

THE IMPACT OF STRATEGIC LEADERSHIP ON THE OPERATIONAL STRATEGY AND PERFORMANCE OF BUSINESS ORGANISATIONS IN SOUTH AFRICA

by

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Dissertation presented for the degree of

PHILOSOPHIAE DOCTOR

in the subject

BUSINESS MANAGEMENT



at the

UNIVERSITY OF STELLENBOSCH

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DECEMBER 2010

Declaration

By submitting this dissertation electronically, I declare that the entirety of the work contained therein is my own, original work, and that I have not previously in its entirety or in part submitted it for obtaining any qualification.

December 2010

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ABSTRACT

The turbulent and rapidly changing world, including South Africa, has created a society craving for speed and action. Future leaders, therefore, face incredible pressures to deliver immediate results, to do more with less and to manage an ever-increasing personal workload. The pace and urgency of daily demands can make it difficult to be more than the step ahead into the future. But in a world of changing conditions and priorities, leaders and individual contributors alike must be able to look beyond the 'now' and take a more strategic leadership approach to their work and responsibilities.

Global mega-trends are leading to increasing levels of complexity, dynamism and uncertainty in the corporate environment. In an uncertain economy, organisations need effective strategies that will enable them to thrive. Traditional leadership approaches have been rendered insufficient by the rapid changes in the knowledge economy. Businesses need to practise systemic innovation in this fast-changing, knowledge-driven global business landscape in order to remain competitive.

Despite heightened awareness and interest by both scholars and practitioners in the field of strategic leadership, the subject will always be an emerging field of inquiry. Furthermore, limited research has thus far been conducted on the impact of strategic leadership on the operational strategy and performance of business organisations in South Africa. A review of strategic leadership literature revealed a research gap that culminated in the following research question: "What is the impact of strategic leadership on the operational strategy and performance of business organisations in South Africa"?

To address the research question stated above, a literature review on the impact of strategic leadership on the operational strategy and performance was conducted, and an empirical study was executed. The literature review emphasised the three interrelated strategic leadership constructs of action, coherence and discipline that explored the relationship between strategic leadership and the organisation's operational strategy and performance. In this study, operational strategy includes strategic orientation as well as the operational excellence of the organisation. The

factors which influence strategic orientation were identified as the organisation's ability to create and formulate their strategy as well as the discipline of all people in the organisation to execute the strategy. Operational excellence, was influenced by product differentiation, cost management and integration.

The literature review also emphasised the influence of adaptive leadership, autonomy, communication, knowledge, processes and systems, and values on self reported organisational performance which was directly related to strategic leadership.

To address the research problem, empirical cross-sectional telephone surveys were conducted. The sample selected for the study was the top 200 listed organisations for 2008, as published in the Financial Mail. The key respondent was the chief executive officer (CEO), or a member of the executive team. The sample consisted of 200 organisations of which 118 valid responses were received with a response rate of 59 percent. Measurement instruments were adapted, developed and revised where necessary to ensure the reliability and validity of the data. The collected data were analysed using descriptive and inferential statistics.

The findings of the study indicated that strategic leadership is directly and indirectly positively associated with operational strategy and organisational performance. It is positively associated with strategy orientation as well as operational excellence of business organisations in South Africa. Furthermore, strategic leadership can also be related to return on assets (ROA) and earnings per share (EPS). Self reported performance is also associated with higher organisational performance.

Strategic leadership is unrelated to the size of the organisation, but is more likely to occur in a turbulent business environment. Product differentiation and cost management were also directly linked to strategic leadership.

The most important contribution of this study is based on the testing of successful strategic leadership practices in business organisations in the South African context. Competition in the 21st century's global economy will be complex, challenging and filled with competitive opportunities and threats. This study asserted that effective strategic leadership practices could help business organisations in South Africa to enhance their

performance while competing in turbulent and unpredictable environments. Measurement instruments have also been developed, which may be used by executives, consultants and other researchers to measure these phenomena in future.

UITTREKSEL

Die turbulente en vinnig veranderende wêreld, Suid-Afrika inkluis, het 'n gemeenskap geskep wat gewoon geraak het aan spoed en aksie. Toekomstige leiers is dus blootgestel aan oneindige druk om dadelik te presteer, resultate te lewer, om meer met minder te doen en om 'n voortdurende en toenemende werkslading te bestuur. Die vinnige pas en dringendheid van daaglikse vereistes kan dit baie moeilik maak om 'n stap voor die toekoms te wees. Maar, in die wêreld van veranderende omstandighede en prioriteite, moet leiers en individue oor die vaardighede en kennis beskik om verby die 'huidige' na die toekoms te kyk en daardeur 'n meer strategiese leierskapsbenadering te volg ten opsigte van hulle werk en verantwoordelikhede.

Die impak van globalisering het aanleiding gegee tot verhoogde vlakke van kompleksiteit, dinamika en onsekerheid in die korporatiewe omgewing. Organisasies het, veral in 'n onsekere ekonomie, 'n effektiewe strategie nodig om te presteer. Tradisionele leierskapbenaderings is nie meer voldoende in 'n kundigheidseconomie wat vinning besig is om te verander nie. Dit het dus noodsaaklik geword vir leiers in organisasies om effektiewe stelsels en ander innoverende praktyke te implementeer om kompetend te wees in die toekoms.

Nieteenstaande die verhoogde bewustheid en belangstelling van beide studente en persone wat in die praktyk werksaam is teenoor strategiese leierskap, sal dit altyd nodig wees om hierdie vakgebied verder te ontwikkel en te bestudeer. Voorts is daar tot op hede slegs beperkte navorsing gedoen oor die impak van strategiese leierskap op die operasionele strategie en prestasie van besigheidsorganisasies in Suid-Afrika. 'n Oorsig van strategiese leierskapliteratuur het getoon dat daar 'n navorsingsgaping bestaan wat aanleiding gegee het tot die volgende navorsingsvraag: "Wat is die impak van strategiese leierskap op die operasionele strategie en prestasie van besigheidsorganisasies in Suid-Afrika"?

Om die bogenoemde navorsingsvraagstuk aan te spreek, is daar 'n omvattende literatuuroorsig asook 'n volledige empiriese studie gedoen ten opsigte van die impak

van strategiese leierskap op die operasionele strategie en prestasie van besigheidsorganisasies. Die literatuuroorsig het beklemtoon dat die drie interafhanklike konstrakte van aksie, samehorigheid en dissipline, (wat strategiese leierskap verteenwoordig), 'n nou verband het met operasionele strategie en prestasie in besigheidsorganisasies. In hierdie studie het strategiese oriëntasie van die organisasie sowel as die vermoë om die strategie uit te voer die beginsel van operasionele strategie verteenwoordig. Die faktore wat strategiese oriëntasie beïnvloed het, is geïdentifiseer as die organisasie se vermoë om 'n strategie te ontwikkel en te formuleer, asook om die nodige dissipline te handhaaf om die strategie op alle vlakke suksesvol uit te voer en te implementeer. Operasionele uitnemendheid is beïnvloed deur produk differensiasie en die effektiewe bestuur van kostes.

Die literatuuroorsig het ook die belangrike invloed van adaptiewe leierskap, outonomie, kommunikasie, kundigheid, effektiewe prosesse en sisteme asook gevestigde waardes bevestig as aspekte wat 'n direkte en indirekte impak het op die selfgerapporteerde prestasies in besigheidsorganisasies, wat 'n direkte verband getoon het met strategiese leierskap.

Die navorsingsprobleem is aangespreek deur empiriese kruisseksionele telefoononderhoude te voer met gelyste besigheidsorganisasies in Suid-Afrika. Die geselekteerde populasie was die 200 top organisasies vir 2008, soos gepubliseer in die Financial Mail van 2009. As gevolg van die strategiese aard van die studie, was die sleutelrespondente die Hoof Uitvoerende Beampte (HUB), of 'n lid van die uitvoerende bestuur van die organisasie. Die populasie het bestaan uit al 200 gepubliseerde organisasies waarvan 118 geldige vraelyste geprosesseer is, met 'n respondentkoers van 59 persent. Die meetinstrument is aangepas, ontwikkel en verander waar dit nodig was om die geldigheid en toepaslikheid van die data te kon verseker. Die versamelde data is met beskrywende en inferensiële statistiek ontleed.

Die bevindinge van die studie het aangetoon dat strategiese leierskap direk en indirek positief verbind kan word met operasionele strategie sowel as die self gerapporteerde prestasie van organisasies. Dit kan ook positief geassosieer word met strategiese oriëntasie sowel as operasionele uitnemendheid van besigheidsorganisasies in Suid-Afrika. Voorts kan strategiese leierskap ook verbind word met die opbrengs op bates

sowel as die verdienste per aandeel. Selfgerapporteerde prestasie van die deelnemende organisasies kon ook direk verbind word tot verbeterde prestasie van hierdie organisasies.

Daar is egter ook bevind dat strategiese leierskap geen verband het met die grootte van die organisasie nie, maar is wel geneig om 'n positiewe impak te hê op die prestasie van organisasies in 'n turbulente besigheidsomgewing. Produk- differensiasie en die effektiewe bestuur van kostes kan ook direk geassosieer word met effektiewe strategiese leierskap.

Die belangrikste bydrae van hierdie studie is gebaseer op die toetsing van suksesvolle strategiese leierskapspraktyke in besigheidsorganisasies in die Suid-Afrikaanse konteks. Kompetisie in die 21ste eeu in 'n globale ekonomie gaan kompleks en uitdagend wees, gevul met kompeterende geleenthede en bedreigings. Hierdie studie het empiries bevestig, dat effektiewe strategiese leierskapspraktyke besighede in Suid-Afrika kan help om uitnemend te presteer asook om winsgewendheid te verhoog, alhoewel hulle deel is van 'n turbulente en onvoorspelbare omgewing. Meetinstrumente is ook ontwikkel wat deur uitvoerende beamptes, konsultante en ander navorsers gebruik kan word om hierdie verskynsels in die toekoms te kan meet.

ACKNOWLEDGEMENTS

With the submission of this dissertation, I have the desire to express my sincere thanks and appreciation to the following people and institutions. Without your assistance this study would not have been possible:

- My promoter, Professor Johan Hough, for his exceptionally good and professional guidance, advice and consistent encouragement;
- My wife, Ciska and my children Carlien and Jabez, for their love, support and encouragement;
- My mother, Tokkie Serfontein, who always believed in me and for her endless love and support;
- In memoriam of my father, Japie Serfontein and mother-in-law, Babs Schaap, who's love and life was an inspiration to us all;
- The Board of Directors of PSG Konsult for their support and financial assistance;
- Respondents, for the sacrifices made and expert advice;
- Professor Martin Kidd of the Centre for Statistical Consultation at the University of Stellenbosch for giving meaning to all the statistical calculations;
- Professor Christo Boshoff, and the University of Stellenbosch for financial support;
- Jeanne Enslin, for language editing the study.

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CHAPTER 1

INTRODUCTION AND ORIENTATION TO THE STUDY

1.1 INTRODUCTION

Since the mid-1980's a growing body of leadership research has focused on strategic leadership, in contrast to managerial and visionary leadership. It focused on how top leadership makes decisions in the short term that guarantees the long-term viability of the organisation. The best performing organisations are consciously strategic in their leadership planning. These top leaders also have the ability to align human resources in an effective way directly to the business strategy (House & Aditya, 1997).

Over time the leader's capability is therefore shaped by the top team's quality as well as with the capabilities of the full organisation. These can either provide invaluable support for the changes a leader wants to make or render those changes possible. Hence the best leaders pay a great deal of attention to the design of the elements around them. They articulate a lucid sense of purpose, create effective leadership teams, prioritise and sequence their initiatives carefully, redesign organisation structures to make good execution easier and most importantly, integrate all these tactics into one coherent strategy. This design of strategic leadership is therefore an integrated group of practices that build an organisation's capacity for change and ability to perform. To develop and maintain this capacity, four critical elements need to be integrated together: the commitment to the organisation's purpose, the makeup of the top management team, the capabilities and motivation of people throughout the organisation and a sequence of well-chosen strategic initiatives that can take the organisation forward (Wheeler, McFarland & Kleiner, 2008).

Wheeler, McFarland & Kleiner (2008:1) further argue that: “A rapidly changing world has created a society craving for speed and action. Future leaders, therefore, face incredible pressures to deliver immediate results, to do more with less and to manage an ever-increasing personal workload. The pace and urgency of daily demands can make it difficult to be more than the step ahead into the future. But in a world of changing conditions and priorities, leaders and individual contributors alike must be able to look beyond the ‘now’ and take a more strategic leadership approach to their work and responsibilities”. Without effective strategic leadership, the probability that an organisation can achieve superior, or even satisfactory, performance when confronting the challenges of the global economy will be greatly reduced (Hitt & Ireland, 1999).

What then, is strategic leadership? Wheeler, McFarland & Kleiner (2008:1) have explained it as follows: “It is nothing more than the ability to anticipate, prepare and get positioned for the future. It is also the ability to mobilise and focus resources and energy on the factors that make a difference and will position one for success in the future. It is the courage to think deeply about what one wants to do. Applied strategic leadership is about creativity, intuition and planning to help one reach one’s destiny”.

Great leaders are judged as much by what they leave behind as by what they achieve during their tenure. A vibrant, vital organisation that is fiercely competitive and driven to excel is, of course, an important legacy for a leader (Boal & Hooijberg, 2001). This means having in place a high-performing¹ leadership team, a thinking organisation and managers and employees at all levels passionately committed to getting things done. In this context, the proposed study will identify the direct and indirect pathways to strategic leadership practices from the literature, and survey the top 200 listed South African organisations of 2008, as published in the Financial Mail, in order to ascertain how these antecedents influence the success of these organisations.

¹ High performance is defined as the enduring or out-performance of peers, across business and economic cycles, often across generations of leadership (Breene & Nunes, 2006:11).

This chapter firstly provides the background to the research problem, secondly defines key concepts and thirdly states and describes the research problem. In the fourth section the research methodology will be described, the fifth section will specify the delimitations and scope of the study, and the last section will provide an outline of the study.

1.2 BACKGROUND

This section describes the changing global business landscape and shows the relevance of strategic leadership practices in this context. Additionally some of the challenges facing South Africa will be described and finally the problematic nature of the lack of strategic leadership practices in South African organisations are illustrated.

1.2.1 LEADERSHIP IN CHANGING TIMES

Wegner & Petty (1998:169) stated that: “Change is the order of the day in organisations. Commitment to continuous change is expected; it is ever present as the goal. The action bias is “pro-innovation. The notion that change is good, desirable or inevitable, regardless of costs and consequence, is still the implicit theory. However, also implied is the belief that change must be accomplished without any lessening of day-to-day performance. In other words, leaders and people in organisations are expected to both change and perform well at the same time”.

The regulatory focus theory of Higgins (2000:12) argues that: “When a regulatory fit is achieved between individual regulatory styles and the regulatory context of organisations, people can and will experience and maintain positive motivation for change. Consequently, leaders who understand this premise and incorporate it into their leadership theories should find that organisational change is better implemented, more highly valued and more successful overall”.

The model for strategic leadership in organisational change is conceptualised by the study on regulatory focus theory (Brockner & Higgins, 2001) and regulatory fit

(Higgins, 2000). The study of Higgins, *et al.* (2003:57) asserted that: “Strategic leadership of organisational change manages the paradox of change and stability by embracing positive self regulation - the process by which individuals formulate goals that are concurrent with their individual preferences and the styles and strategies they use to attain over time. When members in an organisation experience a compatible fit through positive self regulation in the change environment, they become fully motivated to support the change goals. The strategic leadership responsibility, therefore, includes both positive self regulated change behaviour and the creation of an internal environment that supports eagerness and vigilance in positive self-regulated change behaviour”.

Global mega-trends are leading to increasing levels of complexity, dynamism and uncertainty in the corporate environment (Bullinger, Lentz & Scholtz, 2000). In an uncertain economy, organisations need effective strategies that will enable it to thrive (Cap Gemini, Ernst & Young, 2000). Traditional leadership approaches have been rendered insufficient by the rapid changes in the knowledge economy (Leibold, Probst & Gibbert, 2002). Businesses need to practice systemic innovation in this fast-changing, knowledge-driven global business landscape in order to remain competitive (Beinhocker, 1999; Pascale, 1999).

1.2.2 THE ROLE OF STRATEGIC LEADERSHIP

Strategic leadership means that leadership in the organisation should focus on the future, to create excitement for the future, as well as for what is happening today. A primary goal of a strategic leader is to gain a better understanding of the business conditions, the environment and other aspects that identify the challenges of the future.

In their review of the strategic leadership literature, Boal & Hooijberg (2001) made the distinction that theories of leadership are about leadership “in” an organisation but that strategic leadership is of leadership “of” the organisation. Strategic leadership is marked by a systemic concern for the whole organisation, its evolution, changing aims as well as the selection, development and maintenance of the requisite resources and capabilities to enable it to compete. They proposed

a direct link between strategic leadership effectiveness and organisational effectiveness.

1.2.3 STRATEGIC LEADERSHIP IN SOUTH AFRICA

In his speech at the launch of the presidential strategic leadership development conference in Pretoria, July 2000, the former President of South Africa, Mr. Thabo Mbeki, confirmed that the challenges of developing strategic leadership must occupy the collective mind of the entire nation, and that ways should be found to extend this important process to other sectors of the South African society (Mbeki, 2000). Accordingly, the Presidential Strategic Leadership Programme will serve to nurture a leadership which can lead and perform its work in a professional and holistic way.

According to former President Mbeki, strategic leadership entails: “The training of new leadership which is equipped with functional competence within a particular area of work and at the same time is able to understand the bigger picture. Leadership who has the ability to combine service delivery with strategic vision is the future of our country” (Mbeki, 2000:3).

For the caring South African society to emerge and be sustained, above all it falls on the public service leadership in partnership with civil society to create a sense of community that must be cemented by the reality of people working together as a nation for a better life. Leaders in the public service as well as the private sector will have to be more imaginative in their thinking and more creative in their practices, remaining conscious at all times of the demands placed on them by public, by business and civil society (Mbeki, 2000).

Robinson (see *Human Capital Management*, 2005/6:22), MD of Learning Resources in South Africa, confirms that leadership is never easy. “In the South African context,” says Robinson, “where there are the additional pressures of equity and empowerment, the number of leaders undergoing transition in a company in any one year could be as high as 50 percent. How these prospective

leaders manage the initial transition period will largely determine their success or failure in their new positions”.

Sipho Ngidi, Director of Corporate HR at Standard Bank (see *Human Capital Management*, 2005/6:23), agrees with Robinson’s view. He believes that three separate incidents were responsible for reinvigorating the bank’s brand franchise. “Firstly,” says Ngidi, “a few years ago the attempted takeover by Nedcor pinpointed serious gaps in our management efforts and efficiencies. It was a wakeup call for all of us to look at the future from a strategic leadership perspective. Secondly, we had made a few less than successful inroads into emerging markets outside our borders, and thirdly, there was the arrival of Jaco Maree as CEO. He looked at the business from a new angle and put forward a strong case for change. Maree argued that: “We needed to look at the whole organisation as a high performing system to improve the customer experience” (see *Human Capital Management*, 2005/6:23).

According to UNISA Professor of Business Leadership, Stella Nkomo (see *Human Capital Management*, 2005/6:23), all is not quite that simple. Nkomo says: “In South Africa, we have multiple stakeholders. We have to weave between black empowerment, employment equity and affirmative action. This can only be grown and sustained if there is a balance between short-term and long-term needs. No book can give answers to the issues we face. This is a unique situation, and very complex. It requires risk-taking and courage. Our leaders need to be bold, imaginative and creative in their thinking” (see *Human Capital Management*, 2005/6:23).

Apart from the above, other challenges facing South Africa are to develop sustainable economic growth, to improve its international competitiveness, and to build the country’s capacity for innovation. Such an economy will have the capacity to generate wealth (Rwigema & Venter, 2004).

The previous section has already demonstrated the role that strategic leadership can play to create economic growth. This study has specifically focused on the role businesses organisations can play to improve South Africa's internal

challenges as well as international competitiveness; and the importance of building the country's capacity for strategic leadership.

1.2.4 SOUTH AFRICA AND INTERNATIONAL COMPETITIVENESS

Organisations do not exist in isolation, but form part of a broader global environment characterised by rapid and uncertain change. Leaders of organisations play a determining role in ensuring that their organisations adapt to changing environments in order to succeed and survive (Amos, 2007).

South Africa needs to improve its international competitiveness if sustainable economic growth and development is to occur (Porter, 2004). The world's economies are in the process of being transformed and integrated as a result of globalisation (Hough, 2004). A major factor of competitiveness identified by businesses, is the increased need to operate globally (Gamble & Blackwell, 2002). South African businesses too have experienced intensified competition (Visser, 2003) and the need to build a sustainable competitive advantage.

Competitiveness at the level of the enterprise is of utmost importance since it affects the profitability, survival and future development of the enterprise (Porter, 2004). The management of technology, innovation and information has emerged as a key requirement for success in the 21st century (NRF, 2004). This view is supported by research conducted by the World Economic Forum (Porter, 2004; Claros, Altinger, Blanke, Drzeniek & Mia, 2006), authors of the Business Competitiveness Index (BCI). According to the BCI, which examines the micro economic foundation of country prosperity, South Africa was ranked 27th out of 101 countries in 2004. The profile of South Africa fits those of other middle-income countries, and therefore faces similar competitive challenges. The main competitive challenges of middle income countries are to build brands, to expand regional and international markets, to increase the professionalism of employees, management and executives (Porter, 2004).

1.2.5 BUILDING THE CAPACITY FOR STRATEGIC LEADERSHIP AND FLEXIBILITY

The environment that surrounds organisations is becoming increasingly turbulent (Eisenhart, 1989), it is expected that the focus of strategic leadership is the implementation of absorptive ability and adaptive capacity² (Heifetz & Laurie, 1997).

Absorptive ability is the ability to recognise new information. Hedberg (1981:56) confirmed that: "Since knowledge and learning are distributed throughout the organisation, absorptive capacity occurs at both the individual and organisational levels". South Africa is a young nation with a new democracy that has been isolated from the rest of the world for many years. The ability of leaders to lead their employees into the future is therefore of importance, as leaders in such positions have the competence to change or reinforce existing strategies within their organisations in South Africa.

To be successful in the tasks and role of strategic leadership, leaders need to have the ability to think strategically and to be emotionally intelligent (Amos, 2007). They must have a range of behaviours available and the wisdom to apply the right combination of behaviours at the right time. Leaders also need to be able to apply transactional or managerial leadership and transformational or visionary leadership and to be capable of applying the philosophy of African leadership. Pieter Cox, recently retired CEO of Sasol, for instance is such a leader. He played a determining role in ensuring the success of his organisation with the emphasis he placed on strategic leadership. Leadership occurs at all levels within an organisation, with the best organisations having strategic leaders at all levels, but it is the top level executives, like Sizwe Nxasana, previously CEO of Telkom, who are ultimately responsible for the survival and success of their organisations (Amos, 2007).

According to the *National Research Foundation* (NRF, 2004) the capacity for science and technology in South Africa has not been adequately translated into

² Absorptive and adaptive leadership capability will be discussed in more detail in Section 3.2.5.

successful and dynamic enterprises. A sound scientific and technological base, from which wealth-creating technological innovations and applications can develop, is essential to improve economic growth in South Africa, which operates in an increasingly global competitive landscape.

Continuous research and development is a curtail requirement for the development of future leaders in a country to be competitive in a global environment. The Department of Science and Technology recently conducted a survey to determine the intensity of Research and Development (R&D) expenditure in South Africa. The R&D expenditure as a percentage of GDP is the most widely used indicator of the economic competitiveness of countries (OECD, 2003). The results of the survey showed that South Africa's gross R&D expenditure is 0.76 percent of GDP. The R&D expenditure of Sweden, the leader in the OECD (Organisation for Economic Co-operation and Development), is equivalent to 4.27 percent of GDP. Even though South Africa has a higher R&D intensity (0.76% of GDP) than many other developing countries, it needs to keep pace with competitor countries where R&D expenditure is increasing rapidly. The goal of the South African government is to improve the figure to 1 percent of GDP by 2009 (*Department of Science & Technology, 2004*).

1.3 THE CHALLENGING NATURE OF STRATEGIC LEADERSHIP

Leaders should be measured by the results they achieved in their organisations or on the sustainable strength of the institution they leave behind. That might be an unfair statement, but it is after all the leader's role to build an organisation that can be successful today and tomorrow. The problem is that many executives report pressures to focus on short-term metrics at the expense of the future. When pushed, some might even respond that they cannot be held accountable for the future when they are no longer there (Malnight & Keys, 2007).

An additional problem that leaders face is to keep the pace of change within their organisations as fast as, or faster than, the pace of change is happening around them. It takes a new level of strategic leadership which also focuses on building the strength of the institution (Ellis, 2005).

It is however not just a problem for individual executives. Many leadership teams report spending too much time deciding what they can or cannot do in the face of intense short-term pressures. They do not take the time or effort to make sense of what they have to do to build a strong institution that will continue to succeed in the next two, three, five or ten years. They plan rigorously, but within incremental, outdated processes. The operational demands to deliver short-term results far outweigh the strategic demands to build their organisations for the future (Malnight & Keys, 2007).

Leaders are frequently pressured to achieve operational and short-term issues. They for instance get rewarded for these short-term results and their job security might even depend on it. Strategic leaders need to however also look at the future and identify future changes and challenges. The problem is that they normally do not have the time to consider these issues. Strategic leadership requires for leaders slow down, and focus their mind with discipline and skill on the future (Ellis, 2005).

Leadership has never been an easy “proposition”. Throughout history observers have wondered if there were enough capable leaders to manage the challenges facing all types of organisations. Today, organisations face something of a “perfect storm” of problems that have profound implications for current and future leaders (Fulmer, 2007:7).

According to Fulmer (2007:9), the following are strategic leadership problems of current and future leaders:

- Competition is coming from unexpected quarters. Because the rules of the business game are changing with this competition, current leaders represent what the business needed in the past and not the present or the future.
- The talent pipeline often lacks sufficient numbers to replace leaders that are or soon will be leaving.
- The organisation’s expansion goals outstrip the amount of internal talent needed to support them.

- Globalisation and increasing technological demands make the leader's job more difficult than ever.
- Problems with strategic direction, organisational alignment and employee commitment continue to exist and are exacerbated in the current competitive environment.
- Human resources and those responsible for leadership development feel increased pressure to demonstrate value, particularly in terms of return on investment for leader development, and other education and training initiatives.
- Leadership development initiatives are not integrated with business needs, and consequently, are of questionable value to internal customers.

