve to pursue a strategy. Charles Walgreen III, CEO phasing out soda/food service operations to transform Walgreen into a drugstore chain.
2. Professional Modesty – Level 5 leaders tend to be modest people—a fairly rare trait among people with upward career trajectories. They are concerned with the future welfare of the company.

**Slide 7:**

What does it take to be CEO? There is no single answer to this question. Some answers as to what it takes to be a CEO involve charisma and emotional intelligence, others point to demographic variables and psychological profiles; (See exercises for students to gauge their

profile compared to the skill set that might be needed to run a complex organization.) Background and demographic differences include work experience, education, gender, nationality, race, religion, network ties, etc. The profile of a typical Fortune 500 top executive: 45-60-year-old white male with a law, finance, or accounting degree from an Ivy League school; legal and social influences slowly started to diversify management ranks. In 2005 - 9 female CEOs among the largest 500 U.S. companies (1.8%), double from 1994. 16% of the corporate officers of these same companies are female. Many agree that a CEO requires a "talent for strategic thinking" and "toughness" (a willingness and ability to change an organization's strategic course even when change represents departure from traditional business practices). (Note: Return to the opening vignette of Mulcahy at Xerox to reinforce this concept.)
*See self assessment exercises in Ex. 2.3 & 2.4.*

**Slide 8:**
What Makes an Effective Executive Team? A mark of great leadership is knowing when and how to follow the lead of others; a division of labor in teams is essential for success as each member brings his or her unique talents and abilities.
An effective top management team must act as an integrated unit and must be able to bring these diverse backgrounds together – to work well.
The team must have a social network.
The management team must also be able to develop a plan for executive succession. Succession planning can be likened to the bench strength of an athletic team. Succession planning has received more attention today with CEO dismissal increasing by 170% between 1995 and 2003 and the average tenure of CEO's decreasing. From 1980-2000, external candidates selected for new CEO positions soared from 7% to 50. Careful selection of CEO's should:

- assess a candidate's passion, convictions, and ability to lead;
- map the firm's strategy to operating needs to understand how a CEO can affect the success. Due to gaps in understanding the firms' value-creation process, boards should "map" the firm's strategy at a high level to visualize why and how activities help to achieve objectives and goals along critical dimensions.
- do background checks of their own. Personal conversations often yield unexpected insight into a candidate's personality.
- have a shared view of leadership among board members.
  have a smooth transition to foster positive outcomes for the company and its stakeholders.

**Slide 9:**
Strategic leaders provide the context for strategy formulation and implementation through modeling vision and mission.
Defining *Vision* and *Mission*. Vision is a simple statement or understanding of what the firm will be in the future; it is forward looking; and identifies the desired long-term status. Mission is a declaration of what a firm is and stands for; it includes the values and purpose of the organization. Vision and mission reinforce and support strategy; conversely, strategy provides a coherent plan for realizing vision and mission.
What Should Vision and Mission Statements Encompass?

- provide direction but are not strategies in and of themselves;

- convey organizational identity and purpose to stakeholders.

**Slide 10:**
Vision: The Use of Ambition and Ambiguity - express long-term action horizons, ambitious, and ambiguous.
Mission: The Use of Core Values - identify core concepts, eg. purpose or raison d'être, values and beliefs, standards of behavior, or corporate-level aims.
Why Vision and Mission Statements Are Not Substitutes for Strategy - Vision and mission can be powerful tools, but they must be realized through carefully crafted and executed strategy. The mission and vision statements provide focus and then the strategy translates them into action. The vision and mission are spelled out in strategic goals and objectives to direct the organization's actions. The broad visions of Sony and CitiBank both demonstrate that effective visions are ambitious and ambiguous.

**Slide 11:**
Goals and Objectives: Vision is anchored in goals and objectives. These are specific quantitative or qualitative goals and objectives for strategic actions. A superordinate goal serves as an overarching reference point (examples are provided for Wal-Mart, Ryanair, and Matsushita).