People are motivated by good leadership, guided by good leadership and even held accountable by good leadership (Ellis, 2005). In fact, employees who are led by strong leaders are more satisfied, engaged and loyal than employees with weak leaders. Most of all people are being developed into good leaders as a result of being taught by and following the example of leaders who were role models, mentors and teachers (Fulmer, 2007).

1.4 DEFINITIONS

Certain key terms were used repeatedly in the study and therefore need to be defined. These terms are strategy, leadership, strategic leadership and instruments of strategic leadership.

1.4.1 STRATEGY

According to Porter (1991), strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value.

For Hamel & Prahalad (1993:76), a good place to begin deconstructing our managerial frames is with the question, "What is strategy?" For a great many managers in large Western companies, the answer centers on three elements: the concept of fit, or the relationship between the company and its competitive

environment; the allocation of resources among competing investment opportunities; and a long-term perspective in which "money" figures prominently. From this perspective, "being strategic" implies a willingness to take the long view, and "strategic" investments are those that require a large and preemptive commitment of resources - betting bigger and betting earlier - as well as a distant return and substantial risk.

Strategy is also a plan with the aim to link ends, ways and means. The difficult part involves the thinking required to develop the plan based on uncertain, ambiguous, complex or volatile knowledge information and data (Jacobs & Jacques, 1989). Freedman (2003) agrees with this and defines strategy as the framework of choices that determine the nature and direction of an organisation.

The common usage of the term "strategic" is related to the concept of strategy (Guillot, 2003:4). It simply means a plan of action for accomplishing a goal. The term is used more often in its broader sense (e.g., strategic planning, decisions, and even leadership). Thus, it is used to relate something's primary importance or its quintessential aspect. When "strategic" is being recognised and used in this broad sense, it means the most important long-term planning, the most complex and profound decisions and the most advantageous effects as well as leaders with the highest conceptual ability to make decisions (Guillot, 2003:4).

1.4.2 LEADERSHIP

Numerous authors comment on the difficulty in defining leadership, stating that it is easier to define and recognise what it is not. Leadership guru, Tom Peters (see Human Capital Management, 2005/6:4), defines leadership as: "A unique alliance between managers and workers that fully engages the talents and potential of everyone in the organisation". Bennis & Nanus (1985) emphasise the importance of fostering creative change through a vision by creating a meaningful work context, communicating the vision, developing trust and effectively managing yourself – thereby empowering others.

Peter Senge (1992), places emphasis on the creation of learning organisations by emphasising vision, alignment of purpose and personal mastery and responsibility to effect change. Conger (1999:32), defined leadership as: “The competencies and processes required to enable and empower ordinary people to do extraordinary things in the face of adversity, and constantly turn in superior performance to the benefit of themselves and the organisation”.

According to Peter Drucker (see Human Capital Management, 2005/6), leadership is not magnetic personality – that can just as well be glib tongue. It is not making friends and influencing people – that is flattery. Leadership is lifting a person’s vision to higher sights, the raising of a person’s performance to a higher standard, the building of a personality beyond its normal limitations.

1.4.3 STRATEGIC LEADERSHIP

Montgomery (2008:15) confirmed that: “Few leaders allow themselves to think about strategy and the future. Leaders should give direction to every part of the organisation – from the corporate office to the loading dock. Strategic leadership is therefore the ability of the leaders to create and re-create reasons for the organisation’s continued existence. The leader must have the ability to keep one eye on how the organisation is currently adding value and the other eye on changes, both inside and outside the organisation, that either threaten its position or present some new opportunity for adding value”.

Guillot (2003) defines strategic leadership as the ability of an experienced, senior leader who has wisdom and vision to create and execute plans and make consequential decisions in the volatile, uncertain, complex and ambiguous strategic environment. Rowe (2001:82) defined strategic leadership as: “The ability to influence others to voluntarily make day-to-day decisions that enhance the long-term viability of the organisation, while at the same time maintaining its short-term financial stability”. Amos (2007:3) has a similar view to Rowe and defines strategic leadership as: “The ability to understand the entire organisation and the environments within which they operate and using this understanding to create

strategic change through other people so as to position the organisation in the environment for both short-term stability and long-term viability”.

Hitt, Ireland & Hoskisson (2007) conceptualised strategic leadership as the ability to anticipate, envision, maintain flexibility and empower employees to create strategic change as necessary. Boal & Hooijberg (2001) took an individual competence level focus. They suggested that effective strategic leaders must create and maintain absorptive and adaptive capacity in addition to obtaining managerial wisdom. Absorptive capacity involves the ability to learn by recognising new information, assimilating it and applying it. Adaptive capacity involves the ability to change due to variations and conditions. Managerial wisdom consists of discernment and intuition.

Zaccaro *et al.* (1991:323) put it that: “Effective leadership requires that leaders have encoded knowledge structures and that the knowledge structures, joined with effective social perceptiveness, form the basis for a leader's social competence within the organisation”.

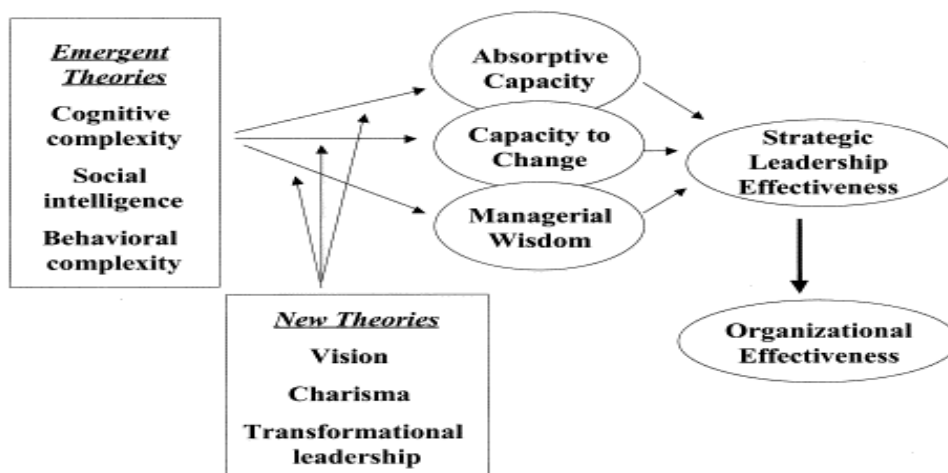


Figure 1.1: An integrative model of strategic leadership

Source: Boal & Hooijberg (2001:539)

As displayed in Figure 1.1 Rowe (2001:85) asserted that: “Cognitive complexity, behavioural complexity, and social intelligence form the foundation for absorptive

capacity, capacity to change, and managerial wisdom, and that these in turn have an impact on leadership and organisational effectiveness". Rowe (2001:85) further argued that: "Vision, charisma, and transformational leadership function as moderating variables of the relationship between cognitive complexity, behavioural complexity, and social intelligence and absorptive capacity, capacity to change, and managerial wisdom".

Hughes & Beatty (see Rowe, 2001:85) conclude by defining strategic leaders as: "Individuals and teams enact strategic leadership when they, act and influence in ways that promote the sustainable competitive advantage of the organisations".

1.5 RESEARCH PROBLEM AND RESEARCH QUESTIONS

The background provided indicates a research gap that can be addressed by answering the research question below:

To what extent does strategic leadership influence the operational strategy³ and organisational performance of business organisations in South Africa?

Essentially, this study will argue the relationship that strategic leadership is directly and indirectly positively associated with operational strategy as well as financial and self reported organisational performance.

1.5.1 AIMS AND HYPOTHESES

The purpose of the study is to identify a number of possible direct and indirect ways of how strategic leadership may influence and impact the operational strategy and organisational performance of business organisations in South Africa.

³ Operational strategy includes strategic (directional) orientation and operational excellence.

The study has identified some of these pathways and has also identified theoretical and substantively meaningful endogenous organisational capabilities that mediate this relationship and exogenous organisational factors that may moderate this relationship.

The literature review aims to support the proposed empirical study by:

- Arguing that strategic leadership is positively associated with operational strategy;
- Extending the research done internationally on strategic leadership by empirically assessing the concepts in a South African context;
- Confirming that effective strategic leadership practices could help South African business organisations to enhance their performance while competing in turbulent and unpredictable environments.

The role of strategic choice and management discretion on the performance of organisations has long been the focus of leadership research. The resource-capability view suggests that organisations need to build a unique set of resources and capabilities, but that this should be done within the framework of the dynamics of the industry (or industries) in which an organisation competes. In this context, an organisation is viewed as a “bundle of market activities and a bundle of resources” (Eisenhardt *et al.*, 2000).

Strategic leadership can, therefore, be viewed as a competency that is the capability of creating capabilities within an organisation by the acquisition, recombination and renewal of these activities and resources (Eisenhardt *et al.*, 2000; Miller, Eisenstat, & Foote, 2002). The following sub-research hypotheses have been tested in this study.

Hypothesis 1:

Strategic leadership is directly and positively associated with operational strategy.

Porter (1990) argues that organisations can only attain a competitive advantage and earn superior returns if they pursue a dedicated positioning strategy. Such a strategy must serve customers in a way that is either distinctively superior or more economical than approaches used by rivals. Porter maintained that there are three such strategies: product/service differentiation, cost leadership, or some niche-focused combination of the two. For Porter cost leadership is more about operational excellence unless an organisation has a strategic factor market advantage (Barney, 1986b).

Operational excellence, according to Treacy and Wiersema (1995), includes more than just efficiency. It refers to any number of practices that allow a company to better utilise its inputs by developing better products faster and reducing defects in products. Operational excellence can be seen as a particular type of cost-leadership positioning.

Hypothesis 2:

Strategic leadership is directly and positively associated with organisational performance.

Fujimoto (1998) suggests that since competitive performance and capabilities change over time it is possible to distinguish three levels of an organisation's capability. The first level is static capability, which affects the level of performance and concentrates on efficiency through the disciplined use of resources (Ghoshal & Bartlett, 1995). The second level is improvement capability, which affects the pace of performance improvements through problem solving and learning. This problem finding, solving and retention of solutions is based on a coherent organisational architecture and culture that enables change in competitive performance (Christensen & Foss, 1997; Kiernan, 1993). The third level is an evolutionary capability. It is an organisation's ability to successfully take the action necessary to acquire these static and improvement capabilities. Fujimoto (1998)

sees the latter two capabilities as dynamic capabilities. In Fujimoto's (1998) framework the Hitt, Ireland, & Hoskisson (2007) strategic leadership model can be seen to be an evolutionary capability. Strategic leadership is the capability that co-ordinates the maintenance and development of other capabilities within an organisation (Collis, 1991; Eisenhardt *et al.*, 2000). However it also has certain specific static and improvement capabilities as part of it. These static, improvement and evolutionary capabilities are necessary, if organisations are to manage and exploit the change trajectories within their industries.

1.5.2 MAJOR BODIES OF THEORY CONSULTED

House (1977:189) suggested that: "The study of leadership has undergone both rejuvenation and metamorphosis. Rejuvenation, in that the study of leadership seemed like an old friend in which the field of management had lost interest". Bass (1985:94) confirmed that: "At the end of the 1970's and beginning of the 1980's, leadership as a field of study had reached an impasse: little new theory was being developed, and serious scholars were asked not where the field should go next, but whether leadership even matters".

Mintzberg (1979:125) further argued that: "Researchers often focus on studying the characteristics of individuals at the strategic apex of the organisation. Finkelstein & Hambrick (1996:74), however, stated that: "Researchers have not paid much attention to the organisational and environmental context that surrounds the conditions, timing, and means of strategic leaders' actions. This is especially true of research focusing on the new and emergent leadership theories. Even the empirical research on TMTs and strategic leadership theory has only considered a narrow range of contextual and environmental variables".

Hickman (1998:560) confirmed that: "Activities often associated with strategic leadership include making strategic decisions; creating and communicating a vision of the future; developing key competencies and capabilities; developing organisational structures, processes, and controls; managing multiple constituencies; selecting and developing the next generation of leaders; sustaining an effective organisational culture; and infusing ethical value systems into an

organisation's culture". Hambrick (1998:10) further argued that: "Strategic leadership occurs in an environment embedded in ambiguity, complexity, and information overload. Since it is argued that the environment that surrounds organisations is becoming increasingly hyper-turbulent".

1.5.3 JUSTIFICATION OF THE RESEARCH

The justification for the study can be divided into three main areas:

- The importance of building organisations' capability to implement high performance strategic leadership practices.
- The practical value thereof to business leaders in South Africa.
- The lack of research in South Africa on the impact of strategic leadership on the operational strategy and performance of South African business organisations.

The importance of improving economic growth, international competitiveness, and building South Africa's capacity to implement high performing strategic leadership practices was discussed in the background section. Government, the private sector and popular business press sources view the capacity to implement strategic leadership as a crucial initiative towards the future success of South Africa. However, because of the complexity, business organisations in South Africa find it particularly difficult to implement strategic leadership practices (see Human Capital Management, 2005/6).

On a practical level, business leaders need guidelines to identify and overcome obstacles that stand in the way of strategic leadership. The stratified systems theory of Jacobs & Jaques (1987) classifies the performance requirements for leaders in organisations as direct, general and strategic. Distinct elements define the leadership environment within each level. Unmistakable differences among the three levels include complexity, time horizons and focus (see Guillot, 2003).

Most leaders spend their careers leading at the direct or tactical level. In this environment, the leader interacts directly with the same people every day by

maintaining a direct span of control. The time horizon is very short – normally less than one year. At the direct level of leadership, communications generally occur with the same organisation and focus exclusively on the internal audience. Because business leaders spend more time at this level than any other, it becomes familiar and comfortable (Guillot, 2003). Some business leaders however, will mature and move to the general or operational level, where performance requirements begin to change. From the perspective of budding strategic leaders, performance requirements for the strategic level change the most and are least familiar. It is important for those leaders to use integrative thinking as the challenges are great, the stakes are high and the performance requirements are stringent. It is therefore very important to convince South African business leaders to use their integrative thinking to comply with the stringent performance requirements in our business organisations and country.

Very little in-depth research regarding strategic leadership impact has been undertaken in the South African context. Only seven doctoral studies have been completed on strategy and leadership in South Africa and none of these studies have focused particularly on the direct and indirect impact of strategic leadership on the operational strategy and performance of business organisations in South Africa. Some of the studies that are related to this study include the study that was done by Van Schalkwyk (1989) titled: “Leadership and strategic management in organisational development”. The other study was completed by Lear (2004), and focused on the relationship between strategic leadership perception, strategic alignment and organisational performance. Other research done by South African researchers was mainly of a theoretical, conceptual nature and of limited scope e.g. MComm and MBA dissertations. Except for the above-mentioned studies, no empirical research has been done on strategic leadership in a South African context.

As mentioned above, the study can be justified on the importance of building business organisations’ and the country’s capability to implement high performing strategic leadership practices, the practical value thereof to leaders, and the lack of strategic leadership research in South Africa. The study will make specific

contributions to the strategic leadership body of knowledge in the South African context, which will be discussed in the following section.

1.5.4 CONTRIBUTION OF THE RESEARCH TO THE BODY OF KNOWLEDGE

Organisations need to innovate and improve their existing practices, to cope with the challenges of the knowledge economy (Drucker, 2002). No organisation can hope to succeed in today's hostile world without a strong leadership team in place and a clear strategy process that enables them to set, implement and update its strategy (Freedman, 2003).

The contribution of this study is to confirm the above statements. This message continues to resonate even more today, as effective business leaders in South Africa are in very short supply. Those who continue to question the relevance of a top team's focus on strategy process and the value of a clear strategic vision amid such volatility, and who argue for daily operational excellence or the maximisation of financial returns, need to explain how a directionless ship lead by a captain with no map or compass would ever get anywhere (Freedman, 2003).

The contribution of this study is to expand on existing research by, first of all, measuring the current effectiveness of strategic leadership practices in South African business organisations and then to give some insights on how to create and maintain the strategic leadership necessary to keep their organisations on the leading edge.

1.6 RESEARCH METHODOLOGY

The methodology of the study specifies how the study was carried out to research the stated objective of determining how strategic leadership has a direct impact on operational strategy and organisational performance in business organisations in South Africa. A detailed exposition of the research design and methodology is presented in Chapter 5. However, the following section provides a brief description of the research methodology.

1.6.1 SECONDARY RESEARCH

Saunders, Lewis & Thornhill, (1997:38-42) recommended that during the secondary research process, the foundation of the study should be built on a critical literature review. Perry (1998) recommends that most PhD studies should follow a deductive approach. In this approach the literature is used to help the researcher identify theories and ideas to be tested through the use of data. In this way a theoretical framework can be developed.

An extensive literature review has been conducted in Chapters 2, 3 and 4 where previous research published in books, journals, articles and relevant sources on the internet, other working papers, government documents and web pages have been analysed.

1.6.2 PRIMARY EMPIRICAL RESEARCH

Empirical research, also known as primary research, refers to sources of information that have originated directly as a result of a particular problem under investigation (Mc Danliel & Gates, 2001:25). As proposed by a number of authors (Tull & Hawkins, 1993:51-197; Saunders, Lewis & Thornhill, 1997; Hair, Bush & Ortinau, 2000:34-44; Welman & Kruger, 2002:32-170) the methodology section of the primary research section should address the following decision stages: specifying the type of study, defining the target population and sample size, describing the data collection method, determining the research instruments to be used and specifying how the collected data will be analysed.

An empirical study and a survey of the target sample have been conducted. A survey design allows for the collection of a large amount of data from a sizeable sample in a highly economical way, but a common problem of email surveys is the low response rate (Tull & Hawkins, 1993:188). Since the possible low response rate was one of the main concerns of the researcher, telephone interviews, as data collection method, have been done (for full explanation see section 5.3).

1.6.3 THE STUDY POPULATION AND SAMPLE

The sample selected for this study consisted of the top 200 performing organisations that were part of the Financial Mail survey of 2008.

All 200 top performing organisations in South Africa for 2008, as published in the Financial Mail survey, were part of the sample. In this survey, the performance of these organisations was measured over a five year period to ensure consistency in their performance. The respondents in the Financial Mail survey have been the chief executive officers (CEOs) or a member of the senior executive group. They have been treated as key informants (Seidler, 1974). Their responsibilities in their organisations give them a unique and comprehensive view of strategic leadership activities. Zahra (1991:206) argues that CEOs and directors responsible for strategy formulation and implementation, are familiar with the organisation's environment, strategy and structure and are able to see their organisation "holistically". As the top ranking individual responsible for strategic direction in an organisation, they are often called upon to evaluate major new ventures, to approve financial support for projects and are involved in evaluating ongoing activities.

A total of 118 valid responses were received with a response rate of 59 percent. This response rate was relatively good when compared to similar studies. In a series of surveys of Fortune 1000 companies in 1990, 1993 and 1996 the Center for Effective Organisations had response rates of 32, 28 and 22 percent (Lawler, Albers Mohrman, & Ledford, 1998). The organisations represent all major industry groups. Financial and industry performance information has been used from the 2008 Financial Mail survey.

1.6.4 DATA COLLECTION METHOD

The data for the empirical study were collected with the structured telephone interview method. The advantages of telephone interviews include the collection of a large volume of data from a sizable population in a highly economical way,

higher response rates than mail surveys and few non-response errors (Tull & Hawkins, 1993:188).

1.6.5 SPECIFIC RESEARCH INSTRUMENTS

The structured telephone interviews were based on a questionnaire measuring the impact of strategic leadership on the operational strategy and organisational performance in business organisations in South Africa (see Appendix B).

The questionnaire consisted of 48 structured questions and was tested and refined after a pilot study had been done with 51 organisations. These organisations were represented by individuals who were enrolled with the Senior Management Development Programme (SMP) at the University of Stellenbosch Business School Executive Development (USB-ED). The purpose of the pilot study was to ensure that respondents had no difficulties in answering the questions, and that there were no problems in recording the data (Saunders, Lewis & Thornhill, 1997).

To measure strategy in the sample companies the two scales of strategy creation and strategy execution were used based on Treacy and Wiersema's (1995) strategy model. Organisations were asked: "To what extent do the following statements best describe your workplace's competitive strategy"?

Organisational performance was measured using the two financial based measurements of ROA en EPS, as published in the Financial Mail (2009) survey, listing the 200 top performers in South Africa in 2008. Although these top 200 organisations have been ranked in this survey according to their internal rate of return (IRR), this measure has not been used as a performance indicator as there is no direct correlation between the IRR and strategic leadership practices of the organisation (Buzzell *et al.*, 1987). Since return on assets (ROA) is the most commonly used to date in strategy research (Lee & Miller, 1999), it was used in this study. Earnings per share (EPS), is another highly used measure and was also used as an organisational performance measurement (McDonald, 1999).

Although there are some concerns for researchers using self reported performance measures (see Rosenzweig, 2007), it is still widely used by many researchers to measure the performance of organisations. In addition to financial measures, self-reported performance measures were used in this study. Organisations were asked to indicate their current level of performance relative to their competitors for each of the six performance measures. As described in Chapter 5, these performance measures were adaptive leadership, autonomy, communication, processes and systems, knowledge and values.

1.6.6 ANALYSIS OF DATA

The data were analysed by using the Statistica (Stratsoft, 2006; 2007) programme. The results of the data analysed are presented in Chapter 6. Tests of reliability were conducted, using the Cronbach's Alpha coefficients, presented in Section 5.6.1. Exploratory data analysis (EDA) was used to assess individual variables, and descriptive statistics – such as means and standard deviations – were used to describe the data. Additionally, inferential statistics were employed to determine the relationships between the constructs of strategic leadership and operational strategy as well as organisational performance.

1.7 LIMITATIONS AND SCOPE OF THE STUDY

The scope of the study refers to economic sectors, institutional, geographical and functional domains to provide an indication which areas were investigated in the study. The economic sectors investigated, were all major industry groups. The functional scope of the study focused on the highest-ranking corporate officers (CEOs) or a member of the senior executive group as key informants.

The research design contained certain inherent delimitations. Since only the top 200 listed South African organisations, as published in the Financial Mail (2009) were included in this study, the findings of strategic leadership cannot be generalised to other small, medium or micro (SMME) enterprises, and concerns only business organisations in South Africa.

The inherent delimitations of the survey research design were applicable to the study. Since a large amount of data was collected, the findings did not explore the in-depth and complex nature of strategic leadership. Since only CEOs and senior executives of the organisations were consulted, it is possible that another study which examines the perception of top, middle and lower management may yield other results.

1.8 STRUCTURE OF THE THESIS

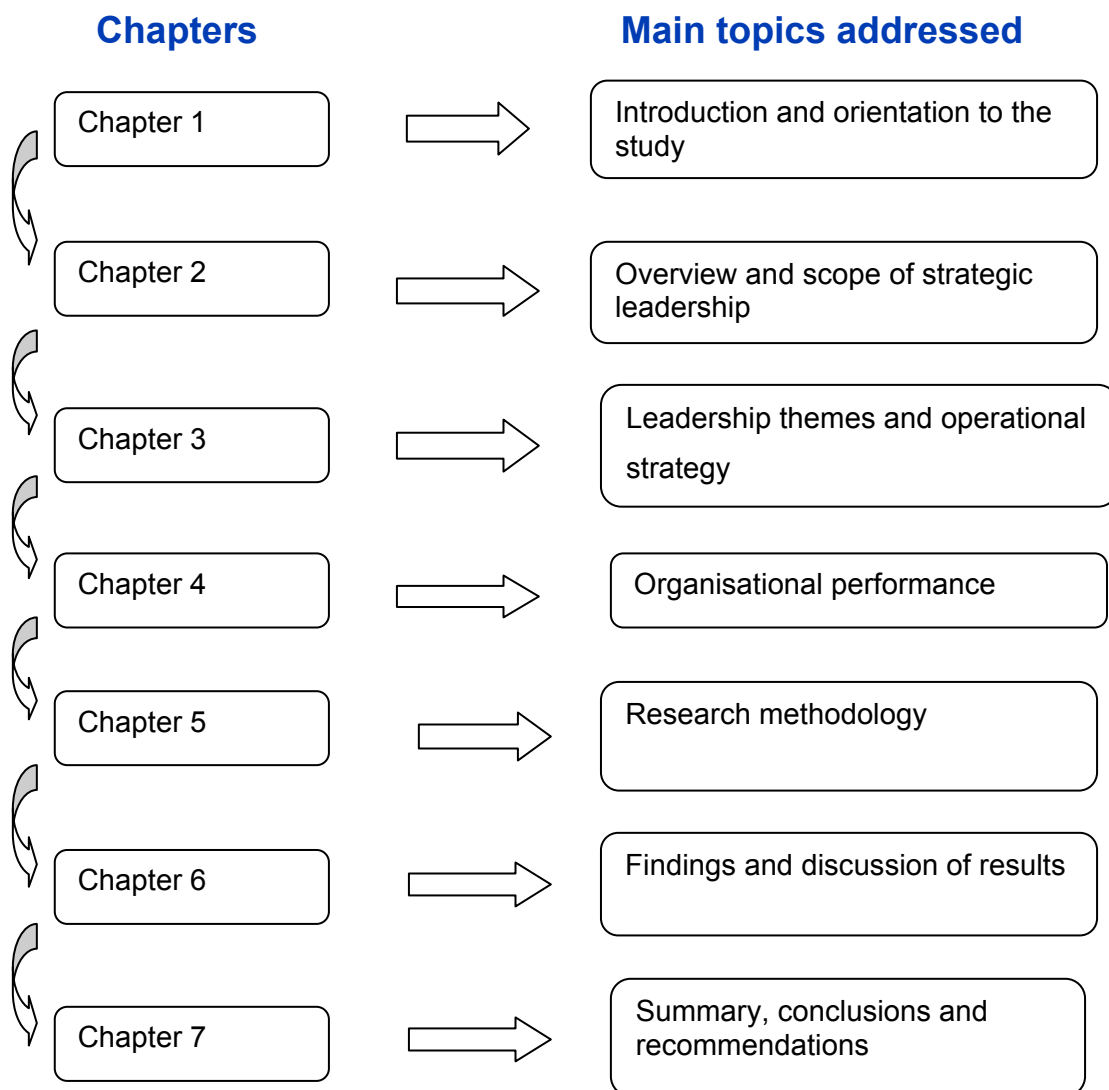


Figure 1.2: A graphical representation of the structure and layout of the thesis

1.9 SUMMARY

Ireland and Hitt (1999:43) suggested that: “Competition in the 21st century's global economy will be complex, challenging, and filled with competitive opportunities and threats. They asserted that effective strategic leadership practices could help organisations enhance performance while competing in turbulent and unpredictable environments”.