**Slide 12:**
Two important aspects of vision and mission are strategic purpose and coherence.
Strategic purpose guides executives in making difficult corporate decisions; provides employees with a widely shared mental model or picture of the organization and its future, including anticipated environmental changes.
Trade-offs, options, and other decisions – Selecting a course of action may eliminate other options; may satisfy the needs of some stakeholders but may adversely affect others.
The Challenge of Closing the Gap which lies between a firm's aspirations and its current capabilities and market positions; means strategies must address the tradeoff between efficiency and effectiveness.
Strategic Coherence is the symmetrical co-alignment of the five elements of the firm's strategy and the overarching fit of various businesses under the corporate umbrella. Effective strategy is coherent (with an integrated set of choices).
Applying the Strategy Diamond to achieve strategic coherence with shared organizational vision and values; use the strategy diamond framework to test for coherence in the elements of a strategy.
The Clear and Compelling Vision Statement functions as a guideline for clear and compelling strategies.

**Slide 13:**
Stakeholders are individuals or groups with interest in an organization's quantitative and qualitative outcomes.
Stakeholders and strategy Firms use stakeholder analysis to understand who may influence firm performance; vision and mission should meet or exceed needs of key stakeholders.
Identifying stakeholders Externally - governmental bodies, community organizations, social and political action groups, trade unions and guilds, and even journalists**. Internally -** shareholders, business units, employees, and managers.

Four categories of stakeholders: *organizational, capital market ,product market,* and *social*.
Step 1: Determine which stakeholders have an influence on strategy formulation; identify who should be consulted as strategy is developed or who has a role in implementation;
Step 2: Determine effects of strategic decisions on stakeholders; not all stakeholders are equal/
Final step: Determine stakeholders' degree of power and influence on firm's decisions. (veto power? Political power?)

**Slide 14:**
Mapping Stakeholder Influence and Importance
This chart can be used to map out the influence and importance of your college or university's stakeholders.

**Slide 15:**
Two essential questions to consider to determine the soundness of strategic decisions are: is the decision ethical? Are biases clouding the decision making process?
Ethics & Strategy - questionable strategies can be disastrous on shareholders, clients, and even decision makers themselves; eg. Enron, Adelphia, Tyco, etc. have executives indicted (and some convicted) for diverting firm resources to private use.

Authority structures may foster opportunities for exploiting the system and/or discourage potential whistleblowers. When responsibility is distributed, people tend to assume that someone else will blow the whistle on suspicious activity. Organizational incentive Systems may open the door for unethical actions. With large potential rewards, people are more likely to compromise standards. Good corporate governance can reduce the risk of unethical and illegal activities; *poor* corporate governance provides a breeding ground for *un*ethical behavior.

Threats to rational decision making occur when biases influence managerial judgment and strategic decision-making. There is an expectation by many strategic leaders of confidence in their ability to make judgments. Some of these common illusions decision-makers hold of themselves include the illusion of favorability where people take credit successes and take less responsibility for failures. The illusion of optimism leads to underestimating a negative future while overestimating positive outcomes. This is compounded by the illusion of control – or the belief of having greater control of a situation than rational analysis would support.

Escalation of Commitment occurs when managers commit additional resources to a failing course of action. Self-Serving Fairness Bias is when executives do a better job of tracking their own contributions and tend to take more credit for good outcomes than they give.

The overconfidence bias is the tendency to place erroneously high levels of confidence in their own knowledge or abilities and to seek confirmatory evidence of their beliefs while discounting contradictory evidence.

The consequences of these biases may lead executives to think they can get away with unethical or even felonious behavior because they believe that they won't be caught or that, if they are, their status will protect them from the consequences.

Biases about others can be tied to such far-reaching negative outcomes as industry over-expansion, which often occurs because each industry incumbent assumes that the others won't take competitive action when in fact every firm almost certainly will.

Ethnocentrism is a belief in the superiority of one's own ethnic group; a conviction that one's own national, group, or cultural characteristics are "normal" and ordinary. Stereotyping relies on a conventional or formulaic conception of another group based on some common characteristic.

Stereotyping increases the risk of making unethical, unfair, and sometimes illegal decisions because evaluations are limited to group affiliation and ignoring individual qualities. Ethnocentrism may lead to rationally and ethically unsound decisions because it exaggerates the differences between "us and them".

## IV. LINKING THE CHAPTER TO A COMPUTER SIMULATION

If you are planning to use a simulation (CapSim or other computer simulation), this chapter makes a nice tie-in and starting point for that process. You can have students hand in, as their first sim-related assignment, a statement of vision and mission and the goals and objectives of their strategy. It's up to you whether you grade this initial effort or use it as a way to frame later discussions about strategy formulation and implementation, emergent versus intended strategy, and the degree to which the vision and mission and underlying strategy were later changed as a consequence of environmental forces (i.e., what other companies were doing in the sim).

## V. END OF CHAPTER QUESTION ANSWER GUIDE

**Review Questions**

1. Why is strategic leadership important for effective strategy formulation and implementation?

Guide: Strategic leadership is concerned with the management of the overall enterprise. Executives, through their decisions and actions, affect key organizational outcomes. Executives affect these outcomes through the various roles they fill (e.g., figurehead, leader, liaison, monitor, disseminator, spokesperson, entrepreneur, disturbance handler, allocator of resources, and negotiator). How executives fill these roles has a large bearing on the effectiveness of strategic management processes.

2. How do the characteristics of strategic leadership differ between individuals and teams?

Guide: Perhaps no one person can single-handedly manage a large complex organization. A team can have advantages over individuals because teams can divide responsibilities and because it can tap into a diverse portfolio of skills and capabilities. However, management teams can present their own unique problems…..

3. What is a vision? A mission?

Guide: We define vision as a simple statement or understanding of what the firm will be in the future. A statement of vision is forward looking and anticipates the desired long-term status of the company. In contrast, a mission is a declaration of what a firm is and what it stands for—its fundamental values and purpose. Together, mission and vision statements describe the identity and work of a firm as well as the mental picture of where the firm is going.

4. How are vision and mission related to strategy? What role does strategic leadership play in realizing vision and mission?

Guide: Executing strategies often requires making tradeoffs—a firm cannot do all things. Vision and mission statements can help guide important decisions on these tradeoff issues by addressing core values that should guide long-term decisions. Top executives provide the organizational context for strategy formulation and implementation and vision and mission statements can help establish that context. Executives sometimes draft the vision and mission statements; more often they are the stewards of the values espoused in vision and mission statements long ago established.

5. How does strategy differ from vision and mission?

Guide: Vision and mission statements do not address how the company will achieve its objectives. Rather, they provide a directional and moral compass to guide decision-making and actions. Strategies are more concrete plans about how objectives will be achieved. Thus, vision and mission statements may seem a bit ambiguous, while a high quality strategy will provide more definitive direction.

6. What is strategic purpose?

Guide: Strategic purpose is a simplified and widely shared mental model or picture of the organization and its future. Vision and mission statements may help with the diffusion of strategic purpose throughout the organization. Strategic purpose is also concerned with the desired leadership position aspired to in the future. It is an aspirational bridge between vision and specific goals and objectives.

7. What is strategic coherence?

Guide: Strategic coherence is the symmetrical co-alignment of the five elements of strategy, the congruence of functional area policies, and the overarching fit of the various businesses within the corporate umbrella. The opposite of strategic coherence would be incoherence, or strategic fragmentation.

8. Who are a firm's stakeholders? Why are they important?

Guide: Stakeholders are individuals or groups who have a vested interest in the formulation and implementation of a firm's strategy, and otherwise have some influence on firm performance. Externally these groups will include representative governmental bodies, community-based organizations, social and political action groups, trade unions and guilds, journalists, and academics. Internally these groups will include business units, employees, and managers. Since vision and mission are necessarily long-term in orientation, the identification of important stakeholder groups helps to understand which constituencies stand the most to gain or lose from their realization. Stakeholders can both complement and clash with the firm in its efforts to execute its strategy.

9. What tools can you use to identify the impact of various stakeholders on the firm and the impact of the firm on various stakeholders?

Guide: A stakeholder map can be used to identify important constituents of the firm. These stakeholders can then be analyzed to determine the importance and influence of each party.

10. Why are ethics and biases relevant to strategic decision-making and strategic leadership?

Guide: The stakes are very high when strategic decisions are made; some strategic decisions can literally determine whether the firm will be viable in the future or end in ruin. Ethical lapses and decision-making biases are two processes that can interfere with effective and rational decision-making. Unethical decisions can literally bring the firm down and result in the dissolution of the enterprise; they can also result in time behind bars for those orchestrating such activities. While decision-making biases can be a little more subtle, they can have equally dramatic effects. For instance, executives with excessive overconfidence can irrationally think that they will be able to extract more synergy from an acquisition than anyone else, and thus afford to pay an excessive premium. Excessive premiums can result in losses of hundreds of millions of dollars.