Finkelstein and Hambrick (1996) further suggested that: “There are a number of possible direct and indirect ways that strategic leadership may influence the performance of an organisation”. This study has identified some of these pathways and has also identified theoretical and substantively meaningful endogenous organisational capabilities that have mediated this relationship and exogenous organisational factors that have moderated this relationship. This study has confirmed empirically, at the highest level, that strategic leadership does have an impact on the operational strategy and organisational performance in business organisations in South Africa.

Very little research has been done on the direct and indirect impact of strategic leadership in South African organisations. This research on South African organisations is an early attempt to understand the complex nature of this relationship and to identify and operationalise some key constructs. The insights, though consistent with the literature, have been replicated with other samples.

South African businesses are faced by a number of challenges, namely the need for economic growth and to improve the country's international competitiveness (NRF, 2004; Porter, 2004). It appears as if high performing strategic leadership practices may contribute to addressing the challenges of economic growth and international competitiveness.

The empirical study consisted of two stages, namely a pilot study and a structured telephone interview survey of the target population. A total of 118 valid responses were received with a response rate of 59 percent. This response rate is very good when compared to similar studies.

The study should contribute to the body of knowledge by demonstrating how strategic leadership can be seen as an organisational capability. The strategic leadership body of knowledge was enriched with the testing of the direct and indirect pathways of strategic leadership concepts empirically in the South African context, and by providing business leadership with insight on how to overcome barriers to strategic leadership implementation and execution. Furthermore, executives can use this insight to reduce the influence of those obstacles, thus resulting in organisations who exhibit higher levels of strategic leadership best practices. The ability of organisations to implement strategic leadership practices can build their capacity and capability and can result in South African organisations becoming more internationally competitive.

CHAPTER 2

OVERVIEW AND SCOPE OF STRATEGIC LEADERSHIP

2.1 INTRODUCTION

The primary task of high performance leaders is to provide strategic direction to the organisation, various departments and divisions within the organisation, and to the people who ultimately implement strategic leadership. People at 'the top' of the organisation, normally in executive leadership positions, have tended to control over strategic processes. They have tended to make decisions, create policies, and inform people who report to them about the tasks and objectives that must be fulfilled. In essence, they have exercised 'power over others' as the main means of getting things done. In the process they have often become alienated from the realities of operational demands and challenges.

People at operational levels, and this has often included people in supervisory and middle managerial positions, have been part of authoritarian behaviour in different ways. They have often reinforced authoritarian cultures through their own passivity and unwillingness to take risks. Fear of criticism has regularly made them hold back rather than make their view known towards the future of the organisation. These circumstances have contributed to the warped views that strategic leadership is something that happens 'up there', with people at operational levels often feeling that their views either do not matter, or that there is no way for them to influence strategic leadership and the direction of the organisation (Hitt & Ireland, 2002).

In the past it was quite feasible for organisations to operate in this way. As long as the competitive environment remained relatively stable it was not necessary for people across all levels and functions to understand the organisation's strategy.

The rapid increase in technological advancement and the need for virtually any organisation to strive towards global competitiveness, have contributed to the need for fundamental change in the way that strategic leadership is viewed. The core challenge is to position strategic leadership as an integrated set of activities and processes which ensure that people across all levels and functions understand their own roles and accountabilities as it relates to the organisation's strategic direction and focus.

According to Nel (2008:4): "Successful strategic leadership occurs when people across all levels and functions have a common understanding about the following few essential aspects:

- Knowledge of how strategic leadership is formulated, translated and communicated, implemented and assured within the organisation;
- The formal business systems and processes that are required to optimise the organisation's capacity and capability to fulfil its strategic leadership objectives;
- The specific and different roles, rights and accountabilities that each level, function and stakeholder has to fulfil;
- Clear understanding of personal and team roles to ensure optimum contribution".

The extent to which it is possible to implement the above strategic leadership focus, will largely determine how quickly it will be embedded in the genetic make-up of the organisation. Thus, it becomes possible to continuously reinforce the understanding and pursuit of strategic leadership every time a different activity is fulfilled as long as all the activities are based upon the same principles.

In this chapter, the differentiation among the concepts of managerial leadership, visionary leadership, and strategic leadership will be discussed. Further, some constraints on strategic leadership are discussed. Finally, the impact of managerial, visionary, and strategic leadership on the performance of organisations is presented.

2.2 STRATEGIC LEADERSHIP DEFINED

In the 21st century the ability to manage knowledge and create commercialised innovation will largely determine a strategic leader's success. Competent leaders also create the platform through which employees can perform at peak efficiency (Post, Preston & Sachs, 2002). Carey & Ogden (2000:84) confirm this by saying: "When a public company is left with a void in leadership⁴, for whatever reason, the ripple effects are widely felt both within and outside the organisation. Internally, a company is likely to suffer an crises of morale, confidence and productivity among employees and similarly stockholders may panic when a company is left riddles and worry about the safety and future of their investments". The crux of strategic leadership is the ability to manage the organisation's operations effectively and sustain high performance over time (Maccoby, 2001).

Resource-capability theories (Fujimoto, 1998) portray the organisation as a collection of specific resources, organisational routines, capabilities and competences (Eisenhardt & Martin, 2000). This perspective can be seen as complementary to Porter's (1991) competitive position perspective. Within the resource based approach, resources are seen as organisation-specific assets that are difficult to imitate or transfer because of transactions costs and because the assets may contain tacit knowledge. The resource-based model of strategic leadership focuses on the dynamics of competitive behaviour and technological, marketing, organisational and managerial innovation (Stockport, 1999). Since an organisation's resources do not necessarily give rise to its competitive advantage, Lewis *et al.* (1999) have made a distinction between competitive advantage based on strategic assets/resources and competitive advantage based on capabilities. An organisation's strategic leadership capability can be seen as one such capability.

In their review of the strategic leadership literature, Boal and Hooijberg (2001) identified this aspect of strategic leadership and made the distinction that managerial theories of leadership are about leadership 'within' an organisation but

⁴ When leadership is discussed, other leadership acronyms like strategic leadership, effective leadership, organisational leadership etc, will be used.

that strategic leadership is 'of' an organisation. Strategic leadership is marked by a concern for the whole organisation, its evolution, its changing aims and the selection, development and maintenance of the requisite resources and capabilities to enable it to compete. They proposed a direct link between strategic leadership effectiveness and organisational effectiveness. Finkelstein (1996) has discussed the importance of strategic leadership on organisational performance but suggested that there are a number of possible direct and indirect ways it may influence the performance of an organisation.

2.3 THE CHALLENGES OF THE NEW WORLD

In the new competitive landscape, leaders have to cope with radical changes a couple of times a year, never mind a couple of times a decade. In a world where organisation's position is under constant attack by global competitors, where tariff or trade barriers are diminished and where the speed of technical innovation can erase all market gains in an instant. Organisations have to adapt or they will die fast (Drucker, 1997). Competition is a given that must now be factored into an organisation's strategy. At any time, and without warning, an organisation could be forced to cope with four or five sets of overlapping challenges. These could range from a new technology being introduced to mergers and acquisitions, from changes in consumer preferences to social trends and additional markets being entered into, new legislation could be promulgated and passed and the list goes on and on (Drucker, 1997).

This is why it is imperative that organisations can cope with constant new challenges and competition. The top down autocratic style of forcing employees to cope with these challenges and change direction and adapt to new circumstances under duress cannot work when they have to do it constantly. This constant pressure requires that the majority of people actually buy into the shift in direction and the reason for such shift. They need to actively support it. If there is not this level of buy in on a organisation wide basis and is merely an acquiescence to change arising out of fear, sooner and probably rather than later, the wheels will fall off.

Zahra (1993) stated that the pressure on organisations to democratise their relationship with their employees, allowing for more transparency and hanging their decision-making processes to be more consensus-seeking rather than autocratic, adds to the importance of incorporating people in the change process. Managing human responses is very difficult. Instinctively, people resist change. They love their comfort zones and the security bred by routine and familiarity. When something comes along which threatens the status quo of their environment, it will unleash a set of responses, which at face value look negative.

Grant (1996) further confirmed that in future, the speed at which organisations have to respond to challenges has necessitated the greater empowerment of people and the doing away with of old structures. Organisations just cannot afford the slow pace with which objectives were communicated in the past: from executives to general management, from general management to middle management, from middle management to operational levels and so on and so forth. This was clumsy and time consuming and led to business being lost to companies who could perform in a rapid and responsive manner.

New business processes are needed (Bennis, 1997a). These disciplines and processes must link the activities of all employees to the greater strategy of the organisation, providing people with the skills and information that they need to respond to challenges at their own level of work. The key business process, from which everything else is leveraged in the future, is information management. In the past, information was available on a need-to-know basis. It was kept close to the chest of the top management. Employees on the operational levels were not provided with a comprehensive view of the business, because the stability of the environment and subdued pace of innovation did not require it. All they needed was the information relating to the very small sphere within which they were expected to operate (Bennis, 1997b).

2.4 THE INFLUENCE OF LEADERSHIP ON STRATEGIC LEADERSHIP

The pressures of business today make many people think that the only target that counts is financial success. Those who want to lead at a higher level need to understand what a high performing organisation looks like and what is necessary to create one. The biggest impediment, however, that is blocking managers from being great leaders is the lack of a clear vision. A vision builds trust, collaboration, interdependence and mutual responsibilities for success. Vision helps leaders to make smart choices, because their decisions are being made with the end result in mind (Prokesch, 1997).

Leadership is and always has been about winning the hearts and minds of people to achieve a common purpose, a definition we have used at the leadership trust for many years. It is, however, becoming increasingly important to think about what leadership qualities are needed in today's turbulent economic global context, and how training and development professionals can prepare their leaders to deal with the challenges ahead.

Nel (2008:12) stated that: "Globalisation, the war for talent, digital communications, societal changes, the changing shape of organisations, and the aspirations of the next generation are all challenging trainers and developers to develop leaders able to act in new ways. The quest for more sustainable and ethical organisations, prompted by the business scandals of the 1990s and the growing realisation that we cannot continue to raid our world's natural resources without considering its future sustainability, are also putting extraordinary pressures on today's business leaders to perform against a range of criteria that go far beyond those of successful business performance".

Nel (2008:13) further argued that: "Perhaps one of the most marked shifts in thinking about leadership today is the renewed emphasis that is placed on mentoring and team development. Developing leadership must increasingly include the capability to address questions of the longer term common good: socially, ethically and globally, at the same time as responding to the pace of

change in a world where today's ideas might already be doomed to obsolescence”.

Many successful organisations have started proactively finding ways to turn globalisation to their advantage. By both deploying and developing their capabilities in different parts of their organisation as efficiently as possible, successful organisations are now actively managing their talent, capability and the specialist know-how to respond to the challenges ahead. They are asking, for example, where is their best creative talent? Where are their best software engineers? And where are other examples of best practice and leading thinking? (Nel, 2008)

These are leadership questions of course. To address them, successful organisations need to develop a leadership capability across the organisation that impacts positively at all levels, in different ways, in different cultures, and in different businesses. This need to happen at the same time as building a leadership culture that is strong enough and flexible enough to ride the waves of even the most unforeseen economic storm expected, like the present global economic recession.

2.5 THE INFLUENCE OF TEAMS ON STRATEGIC LEADERSHIP

The business environment today has become increasingly complex (Montgomery, 2008). This has initiated the demand for collaboration and teamwork in all parts of the organisation. Success today comes from using the collective knowledge and richness of diverse perspectives. Consequently there has been a conscious movement towards teams. They have been the bloodstream for moving organisations into the future. The leadership in organisations should therefore understand the dynamics of teams and how to unleash the optimal potential of each member in the team to achieve their collective goal. It is essential for leaders to know the importance of moving beyond individual goals and accountability towards the collective team's goals in order to achieve maximum performance. This is very important as high performance challenges energise teams and let them focus on the core (Vaill, 1989).

Finkelstein & Hambrick (1996) further stated that: "Building a strong performance ethic rather than establishing a team-promoting environment alone is also a very important aspect of winning teams. Individualism is also important and exist, but need not get in the way of team performance". Discipline is also a very important aspect for winning teams and creates the condition for excellence and the team's performance. If there is a culture of discipline in the team, individual members who do not comply, will automatically be disciplined by the other members of the team and it would not be necessary for the leader to play that role. Through this culture of discipline, high-performance team members become very committed to one another (Finkelstein & Hambrick, 1996).

2.6 THE COMPONENTS OF STRATEGIC LEADERSHIP

Nel (2008:14) confirmed that: "The core challenge for organisations is to provide sufficient clear structure to ensure that all people in the organisation are familiar with and willing to endorse good strategic leadership practices. This may, in practice, mean that people must initially be directly involved in debating and defining the need for such a strategy. The surest way of achieving this is to develop and utilise an integrated strategic leadership framework that is capable of being applied to the broadest possible range of business-related issue and components. The extent to which it apply the same model to a variety of business activities will largely determine the speed which it becomes embedded in the language and genetic-makeup of the organisation. Thus, it becomes possible to continuously reinforce the understanding and pursuit of strategic leadership every time a different activity is fulfilled as long as all the activities are based upon the same basic principles".

Nel (2008:15) further stated that: "The vision of an organisation is very important and that it is necessary to understand the organisation's total competitive environment, and positioning it in the present so that it is appropriately placed three or to five years from now. This cannot be achieved through traditional strategic planning interventions or top-down approaches to strategic leadership. It requires an ongoing dedication to moulding and crafting the strategic leadership to ensure that it remains responsive to the ever-changing environment".

Nel (2008:15) also argued that: “It is very important for organisations to identify, balance, integrate and align all of the external and internal variables that are likely to have an impact on the organisation’s capacity to fulfil strategic leadership. This includes the identification of trends, patterns and possible reactions that may be caused by the activation of strategic leadership. Taking the necessary steps and action to ensure the delivery of products and services which meet the needs of both internal and external customers is very important for the future focus of the organisation. Issues such as empowerment and personal accountability for build-in quality are important factors at this level of strategic leadership”.

2.6.1 PURPOSE AND VISION

According to Prokesch (1997) the purpose and vision of an organisation aligns the actions of people across the whole organisation. A real vision is very active and all the people in the organisation understand the vision and live it. It is also filled with drive and energy and people are proud to talk about their organisation’s purpose and vision. Nel (2008:15) warns that: “The biggest trap that leadership in organisations fall to, is when they are so sure of their vision and direction that they fail to see new opportunities. Therefore, when an organisation’s strategic leadership fails to continuously address the full spectrum of issues that may have an effect on the performance of the organisation it is likely that the organisation will encounter challenges for which it is not prepared. It is therefore expected of leadership in the organisation to provide certainty together with uncertainty. It is also necessary for the leadership to create constant tension between the desirable future and those elements of the present that could inhibit progress. To achieve this, leaders must continuously create burning platforms so that it is impossible for the organisation to maintain the status quo”.

Nel (2008:15) further said that: “It is very important that the future vision and purpose of the organisation has to be communicated with passion. This is primarily the responsibility of executive leadership. The need for communicating the vision with passion automatically makes it impossible to rely upon non-human processes such as newsletters and audio-vision means of communicating. It requires a physical presence of leaders who comprehend the vision and who

personally express their commitment to the purpose and vision of the organisation”.

Nel (2008:15) further put it that: “Successful achievement of an organisation’s vision is very dependent upon firm leadership direction and leadership optimism. Stated differently, the organisation’s leaders must take personal accountability for interacting with stakeholder and people across all levels to ensure that they comprehend and want to believe in the purpose and vision of the organisation. The organisation’s vision and purpose is a dynamic and living process. In the world of growing technology, need for speed and cyberspace communication, it is all too easy to lose sight of the human element. Yet, as the world and the challenges that the organisation faces becomes more complex, so it becomes increasingly important for leaders to interact personally with people and to help them to mould their responses to the vision. This requires the patience and willingness to interact with people over a sustained period. The opportunity must be provided for people to interact with the leaders of the organisation; to raise their concerns; to ask questions and to develop clarity on how they should respond to meet the challenges contained within their own environment”.

2.6.2 THE DEVELOPMENT OF CORE COMPETENCIES

Grant (1996:375) stated that: “Core competencies are the resources and capabilities that give an organisation a competitive advantage over its rivals. The relatively unstable market conditions resulting from innovations, diversity of competitors, and the array of revolutionary technological changes occurring in the new competitive landscape have caused core competencies rather than served markets to become: The basis upon which organisations establish their long-term strategies”.

McCauley & Van Velsor (2004:21) further argued that: “Leaders develop skills and perspectives that enable them to facilitate the accomplishment of work in organisational systems. Organisations consist of many individuals, groups and subsystems that need to work independently to accomplish collective goals and outcomes. Individuals in leadership roles facilitate the implementation,

coordination and integration of this work. Work facilitation competencies include managerial skills, the ability to think and act strategically, the competence to think creatively and the ability to initiate and implement change. Management skills encompass a broad range of competencies related to the facilitation and coordination of day to day work in organisations, including setting goals and creating plans for achieving those goals, monitoring progress, developing systems, solving problems and making decisions”.

McCauley & Van Velsor (2004:22) also stated that: “Creativity involves seeing new possibilities, finding connections between disparate ideas and reframing the way leaders think about an issue. This is a very important competence for leaders to develop and the implementation of innovations requires an element of risk taking and of going into uncharted territory. Leadership roles often also require the competence to make major changes in organisational systems and practices. This includes establishing the need for change (for example, by demonstrating that current ways of working are no longer adequate), influencing others to participate in the change and institutionalising the new ways of working. To develop any of the above competencies, leaders first have to realise that their current skills or perspectives are inadequate or are not being fully utilised. This alone can be a major step for the development of the leader, sometimes triggered by a mistake or failure, a personal crisis or some feedback received from a coach or mentor. Next, leaders have to identify the competence that they want to more fully develop and begin to try it step-by-step. Finally, after an extended period of practice, leaders can become comfortable with the new competence and start to use it effectively. This cycle is repeated many times as leaders expand their self-management, social and work capabilities. This is also why the development of leadership competencies does not happen quickly, but takes time”.

2.6.3 DEVELOPING PEOPLE

Nel (2008:12) stated that: “Change of any magnitude will invariably necessitate the development of certain new attitudes, knowledge and skills. In the normal course of work, it is still possible for people to develop the necessary competencies for fulfilling their roles over a period of time. This is especially true

when a situation has been relatively stable for quite some time. The capacity for people to learn through experience is, however, very dependent upon a conducive environment which has in any event been designed to reinforce and encourage the development of competencies required by the known and well-established circumstances. When, therefore, a person enters into such a relatively stable and well-established environment there are invariably many people who share a broad array of experiences and capacity which they can transfer to the new individual or can otherwise use to support the individual until he or she acquires the necessary competencies”.

Nel (2008:16) is also convinced that: “Understanding the need to develop new skills, attitudes and knowledge so that people can cope with new challenges and circumstances is one of the most important issues for all organisations. The unfortunate reality is that the vast majority of organisations have simply not yet developed a true appreciation of the need to view people as an appreciating asset, nor to view training and education as an essential investment for the well-being of the organisation and all its stakeholders. The three elements of willingness, enablement and empowerment are all equally important in the process of developing people. None of them can be left out. But, more important than anything else, no amount of creating willingness and insisting upon the development of people will bear any fruit if they are not given the necessary education and training which enables them to respond with confidence”.

Nel (2008:16) also suggested that: “Human capital is the knowledge and skills of an organisation's entire workforce. Strategic leaders are those who view organisational employees as a critical resource on which many core competencies are built and through which competitive advantages are exploited successfully. In the global economy, significant investments will be required for the organisation to derive full competitive benefit from its human capital. Some economists argue that these investments are essential to robust long - term growth in modern economies that depend on knowledge, skills, and information”.

Continual, systematic work on the productivity of knowledge and knowledge workers enhances the organisation's ability to perform successfully. Employees

appreciate the opportunity to learn continuously and feel greater involvement with their community when encouraged to expand their knowledge base. Developing employees result in a motivated and well educated workforce. The type of workforce that is capable of performing very well (Miller, 1996).

2.6.4 A CULTURE OF GREATNESS

Peter Drucker (1997) stated that every organisation has a culture that helps to shape and define the context in which an individual's behaviour is perceived and judged. The emphasis a leader gives is influenced by the organisation's culture and the formal and informal reward systems that reinforce that culture. Often the most powerful factors are subtle and difficult to observe unless one is part of the system. The powerful rules that drive and hone leader behaviour are often the unwritten and unspoken threads that are woven into the fabric of day-to-day life. Employees come to know these subtleties by how they are rewarded or punished. The rewards and punishments are themselves often subtle. They shape the behaviour and are most powerful when they are outside the leadership's awareness (Drucker, 1997).

According to Zellner (1997) some organisational cultures operate in a heavy-handed and competitive manner with little room for mistakes and no patience with the expression of discontent. It is very important to remember that cultural norms can transmit effective, healthy patterns of behaviour as well. When conducting organisational assessment interviews within organisations, leaders are often modelling behaviour that is both engaging and motivating. Organisational culture can, therefore, operate in ways that nurture and support the practice of effective leadership rather than undermine it. It is, however, less than authentic leadership who blame the culture of an organisation for their poor behaviour. Although it is sometimes a challenge to behave in ways that are in conflict with the prevailing cultural norms, it may appear easier and safer to simply conform to the practices observed in others, but accepting the leadership challenge includes being willing to challenge practices that are not in the best interest of the organisation.

Zellner (1997) further stated that sometimes it takes more courage for leaders to follow their beliefs and values than to fall into the space and style of an organisation's culture. Most leaders will find that their careers are judged and rewarded based on their competence, their performance and their personal integrity. Leading with authenticity – balancing the dynamic tensions between the human and structural aspects of leadership – can be most effective. Leading with authenticity will often test the leader's level of personal conviction, but leaders will never have the ease of applying their own style within a vacuum. Cultural context will always be present.

2.6.5 ORGANISATIONAL CONTROL

The organisation's capacity to control, monitor and track progress for programmes, projects and monthly results needs to be well established. Leaders are therefore responsible for the development and effective use of two types of internal controls, namely strategic controls and financial controls (Hitt & Hoskisson, 1996). Strategic controls require information-based exchanges among the CEO, leadership team members, and employees.

To exercise effective strategic control, leaders must acquire deep understandings of the competitive conditions and dynamics of each of the units or divisions for which they are responsible. Exchanges of information occur through both informal, unplanned meetings and interactions scheduled on a routine, formal basis.

Hitt & Hoskisson (1996:332) further argued that: "The effectiveness of strategic controls is increased substantially when strategic leaders are able to integrate disparate sets of information to yield competitively relevant insights. Because their emphasis is on actions rather than outcomes, strategic controls encourage lower-level managers to make decisions that incorporate moderate and acceptable levels of risk. Moreover, a focus on the content of strategic actions provides the flexibility managers and other great group members require to take advantage of competitive opportunities that develop rapidly in the new competitive landscape".

2.7 THE PARADOX OF LEADING AND MANAGING

Wealth creation for business organisations where strategic leadership is exercised is possible because these leaders make appropriate investments for future viability, while maintaining an appropriate level of financial stability in the present (Hitt & Hoskisson, 1996). Under pure visionary leadership, there is a much wider range of wealth creation possible as there may or may not be the constraining influence of a managerial leader. Such leadership is more risky than allowing the exercise of strategic leadership to permeate the organisation. Under managerial leadership, there is a wider range than under strategic leadership, but a narrower range than under visionary leadership, as wealth creation may range from normal performance to below-normal performance.

Unfortunately, most business organisations implicitly and explicitly train their people to be managerial leaders. This is not bad in and of itself, but when such leadership does not allow visionary and strategic leadership to flourish, it is damaging for the organisation in the long term. The nature of some organisations precludes visionary and strategic leadership from even occurring. Hitt & Hoskisson (1996) refer to this phenomenon as the loss of strategic control. This occurs in governments, universities, and businesses that allow too much inappropriate diversification.

In a Canadian government study (Baldwin *et al.*, 1997:61) found that: “The two most important reasons for the bankruptcies of small-to-medium-sized organisations are poor overall management skills, such as lack of knowledge, lack of vision, and poor use of outside advisers; and imperfect capital structures resulting from either institutional constraints or managerial inexperience. The study's authors argue that managers in small organisations need to be trained in general management and financial management skills, and that visionary and managerial leadership is needed in small-to-medium-sized organisations just as it is in much larger organisations as General Motors and IBM”. Dollinger (see Rowe, 2001) further argues that entrepreneurs are the architects of organisational purpose and ventures. He says the major problem for entrepreneurs is to be a manager and to write a business plan that details all the business risks in the new

venture. Based on his work, it could be argued that small organisations suffer more from a lack of managerial ability, while larger organisations suffer from a lack of visionary leadership, especially if they have lost strategic control because they have become too diversified. What is clear is that small, medium, and large organisations need strategic leadership and need to pursue corporate strategies that allow strategic leadership among a critical mass of the senior management team and middle and junior managers (Tichy & Cohen, 1997).

To lead and to manage at the same time is demanding and difficult, but it is possible for organisations which are in control of their processes and actions. Executives need to understand the concepts of explicit and tacit knowledge and linear and nonlinear thinking and how to integrate them for the benefit of their organisation. The rewards will often be wealth creation and above-normal performance whether an organisation is entrepreneurial or well established (Rowe, 2001).

2.8 MANAGERIAL, VISIONARY AND STRATEGIC LEADERSHIP

Rowe (2001:82) stated that: “Strategic leadership presumes visionary leadership on the part of those with a willingness to take risks. It presupposes managerial leadership on the part of those with a rational way of looking at the world”. Strategic leadership presumes that visionary leadership and managerial leadership can coexist, and that strategic leadership synergistically combines the two. It presumes a belief in the ability of strategic leaders to change their organisations so that the environment in which their organisations operate will also change (Hitt & Ireland, 2001). In Table 2.1, the difference between strategic leadership, visionary leadership and managerial leadership is presented as proposed by Rowe (see Rowe, 2001).