**How Would You Do That?**

1. Building on the social network mapping process described in "How Would You Do That? 2.1", devise a succession plan for the dean of your business school. Be sure to include the following in your succession-planning process: (a) Translate your school's strategy into actual operating needs and key activities; (b) identify the skills needed for these operating needs and activities; (c) outline an internal and external candidate search process; and (d) develop a list of goals and milestones and a compensation structure that ties actions to the strategic drivers of success at your school.

Guide: While students will likely not have nearly enough information about the governance of your institution, with a short primer they should be able to have a basic understanding. And, understanding the governance realities is less important to this exercise than going through the steps in the bullet points above. Completing these steps facilitates a strong linkage between strategy formulation and implementation. In this case, the strategy is taken as a given and finding a leader to implement it in a manner consistent with the vision and objectives of the organization. Use the following bullet points to organize their recommendations and observations:

- Translate your school's strategy into its actual operating needs and key activities.
- Identify the skills needed to fulfill these operating needs and activities.
- Outline the internal and external candidate search processes.

- Develop a list of goals and milestones and describe a compensation structure that ties actions to the strategic drivers of success at your school.

2. Based on the framework applied in HWYDT 2.2 on Tritec Motors, use the opening vignette on Anne Mulcahy at Xerox to map out the key stakeholders in her turnaround effort. Which stakeholders would you expect to be most resistant? Most supportive? Write up a 90-day action plan for Mulcahy following the example laid out by Bob Harbin in HWYDT 2.2.

Guide: Here the goal is to have students gain an appreciation for identifying key stakeholders, prioritizing their importance in the early stages of assuming leadership, and committing to an early action plan. Many students will have tendency to be able to develop long lists of things that need to get done but have more trouble prioritizing what must be done immediately. Like most strategic decisions, such prioritization requires making tradeoffs. By choosing to do something first, you are necessarily choosing to neglect another item. Which prioritization students make at this point is much less important than developing a plan and justifying it.

**Group Exercises**

1. (a) Craft a vision and mission statement for your business school and then for the college or university as a whole. How are these statements related? How are they similar? How do they differ? How are they similar or different from those that you might draw up for a for profit organization? (b) Using the vision and mission you crafted, develop a list of key stakeholders for your school and their relative power and stake in the school. Which of these stakeholders for your school and their relative power and stake in the school. Which of these stakeholder groups is accounted for in your vision and mission statement, and which ones are left out? Did you identify any stakeholder groups that could negatively affect your realization of this vision and mission?

Guide: The first underlying objective of this exercise is to have students compare a vision and mission for a non-profit organization with any hypothetical for-profit firm. The second objective is for them to see how such statement may vary when the stakeholder group is very diverse – as it will likely be when you move from the business school to the university level of discussion. As a closing example you can also show how a vision and strategy are most likely to be tightly coupled when the organization has a narrow range of activities – have them look at the Tuck School of Business at Dartmouth. This school only has a general MBA and no other activities like undergraduate or executive education, which allows it to be extremely focused. Sometimes ethical issues will come up naturally in the course of the discussion, which you can then draw out in debriefing this discussion. One objective would be to make students aware of the fact that ethics and social responsibility usually need to be explicit in the firm's vision and mission for people to act upon them, or at least understand that they are a part of the firm's overall strategy and strategic decision making. You can also create a debate around whether or not ethics should be an explicit part of a business school curriculum. A red-herring questions like, "is it fair to assume that business students are unethical" or "why should there be required ethics courses for business students but not physics majors?" Again, the goal is to stimulate a healthy discussion and come back to the point that business leaders will have a tremendous impact on their communities and society, and therefore can not escape questions of ethics and social responsibility.

2. What roles should strategic leadership play in the realization of the vision and mission statements that you articulated in the previous question? Whom have you identified as strategic leaders?

Guide: Here you'll want students to recall the implementation framework from Chapter 1 and to then integrate it with the roles of the strategic leader outlined in this chapter. Doing so will help them appreciate the various roles that leaders play (without an exercise like this, the discussion of roles may appear to simply be a laundry list). You'll want students to debate the roles and skills that may be necessary to develop support among stakeholders compared to very distinct roles and skills, such as those necessary to designing the structure and recruiting the people necessary to implement a strategy. This also allows for a discussion of how in some organizations, the division of strategic leadership roles may be necessary to effectively fulfill all the roles that are encompassed in realizing a implementation of an organizational vision and mission.