Table 2.1: STRATEGIC, VISIONARY AND MANAGERIAL LEADERSHIP

| STRATEGIC LEADERSHIP | |
|--|--|
| <ul style="list-style-type: none"> • synergistic combination of managerial and visionary leadership • emphasis on ethical behavior and value-based decisions • oversee operating (day-to-day) and strategic (long-term) responsibilities • formulate and implement strategies for immediate impact and preservation of long-term goals to enhance organisational survival, growth, and long-term viability • have strong, positive expectations of the performance they expect from their superiors, peers, subordinates, and themselves • use strategic controls and financial controls, with emphasis on strategic controls • use, and interchange, tacit and explicit knowledge on individual and organisational levels • use linear and nonlinear thinking patterns • believe in strategic choice, that is, their choices make a difference in their organisations and environment | |
| VISIONARY LEADERSHIP | MANAGERIAL LEADERSHIP |
| <ul style="list-style-type: none"> • are proactive, shape ideas, change the way people think about what is desirable, possible, and necessary • work to develop choices, fresh approaches to long standing problems; work from high-risk positions • are concerned with ideas, relate to people in intuitive and empathetic ways • feel separate from their environment; work in, but do not belong to, organisations; sense of who they are does not depend on work • influence attitudes and opinions of others within the organisation • concerned with insuring future of organisation, especially through development and management of people • more embedded in complexity, ambiguity and information overload; engage in multifunctional, integrative tasks • know less than their functional area experts • more likely to make decisions based on values • more willing to invest in innovation, human capital, and creating and maintaining an effective culture to ensure long-term viability • focus on tacit knowledge and develop strategies as communal forms of tacit knowledge that promote enactment of a vision | <ul style="list-style-type: none"> • are reactive; adopt passive attitudes towards goals; goals arise out of necessities, not desires and dreams; goals based on past • view work as an enabling process involving some combination of ideas and people interacting to establish strategies • relate to people according to their roles in the decision-making process • see themselves as conservators and regulators of existing order; sense of who they are depends on their role in organisation • influence actions and decisions of those with whom they work • involved in situations and contexts characteristic of day-to-day activities • concerned with, and more comfortable in, functional areas of responsibilities • expert in their functional area • less likely to make value-based decisions • engage in, and support, short-term, least-cost behavior to enhance financial performance figures • focus on managing the exchange and combination of explicit knowledge and ensuring compliance to standard operating procedures |

Source: Rowe (2001:82)

2.8.1 MANAGERIAL LEADERSHIP

Rowe (2001:82) stated that: “The problem with many organisations is that their leadership perceive themselves as managerial leaders and involve themselves with day to day activities and actions. They are more familiar with the functional aspects of their jobs and do not engage themselves with activities that can broaden their world view. They are also more interested in the ‘now’ and are less likely to make value-based decisions. A preoccupation with short-term efficiency is also part of managerial leadership and leads inexorably towards bureaucracy and red tape in organisations. How things get done becomes more important than what gets done. Procedural demands from managerial leadership place increasing unproductive pressure on the workforce”.

Rowe (2001:83) further argued that: “Most managers exercise managerial leadership. For several reasons, organisations implicitly and explicitly train their people to be managerial leaders. Diversified business organisations are more likely to do this. Governments train their people to be managerial leaders even more than do business organisations, the result of public accountability for every penny spent, the diversification of government, the political context of re-elections, and, for most governments, an enormous debt load. These factors lead to the imposition of a financial control system that enhances the use of managerial leadership and curtails strategic and visionary leadership. There are people who can exercise strategic and visionary leadership in such organisations, but the nature of the organisations discourages the exercise of such leadership. Managerial leaders adopt impersonal, passive attitudes toward goals. Goals arise out of necessities rather than desires and dreams, are based on where the organisation has come from, and are deeply embedded in the history and culture of the organisation”.

It is important to note that managerial leaders are not bad and that organisations need leadership with good managerial skills. There can however be a danger that there are too many managerial leaders in an organisation and that no one looks after the future and strategy of the organisation.

2.8.2 VISIONARY LEADERSHIP

Conger (1991:638) stated that: "Visionary leadership is being touted as the cure for many of the ills that affect organisations in today's fast-changing environment. Unfortunately, visionary leaders are not readily embraced by organisations and unless they are supported by managerial leaders may not be appropriate for most organisations. Being visionary and having an organisational tendency to use visionary leaders is risky. Ultimately, visionary leadership requires power to influence people's thoughts and actions. This means putting power in the hands of one person, which entails risk on several dimensions. There is the risk of equating power with the ability to achieve immediate results. There is the risk of losing self-control in the desire to obtain power. And there is the risk that the presence of visionary leaders may undermine the development of managerial leaders who become anxious in the relative disorder that visionary leaders tend to generate".

Conger (1991) continued in saying that vision is part of every strategic leader's vocabulary, but judging from the underperformance of most organisations, it is easier said than applied. A vision is simply a picture target or goal of the future that is realistic, credible and consequently better than the present. Many leaders are prisoners of the past and fixated by the present. In this respect, leaders and executives are victims of their past failures. Problems of the present often seem so overwhelming that it seems pointless to talk about the future. Yet, the time to talk about the future is exactly in the hard times. However difficult, it is vital for any organisation to lift their heads and to look beyond the 'now' that consume their initiative and energy. Leadership and indeed success, on every human level, is dependent on positive vision or hope of the future.

The challenge facing every leader in organisations is to create a vision of the future that beckons each person in the organisation to commit themselves to action. A second and equally important task is to create a context where this human need can be realised and in which people of the organisation are enabled to contribute to realising that future (Conger, 1991).

According to Charlton (1992:50): “The competence of leaders to have a compelling vision, has two essential purposes. Firstly, the creation of an attractive future that motivates people and enables individuals to find their own roles within the organisation which helps them to engage in a creative and purposeful venture. Secondly, it is important to get people’s attention and to provide a sense of focus as to where the organisation is going. This allows both the leader and the employees to make choices in terms of their time and activities”.

Charlton (1992:50) further stated that: “The vision of an organisation provides focus concerning the central purpose of the organisation and equally important transmits unbridled clarity of what is expected from the employees. Under these conditions the human energies of the organisation are aligned toward a commend end, rather than being fragmented. The leader, by focusing attention on the emotional and spiritual resources of the organisation and its values and operations engenders commitment rather than compliance. As mentioned in the previous section, the manager by contrast, operates on the physical resources of the organisation, on its capital, human skills, raw materials and technology”.

Charlton (1992:51) further argued that: “Although leaders are constantly aware of what they want, the vision itself is not expressed in financial terms – which are mostly a consequence of the vision. For example, the idea of creating a ‘leaders learning centre’ in South Africa that will equip present and future leaders with competences that directly impact on organisational growth and productivity – is the vision. It is in the striving for and realising of this vision, that wealth will be created. Consequently, the focus is on adding value to society through growing leaders – and not making money. The vision can be vague as a dream, or as precise as a goal or mission statement – as long as it serves the original purpose – to get people’s attention and to focus this attention on the future in a way that energises people”.

A valid criticism directed at many organisations stems from a ‘master-plan’ that is designed by a selected few and then imposed on the rest of the people in the organisation. These visions are mostly foolish as it is undemocratic (Charlton, 1992). The rest of the people in the organisation who were not part of the design

of the vision, feel uninvolved and consequently 'the document' is filed away only to be looked at next year when the process begins again. The process of formulating the vision illustrates the difference between commitment and compliance. The vision does not originate from the leader personally, but from others and in this sense is never truly original.

Hitt and Ireland (2001) stated that leaders should seek guidance from the past (trends, history, experiences), the present (facing up to the real issues confronting the organisation), and the future (environmental trends impacting on the organisation). In addition, the leader must be guided by the people and the customers. The leader must then accumulate these multi-visions and discern which information is important. It is in the incorporation of this information into the bigger picture that the real future rests. The leader draws on selecting, synthesising and articulating skills which must be formulated into an appropriate vision, combining both reason and intuition and articulating the desires of all stakeholders, including the personal visions of employees.

Peter Senge (1997:30) further points out that: "Visionary leadership starts with the principle of creative tension. Creative tension comes from leadership seeing clearly where their organisation wants to be (vision) and telling the truth where we are (current reality). The gap between the two generates a natural tension. Both components are essential in creating this tension, which can be resolved in two basic ways – by raising current towards the vision, or by lowering the vision toward current reality".

Both components of tension are critical in creating change. Many organisations spend their time avoiding the real issues which hinder effective performance. They, therefore, choose stability rather than change. Alternatively, leaders and organisations very seldom have a clear picture of their future. Consequently, the natural energy for changing reality comes from holding a picture of what might be, which is more important to people than what is. However, vision without the understanding of current reality will more likely foster cynicism than creativity – labeling the leadership as dreamers without feet on the ground (Senge, 1997).

The message for business organisations is clear. If there is no vision, people will assume there is no future and hence the high talented employees will look for better alternatives. On the other hand, if there is only managerial leadership, organisations will also find it difficult to survive in the new world. As seen in Figure 2.1 (see Rowe, 2001:83), Kotter (1995:50) suggested that: “One solution for organisations is a combination of managerial leaders and visionaries to lead organisations, with visionaries having more influence than managerial leaders”.

Zaleznik (1977:64) further argued that: “A better solution is to have an individual who can exercise both visionary and managerial leadership. He further argued that leaders and managers are different, and that no one person can exercise both types of leadership simultaneously. He suggests that visionary leaders and managerial leaders are at opposite ends of a continuum, and that trying to be both causes the individual to end up in the center and able to exercise neither style of leadership”.

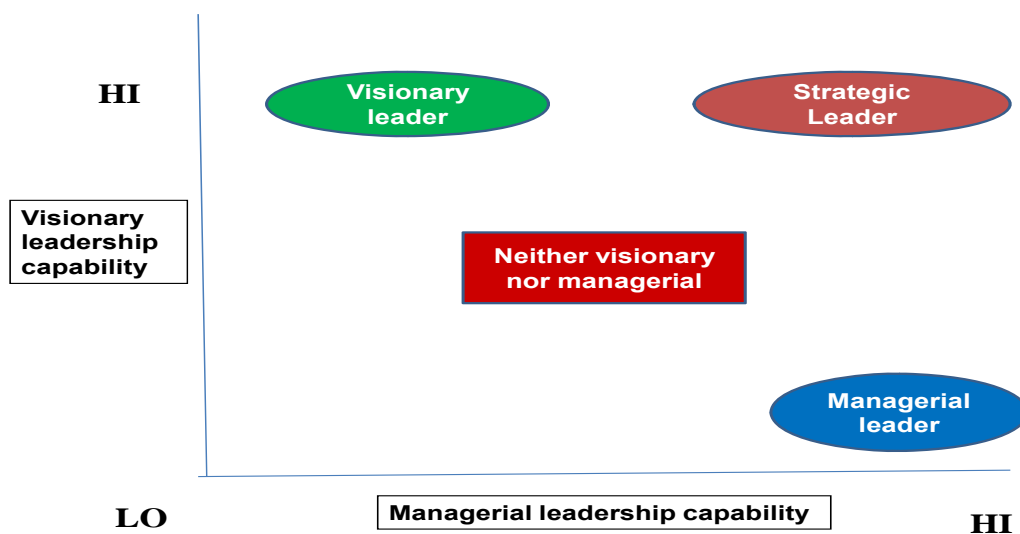


Figure 2.1: Zaleznik’s dual continuum of managerial, visionary and strategic leadership

Source: Rowe (2001:83)

2.8.3 STRATEGIC LEADERSHIP

Rowe (2001) stated that strategic leadership practices are the generally consequence of years of focused and exquisite effort. They evolve over time, and as they develop leaders and organisations discover and learn how to introduce a next stage of best practice. This makes the transfer of best practices particularly challenging. For instance, it is futile to identify and attempt to transfer good strategic leadership practices between organisations that have a history of providing literacy and business comprehension skills to workers, and those who have no history of sustained development of the workforce. So, when an organisation and its leaders embark upon the quest to achieve sustainable competitiveness, it is necessary to benchmark two sets of objectives. First, the desired end state needs to be defined in broad terms, and second, the process of evolution needs to be defined.

Both the desired end state and the process will take shape and develop as the process of execution progresses. In fact, the more successful the evolutionary steps towards the desired end state are executed, the more rapidly the system and people will respond, and the more rapidly it will be necessary to adapt the process of execution itself. This will, in turn, make it both possible and necessary to adjust the desired end state. This is what Winston Churchill had in mind when he said that: "Planning is essential, and plans are useless" (see Nel, 2008:5).

Nel (2008:5) further stated that: "The quest towards good strategic leadership practices, pose very different leadership and organisational development challenges. There are five steps towards good strategic leadership practices and each step provides the platform for the next phase of development and execution, while it draws on the experience and achievement of the previous step".

There are ample of organisations that appear to be delivering great performance, only to disappear from the map a few years later. Peter Drucker (see Nel, 2008:5) identified this phenomenon when he stated that: "The greatest cause of failure is success! This is one of the most tantalising challenges facing organisations. It is undoubtedly possible to deliver great short term results while in fact setting the

organisation up for failure in the medium to long term. This has a lot to do with whether the organisation has a sustainable high performance culture and practices, or whether its performance is driven by means that are not sustainable”.

The organisation may be delivering apparently good performance at present, but it is not sustainable. It is a bit like an athlete delivering superior performance with the help of banned substances, or someone losing weight by going on a starvation diet. The immediate results can be quite spectacular, but they are in fact detrimental to sustainable good health. The first step of the process towards world class and truly globally responsive strategic leadership practices, is to identify the status of the organisational and leadership practices, and to determine the gap that has to be bridged. This is ironically probably the easiest step of the journey – but it does require the leadership will to decide that they do indeed want the organisation to embark on the journey to greatness (Nel, 2008).

Nel (2008:17) further stated that: “The single biggest stumbling block is usually the intransigence of leaders to take this step because they are still too wedded to the value systems and worldviews of the past. The sense of control and reliance on coercive and non-participative methods often proves to be too seductive for leaders, and they may feel that embarking along this pathway means loss of control, power and privilege. They are, off course right”.

Nel (2008:18) further stated that: “Previous values and worldviews are built upon the premise that it is possible so-called ‘hero leaders’ to take charge of everything and somehow motivate or force other adults to do their bidding. It is also premised upon the assumption that leaders ‘at the top of the organisation’ are capable of comprehending everything that is needed to direct the organisation and drive the fulfilment of its strategy. This then places people in more managerial and operational positions in the situation where they need to rely on and wait for the more senior leaders to give instructions and tell them what to do. This can be seen as the initial remedial or ‘fix-it’ challenge. It generally implies that the system is still operating primarily in old ways, and that a conscious effort has to be made to define and adopt new high performing strategic leadership practices”.

At this stage a primary challenge is to not position the shift to new practices as something more to do. It is not about doing other things, but rather about doing different things. This is a crucial insight for leaders to grasp. All too often one of the reasons that are given for not taking the first step is that there is not enough time for it, and that it will over burden the organisation. Yes, there are new competencies (knowledge, attitudes, skills and expertise) that have to be developed and applied, but it is not about doing more, it is often about doing less, but doing more of it. For this reason the development of really good strategy execution plans is critical. At the start of any new process it is unlikely that significant shifts will occur without the discipline of developing and executing clear plans of action. Step three is about not declaring victory too soon and focusing on execution of the desired best practices. It often entails establishing the initial building blocks for selected shifts that are being undertaken.

Nel (2008:18) continued by saying that: “This invariably requires a certain degree of up-skilling to ensure that people across all levels appreciate what is required of them, and how they need to operate differently into the future. One of the most important elements of this step is to establish ways in which progress and adherence to the required strategic leadership practices can be evaluated and improved. It is the time of ‘virtuous monitoring’ in which people establish ways of regularly evaluating progress. This information is used to stimulate dialogue on how to further improve practices and to overcome bottlenecks where they may exist”.

At this step best practices start to emerge across the system. Different areas of the organisation start to experience shifts in a variety of areas. One of the dominant forces that accelerate execution at this step is the capacity of people to learn from what is happening in the organisation, and to spread this learning as widely as possible. During this step the organisation and its people is starting to develop a clearer understanding of what is required to make the shift to strategic leadership and competitiveness. More and more people are starting to realise that this not about doing more things but about doing more things differently (Nel, 2008).

Rowe (2001) stated that, as the best practices and new competencies start to become entrenched, the organisation and its people become increasingly ready to make a quantum shift that is capable of transforming the organisation. This is the step where it becomes possible to expect and demand the wide spread execution of strategic leadership and competitiveness practices, and to require leaders across all levels to live the values that accompany this shift. In change leadership terms, it is the time when it is both possible and desirable to increase the pressure to practice the strategic leadership requirements.

By this stage all policies and procedures, as well as practices that contribute to organisational development and culture should be aligned to the shift towards good strategic leadership practices. (See Rowe, 2001: Figure 2.2).

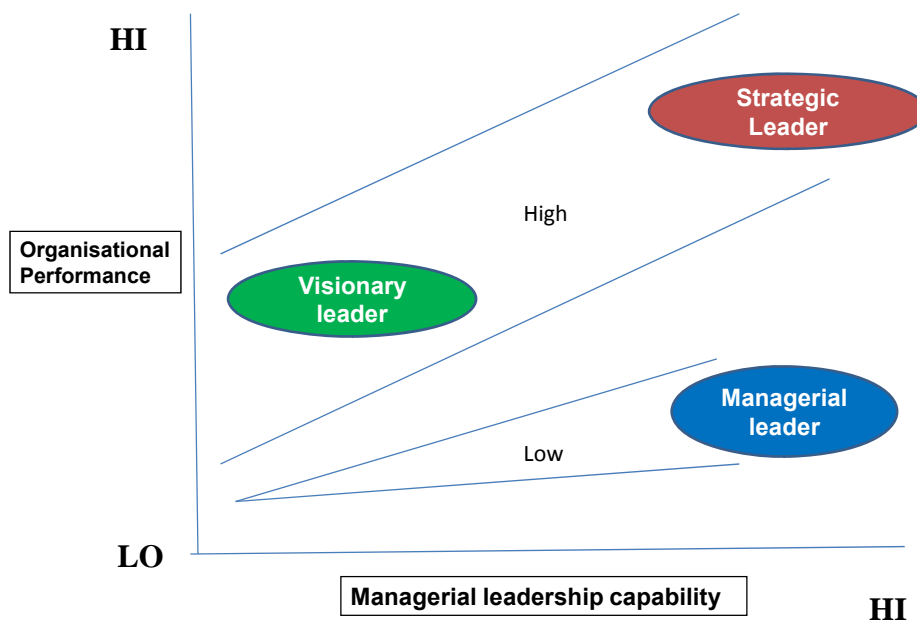


Figure 2.2: Organisational performance and managerial, visionary and strategic leadership

Source: Rowe (2001:84)

According to Nel (2008:7): “One of the most critical challenges now for the organisation is to ensure that people in more senior levels of leadership demonstrate commitment and adherence to the required practices”.

The journey to sustainable globally competitive strategic leadership practices in organisations is a never-ending journey. The success of any organisation in achieving this immediately forces their competitors to respond and find ways of countering it (Nel, 2008).

Yet, in the 21st century with the characteristics and requirements of sustainable organisational leadership and strategic competitiveness, only select organisations and their leaders manage to stay on or near the top for lengthy periods (see Rowe, 2001:54: Table 2.2).

Table 2.2: Strategic leadership practices

| STRATEGIC LEADERSHIP PRACTICES | |
|--|--|
| 20th Century practices | 21st Century practices |
| <ul style="list-style-type: none"> • Outcome focused • Stoic and confident • Sought to acquire knowledge • Guided people's creativity • Work flows determined by hierarchy • Articulated the importance of integrity • Demanded respect • Tolerated diversity • Reacted to environmental change • Served as the great leader • Views employees as a resource • Operated primarily through a domestic mindset • Invested in employees' development | <ul style="list-style-type: none"> • Outcome and process focused • Confident, but without hubris • Seek to acquire and leverage knowledge • Seek to release and nurture people's creativity • Work flows influenced by relationships • Demonstrate the importance of integrity by actions • Willing to earn respect • Seek diversity • Act to anticipate environmental change • Serve as the leader and as a great group member • Views organisational citizens as a critical resource • Operates primarily through a global mindset • Invest significantly in citizens' continuous development |

Source: Rowe (2001:54)

2.9 SUMMARY

The need for strategic leadership has never been so great. Indeed the axiom behind successful organisations can be summed up in one word – strategic leadership. The impact of the decisions and indecisions of leaders underpin the conversation in every boardroom. Will our organisation survive in an ever changing environment? Who, if anyone, can we trust and how will we fuel economic growth in a turbulent and unsure environment. In short the quality of the decision that are taken in organisations are the direct result of quality strategic leadership practices.

Effective strategic leadership is not just about position and power in the organisational hierarchy, but about personal power that enables all people in the organisation to create their own future as well as the future of their organisation. It is about serving (servant leadership) and stewardship which engenders commitment rather than egocentric behaviour that can at best offer compliance.

Strategic leadership is about creating realistic expectations and balance these with aspirations and then creating a context where aspirations can be realised. Leadership that does the right thing at the right time and enables ordinary people to accomplish extraordinary things can no longer be the preserve of the 'man at the top' (Charlton, 1992:5). The challenge of strategic leadership faces every person and organisation in every society. An organisation's ability to survive in future is directly dependent on growing leaders and this in turn is dependent on meeting the challenges for the new world. An organisation's ability, skill and commitment to enable, empower and liberate all people in the organisation will be the only source of competitive advancement in the future.

Strategic leaders must use some of their time and energies to predict future competitive conditions and challenges. Organisations in the United States, Europe, and Japan have intensified their competitive actions in the world's emerging markets. This emphasis is understandable, given that emerging markets constitute a new and important competitive frontier. However, high levels of risk are associated with these significant opportunities. Major reversals in the

trend toward democratisation of countries' markets and their accompanying political structures could have significant implications for strategic leaders and their organisations.

Major leadership theories and the importance of strategy creation and execution are the focus of chapter 3.

CHAPTER 3

LEADERSHIP THEMES AND OPERATIONAL STRATEGY

3.1 INTRODUCTION

Finkelstein (2003:84) stated that: “Leaders and CEOs are flawed individuals who are operating in a complex and imperfect world. They are intensely driven to achieve and they operate in a marketplace that measures achievement almost wholly in the short term. They confront a world that moves faster than ever before, and rarely, there is little about their unwieldy organisations that they easily control”.

Despite the poor performance of many organisations, the current crop of CEOs is no worse overall than previous CEOs. According to Keith Hammonds (2002:81), the difference is that they now play in a different “sandbox” than they did years ago. In 1993, the CEOs of American Express, IBM and Westinghouse were all forced to resign in the same week. Their organisations were performing poorly. Recently, a number of organisations (even South African business organisations) have also been performing poorly and a good number of CEOs of business organisations in South Africa, for example Nedbank, Landbank and Anglo Platinum have resigned because of their organisation’s performance.

Regardless of the challenges, some effective and successful strategic leaders do exist. For example, Carlos Ghosn of Nissan, who has been leading the organisation for the past eight years, to be one of the most successful automotive organisations in the world. Another example is James Morgan of Applied Materials. Morgan had the distinction of being the longest-serving CEO in Silicon Valley. In South Africa there are also strategic leadership champions, like Johan van Zyl of Sanlam, Brand Pretorius of McCarthy’s and Pieter Cox, recently retired

CEO of Sasol. All these leaders have not just performed exceptionally well from a financial perspective, but have played a determining role in ensuring that their organisations adapt to changing environments in order to succeed and perform.

In this chapter of the study, the focus is on the influence and impact of high performance leadership (see footnote 1 for definition of high performance leadership) and the guidance of these leaders in ways that result in the formation of a strategic intent and strategic mission, which may lead to goals that stretch everyone in the organisation to improve their performance. Moreover, these leaders must facilitate the development of appropriate strategic actions and determine how to implement them. These actions on the part of strategic leaders culminate in strategic competitiveness and above-average returns and performance.

3.2 LEADERSHIP THEMES

The amount of corporate attention being focused on leadership and leadership development in the new economy⁵ clearly reflects a major current interest in the topic. According to Kelley (2003), this new economy can be defined in three distinguishing characteristics: it is global, it favours intangible things — (ideas, information, and relationships) and it's intensely interlinked. These three attributes produce a new type of marketplace and society, being called the new economy, one that is rooted in ubiquitous electronic networks.

Much of this work and material is focused on how to develop more effective leaders, notably on identifying the numerous roles and competencies for effective leadership, and equipping individuals to fulfill these. This focus would suggest that the basics of today's leadership are well understood. In this section the essence of effective leadership practices in the new economy organisations is discussed. Further to this, the influence of leadership, as part of the strategic leadership, in the performance of business organisations will be researched.

⁵ The new economy is the result of numerous changes in the political, economic and information technology environments.

Understanding leadership at this level provides a sound foundation to enable leaders to recognise what needs to be done - specifically by themselves - to design and create a better future and performance for their organisations. This approach allows that personal changes which may need to be made to enhance leadership effectiveness are the result of conscious, willing choice which is the optimal guarantee for the sustainability of those changes and hence the sustainability of effective strategic leadership (Schoeman, 2007).

3.2.1 LEADERSHIP IN THE NEW ECONOMY

While leadership has always been important, the crucial change which makes leadership much more important now, concerns the change to the critical (and intangible) resources of the economy. While land and labour were the critical resource in the agricultural era, in the industrial era capital and management became the critical resource, which enabled the development of mines, factories and businesses. However, in the knowledge cum-information, cum-innovation era of today, people are the most critical resource. Certainly capital remains important, but the primary sources of competitive advantage are vested in people - in their knowledge, creativity and innovation as well as the networked world of business today (Schoeman, 2007).

Inasmuch as the world of work has been profoundly affected by these changes, so too, should leadership have changed. Indeed the rate and scope of change and the complexity of the current business environment are themselves factors which have affected leadership. The lack of adaptive leadership to the realities and imperatives of the current context is, arguably, the source of much of the dysfunctionality in leadership today.

Schoeman (2007) further stated that because leadership in the industrial era was focused on maximising capital, the dominant leadership approach was centered on control and command – specifically control and command of people in protection and pursuit of capital, its critical resource. This approach is however no longer appropriate or effective in the knowledge era. Factors such as the liberation of numerous political and economic systems, globalisation, the growth of

communication information technology and a mass emphasis on human rights have empowered individuals as never before. The consequent rise in individualism has been further entrenched in the business arena by the demise of the lifetime career and corporate support for the self managed career. All of this, especially in South Africa, combines to create a society and workforce who are no longer amenable to being told what to do and how to do it. Instead, they expect to be able to exert a meaningful influence over that which affects them, which lends itself to an approach far more orientated to co-operation and consultation, than command.