You can find more group activities at:

http://instruction.bus.wisc.edu/mcarpenter/PROFESSIONAL/Toolkit/bpstools.htm

## VI. SUPPLEMENTAL EXPERIENTIAL EXERCISES

These exercises are drawn with permission from the Strategy Teaching Tool-kit found at:

http://instruction.bus.wisc.edu/mcarpenter/PROFESSIONAL/Toolkit/bpstools.htm

**1.** For the first exercise we like to refer students to Ben & Jerry's mission statement. You can track it down from the website (http://www.benjerry.com/our_company/our_mission/) or use the version we repeat below. It is helpful to put it on the board or an overhead slide. It reads:

<table>
<tr><td colspan="3">Our Mission Statement -- Ben & Jerry's is founded on and dedicated to a sustainable corporate concept of linked prosperity. Our mission consists of 3 interrelated parts:</td></tr>
<tr><td>Product Mission<br>To make, distribute & sell the finest quality all natural ice cream & euphoric concoctions with a continued commitment to incorporating wholesome, natural ingredients and promoting business practices that respect the Earth and the Environment.</td><td>Economic Mission<br>To operate the Company on a sustainable financial basis of profitable growth, increasing value for our stakeholders & expanding opportunities for development and career growth for our employees.</td><td>Social Mission<br>To operate the company in a way that actively recognizes the central role that business plays in society by initiating innovative ways to improve the quality of life locally, nationally & internationally.</td></tr>
<tr><td colspan="3">Central To The Mission Of Ben & Jerry's is the belief that all three parts must thrive equally in a manner that commands deep respect for individuals in and outside the company and supports the communities of which they are a part.</td></tr>
</table>

You may have to provide students with some background on B&J, if they aren't familiar with its egalitarian and socially responsible roots. Its fun to paint a picture of a company that put profits second to its ethical and social beliefs. You can read this background at:

http://www.benjerry.com/our_company/about_us/our_history/timeline/index.cfm

This exercise is particularly effective if the students are not aware that Unilever, one of the world's largest consumer products companies, acquired B&J in April, 2000. We ask students what they think about the mission statement and what, based on the statement, they think it might be like to work at B&J. What would a typical day be like? We then tell them of Unilever's acquisition of B&J and ask them if their perspective of the company has changed – we also ask them what the company would have to do to convince you that it was still true to its mission. Is it enough that, under the terms of the agreement, B&J operates separately from Unilever's current U.S. ice cream business, with an independent Board of Directors to provide leadership for B&J's social mission & brand integrity? Students typically associate B&J with a fun-loving atmosphere where profits come second to socially responsible behavior. They have a different perception of the company after they hear about the acquisition, and this is a great opportunity to show that a mission must be more than words for it to be effective with key stakeholders like employees and customers.

2. A second exercise involves the application of stakeholder analysis to Wal*Mart. This is a good exercise if you will use the Wal*Mart case with Chapter 4, or later with Chapter 8. Have the students identify potential threats as part of their preparation of the case. Then at the end of that class tell them that part of their preparation for Chapter 4 discussion will be to evaluate the following sites and determine if they pose a threat (note: you can also raise this topic in discussing ethical and strategic decision making in Chapter 2). Ask them how they would rank these groups in a stakeholder analysis map:

http://www.walmartwatch.com/
http://www.sprawl-busters.com/
http://www.sierraclub.org/sprawl/factsheet.asp
http://www.uffdawalmart.org/default.htm

## VII. APPENDIX

**Vision-Craft-O-Meter**[1]

Use this easy and humorous class-opener to craft a vision statement for any organization. The point here is that its easy to come up with some blather of a vision statement, but it is meaningless if it not backed up by executives actions and widely shared and understood by all members the organization and its external stakeholders.

OUR VISION IS TO BE A

A) growing; leading; worldclass; premier; benchmark; first-mover

ORGANIZATION THAT PROVIDES

B) dynamic; innovative; creative; breathtaking; cost-effective; diverse; high-quality

C) products; services; people; products and services; people and services

TO

D) thrill our shareholders; delight our customers; enrich our stakeholders' lives

IN THE

E) hyper-competitive; emerging; growing; attractive; thriving

F) business-solutions; health-solutions; consumer-solutions; financial-solutions; environmental-solutions

MARKETPLACE.

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[1] Adapted from Stewart, T. 1996. A refreshing change: Vision statements that make sense. Fortune, 134: 6: 195-197.

 