Added to this, the complexity of the business environment and the rate and extent of change no longer allow one person at the top to know it all. Rather, elements of leadership need to be drawn from all parts of the organisation, emphasising the need for disseminated leadership. But it is business' increased reliance on people as a primary source of competitive advantage which accounts for the major difference in leadership. Consequently, organisations are vulnerable to the loss of their most valuable asset when, for example, a key employee decides to leave the organisation. It follows in turn that the retention of key employees has become a key business imperative. The challenge for leaders is, therefore, to ensure that the maximum amount of these invisible assets is willingly contributed to the organisation. To achieve this, the quality of leaders' relationships in the new economy will be crucial (Schoeman, 2007).

The primary change in leadership in the new economy will be the focus on values and relationships. It is about who you are. It is about 'being' rather than 'doing' where 'being' encompasses one's inner self and one's beliefs, values, principles, paradigms, feelings and thoughts. Francis Hesselbein (see Schoeman, 2004:39) expresses this change well in explaining that: "The leader beyond the new millennium will not be the leader who has learned the lessons of how to do it, with ledgers of 'how's' balanced with 'its' that dissolve in the crashing changes ahead. The leader for today and the future will be focused on how to be – how to develop quality, character, mind-set, values, principles and courage".

3.2.2 EMERGENT LEADERSHIP THEORIES

Hooijberg & Quinn (1992:161) suggested that: “In the past two decades interesting new leadership research has been published that, and while relevant for the strategic leadership literature, has received relatively little attention in that area. These emerging theories hold, however, great promise in furthering our understanding of what has been argued as the three cornerstones of strategic leadership, namely: the capacity to learn, the capacity to change and leadership wisdom”. Lord and Hall (1992:45) further suggest that: “Leadership effectiveness may hinge more on social intelligence and behavior flexibility than other factors”.

3.2.2.1 The competing values framework

The competing values framework reflects distinctly different “perceptual biases that influence how we see social action” (Quinn, 1988:85). The competing values framework recognises that leaders frequently are being challenged to compete with the paradox to perform on the one hand, but to also to create and maintain organisational values which if future will form the basis of the organisation. The importance of these values is sometimes in competition with financial goals of the organisation and this is when leaders need to take very important and ethical decision towards the future of the organisation.

According to Nel & Beudeker (2009): “Values are not nice sounding statements aimed at enhancing the public relations image of an organisation. They are rooted in the real time behaviours and practices of the organisation, its people and leaders. So, if an organisation provides misleading information to customers, or pays out huge bonuses to senior managers while they fail to provide cost efficient services to customers, it tells us that their true values are to exploit customers for as long as possible – regardless of what may be stated in chairman’s reports or on fancy posters”. Quinn (1988) further stated that: “If an organisation’s leaders claim that they are committed to creating and attracting talent, yet slash the training and development budgets as a first port of call when there is a squeeze on costs – and at the same time make no move to adjust executive bonuses – the message is clear: our values are that executive bonuses in the short term are more important

that the development of people for the long term. If leaders want to issue fine sounding statements, but lack the stamina and will to accompany this with much deeper transformation of behaviours, it is better to do nothing at all”.

Nel and Beudeker (2009) further stated that: “Everyone in the organisation, but specifically people in senior leadership positions need to develop a clear understanding of what acceptable and unacceptable values look like in practice. Senior leaders have the added accountability of consistently maintaining the tension between what is desired and what is unacceptable. They can only do this if they have developed a vivid mental image of their set values so that they can quickly identify when behaviours are aligned to an unacceptable value system and to address it, and to clearly articulate what the desired behaviours and values look like in practice. This provides the foundation for enabling the organisation as a whole to become active participants in entrenching the desired values through day-to-day living. It also enables everyone to take personal charge of flagging and addressing behaviours when they do not live the desired values. Publishing a setoff values without altering behaviour to demonstrate true commitment creates cynicism”.

3.2.2.2 Behavioural complexity

Research that has been done by Denison *et al.* (1995:524) supports the idea that: “Leaders who perform multiple leadership roles score higher on leadership effectiveness than those who do not. Leaders not only need a large behavioural repertoire but also the ability to select the right roles for the situation. Cognitive leaders need to understand that there are sometimes a different set of values between the executive team and the people at the grass routes. These differences need to be managed in a focused and responsible way”.

Hooijberg *et al.* (1997:375) had a similar view and stated that: “By placing them in a comprehensive framework that links behavioural complexity, cognitive complexity and social complexity in a leadership model. This model’s main contribution is to argue that behaviour complexity is informed by the cognitive complexity and social complexity of leaders. While cognitive and social intelligence

are of great importance to first and middle-level leaders, it is argued that they are of even greater importance to leaders at the highest levels of the organisation”.

3.2.2.3 Cognitive capacity of leaders

Jaques (1989) stated that well-defined roles enhance the organisation, in part by supporting the staffing of positions with people who possess the required mental complexity to perform in such roles. With the right individuals in the appropriate roles, it is easier to grant the authority and accountability necessary to perform effectively. By assessing the role requirements, the structure provides a system that enables people to develop and flourish by providing work that allows them to apply their potential capability.

Organisations will be enhanced if individuals, who value their work, are provided the freedom to actualise their full potential. In an organisational environment emphasising the importance of teams (Jaques, 1989)

3.2.2.4 Social intelligence of leaders

Social intelligence has been defined as the ability “to notice and make distinctions among other individuals, in particular, among their moods, temperaments, motivations and intentions” (Gardner, 1985:239). Social intelligence further contributes to appropriate emotional expression by leaders. Clark, Pataki and Carver (1995), in a review of their research, reported on the strategic self presentation of three emotions - happiness, sadness and anger – for the purposes of integration, supplication and intimidation in social settings. They found that, because there are predictable social reactions to expressions of these emotions, they can be used to achieve social ends. Knowing when others will trust a leader’s expression or suppression of certain emotions and being able to predict likely social reactions are both parts of a socially integrated understanding of the situation. This knowledge exists in leaders’ integrated social knowledge structures (Boal & Hooijberg, 2001).

3.2.3 NEW LEADERSHIP THEORIES

In this section of the study, the focus will be on visionary, transformational, servant leadership and level 5 leadership⁶. These new leadership focus and theories emphasise the interpersonal processes between leader and followers that are necessary for high performing organisations. This study will not attempt to summarise these theories, but rather focus on a few selected issues that are contributing to the performance of an organisation.

3.2.3.1 Visionary leadership

Visionary leadership is about understanding the organisation's total competitive environment, and positioning it in the present so that it is appropriately placed three to five, or more years from now. This cannot be achieved through traditional strategic planning interventions or top down approaches to strategic leadership. It requires an ongoing dedication to moulding and crafting the strategic leadership to ensure that it remains responsive to the ever-changing environment.

Vision guides organisations in the right direction, providing a compelling goal that galvanises and aligns the behaviour, and contributions of people across all levels and functions. Many people confuse vision with a company motto, or an official document listing an organisation's aspirations or dreams. Vague, passive pleasantries do not add up to real vision. Effective company vision is specific, detailing possible threats, and counteractions, and is a call to action for all employees, at all levels (Jaques, 1989).

3.2.3.2 Transformational leadership

According to Leonard (2003): "The transformational leadership model proposed by Burns appeared to be a good match for the newer organisational models that were emerging. A number of other authors (Bennis & Nanus, 1985 and Kouzes & Postner, 1997) proposed leadership models that echoed Burns's (1978) transformational leadership theme. At the heart of these models was the leader's

⁶ Level 5 leadership is a leader's ability to blend personal humility with an intense professional will.

ability to create a vision that inspires and motivates people to achieve more than they thought they are capable of.

House's (1971) model was perhaps the high water for models that focused on the transactional exchange between the leader and the led. In these models leadership was seen as a social exchange in which leaders promised rewards and benefits to employees of the employees' fulfillment of agreements with the leader (Bass, 1990).

Burns (1978) presented a new paradigm in which the leader asks followers to transcend their own self-interest for the organisation, or society. Burns also emphasised the importance of long-term self-development as well as the short-term gains achieved by pursuing more immediate goals. Business was becoming increasingly global, which required organisational processes and structures that were more flexible, creative and responsive to change in the variety of markets which they transcended. These processes were much more information rich and required leaders with considerable technical sophistication.

The globalisation and rapid pace of businesses required organisations that have rich information networks across businesses and decentralised decision-making processes. The need for greater efficiency resulted in a "delaying" of management hierarchies and greatly enlarged spans of control (Leonard, 2003:5). These organisational realities required leaders who could lead through influence rather than authority to synthesise and communicate a highly compelling vision of a desired state of outcomes.

Bass's (1998) model of transformational leadership is the most rigorously tested model in this genre. Bass's (1985) research identified three leadership factors: transformational, transactional and non-leader. Components of transformational leadership include charisma, inspirational motivation, intellectual stimulation and individual consideration. Laissez-faire behaviour was considered the principal component of the non-leader factor (Bass, 1985).

Transformational leadership, particularly contingent reward, provides a broad basis of effective leadership, but a greater amount of effort, effectiveness and satisfaction is possible from transactional leadership if augmented by transformational leadership. Finally, according to Avolio and Howell (1992), transformational leadership also augments transactional leadership in predicting levels of innovation, risk-taking and creativity to ensure organisational performance”.

3.2.3.3 Servant leadership

When people lead at a higher level, they make the world a better place, because their goals are focused on the greater good. Making the world a better place requires a special kind of leader: a servant leader (Blanchard & Zigarmi, 2007).

Robert Greenleaf (see Blanchard & Zigarmi, 2007) first coined the term ‘servant leadership’ and published widely on the concept. Although servant leadership is an old concept, more recent examples of this philosophy is Mahatma Gandhi, Martin Luther King and Nelson Mandela.

When people hear the phrase servant leadership, they are often confused. They immediately conjure up thoughts of someone trying to please everyone. The problem with these people is that they do not understand leadership. They are convinced that you cannot lead and serve at the same time. Leadership has two parts: vision and implementation. In the visionary role, as discussed in 3.2.3.1, leaders define the direction. It is their responsibility to communicate what the organisation stands for and wants to accomplish. Max Dupree (see Blanchard & Zigarmi, 2007:86), confirmed that: “When it comes to vision and values, you have to say it over and over until people get it right”. The responsibility of the visionary role falls to the hierarchical leadership. People look to their organisational leaders for direction. Once employees are clear on where they are going, the leader’s role shifts to a service mindset for the task of implementation – the second aspect of leadership.

According to Zigarmi (2004), in a traditional organisation, leaders are thought of as responsible and their employees are thought to be responsive to their boss. People, therefore, got promoted on their upward-influencing skills. That activity does not do much for accomplishing a clear vision. All that people try to do is to protect themselves rather than move the organisation in the desired direction for top performance.

Servant leaders on the other hand see their role as to help people to achieve their goals. They constantly try to find out what their people need to perform well and live according to the vision. Rather than wanting people to please their bosses, servant leaders want to make a difference in the lives of their people and in the process have a positive impact on the performance of the organization (McGee, 2003).

What keeps people from becoming servant leaders? The human ego! That is when people start to get a distorted image of their own importance and themselves as the centre of the universe (McGee, 2003). That is also when people start pushing and shoving for credit and thinking that leadership is more about themselves than the people they lead. These leaders normally spend a lot of time promoting themselves and their ego gets in the way through self doubt and fear. Leaders dominated by self doubt are often called 'controllers' and they have a high need for power and control (McGee, 2003). Even when it is clear to everyone that they are wrong, they keep on insisting they are right. These leaders also struggle to support their people and they tend to support their bosses over their people because they want to climb the hierarchy ladder.

The antidote for self doubt is humility⁷. True leadership - the essence of what people long for and want desperately to follow – implies a certain humility that is appropriate and elicits the best response from people. Humility is the capacity to realise that leadership is not about the leader; it is about the people and what they need. One of the keys, therefore, to becoming a servant leader is humility. Blanchard & Peale (1988:89) stated that: "People with humility do not think less of themselves; they just think about themselves less". Smith (1998: 145) describes

⁷ Humility will be discussed in more detail in paragraph 3.2.3.4.

humility as follows: “People with humility do not deny their power; they just recognise that it passes through them, not from them”. Too many people who are in leadership positions think that who they are is their position and the power it gives them. That is not true. Their power does not come from their position, but from the people who live their touch. Humility tames a person’s judgmental nature and motivates them to reach out to support and encourage others. That is where the true leader’s power comes from.

Servant leadership is also about taking people from one place to another. Once a clear vision is established, strategies and goals can be developed within the context of the vision. According to Zigarmi (2004), the following questions should be considered as the leader thinks about the future:

- What is your organisation’s purpose?
- Where do you want your organisation to be in three to five years?
- What values do you want to drive the behaviour of your organisation?
- How can you communicate your vision of the future to your organisation?

As a servant leader, once the vision and direction are set, the hierarchy pyramid should be turned up-side down and focus on engaging and developing the people so that they can live according to the vision.

If becoming a high performing organisation is the destination, servant leadership is the engine (Zigarmi, 2004). Servant leaders are leading through practicing shared power and high involvement which strongly impact on good financial results through productivity, retention and employee satisfaction. These servant leaders in high performing organisations understand that day-to-day decision making should occur closest to the action and on the front lines by those directly involved with the customer. High performing organisations do not depend on a few peak performers to guide and direct, but have broadly developed leadership capabilities. This allows for self ownership and the power to act quickly as the situation requires. Pushing decision making to those closest to the action is an empowering practice.

Servant leaders in high performing organisations create environments where people are free to choose to empower themselves.

Servant leaders in high performing organisations not only appreciate but capitalise on cultural diversity, style diversity, social diversity and diversity in race, religion, sexual orientation and age. They realise that effective decision making, problem solving and innovation come from utilising different perspectives (see Blanchard & Zigarmi, 2007).

Bob Buford (1997) reveals that most people, later in life, want to move from success to significance – from getting to giving. Organisations led by servant leaders are more likely to create environments where people at all levels can experience both success and significance. Leading at this higher level is what servant leadership is all about. High performing organisations have high performing servant leaders who know what the shared vision is and generate great results through productivity, retention and employee satisfaction.

3.2.3.4 Level 5 leadership

Jim Collins is well respected and recognised for his research of high performance in organisations. What is significant is that Collins (2005) identified leadership, out of the seven factors, as a very important aspect to leverage an organisation from good to great. Collins (2005:1) argues that: “The key ingredient that allows an organisation to become great (see Figure 3.1) is having a level 5 leader. An executive in whom genuine personal humility blends with intense professional will” (see Figure 3.2).

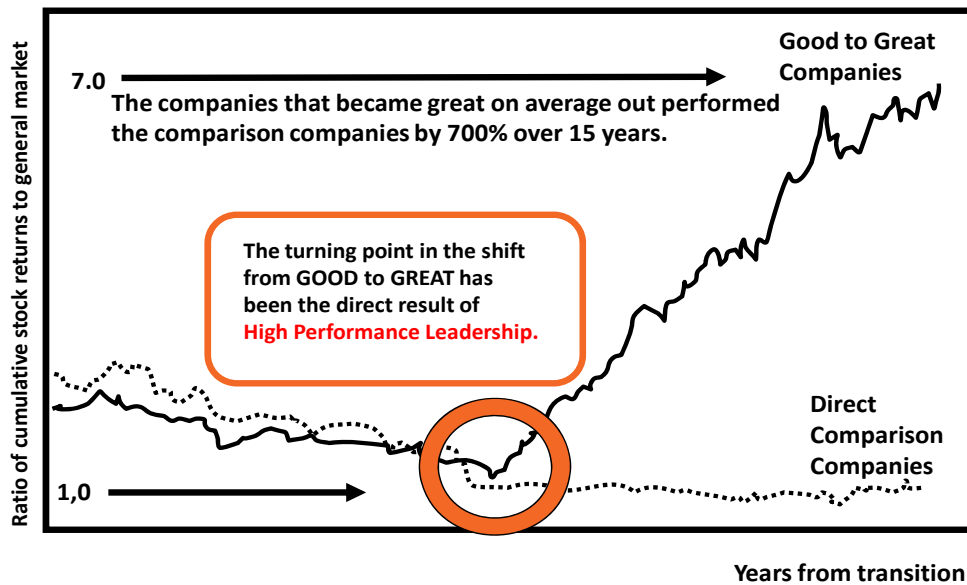


Figure 3.1: The impact of high performance leadership on the performance of organisations

Source: Collins (2005:12)

Collins (2005:2) confirmed that: “Good-to-Great transformations do not happen without level 5 leaders at the helm. They just do not”. ‘Level 5 refers to the highest level in the hierarchy of executive capabilities (see Figure 3.2), that was identified by Collins and his research team. Leaders at the other four levels in the hierarchy can produce high degrees of success but not enough to elevate organisations from mediocrity to sustained excellence and performance. The level 5 leader sits on the top of the hierarchy of capabilities and is a necessary requirement for transforming an organisation. The other four layers are each also appropriate and important in their own right.

According to Collins (2005:3), they did not look for level 5 leaders and their original question was: “Can a good organisation become a great one and if so, how”? Over the course of the research the teams kept saying: “We cannot ignore the top executives even if we want to. There is something consistently unusual about them”. The executives at organisations that went from good to great and sustained the performance for 15 years or more were all cut from the same cloth – one

remarkably different from that which produced the executives at comparison organisations in the study. It did not matter when the transition took place or how big the organisation was, the successful organisations all had level 5 leaders at the time of the transition.

Furthermore, the absence of level 5 leadership showed up consistently across the comparison companies. The point: Level 5 is an empirical finding, not an ideological one, and that's important to note, given how much the level 5 finding contradicts not only conventional wisdom but much of management theory to date (Collins, 2005).

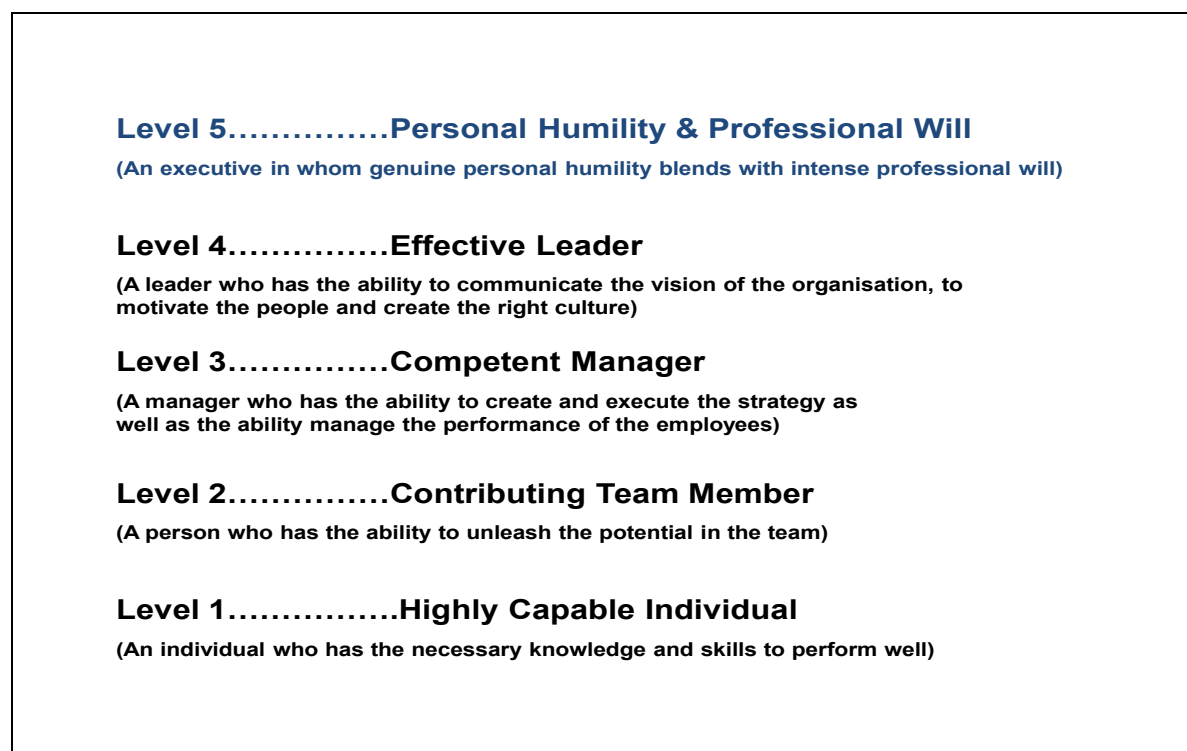


Figure 3.2: Level 5 hierarchy

Source: Adapted from Collins (2005:14)

Collins also confirmed that besides extreme humility, level 5 leaders also display tremendous professional will.

One other finding of Collins and his team about level 5 leadership, was that these leaders have ambitions not just for themselves, but also for their organisations.

The evidence was clear that they always selected very good and qualified successor as level 5 leaders know that by appointing good successors, their organisations will become even more successful. They are also comfortable that these successors do well and excel in their careers. Collins (2005:10) therefore confirmed: “The great irony is that the animus and personal ambition that often drives people to become a level 4 leader, stands at odds with the humility required to rise to level 5”. Collins (2005:10) also suggested that: “We keep putting people in positions of power who lack the seed to become a level 5 leader and that is one of the major reasons why there are so few organisations that make the sustained and verifiable shift from good to great”.

Collins and his teams studied a wide range of both quantitative and qualitative analysis. On the qualitative front they collected nearly 6,000 articles, conducted 87 interviews with key executives, analysed organisations’ internal strategy documents and worked through analysts’ reports. On the quantitative front, they found that: “The turning point from moving from good-to-great has been the direct result of level 5 leadership” (Collins, 2005:12).

3.2.4 LEADERSHIP DEVELOPMENT

According to Leonard (2003): “The requirements for leadership change in contemporary organisations have changed significantly in the past several decades. In this section, the evolution of leadership research will be described, as well as the emerging theories of changes in the organisational structure, work processes and talent pools in order to be a high performing organisation in the new economy will be discussed”.

3.2.4.1 The evolution of leadership theory

Leonard (2003) also wrote that: “Early definitions viewed leadership in terms of group change, activity and process. In 1942, Redl considered a leader to be the central or focal person who integrates the group. In 1958, Raven and French went further in identifying power as the basis for leadership. Later, in 1962, Machiavelli described influence, power and control as the key focus for leadership success.

It was only in the mid-1980's that Bass (1985) and Bennis and Nanus (1985) described leadership as a transformative process that creates visions of a future state for the organisation and articulates ways for the followers to accomplish this goal. In 2000, at a conference presentation, Colin Powell provided a simple yet elegant definition that combines the essential elements of a number of the above viewpoints. According to Powell, leadership is the ability to motivate and inspire people to accomplish a significant vision. Powell, therefore, sees leadership as having an incremental effect beyond transactional management. It takes leadership to motivate and inspire people when transformation of goals, structures, processes and incentives is required to accomplish good performance (see Leonard, 2003)".

3.2.4.2 Integrated theory of leadership

Leonard (2003) also stated that: "In 1997, Chemers presented a leadership model that integrates theory and research from each of the major approaches to leadership – trait, situational, contingency, transformational and humanistic. The integration of these perspectives would seem to be difficult because some models (e.g., transformational and humanistic approaches) imply that there are best practices or one best way to be a successful leader whereas others (e.g., contingency and situational theories) argue that there are several best practices depending on the problem and situation.

Chemers (see Leonard, 2003) proposed a causal path for leadership that starts with personal characteristics and situational demands (the zone of self-deployment), then involves interpersonal issues (the zone of transactional relationship) and concludes with follower actions (the zone of team deployment). Chemers (see Leonard, 2003), therefore, concluded that leaders are able to project a compelling image when their actions match commonly held templates of how effective leaders should appear. They are able to build meaningful relationships when their behavior matches followers' needs and expectations. They are able to effectively deploy available resources when their strategies match the demands of the organisational environment".

3.2.4.3 Future directions of leadership

Virtually all theories of leadership and leadership development were developed from the point of view of the organisation, not the individual. These theories attempt to answer the following questions:

- How do we identify and select people with the most leadership talent and potential? (assessment perspective)
- How do we develop the skills of those who will be placed in leadership roles? (training or development perspective)
- What are the best leadership behaviours or styles for the situations leaders will face? (behavioural or flexibility perspective).

These questions are useful for organisations to consider in their efforts to recruit, select and develop their talent. According to Leonard (2003) the contemporary approach to leadership development, however, benefits from addressing leadership using an individual as well as an organisational lens. For many high-achieving individuals in organisations, the primary motivation to take on a leadership role is the reality that they cannot achieve their personal vision by themselves and that they need teams and other individuals to accomplish their mission. It is however very important to include elements that help future leaders which examine their grand narratives, assumptions and metaphors that may obscure more creative and adaptive solutions to the challenges of the new economy. This process of examining personal and organisational assumptions as well as connections and linkages between the real and metaphoric as a basis for creative leadership is a key argument of Palus, Horth, Selvin and Pulley (see Leonard, 2003).

Another assumption in the new economy perspective is that knowledge will be one of the key requirements of effective leaders. This absorptive approach to leadership has a clear implication for leadership development. The focus for leadership development in the future will incorporate personal and organisational

vision, strategic goals, cultural diversity, as well as assumptions and core challenges for the organisation as well as for the future leaders (Winum, 2003).

3.2.5 ADAPTIVE LEADERSHIP

Organisations today face huge adaptive leadership challenges (Heifetz & Laurie 1997). Changes, in societies, markets, customers, competition, and technology around the globe are forcing organisations to clarify their values, develop new strategies, and learn new ways of operating. Often the toughest task for leaders in effecting change is mobilising people throughout the organisation to do adaptive work.

Adaptive work is required when our deeply held beliefs are challenged, when the values that made us successful become less relevant, and when legitimate yet competing perspectives emerge. We see adaptive challenges every day at every level of the workplace when companies restructure or reengineer, develop or implement strategy, or merge businesses. We see adaptive challenges when marketing has difficulty working with operations, when cross functional teams do not work well, or when senior executives complain, "We do not seem to be able to execute effectively" (Heifetz & Luarie, 1997:124). Adaptive problems are often systemic problems with no ready answers.

3.2.5.1 The power of presence

Leaders cannot exercise adaptive leadership if they are not making direct contact with their people. They need to conduct deep dives; go down into the system, because whilst they have an integrated view of the whole system, the lower levels do not, and they need the leaders' to help them make connections they otherwise would not make. This will enable the people in the organisation to leap up to the senior level. Leaders always need to remember that they cannot shape the strategy of their organisation if they do not pick up the intelligence on the ground.

A leader's use of these powers becomes a leadership habit, which is part of creating a leadership culture. Leaders need to interact personally across levels

and functions and they should also learn-by-doing. Leaders that will be successful in future will use success and failure for learning and they will also require delivery on top of process. It is also very important to sustain tension between dream and reality and to energise the contributions of others.

Heifetz & Laurie (1997) stated that: “The dynamics of adaptive change are far too complex to keep track of, let alone influence, if leaders stay only on the field of play. Several successful leaders manage to spend much of their precious time on the balcony and by ‘being present’ with their people as they guide their organisations through change. Without that perspective, they probably would have been unable to mobilise people to adaptive work and therefore secure excellent organisational performance”.

Leaders should, therefore, participate with people at various levels to clearly define their roles and accountabilities, and to specify the outputs that have to be delivered. The leadership team must invest a significant amount of time to work with people at various levels, but in a position of facilitating performance and problem-solving rather than one of maintaining control of activities. They should also continuously think about ways of optimising the hierarchy. Adopt a specific role to make people aware of roles and accountabilities that are not being fulfilled. But, do not take responsibility for fulfilling those accountabilities, which is the manner in which leaders will contribute to the elimination of upward abdication (Heifetz & Laurie, 1997).

Future leaders should also be readily accessible to people from other levels. This is not to take back responsibility, but rather to provide advice, information and the experience which people may require to take charge of delivering their required outputs. The new economy hierarchies cannot operate without intensive presence of leaders across all levels. In South African breweries, one of South Africa’s largest and successful organisations, most executive directors spend 2-3 days per week interacting directly with people at more operational levels. These directors view the *power of personal presence* as a critical role and way for them to contribute to the success of the organisation (Nel, 2008).

3.2.5.2 Protection and orientation

Nel & Beudeker (2009) confirmed that: “Without the development of human and knowledge capital, the necessary innovative thinking and informed actions will remain absent in organisations. But gone is the patriarchal order that saw the elite making decisions about which employees should be trained in what areas. In the democratised workplace, the development of personal and team competencies should be placed in the hands of the people. Employees at all levels should feel personally accountable to develop their own capabilities. Organisations should become ‘supermarkets of learning’ by providing the opportunities for development”.

People in organisations have to be able to access relevant and useful information to measure their progress and adherence to standards. Unfortunately many organisations have responded to the coming of the new economy by just generating more and more data and forcing it on their people. Information about your organisation’s performance objectives and standards must be designed to address the specific context and requirements. Specialist functions like sales, finance and production in particular have to learn how to shape information to empower people. The information should measure their performance against benchmarks in no uncertain terms, preferably understandable at a glance. The information should also be able to excite the employees to action, compelling them to initiate measures to enhance their performance (Nel & Beudeker, 2009).

Heifetz & Laurie (1997:128) further stated that: “The new economy leader is responsible for direction, protection, orientation, managing conflict, and shaping norms. Fulfilling these responsibilities is also important for a manager in technical or routine situations. But a leader engaged in adaptive work uses his authority to fulfill them differently. A leader provides direction by identifying the organisation's adaptive challenge and framing the key questions and issues. A leader protects people by managing the rate of change. A leader orients people to new roles and responsibilities by clarifying business realities and key values. A leader helps expose conflict, viewing it as the engine of creativity and learning”. In Table 3.1, adaptive work as a call for leadership is discussed by Heifetz and Laurie (1997).

Table 3.1: Adaptive work calls for leadership

| Adaptive work calls for leadership | | |
|---|---|---|
| Responsibilities | Situation | |
| | <i>Technical of routine</i> | <i>Adaptive</i> |
| Direction | Define problem and provide solutions | Identify the adaptive challenge and frame key questions and issues |
| Protection | Shield the organisation from external threats | Let the organisation feel external pressure within a range it can stand |
| Orientation | Clarify roles and responsibilities | Challenge current roles and resist pressure to define new roles quickly |
| Managing conflict | Restore order | Expose conflict or let it emerge |
| Shaping norms | Maintain norms | Challenge unproductive norms |

Source: Heifetz & Laurie (1997:128)

3.2.5.3 Disciplined attention

In the future, disciplined attention does not mean that established management disciplines like planning, organising, delegating and controlling are dead. These principles just cannot any longer be leveraged through the old school's hierarchies and bureaucratic structures.

In future, the speed at which organisations have to respond to challenges has necessitated the greater empowerment of people and the doing away with of old structures. Organisations just cannot afford the slow pace with which objectives were communicated in the past: from executives to general management, from general management to middle management, from middle management to operational levels and so on and so forth. This was clumsy and time consuming and led to business being lost to companies who could perform in a rapid and responsive manner (Heifetz & Laurie, 1997).

New business processes are needed. These disciplines and processes must link the activities of all employees to the greater strategy of the company, providing people with the skills and information that they need to respond to challenges at their own level of work. The key business process from which everything else is leveraged, is information management. In the past, information was available on a need-to-know basis. It was kept close to the chest of the top management. Employees on the operational levels were not provided with a comprehensive view of the business, because the stability of the environment and subdued pace of innovation did not require it. All they needed was the information relating to the very small sphere within which they were expected to operate (Nel, 2008).

Nel (2008:3) further stated that this practice of disclosing information on a “need-to-know” basis is no longer workable. The speed and severity of competitive challenges require all employees, especially the ones on operational levels, to adapt their activities to sudden gear changes and strategic challenges. The onerous filtering-through of information does not allow for this responsiveness and has to make way for a totally different approach, namely: radical openness. Disciplined attention in future will make old style development of people redundant. Organisations cannot afford to pump limitless resources into unfocused knowledge development, hoping that a couple of employees would pick up new skills along the way.

The shift is towards people personally taking charge for their own knowledge development. In the past, training and development were viewed as being given to people or done to people. Now, part of the discipline in an organisation is that

people are encouraged to take charge of improving their own skills and identifying gaps within their current abilities. On their part, organisations should equip employees with the skills needed to identify their own shortcomings. Executives should have the discipline to also raise awareness of training and development opportunities on offer, whether formal programmes or, increasingly, informal training opportunities like working on specific projects or becoming part of teams with advanced skill sets. Internet-based training is also emerging as a cost and time effective answer. Employees can receive training on an individual basis at minimal disruption to operations and without occurring travel and other expenses (Nel & Beudeker, 2009).

Quality, as a disciplined attention, transformed Japanese industries in the 1960's and swept through the United States and Europe in the following decade. By the 1980's quality was no longer a competitive advantage but a disqualifying factor. Organisations which could not deliver outstanding quality could not compete. It is vital that people in teams, departments and divisions always meet quality standards they are also responsible for meeting quality standards of their particular activities. All employees need to have a clear understanding of the quality specifications that they need to fulfil. They also need to understand why the specifications have to be met, what the implications are if they are not met and what the effects are of poor quality services and products. Regular assessments of quality standards are also very important. Lastly, information about quality standards is readily available to everyone in the organisation (Nel & Beudeker, 2009).

Service excellence in organisations also needs disciplined attention. It is no longer a competitive advantage. It is an imperative. In fact, every employee should be in the service business, because each division of a organisation probably serves a customer, even if that customer is internal in the same company. In high performance organisations, the different divisions and functions quite clearly view one another and speak about one another as customers. They understand that they are services partners and work on how to continuously improve service provision. Provider and receiver are in constant dialogue, with feedback occurring in real time. Without internal service excellence, external service will not amount to

much. A culture of service delivery has to be ingrained at all levels of an organisation and all employees should be geared to deliver superior support and service, within as well as without an organisation. The first step towards achieving internal service excellence is determining who your customer is. Once the users of your outputs have been identified, their true service or product requirements have to be ascertained and outputs modified to fit that bill. Further imperatives are the setting and monitoring of standards for internal service delivery. This requires holding people accountable for delivering the best possible products and services on time, followed by feedback from customers as to whether or not this has been achieved (Nel & Beudeker, 2009).

Translating and communicating the vision and strategy to all employees (and encouraging them to make it part of their daily activities) is a crucial skill of successful executives in the new environment. Leaders should spend a significant chunk of your time interacting with their employees. In this way they will get people to comprehend their organisation's objectives; what is in it for them and why they have to do to achieve it, explaining the context within which each employee operates (Senge, 1997).

Context is also a crucial aspect to this debate. Understanding where their activities fit into the global scheme of things provides employees with the incentive and responsibility to perform. Translating the context of an activity should start at the outermost layer: the external environment. Changes and challenges in the global market place, as well as the competitive pressures facing a organisation should be explained. Then the organisation's internal vision and strategy to meet these challenges should be linked to the activities of a particular department, production line and individual employee. Ideally, very specific activities, efficiencies or delivery targets should be placed within the context of your organisation's strategy to competitive threats. The discipline to explain the context of employees' activities also affords them the ability to take responsibility. They should understand that their non-performance would result in a chink in the armour of the organisation (Senge, 1997).

An important discipline of communicating context to employees is constant feedback. Business environments, competitive challenges, operational targets all change. People need to know that leadership will explain the changing context of their activities regularly. It is also the executives' responsibility to equip people at operating levels with the skills necessary to align their own goals and activities to the macro-strategy of the organisation (Charlton, 1992).

Employees should, however, also be disciplined and continuously encouraged to translate each of the operation's business targets – budget, operational, delivery and productivity aims etc. – into personal goals. They should therefore have the opportunity to participate directly in setting these targets for their own activities. This does not mean that their proposed goals are just accepted, but that they provide sufficient input to enhance the viability of the goals. In this way they will also view budgets and performance targets as challenges, not impositions.

It is noticeable that employees of truly disciplined and transformed companies talk comfortably about their individual goals. They have a firm grasp on what needs to be done and what the challenges are. They remind one of athletes interviewed before a race; identifying their strategy, the speed at which they will have to run and possible hazards in the race.

3.2.5.4 Leadership as learning

Nel & Beudeker (2009) wrote that: "One of the greatest secrets to constructive performance is lifelong learning. When practiced consistently over time by enough leaders and teams it has several powerful affects. Firstly, it creates a workforce that is excited by the prospect of making new contributions and people are not reticent to discover what they cannot do. Secondly, incompetence is appreciated as an essential component of learning. Incompetence in the quest for learning and developing high performance is also celebrated, and not branded as failing to meet expectations".

Perhaps this is what Peter Senge had in mind (see Nel & Beudeker, 2009) when he said: "That to be a leaner is to be ignorant and incompetent, and unfortunately

not too many executives are up to that”. But, in organisations this is sometimes the inevitable consequence of hanging onto antiquated definitions that erode the energy and space for people to embrace learning and the inevitable incompetence that must accompany it.

One of the great new economy Leadership challenges is to transform the way organisations view incompetence and learning. In particular, it means that leadership seriously need to consider changing how to define various levels of competence. For as long as leaders in organisations hang onto the old economy terminology and sentiments they can forget about developing talent and stimulating the learning that is required to cope with the ongoing change, speed and pressures of the new economy”.

Nel & Beudeker further stated that: “As a point of departure, it is necessary to develop ways of rating various stages of learning that are appreciative and constructive rather than punitive, as is the case with the old economy terminology and categories. In the new economy, with its continuously accelerating integration and accessibility of information, leaders and entire organisations will need to create a culture in which understanding and celebrating the full spectrum of learning is shared and lived by everyone. To be learners we need to understand learning. This serves as no more than the most basic exploration.

At the start of any person’s learning process, the learners all share the same characteristics of uncertainty and incompetence. Later, relative to their established competencies they become initiates and trainees who need to develop new abilities. It requires thinking and learning processes that the learners may have become unfamiliar with and have to adopt from scratch. It can be a time of tension and even anxiety, especially for people who are already in senior leadership positions. It requires a real capacity for humility and openness to learn from others. The downside is when someone remains state for too long. Then they become a performance problem”.

Nel & Beudeker (2009) is further convinced that: “As learners become aware of what it will take to master the new skills they often become even more aware of

their own incompetence. A person who has never even touched a violin, who is in the place of initiate, has no context within which to measure personal incompetence. It is as the employees step into the learning process that they start to really appreciate just how difficult it will be to truly master the new competencies. It is a time of learning from others. It is also a time to actively experiment with new skills and attitudes that at times will feel uncomfortable.

As the employees' new competencies take root, their ability to make productive contributions within a team develops. It is like playing a game of cards for which the learners have not learnt all the rules yet. The team can give these learners immediate feedback and support. As soon as the employees have to work without the team they start to struggle and forget certain of the competencies that are not yet deeply entrenched. The capacity of a team to become the custodians of learning and providing support to one another is exceptionally important.

When employees have made progress to executive and leadership level, they have developed conscious competence and is capable of accelerating the learning of others. This occurs when they accept their innate responsibility as leaders to be coaches and teachers. In the new economy every person, regardless of rank will need to take on the role of a teacher and coach. The vast majority of learning and training will have to occur on a daily basis as a normal part of daily work. In the old economy training and development was often something that took place in the classroom. Line managers were seldom required to consciously take on the role of trainer and coach, although there are obviously wonderful examples of people who taken on the role of cherished mentor and coach, even when everything around them was infused with old economy values”.

Nel & Beudeker (2009) finally stated that: “The combination of speed, responsiveness and unleashing the energy of individuals across all levels in organisations requires sustained adherence to a set of new ‘rules of the game’. Individuals who follow no rules are anarchists who feel entitled; rules in an environment that does not encourage learning and growth amount to suffocating bureaucracy and enforce hierarchies. The new economy brings with it an increasing demand to define the rules of the game, and to exercise consequences

of non-compliance. So dealing with talent requires robust training and development and sustainable performance enhancement”.

3.2.6 LEADERSHIP AND STRATEGY

Montgomery (2008) stated that: “Strategy was identified by business schools and organisations as the most important duty of the chief executive officer (CEO). This person had the overarching responsibility for setting an organisation’s course and seeing the journey through. This vital role encompassed both formulation and implementation: thinking and doing combined”.

Montgomery (2008) further stated that it is the responsibility of the executive leadership to formulate a challenging view of the future, providing the organisation with a clear idea of where threats could come from and how the organisation is positioning itself to cope with it. Having some certainty, midst the uncertainty of the future, is crucial. While endless scanning and assessing of all factors cannot pre-empt future threats completely, all employees in the organisation have to know that there is a plan to cope with some eventualities.

If the future leadership is creating is not discernibly different from the present the organisation is in trouble. However, pain remains the greatest motivator of change, and by the time the organisation is experiencing pain, it may already be too late. Many organisations live under the illusion that just because they are successful now, they have a successful strategy. What they do not realise is that today’s success is generally based on the strategy the organisation executed two to five years ago. What they are confusing is the lead and the lag factors of performance. Lag factors are ‘post factum’ indicators of a successful or poor strategy; lead factors are performance enhancing processes and workplace practices that will determine the true performance of the organisation. This is based on the premise that the organisation must “expect what you inspect – no measure no get” (Nel & Beudeker, 2009:13).

In the past, strategy execution tended to be top down; in future, strategy execution rests with everyone. The ‘what’ of strategy will always come top down, so it is the

execution that is different in future organisations. Organisations can all go about their business brainstorming and creating something they call strategy, but the institutional capacities and capabilities of driving it through onto ground level is a totally different challenge. Leadership fluctuates. In the past leadership was clear – they knew who the leader was and who the followers were. In future, the leader sometimes needs to be a follower. Collins (2005:9) has brilliantly put it forward that: “We cannot see something from the perspective of another if we do not have deep humility, because without it we impose our own perspective or analyse things from our own perspective only; we will not see the other person’s viewpoint”. What this means is that the leaders of an organisation need to readdress their role in terms of practices and power. Organisations need to consider whether their leaders recognise, appreciate and embrace their power (Nel & Beudeker, 2009).

3.2.6.1 The leader’s responsibility for the implementation of strategy

Organisations have to cope with any number of problem and challenges. The only way to manage these challenges is to scan and evaluate the external environment and conditions at all times. Leaders will have to continuously analyse the full spectrum of factors that may have an impact on their organisation in the future: economical, political, social, and technological - locally and globally. Ignoring or forgetting one small factor in any of these spheres can lead to the downfall of the organisation (Montgomery, 2008).

The continuous scanning and evaluation of the external environment should then give shape to an understanding of the long-term forces of change that could impact the organisation. This cannot be achieved by brainstorming, during a meeting, or a three-day workshop. It requires an ongoing conversation between knowledgeable and curious people, who are searching for clues about what the future holds in store for them.

During the early years of Ryanair, the Irish airline entered the Dublin–London market with full service priced at less than half the fares of incumbents British

Airways and Aer Lingus. Ryanair's leaders did not anticipate the ferocity with which its competitors would respond. When the resulting fare war brought Ryanair to its knees, its leaders did not simply urge the airline to try harder. They revamped the strategy and transformed the company into a no-frills player with a true low-cost business model.

This involved changing the airline's fleet as well as its cost, fare and route structures. "Yes, Aer Lingus attacked us," Michael O'Leary, Ryanair's CEO since 1994, has said, "but we exposed ourselves." Reborn, Ryanair went on to become a major airline and one of the worlds' most profitable (see Montgomery, 2008:59).

Porter (2008) stated that the organisation's vision and strategy can only be brought to life if it is communicated effectively to the people who have to live it. With the pressures of technology and competition, it is very easy to lose sight of the human element. Yet, as the world and the challenges become more complex, it is increasingly important for the leader to interact personally with your people to help them to mould their responses to the vision and strategy. This requires the patience and a willingness to interact with people over a sustained period of time. The opportunity must be provided for people to interact with the executive and the other leaders; to raise concerns; to ask questions and to receive clarity about how they should respond to challenges in their day-to-day activities. Forget indirect non-human processes like newsletters, e-mails, poster campaigns, and even audiovisual communication. Leaders will need to be physically present, and able to translate vision and strategy to all levels of workers, in order to communicate the vision with passion.

Porter (2008) further argued that leaders who are only focusing on the future are very short-sighted – the present should be scrutinised with the same kind of strategic intensity. Current practices that could jeopardise the organisation's ability to cope with future threats should be identified and eradicated. It is up to the leadership to keep the tension between 'what is' and 'what should be' alive and encouraging the people to evaluate how their present activities clash with how the organisation is positioning itself for the future. Obstacles to progress have to be identified and either aligned or eliminated. This process should be maintained on

an ongoing basis. As the competitive environment change and new challenges emerge, organisations will have to adapt its vision, and re-evaluate whether the current operational procedures fulfil new needs. Updates about changes in the environment, and how it will affect the organisations activities need to be communicated to people in the organisation - across all levels. This should include all possible elements that could have any effect on the organisation: political, social, economic and ecological factors, consumer trends, market forces and so forth.

Porter (2008) concluded in saying that however scrutinising a particular variable in isolation is insufficient – leaders and fellow managers need to understand the relationships, and interaction, between all variables, to fully appreciate how the organisation can be affected. Anticipating the future in this way will not only help the organisation' avert threats, it can also open up great windows of opportunity. Organisations who have a clear grasp on future trends can prepare for (and benefit from) shifting consumer needs.

Nel & Beudeker (2009) further stated that ongoing communication is a crucial intervention from leadership in getting their people to appreciate the interdependence of their activities and understand the needs of the organisation's other stakeholders. Unfortunately this is often not as easy as seating them around a table, especially if there has been a history of adversarial relationships. Almost inevitably, there will be discord between a organisation's stakeholders. Shareholders want higher growth and returns, workers want more pay and opportunities, the community wants jobs and development, and so forth. Conflict must not be avoided, but leaders should address, and resolve it, with compassion.

Stewart (2007) argued that for an interdependent strategy to work, it must be crystal clear to every individual what contribution he or she is expected to make, and what their responsibilities in the organisation's value stream are. This is especially crucial in turbulent times of change, when people are required to evolve their own activities to cope with new challenges, and abandon old ways of operating. However, people in the organisation will not automatically relate their roles and accountabilities to a change in strategy. It is the leader's responsibility to

introduce and manage processes that will empower workers, at all levels, to adapt and align their own activities to new challenges. The key to interdependence is mutual trust and respect. This cannot be nurtured if people in the organisation feel uncertain, or do not understand the environment in which they operate. Transparency and developing the appropriate information systems will enable all stakeholders to contribute to optimum added value are needed. Trust and respect are also dependent on a sense of ownership. Stakeholders tend to be more committed to strategy, and linking their needs with others, if they have the capacity to influence the processes that affect their work lives. It is therefore advisable that leaders democratise strategic thinking about interdependence, allowing their stakeholders to participate constructively in building up interconnected value streams and supply chains.

Leadership should explain how the organisation's value stream is optimised to cope with challenges and, in particular, how all stakeholders should align their activities to the achievement of strategy. If this do not happen in organisations it might led organisations to embrace 'chaos', abandoning rigid structures when surfing change. The focus shifted to the right side of the brain: creative solution-finding and management by impulse. But organisations who discarded discipline have found to their detriment that they could not cope with the pressure of providing quality products or services at all times. Paradoxically, as organisations become more complex and the world increasingly unpredictable, the need for leadership to create stability increases significantly (Stewart, 2007).

3.3 STRATEGY ORIENTATION

To compete, survive and perform in a highly competitive environment, an organisation's strategy must be aligned with that of its environment and at the same time the organisation must have the capabilities that fit its strategy. This is to say that 'fit' (see Beer, Voelpel, Leibold & Tekie, 2005) must be achieved within the organisation as well as with the business environment. To accomplish this alignment, leaders have to be open to learning about how their decisions and behaviours fit the environment, strategy and organisation. This suggests that effective leaders enable their organisations to confront the tensions that prevent

alignment and, through a collaborative process, reshape alignment at several levels: between environment and strategy, strategy and organisation, organisation and the leadership team, and between key people (Porter, 2008).

Many organisations deploy the latest approaches to organisational efficiency in hopes of achieving fit, but too often find that they are unable to reap the full benefits from such activities (Baden-Fuller & Stopford, 1994). One of the main reasons for this is the lack of an integrated approach that changes multiple dimensions of the organisational system, particularly key organisational capabilities and leadership behaviour. Organisations that reflect the continuous change in the environment by being able to adapt their design and behaviour to changes in strategy, and do this rapidly and effectively, exhibit a second order organisational capability that Beer and Eisenstat (see Baden-Fuller & Stopford, 1994:33) have called “organisational fitness”. To adapt successfully, demands leadership with the courage and skill to lead a systemic organisational learning process that will ‘rejuvenate’ the organisation by fundamentally reshaping its design, culture and political landscape.

Porter (2008) confirms the viewpoints above, stating that understanding the forces that shape industry competition is the starting point for developing strategy. Every organisation should already know what the average profitability of its industry is and how it has changed over time. Most importantly, an understanding of industry structure guides leaders towards fruitful possibilities for strategic action, which may include any or all of the following: positioning the organisation to cope better with competitive forces; anticipating and exploiting shifts in the forces; and shaping the balance of forces to create a new industry that is more favourable to the organisation. The best strategies exploit more than one of these possibilities (Porter, 2008).

Strategy can be viewed as building defenses against the competitive forces or finding a position in the industry where the forces are weakest. According to Porter (2008), organisations rigorously and frequently need to analyse entry and exit strategies by asking the difficult question: what is the potential of this business? Exit is indicated when industry structure is poor or declining and the organisation

has no prospect of a superior positioning. In considering entry into a new industry, creative strategies can be used to spot an industry with a good future before this is reflected in the process of acquisition candidates.

Industry changes bring the opportunity to spot and claim promising new strategic positions if the strategist together with the leadership team has a sophisticated knowledge and understanding of the competitive forces and their underpinnings. When industry structure is in flux, new and promising competitive positions may appear. Structural changes open up new needs and new ways to serve existing needs. Established leaders may overlook these or be constrained by past strategies from perusing them (Porter, 2008).

Industry leaders have a special responsibility for improving industry structure. Doing so often requires resources that only large players possess. Improved industry structure is good, because it benefits every organisation in the industry, not just the organisation that initiated it. Often, it is more in the interests of an industry leader than any other participant to invest for the common good because leaders will usually benefit the most. Indeed, improving the industry may be a leader's most profitable strategic opportunity (Porter, 2008).

3.3.1 STRATEGY, SYSTEMS AND LEADERSHIP

The primary aim and focus of strategy is to exploit new and different opportunities to the future benefit of the organisation and its stakeholders. For business, then, strategy is about the future and a quest for extraordinary and enduring achievement and performance. The harsh reality is that very few organisations become extraordinary achievers and performers and, of those who are, less than five percent will hold the position for 10 years (Hugh, Kirkland & Viguerie, 1997).

According to Stewart (2007), there are two fundamental paradigms underpinning strategy. One paradigm is to embrace a knowable future, to develop and pursue a clear vision and achievement of fixed objectives - the metaphor of business as a machine that can be controlled. The other paradigm embraces uncertainty and seeks to move towards the achievement of a range of possible futures - the

metaphor of a business as an ecosystem. Dostal (2004) confirms, however, that businesses are complex human systems and that much can be gained from understanding and applying of complex systems. Similarly, there is much to be gained from the analytical and synthetic rigour of a holographic approach to strategy formulation.

Camillus (2008) wrote that organisations can manage strategy problems not only by being more systematic but by using social-planning processes. Organisations should organise brainstorming sessions to identify the various aspects of the problem; hold retreats to encourage executives and stakeholders to share their perspectives; run focus groups to better understand stakeholders' viewpoints; involve stakeholders in developing future scenarios and organise design charretts to develop and gain acceptance for possible strategies. The aim is to create a shared understanding of the problem and foster a joint commitment to possible ways of revolving it. Not everyone will agree on what the problem is, but boards and other stakeholders should be able to understand one another's positions well enough to discuss different interpretations of the problem and work together to solve it.

Therefore, strategy must be both planned and evolutionary. This means the organisation attempts to take control over the future by developing clear plans for the future. However, it also continuously evaluates its environment and reviews its strategy so that the organisation can adapt in the light of current events that have not been anticipated and as the competitive environment changes. Continually a business should scan for, select and seize unexpected opportunities and it also should manage threats as they develop. Both the formal, planned approach and the evolutionary approaches are valid in specific contexts and they are complementary to one another (Stewart, 2007).

According to Courtney (2001) it appears that sustained superior results and performance of organisations are not built on a single sustainable competitive advantage. Most top performing organisations regress to the industry average within three to seven years and less than one percent of these once successful organisations manage to re-invent themselves repeatedly over decades

(Courtney, 2001). Enduring success is built on the ability continually, and most rhythmically, to create and exploit a stream of temporary advantages. It also requires episodic changes in the paradigm of the business and, therefore, in the organisational renewal. If it does nothing else, the strategy process prepares the mind in the organisation for an uncertain future. As Louis Pasteur stated, “change favours the prepared mind” (Stewart, 2007:3).

Should the organisation wish to exploit future opportunities in a way that is consistent with its purpose and ambition, it must commit itself to strategic leadership practices and create an enabling and learning culture that is customer focused, value orientated, responsible and committed to manage to future (see Stewart, 2007:3, Figure 3.3).

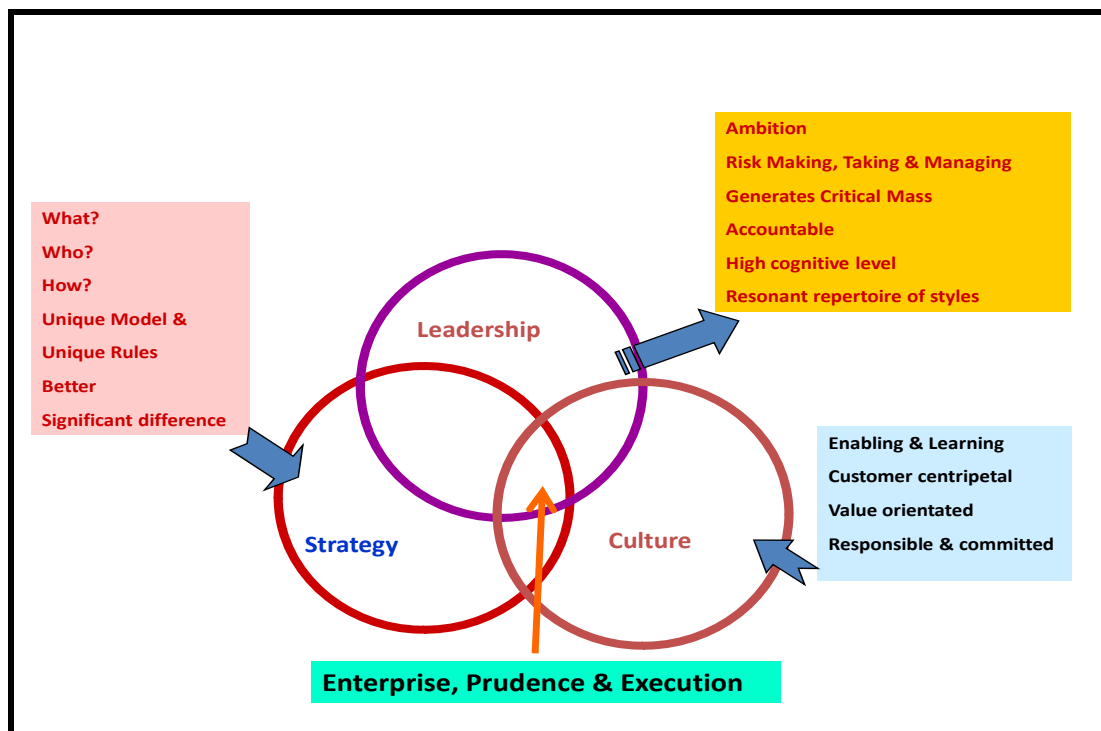


Figure 3.3: Strategy requires more than a plan

Source: Stewart (2007: 3)

This includes strategic thought and discussion, which must become a core business process and fundamental part of the leadership and organisational culture that survives changes in leadership. It includes strategic leadership that

embraces a focus on execution of the strategy, on ensuring that objectives are met and that leaders deliver what they have committed to deliver. Without a profound and pervasive level of commitment from leadership and all the employees to the strategy and its execution, the numerous and time-consuming tasks of strategy are a waste of time and effort and a source of cynicism within the organization (Stewart, 2007).

All planning processes are, at the core, vehicles for communication with employees at all levels and between business units. This is particularly true of processes that tackle problems that exist in the organisation. Smart organisations emphasise such communication. At John Deere, for instance, corporate planners say that the quality of senior executives' communications with divisions is the most important indicator of the effectiveness of the strategy planning. Whirlpool also believes that even the "janitor on the third shift" should be familiar with the organisation's strategic goals. So assembly lines shut down on a regular basis to enable leaders and workers to discuss the progress of the plans (Stewart, 2007:4).

3.3.2 COMMITMENT OF LEADERSHIP TO THE EFFECTIVE EXECUTION OF THE STRATEGY

Commitment to strategy must come from leadership of the organisation and this commitment must be formalised and approved through the board. Fundamental to successful strategy is the leadership and the organisational culture. Strategy review must be high on the agenda of the board, even above the operational effectiveness. Strategy requires a culture that reconciles the dilemma of flexibility and creativity for innovation with rigour and consistency for execution. This is not easy to achieve and a sobering fact that less than 10 percent of strategies effectively formulated are effectively implemented (see Stewart, 2007).

Ideally the strategy should be personalised for management and all other personnel so that, in the implementation of the strategy, they are clear about their role, responsibilities and accountabilities to deliver outcomes and results.

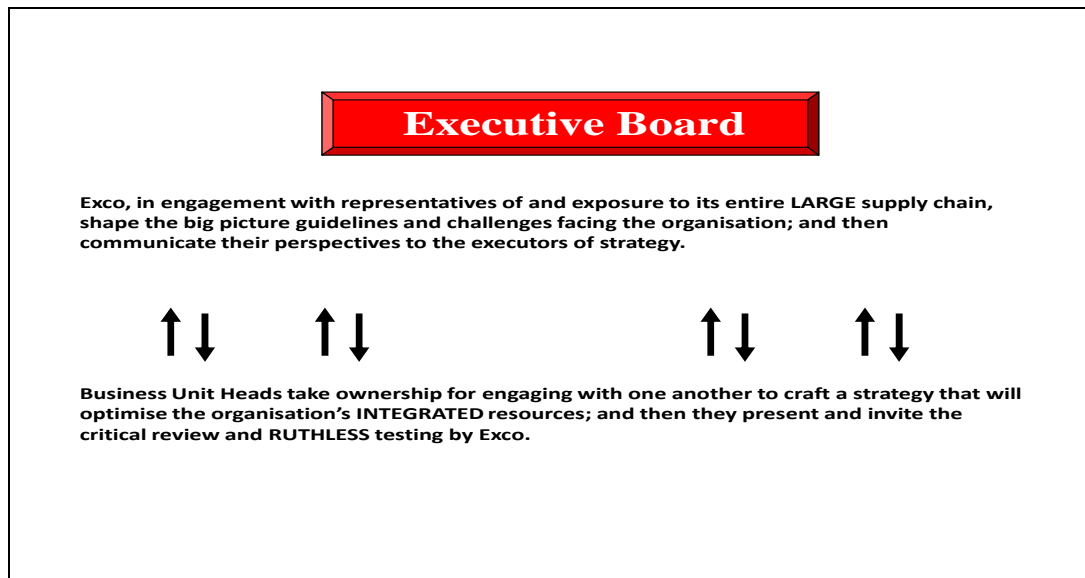


Figure 3.4: Strategy and the art of execution: the power of presence and engagement

Source: Nel & Beudeker (2009:34)

Strategy implementation (see Figure 3.4), must be both top-down and bottom-up and it is an integrative, not a simple linear process (Nel & Beudeker, 2009). While strategy at the corporate and overall organisational design levels is the domain of senior executives and the board, strategy at the business and operational of functional levels must involve those who lead and work at all levels. Involvement is more than reception of the communications of the strategy; it embraces active participation and contribution at a level that is sensible.

With a McKinsey study (*The McKinsey Quarterly*, 2006) involving 796 responses from a worldwide panel of executives, most respondents said that their organisation's board of directors focused on a few roles in planning strategy. Boards are seen to be most active in challenging strategy during the development process and in approving the final strategy. Only 25 percent of respondents, however, said that their boards are actively involved in developing the content of the strategy.

This is crucial for the viability and credibility of the strategy within the organisation. It is also important because many innovative and pragmatic ideas frequently emerge from people who do not form part of the formal senior leadership. In particular, new employees and mavericks are a rich source of strategic ideas that tend to challenge current paradigms, business models and practices. A healthy and vibrant strategy process should frequently and indeed lead to challenges of the mental models of the organisation and its leaders. Strategies that are developed in the absence of heated debate are seldom creative and usually entrench and perpetuate the recipes for success of the past, which become the recipes for future failure (Stewart, 2007).

The vast majority of strategies are developed within an existing paradigm and business model and they also tend to be incremental, which is fine, until someone else changes the paradigm or business model and you have to adapt, if you can. There are considerable risks in being a strategic innovator and the road to golden opportunities is littered with many corporate skeletons. Fast adapters or so-called second movers can also be very successful. Good timing is an art (Stewart, 2007).

According to Gary Hamel (see Porter, 2008: 4): companies need to grow their top management to a point of view about where new opportunities lie "they stake out new competitive space, must anticipate changing customer needs, must preemptively invest in new competencies, redesign their business processes, using the brainpower of their employees, energise the company". Constructing this strategic architecture requires conscious attention to developing mechanisms for organisational learning, innovation and experimentation, constructive contention, empowerment, optimised value potential, corporate sustainability and strategic re-framing. Organisations with a thoughtful and durable commitment to these meta-strategies will not only survive to see the next century, they are likely to dominate it (Kiernan, 1993). In Figure 3.5, the execution of strategy through strategic architecture is suggested by Kiernan (1993).

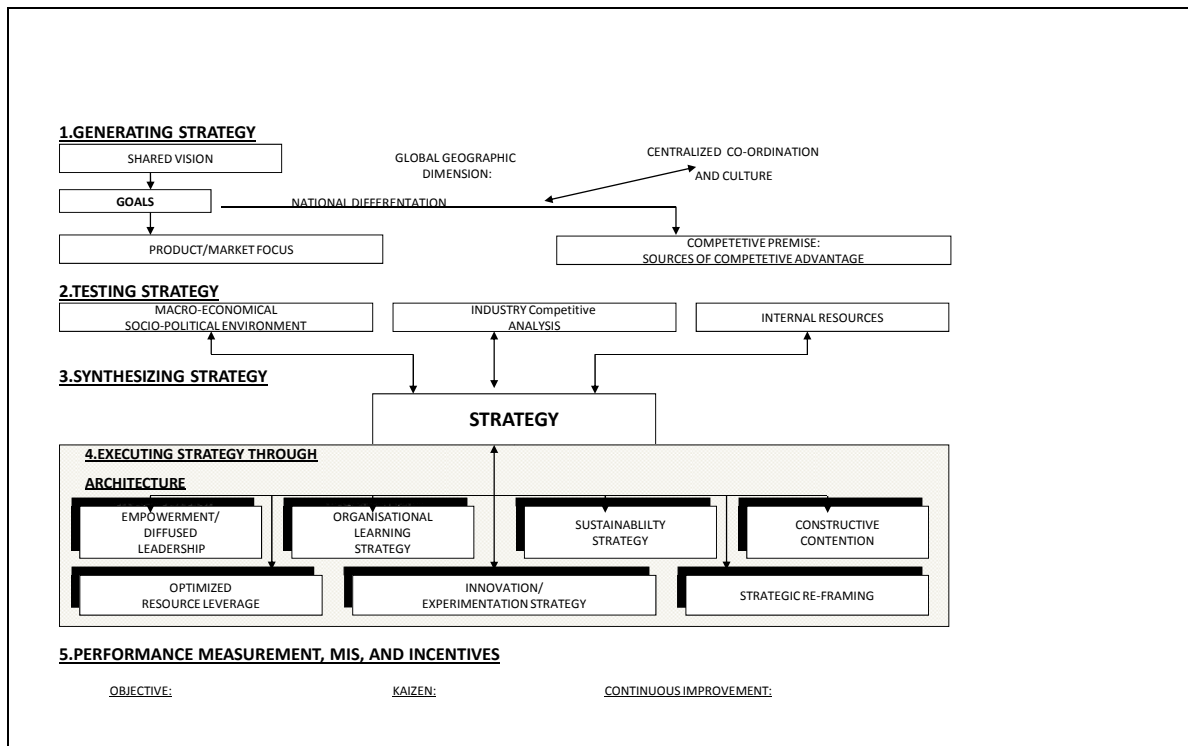


Figure 3.5: Executing strategy through strategic architecture

Source: Kiernan (1993:8)

So far, the basis for competitive advantage shifted at least four times: from price and volume to quality, then to speed and finally to “mass customisation” (Kiernan, 1993:9). Factors which were once sources of genuine competitive advantage will become simply the minimum entrance requirements for even staying in the game. The premium will then shift to the ability to manage major strategic change effectively and almost continually. Under these conditions, it is argued that the strategic architecture (see Kiernan, 1993: 8) necessary to take high-performance organisations successfully into the future must include the following seven core elements:

- Organisational learning
- Innovation/experimentation
- Constructive contention
- Empowerment/diffused leadership
- Optimised resource leverage
- Organisational sustainability

- Strategic re-framing

There exists considerable overlap and interdependency among these elements of strategic architecture and although this approach should be seen as a synthesis towards the whole, constructing any single piece of strategic architecture well, almost inevitably improves performance in several other areas. The various elements of strategic architecture will now be highlighted.

3.3.2.1 Organisational learning

By far the most fundamental and important element of strategic architecture is organisational learning. In the 21st century, the case for the “learning organisation”, (see Kiernan, 1993:9) with knowledge creation as its primary strategic task, will be overwhelming. Organisational learning will replace control as the dominant responsibility and test of leadership. Propelled by the competitive exigencies of speed, global responsiveness and the need to innovate constantly or persistently enabled by new information technologies, learning will become the only viable alternative to organisational extinction.

Perhaps the most difficult of all, organisational learning also means surfacing and re-examining all of those inarticulate assumptions about the organisation and its business environment which, while never explicitly scrutinised or even acknowledged, drive much of what the organisation actually does. Thus, organisational learning is much more than simply acquiring *new* knowledge and insights; it is also crucial to un-learn the *old* ones when they have outlived their relevance. Rigorously rooting out these obsolete assumptions and challenging them can expose critical discrepancies between external reality and the organisation’s internal mental models. It is these gaps which provide much of the creative tension and dynamic energy which drive organisational learning (Kiernan, 1993).

3.3.2.2 Innovation and experimentation

In a world of ceaseless turbulence and discontinuous change, innovation has become one of a handful of critical preconditions for organisational survival. It has been argued persuasively by Hamel and Prahalad (1993:75) that: “The essence of strategy lies in creating tomorrow’s competitive advantage faster than competitors can mimic the ones you possess today”. If this is true, then surely the essence of strategy must therefore lie in innovation (along with its close relative, organisational learning). Tom Peters (1991:9) puts the case for innovation with characteristic brevity: “Organisations must get innovative or get dead”.

Perhaps the most important aspect of strategy is that, the truly innovative organisations make a fetish out of consciously linking innovation with organisational learning. In part, this is a matter of refusing to confine the responsibility for creativity and innovation to the organisational ‘ghetto’ or a single department, the CEO’s office or anywhere else. Leading, world class organisations encourage, expect and reward innovation from everybody: executive, managers, staff members and the people on the loading dock. At their best, the outstanding organisations can even transcend the innovation itself to learn about *how* to innovate successfully and disseminate that learning throughout the organisation (see Kiernan, 1993).

3.3.2.3 Constructive contention

The third crucial component of the new strategic architecture is the habit of mind which Pascale (1990:256) has termed “constructive contention”. At its core, constructive contention views the inevitable internal tensions within an organisation (stability versus transformation, planned change versus opportunism, hierarchy versus democratisation and centralised versus decentralised structures) *not* as pathologies which must be rooted out and eradicated, but as potential sources of organisational dynamism and renewal. The lack of sufficient dissonance and constructive contention leads to complacency and stagnation; their presence increases the organisation’s essential adaptive capabilities (Kiernan, 1993).

Like the other critical elements of strategic architecture, constructive contention is directly related to organisational learning: it requires willingness, even an eagerness, to continually re-examine critically those assumptions and mental models which deaden an organisation's environmental scanning equipment and inhibit strategic thinking and creativity.

Under the constructive contention model, the role of strategic leaders becomes radically redefined: the strategic leader's task is no longer one of ensuring conformity and control; the overriding challenge now becomes one of fostering a strong and constructive level of debate. Admittedly, however, constructive contention can be a bit like plutonium: properly harnessed and in right quantities it can be a positive, dynamic source of energy; out of control it can be a disaster (Kiernan, 1993).

One of the world's exemplary practitioners of constructive contention is Honda. In a Japanese social and business culture dominated by conformity and unquestioning respect for one's elders and superiors, Honda's culture of self-criticism and intellectual diversity stands out conspicuously. Honda co-founder, Takeo Fujisawa, puts the case nicely: "There are discordant sounds within the company. As president, you must orchestrate the discordant sounds into a kind of harmony. But you never want too much harmony. One must cultivate a taste for finding harmony within discord, or you will drift away from the forces that keep a company alive" (see Kiernan, 1993:14).

3.3.2.4 Empowerment/diffused leadership

The objective of empowerment is quite simply to tap the creative and intellectual energy of everyone in the organisation, not just those in the executive suite. The idea is to provide everyone with the responsibility and the resources to display real leadership within their own individual spheres of competence, while at the same time contributing to meeting organisation-wide challenges (Peters, 1991). Businesses are now so complex and difficult, the survival for organisations so hazardous in an environment increasingly unpredictable, competitive and fraught with danger, that their continued existence depends on the day-to-day mobilisation

of every ounce of intelligence. Only by drawing on the combined brain power of all its employees can an organisation face up to the turbulence and constraints of today's environment (Hamel & Prahalad, 1989).

Two closely related mega-trends are likely to propel the empowerment phenomenon forward even further and faster. The continuing de-layering of the organisation hierarchy and the rapid diffusion of new information technologies requires the brain power of all employees. Taken together, they promise to create a qualitatively new kind of organisation: a 'wired' organisation where workers enjoy direct electronic (and personal) access to senior executives and where they have both the mandate and the information required to take the necessary decisions on the spot.

3.3.2.5 Optimising resource leverage

The fifth pillar of the strategic architecture of leading high performing organisations will be the ability to identify and leverage that hidden 'value potential' which most organisations possess but few exploit successfully (see Kiernan, 1993). On one level, 'optimised value potential' is simply a more elaborate term for using common sense to maximise the benefits of available resources. In the context of strategic architecture, however, the concept requires a somewhat more particular meaning: it is a conscious, disciplined, yet creative search for hidden value.

Value potential comes in an almost limitless variety of forms. One of the most commonly recognised is sometimes referred to as exploiting economies of scope, for example leveraging existing investments in production capacity, distribution networks, managing talent, or brand name recognition to create and market entirely new products and services. The expansion of Cartier and Gucci into an entirely new line of luxury products provides good examples of capturing the economies of scope available from strong brand recognition (Kiernan, 1993). A good example of capturing the economies of scope in South Africa is Woolworths that expanded their current goods range in selling cell phones and other branded foods products. Another good example is Engen fuel services stations in South

Africa that, apart from selling fuel and oil products, also successfully sell convenience products to clients such as basic foods products and groceries.

But perhaps the most exciting value potential of all lies in leveraging information and knowledge. Large, knowledge-based organisations like Digital and IBM (MTN in South Africa) have recognised that the expertise they have gained solving internal information technology problems has both relevance and commercial value to outsiders.

Similarly, retaining, modern scanning technologies have allowed organisations (like Woolworths) to amass, update and provide real-time access to reams of information about consumers' purchase patterns. Given what has already been said about the central role of knowledge creation for competitiveness, it seems clear that the future of information-based value potential leverage is almost limitless.

3.3.2.6 Building the sustainable organisation

The conscious strategy for organisational sustainability is an essential requirement for the sustainable performance of the organisation. In a world where fully one-third of the Fortune 500 companies can disappear in the brief space of 13 years, the issue of organisational sustainability is of no small importance (Kiernan, 1993).

While the concept of sustainability may seem even more ethereal than the other elements of strategic architecture, all it really requires is paying explicit attention to some of the more subtle strategic underpinnings of the business which, while absolutely crucial, generally go unremarked. According to Hamel & Prahalad, 1989:53) it is all textbook stuff really: "What is the real basis of our organisation's competitiveness right now?" The answer to this is not simple. It is more likely that the real basis of advantage is a complex, multifaceted amalgam of many factors. Indeed, executives should fervently hope that this is the case, for such advantages tend to be more deeply embedded, more difficult for competitors to copy, and therefore more sustainable over time.

Whatever the organisational-specific circumstances, however, what is essential is that organisational leaders and strategists at *all* levels of the hierarchy consciously reflect on just where their competitive advantage lies and how they might best be protected and perpetuated. This in return requires a fundamentally different mindset than the short-term, quarterly dividend-driven ethos which has long dominated organisations.

The focus on identifying and protecting the basic sources of competitiveness of the organisation may seem the most elemental form of common sense. But in spite of the powerful benefits of applying such intellectual discipline, it is remarkable how seldom leaders actually take the time and trouble to transcend day to day exigencies to do so. Even if an organisation is currently successful, unless it has an explicit and sophisticated understanding of *why* that success is occurring, the organisation is really little more than a ticking time bomb waiting to explode. The more turbulent the business environment gets, the more critical - and difficult – it becomes to ensure that an organisation’s competitive advantages are sustainable in the long run, or at least that other new ones can be developed to replace them (Kiernan, 1993).

3.3.2.7 Strategic reframing

The final element of 21st century strategic architecture is a capability called ‘strategic reframing’. In essence, it is the ability to *transcend* competition altogether by completely redefining the rules of competitive engagement in such a way as to provide the reframe with at least temporary monopoly over the critical success factors of the new economy. It might be considered the business equivalent of the concept of “lateral thinking” popularised by the educator Edward de Bono (see Kiernan, 1993:16).

Strategic reframing allows organisational leaders and strategists to bypass head-to-head competition altogether by essentially refusing to play the competitive game as it is currently defined. Instead, they formulate an entirely *new* game, one which they are uniquely well-equipped to dominate and win. Ideally, the rules of competitive engagement are redefined so tightly and so cleverly that the strategic

leader enjoys, at least temporarily, a monopolistic position. The game becomes winnable for the eminently simple reason that the reframer is now the *only* player in the game, having also invited it and written the rules.

Strategic reframing is an extraordinarily powerful technique for redefining what business one is really – not just apparently – in. Almost by definition, its effects on an organisation tend to be both profound and long lasting. For example, Engen petroleum in South Africa is beginning to see itself less and less as only a fuel and oil retailer, but also as a multi-faceted retailer that sells all sorts of convenience products to customers. Suddenly, a much broader range of strategic options and product lines become possible. In the case of Engen petroleum, nobody is seriously suggesting an immediate halt to the traditional (and still profitable) core business (selling of fuel and oil), but it is already known that the strategic reframing into the retail convenience products has had a profound impact on the success and performance of their fuel retailers.

According to Kiernan (1993), strategic reframing is likely to become even more important in the coming decades. The relentless pace of globalised competition is placing a tremendous premium on continuous improvement. Historically, much of that improvement has been achieved through technological advance, but with technology rapidly becoming commoditised, less and less comparative advantage is to be gained there. Under these circumstances, strategic leaders will be forced more and more to look *beyond* their traditional parameters and to use strategic reframing and lateral thinking to generate new business ideas. Problem solving is yesterday's game. Creating entirely new opportunities will be the new economy's solution. Dostal (2004:2) further to this stated that: "The solution to our problem will not be found in the problem, it needs to be a higher order solution".

3.3.3 STRATEGIC THINKING

Liedtka (1998:126) suggested that: "Bashing traditional approaches to strategic planning has become the favourite past-time of leading business authors. The litany of indictments against the types of planning processes in place at most large multinational organisations is long and often difficult to disagree with. Traditional

processes have choked initiative and favoured incremental over substantive change. They have emphasised analytics and extrapolation rather than creativity and innovation. They have denied those closest to the customer voice in the process. They have lulled leaders to complacency with their comforting illusion of certainty in what is in reality a very uncertain world. In the ideal world, strategic thinking individuals, armed with a diverse toolkit of concepts, frameworks and techniques as well as sharing a common language and literacy, would appear on the doorstep of the organisation, sprung fully formed like Venus from the sea, ready to take over the management of the strategic issues they faced. Each would select from the toolkit those concepts best suited to their own contexts”.

Liedtka (1998:127) further stated that: “In reality, the two activities – developing individuals’ strategy repertoires and managing strategic issues - occur simultaneously. They shape and inform each other. Organisations and people in those organisations are learning in real-time, as they go along. If repertoire-building is about getting leaders ready to ‘do strategy’, strategic issues management is what the ‘doing’ is all about” (see Table 3.2).

Table 3.2: Repertoire building in strategic thinking

| REPERTOIRE BUILDING IN STRATEGIC THINKING | |
|--|--|
| <i>Elements of strategic thinking</i> | <i>Relevant strategy concepts & techniques</i> |
| Systems perspective | <ul style="list-style-type: none"> • Stakeholder mapping • Value system analysis |
| Intent focused | <ul style="list-style-type: none"> • Story writing |
| Thinking in time | <ul style="list-style-type: none"> • Scenario building • Gap analysis |
| Hypothesis driven | <ul style="list-style-type: none"> • What if...If then • Known's, unknowns, presumed |
| Intelligent opportunism | <ul style="list-style-type: none"> • Share and compare |

Source: Adapted from Liedtka (1998:126)

Liedtka (1998:127) also argued that: “There remains another essential skills set that must be incorporated into the organisation’s repertoire, beyond those of strategy literacy (see Table 3.2). These are the process skills that allow the people in the organisation to translate their individual strategic thinking skills into dialogue with the larger organisation. A group of individual strategic thinkers who cannot come together to create consistent, coherent intent at the institutional level, are as likely to dissipate and waste organisational resources as they are to leverage them. As organisations begin to take seriously this view of repertoire-building as an essential part of the planning process, they may find the need to reconsider the traditional differentiation between management development and strategy formulation processes. Much of what goes on in the single organisation executive programmes so popular today in major business schools is as much about making strategy as it is about individual development”.

3.3.3.1 The elements of strategic thinking

Following the views of Mintzberg, (see Liedtka, 1998:122): “Strategic thinking can be defined as a particular way of thinking, with specific attributes. Figure 3.6 (see Liedtka, 1998:122) contains a model of the elements that comprise strategic thinking and will now be discussed.

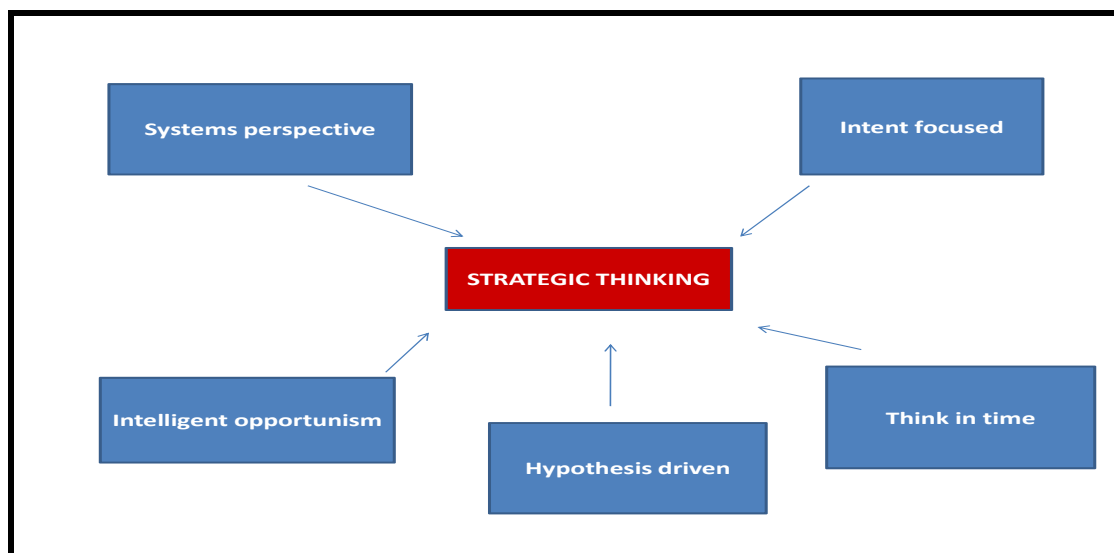


Figure 3.6: The elements of strategic thinking

Source: Liedtka (1998:122)

(a) A systems perspective

Strategic thinking is built on the foundation of a systems perspective. A strategic thinker has a mental model of the complete end-to-end system of value creation and understands the interdependencies within.

Peter Senge (1992:4), in his work on learning organisations, has described the power of mental models in influencing our behaviour by saying that: “New insights fail to get put into practice because they conflict with deeply held internal images of how the world works, images that limit us to familiar ways of thinking and acting. That is why the discipline of managing mental models-surfacing, testing and improving our internal pictures of how the world works – promises to be a major breakthrough.” James Moore (1993:76), have argued that a perspective beyond that of industry is fundamental to the ability to innovate: “I suggest that a company be viewed not as a member of a single industry but as part of a business ecosystem that crosses a variety of industries. In a business ecosystem, companies co-evolve capabilities around a new innovation: they work co-operatively and competitively to support new products, satisfy customer needs and eventually incorporate the next round of innovations”.

(b) Intent focused

Strategic thinking is intent-driven. Hamel and Prahalad (1994:135) have repeated this point for nearly ten years and have revolutionised our thinking about strategy in the process by stating that: “Strategic intent is our term for such an animating dream. It also implies a particular point of view about the long-term market or comparative position that a organisation hopes to build over the coming decade or so. Hence, it conveys a sense of direction. A strategic intent is differentiated; it implies a competitively unique point of view about the future. It holds out to employees the promise of exploring new competitive territory. Hence, it conveys a sense of discovery. Strategic intent has an emotional edge to it; it is a goal that employees perceive as inherently worthwhile. Hence, it implies a sense of destiny. Direction, discovery, and destiny, these are the attributes of strategic intent”. Csikszentmihaly (1990:32) draws our attention to what he calls the primacy of

“psychic energy”. We can focus attention, he argues, “like a beam of energy” or diffuse it in “desultory random movements, we create ourselves by how we invest this energy” (see Liedtka, 1998:125).

(c) Intelligent opportunism

Liedtka (1998:125) further confirmed that: “Within this intent-driven focus, there must be room for intelligent opportunism that not only furthers intended strategy but also leaves open the possibility of new strategies emerging. In writing about the role of “strategic dissonance” in the strategy-making process at Intel, Robert Burgelman (1991:208) has highlighted the dilemma involved in using a well-articulated strategy to channel organisational efforts effectively and efficiently, against the risks of losing sight of alternative strategies better suited to a changing environment. This requires that an organisation be capable of practicing “intelligent opportunism” at lower levels. Burgelman (1991:208) concludes: “One important manifestation of corporate capability is a company’s ability to adapt without having to rely on extraordinary top management foresight”. The opponents of intention-based planning systems, Ralph Stacey (see Liedtka, 1998:125) most prominent among them, argue that: “Our definition of intention must be broad and flexible. Instead of intention to secure something relatively known and fixed, it becomes intention to discover what, why, and how to achieve. Such intention arises not from what managers foresee but from what they have experienced and now understand. The dynamic systems perspective thus leads managers to think in terms, not of the prior intention represented by objectives and visions, but of continuously developing agendas of issues, aspirations, challenges and individual intentions”.

(d) Thinking in time

As Stacey notes (see Liedtka, 1998:125): “Strategy is not driven by future intent alone. Hamel and Prahalad (1989:67) agree and argue that (see Liedtka, 1998:125): “It is the gap between today’s reality and that intent for the future that is critical. Strategic intent implies a sizeable stretch for an organisation. Current capabilities and resources will not suffice. This forces the organisation to be more

inventive, to make the most of limited resources. Whereas the traditional view of strategy focuses on the degree of fit between existing resources and current opportunities, strategic intent creates extreme misfit between resources and ambitions". Neustadt & May (1986:251) in Liedtka (1998:126) argues that: "Strategic thinking, then, is always 'thinking in time' to borrow a phrase from historians Strategic thinking connects past, present, and future. Neustadt and May (1986:251) further argued (see Liedtka, 1998:126): "Thinking in time (has) three components. One is recognition that the future has no place to come from but the past, hence the past has predictive value. Another element is recognition that what matters for the future in the present is departures from the past, alterations, changes, which prospectively or actually divert familiar flows from accustomed channels.

A third component is continuous comparison, an almost constant oscillation from the present to future to past and back, heedful of prospective change, concerned to expedite, limit, guide, counter, or accept it as the fruits of such comparison suggest". Charles Handy (1994:25) in Liedtka (1998:126) has described that: "The 'rudderlessness' that can result when we disconnect from our past. He argues that we need both a sense of continuity with our past and a sense of direction for our future to maintain a feeling of control in the midst of change. Thus, the strategic question is not only what does the future that we want to create look like? It is having seen the future that we want to create, what must we keep from our past, lose from the past, and create in our present, to get there" (see Liedtka, 1998:126).

(e) Hypothesis-driven

Liedtka (1998:126) argued that: "The final element of strategic thinking recognises it as a hypothesis-driven process. It mirrors the scientific method, in that it deals with hypothesis generating and testing as central activities. Being hypothesis-driven is more foreign to business managers than are the other elements of strategic thinking discussed this far. Yet, in an environment of ever-increasing information availability and decreasing time to think, the ability to develop good hypotheses and to test them efficiently is critical. It is my personal belief that their

ability to work well with hypotheses is the core competence of the best strategy consulting firms. Because it is hypothesis-driven, strategic thinking avoids the analytic-intuitive dichotomy that has characterised much of the debate on the value of formal planning. Strategic thinking is both creative and critical, in nature. Figuring out how to accomplish both types of thinking simultaneously has long troubled cognitive psychologists, since it is necessary to suspend critical judgment in order to think more creatively”.

3.3.4 STRATEGY IN AN UNCERTAIN FUTURE

As discussed in Chapters 1 and 2, the future is uncertain and largely unknowable, even if there are future events about which one has a high degree of certainty. Even rules of the game are temporary. A competitor might just change those rules. Consider what Dell did simultaneously to the rules of two games: the game of PC manufacture, in which they changed it to mass customisation, and the game played in the distribution channel, in which they sold directly to the customer and not through resellers. Change of the rules has a devastating effect on industry competitors, such as Dell’s moves had on Compaq and Hewlett Packard (Stewart, 2007).

Furthermore, rather like Webb Ellis, when he “picked up the soccer ball and ran” to create rugby (see Stewart, 2007:3), by changing the rules, the game also changes! This means that these movers and shakers actually change the competitive landscape in a very significant, almost cataclysmic way. The incumbents are forced to change the way they play the game or to play the new game itself, otherwise they are in trouble – some stop playing because it is just not fun anymore or they just die out. Some adapt, survive and even thrive – but the game has changed!

In complexity theory, this phenomenon is known as a punctuated equilibrium. After a period of relative stability or equilibrium (band limited chaos), a massive upheaval and industry shakeout occurs. This is caused by a change in the rules of the game precipitated by a paradigm change (Dell’s paradigm of the computer business rules) or by a technology shift (the mobile telephone, for example).

If one considers a business as a complex adaptive system populated by purposeful, interdependent people and organisations, the other reality is that we have little *control* over people, other organisations, many processes or events. Yet, the current leadership paradigm is that business leaders spend most of their time planning, organising and controlling. Control can be interpreted as the power over (dominance) and as the power to do or to influence. Something is controllable when one's action is both necessary and sufficient to produce the intended outcome. Control becomes influence when one's own action is in itself not sufficient to produce the outcome, but is necessary: one is only a co-producer. Complete absence of control means one's actions are neither sufficient nor necessary to produce a specific outcome (Stewart, 2007).

This is sobering stuff for those who are of the opinion that they control much of what happens in and around their business! This takes quite a lot of "oomph" out of the planning, organising and controlling paradigm of management and leadership. Although we can influence, we do not have the ability to accurately predict the behaviour of others, of the system of which we are part nor of other systems! Absence of control does not mean we cannot influence; those one cannot, are the contextual environment of the business, those one can influence are in the transactional environment. Leadership now becomes the ability to influence those we do not control!

Stewart (2007) further stated that this is where scenarios and strategy really come to the fore. The power to do, to change the future, is a choice. One can choose on the basis of rational self-interest, which is risk-averse; on the basis of the challenge, which is risky; or one can choose on the basis of the cultural norms within the organisation, it's decisional DNA. But, given the 'chimeric' nature of control and the uncertainty of the future, strategy requires a different paradigm within which to make choices.

Restructuring and re-engineering are the answers to the future in the paradigm of business as a machine – the very words state the paradigm! Underpinning this approach is the assumption of cascading intention: formulate a course of action, communicate it, motivate the people and roll it out. This approach can really only

work when the solution is known in advance or when a repertoire already exists in which to implement it, i.e. there is a high level of predictability. In reality, people will self organise according to the implicit and explicit rules of behaviour of the organisation, irrespective of conventional organisation charts and reporting structures. The embedded culture, which may bear no relationship to the espoused values of the organisation, determines how people behave and organise themselves and their relationships. This is one reason why organisations are *policy resistant* and game playing and apparently aberrant or counter-intuitive behaviour occurs (Stewart, 2007).

Given the context of shared purpose, shared vision and shared accountability, in an enabling environment the people in a business will organise themselves so that they harness the combined, co-operative intelligence in all the parts of the system. In such an environment the business leader is a context setter and designer of learning experience, not an authority figure with solutions. Everyone owns the vision, the problems and contributes to the solutions!

One of the more pervasive myths of business strategy and business growth is that of *linearity*. Its bedfellows are predictability and control accompanied by our simplistic concepts of cause and effect. This myth is epitomised by the seductive call to search for a sustained competitive advantage. Quite clearly, this is as real as the Holy Grail: given the uncertainty of the future and the non-linear course of events and constant change in the competitive environment, the only sustainable advantage is the ability to continually invent a stream of new, temporary advantages. Unfortunately the observers of businesses, and even those who recall their own business - this tends to be selective recall - observe point phenomena and cannot resist the temptation to draw linear relationships between them and invoke trends. Chart the real course and it is usually very non-linear in both space and time. The cause of non-linearity lies in the dynamic complexity of businesses and business organisations. The dynamics are the result of continual changes in the levels and rates of the components and resources; there is tight coupling between the components of the systems, there are time delays between actions and their causes and there are various types of feedback, both negative and positive (Stewart, 2007).

Businesses are multidimensional, having multiple structures and functions governed by multiple processes simultaneously. Actions intended to produce a specific outcome can produce a different and even opposite outcome. An event can have multiple effects; removing the initial cause may not remove the effect. Cause and effect may be separated in time and space; they can even replace one another. Because of this high level of dynamic complexity, we often observe counter-intuitive behaviour and unintended outcomes such as the deterioration of motivation and performance after the introduction of an incentive bonus scheme. Frustratingly, social systems, such as businesses that tend to repeat themselves, can reproduce the same set of non-solutions all over again, or the same set of winning solutions (Stewart, 2007).

All these considerations return us to where we started: certainty versus uncertainty and control versus no control. Gary Hamel (see Hamel & Prahalad, 1994) suggests that the real reason behind the failure of much of strategy and the general lack of resilience of companies resides in the simplistic paradigm or mental model they use to think about, converse about and develop and implement strategy. The consequence of the use of this paradigm is that business leaders take themselves off for a strategy event, the outcome of which is a strategic plan that is rolled out to the troops with whom managers communicate and spend a lot of time motivating them to strive together towards the envisioned future.

Occasionally the strategy is right, the process works and the company emerges a winner. Sometimes, the plan is implemented with enthusiasm – unfortunately someone changes the rules of the game and the whole process repeats itself or the company fades away. Unfortunately, in many instances, the strategy becomes incongruous with the evolving future, people become de-motivated or resist the change and the plan is put aside. In the worst cases, one of two kinds of catastrophes occur. In a complex catastrophe the business collapses under the weight of its own ponderous past; there is just too little variation: stagnation and loss of fitness for changing environment, gridlocked interconnections constrain the system so that it is unable to adapt. Watch some of the incumbents in the local financial services industry as this catastrophe plays itself out. Complexity

catastrophes can be a sudden and quick, here today, gone tomorrow, often in a tidy death characterised by acquisition or a merger of unequals (Stewart, 2007).

On the other hand, some companies consume strategies as they appear on the business menu - *strategy du jour* - and error catastrophe occurs. The company builds up too many variants and is unable to determine which are beneficial. The system cannot change (no traction, to use a mechanistic metaphor) as there are too many errors that prevent its parts from co-ordinating with each other and functioning effectively. The organisation collapses in an untidy mess.

According to Stewart (2007) part of the solution is to adopt a “feed forward” orientation. Normally organisations design planning systems to work on feedback; they compare results with plans and take corrective actions. Though it is a powerful source of learning, feedback has limited relevance in an uncertain future. Feedback allows organisations to refine fundamentally sound strategies; problems in an uncertain environment require leaders to come up with novel ones. Feedback helps people learn from the past; strategic problems, however, arise from unanticipated, uncertain and unclear futures.

To develop a feed-forward orientation as a complement to the feedback practices, organisations must learn to envision the future (Stewart, 2007). In this variation of scenario planning, organisations should describe the set of external and internal circumstances that they would like to see in the future. This will open leaders’ minds to the range and unpredictability of possibilities that the future may bring. Organisations must then pursue strategies that will increase the likelihood of those circumstances becoming reality. Organisations, therefore, must constantly scan the environment for weak signals rather than conduct periodic analyses of the business landscape (see, for example, Day & Schoemaker, 2005).

It is increasingly difficult to identify the boundaries of the arenas organisations should watch. Changes in one industry or segment often affect organisations in others. For instance, who would have imagined that changes brought about by the computer industry and the internet would affect the music industry so radically? Who would also have imagined that retail organisations, like Woolworths in South

Africa, would have a financial serviced department that markets a credit card? Leaders should, therefore, also explore and monitor the assumptions behind their strategies. One way of doing that is through discovery-driven planning, where leaders list the assumptions underlying the revenues and income they expect and test the validity of each premise. By sharing those assumptions, leaders can better align decision making throughout the organisation (Stewart, 2007).

3.4 SUMMARY

As indicated in this chapter, leaders are confronted with a world that moves faster than ever before. Regardless of all these challenges, some effective and successful strategic leaders do exist and they are good examples of how business organisations should be managed and lead.

This chapter focused on the influence and impact of high performance leadership and the guidance of these leaders in ways that result in the formulation of a strategic intent and strategic mission, which may lead to goals that stretch everyone in the organisation to improve their performance. Moreover, these leaders must facilitate the development of appropriate strategic actions and determine how to implement them.

In the next chapter, the performance in business organisations will be discussed and how effective leadership and competitive strategic practices can influence the performance in organisations.

CHAPTER 4

PERFORMANCE IN BUSINESS ORGANISATIONS

4.1 INTRODUCTION

Several academic and management studies in the past have looked at the secrets of significant performance in business organisations. These studies examined the strategic processes and operational implementation of a whole range of issues and from these identified the factors crucial for success that are common to a number of high performing organisations (Tonge, Larsen & Ito, 1998). In this chapter of the study, the focus will be on the attributes of high performing organisations, the strategies that they employ to maintain high performance and the critical success factors their leadership employs to achieve these outstanding results. The characteristics of these high performing business organisations will be discussed by focusing on diversification, flexibility, innovation, the attracting and holding of quality staff, the use of management systems and role of strong leadership. The main objective of this study is, therefore, to determine the critical success factors for business performance and the attributes and strategic attitudes of the leadership.

According to Breene and Nunes (2006:11) “high performance” is defined as the enduring or sustained out-performance of peers, across business and economic cycles, often across generations of leadership, and is measured by widely accepted financial metrics. Many organisations can appear to be high performers in the short run – by riding favourable market conditions, for example, or by being fortunate with a single product or market position – only to decline quickly when business conditions turn against them.

To be a true high performer, an organisation must survive and thrive across economic and market disruptions. To measure the performance of organisations, it is important not to only use a single measurement, but to use different dimensions. Breene and Nunes (2006) proposed, after many years of qualitative and quantitative research towards the performance of organisations, that the following five dimensions (critical success factors) can be used as measurement, grading each on a curve against competitors in a carefully considered peer set:

- **Growth** - as measured by revenue expansion.
- **Profitability** - as measured by the spread between the return on assets and cost of capital.
- **Positioning for the future** – as represented by the position of share price that cannot be explained by current earnings and by the position of the industry total each organisation's future value represents.
- **Longevity** - as measured by the duration of out-performance in total return to shareholders.
- **Consistency** - as measured by the number of years out of seven the peer set median in profitability, growth and positioning for the future was beaten.

The delicate balance when it comes to metrics is that one must always weigh simplicity against completeness.

In this chapter, the focus will be on the impact of leadership and strategy on the performance of business organisations in the new economy in order to create and maintain a sustainable competitiveness. Lastly, the performance of business organisations in South Africa will also be evaluated and discussed.

4.2 IMPACT OF LEADERSHIP ON THE PERFORMANCE OF BUSINESS ORGANISATIONS

The role of leadership is of fundamental importance to the performance and success of organisations. This includes many aspects like visionary, motivator, enabler, facilitator as well as mentor and coach. Its importance has been identified in the work of Fawn and Leavy (see Breene & Nunes, 2006). Their research aimed to establish the portfolio of attributes exhibited by leaders in two groups of organisations. The attributes with the highest ranking are those which are intuitive and require exceptional leadership skills. They are direction, vision, selection of key personnel, people motivation and communication.

At the start-up stage of a business organisation, the managing director or leader is responsible for the supply of the product or service, the administration, the management and the sales and marketing. In effect the business is the leader and the leader is the business. As the business grows, the leader has to concentrate on the overall strategic direction and delegate some of the operational and technical decisions to appointed staff and employees. The leader has to give responsibility on the basis of trust or design control systems to monitor individual activity. The leader will now also have to employ management and staff with the necessary specialist skills. In order for the business to grow, sales revenue must increase which means that more products are manufactured or quality is improved to justify an increased unit price or product range (Breene & Nunes, 2006).

The leader must also understand the critical interplay between capabilities and value creation, a relationship that goes to the heart of high performance in business organisations (Breen & Nunes, 2006). To create value, each high performing organisation develops a formula for doing business - either at the enterprise or business unit level - that successfully translates a big idea regarding customer needs into a unique set of connected business processes and resources that cost-effectively satisfy those needs. Innovation and talent management are also two of the essential capabilities needed for high performance in a business organisation. The investment in training and leadership development to enhance

innovation and the development of talent has been observed as a crucial strategic focus in high-performing business organisations (Nel & Beudeker, 2009).

Every high performing business organisation also has a high performance culture. If you spend any amount of time with leaders and employees of a high-performance business organisation, you will get an almost palpable sense of the organisation as a distinctive community. Nel and Beudeker (2009:12) call this a “village of leaders” as a unique way to approach the core and common business elements related to culture, leadership and workforce.

A culture of performance embodies an organisation’s unique approach to managing those elements common to every organisation, and is therefore crucial to long-term effectiveness, the quality and speed of decision making and the mastery of change and innovation.

4.2.1 LEADERSHIP AND PERFORMANCE IN THE NEW ECONOMY

Business organisations, particularly in South Africa, should frequently ask themselves if they are ready to perform in the new economy revolution. The easy part is going to be getting up to speed with the technology. The really difficult part is going to be the massive revolution in values, talent, people competencies, managerial processes, and specifically the leadership that is required.

Since the early 1990s, and through most of the first decade of 2000, organisations throughout the world have been focusing enormous energy on implementing enterprise resource planning (ERP) solutions such as SAP and Oracle. The search for the consistently interactive office with no global boundaries has largely been solved through the Internet – although things will continue to get faster, more integrated, more interactive. The ongoing convergence of technologies will continue to radically change the ways in which sound, voice, visual and digital information is delivered through integrated systems such as cell phones, television, computers, etc.

Nel & Beudeker (2009) wrote that: “In parallel with the hard or technological revolution there is a “soft revolution” taking place. This revolution is about values, world views, attitudes about self and others, self mastery, power relationships, personal relationships, attitudes towards authority and rank. The soft revolution cuts to the core of leadership and organisational culture.

Embracing the hard revolution is a given. Any organisation that does not do this will rapidly become as obsolete as an enterprise operating without electricity, telephones and flushing toilets. They will be reduced to the margins of the economy. Embracing the hard revolution is already a disqualifying factor that holds no sustainable competitive advantage. If you have not got it, you are disqualified. If you do embrace it, it merely means you are allowed to attempt taking part in the new economy – but it offers no great advantages. It definitely offers no guarantee of sustainable competitiveness, performance or profitability.

The leaders and organisations that adopt and entrench the accompanying *soft revolution of values*, transformed workplace practices, and radically altered approaches to people leadership are the ones that will succeed and perform in the new economy.

This study provides vital clues on how some organisations, particularly in South Africa, are already taking on the challenge of entrenching *new economy leadership as the primary source of sustainable competitiveness and performance*. People such as Nordstrom of Sweden (see Nel & Beudeker, 2009), already claim that the information age is dead, and that we are rapidly entering the age of imagination. In many ways current organisations are now technologically at the equivalent stage as organisations found themselves in during the first decade of the previous century. Then organisations were developing and executing electrification strategies and even telephone implementation strategies.

The new economy is revolutionising what it takes to be competitive and to perform. It does not simply represent an incremental adjustment of the status quo. Nor is it a situation in which the rules of the game have changed. If only the rules were changing it would mean that the players could comfortably continue to play

the same game, albeit in a slightly different manner. This is not the case. The game has changed. The new playing fields do not even look vaguely like those of the past". The evidence is clear: "New economy leadership is the primary organisational driver of achieving a sustainable competitive edge and performance" (Nel & Beudeker, 2009:15).

The world is changing, and will continue to do so. But surely there are some basic principles that remain relatively fixed? So, what is all this fuss about a new economy? It is about *doing* everything differently. Even though basic timeless principles still form the cornerstones of *what* organisations do; in the new economy, there is a transformation of leadership and a range of business practices needed to undergo significant change. Organisations, therefore, need to reconsider *how* they go about achieving sustainable competitiveness and high performance.

Due to the rapid changes in and uptake of new technologies and the impact that this will have on society as a whole, the socio-technological fabric of our environment both at work and at home will have been revolutionised. So what will the next decade bring? Nel and Beudeker (2009:17) stated that: "It is the next wave of business principles revolving around democracy in the workplace, markets, and the speed of events that is affecting how we live and work". This means that a typical new economy organisation, striving towards sustainable competitiveness and high performance, is flexible and able to quickly respond to new developments in a dramatically changing world. It means that people are increasingly demanding more information, deeper insight, and increased participation - all of which are driving a new era of independence, with a greater need for increasing interdependence and integration.

4.2.2 SUSTAINABLE COMPETITIVENESS AND PERFORMANCE

The old social contract between organisations and their employees is gone. No longer is the social contract based on the premise that "If you work for us for life, then we will be loyal to you. You are not going to leave here rich, but you are going to leave secure, and you will have a pension fund, and medical aid, until the

day you die” (Nel & Beudeker, 2009, 13). Organisations are unable to make or keep promises like this anymore. Through the rapid advance of information technology, deregulation, globalisation, the rise of the Internet and e-Commerce, and many other rapidly evolving business practices, the so-called X and Y generations have experienced redundancy in the workplace for either their parents or themselves. This is why people of these generations are beginning to claim their independence and insisting on more control over their lives; accordingly, organisations have to restructure the ways they engage with their people.

So how do organisations harness this to optimise performance? Nel & Beudeker (2009) has suggested that: “They have developed an integrated framework that is specifically engineered to achieve optimal performance. Although each of the frameworks can be used as a stand-alone tool, it is only when they are used in conjunction with one another that organisations will truly be able to achieve the type of turn-around required to take them to world-class status”.

There is, however, a practical challenge that an organisation will have to consider at all times. This study provides insights into the best operating practices that sustainably competitive organisations have entrenched through many years of exquisite effort and focused leadership. It is impossible to achieve success with one great leap and there is no evidence at all of any organisation that has ever achieved world class performance in a short period. According to Nel and Beudeker (2009), there are four steps that leaders in organisations should follow in their journey to high performance.

Each step poses very different leadership and organisational development challenges, and provides a platform for the next phase of development and execution - while it draws on the experience and achievement of the previous step. In order to become sustainably competitive, organisations will also need to plan a step-by-step approach to reach world-class performance. The four steps will be discussed below.

The very first step may seem incredibly simple, but it is fundamental to high performance. The leadership team must decide that they do indeed want the

organisation to embark on the journey to greatness. Evolution, in the corporate sense, takes a conscious decision. Leaders have to consciously decide what they want and need to decide if they are prepared to put in the hard work required to perform. Jim Collin's (2005:66) so aptly puts this in the Good to Great study, "Good is the enemy of Great." If good is good enough, you will never reach high performance.

Step two will indicate that once the leadership in the organisations have decided to embark on the journey, they will first need to assess their organisation's 'level of fitness' before they can begin the climb to world-class performance. At this point the leadership also have to assess the organisation's 'as is' status (current reality). Then they need determine the gap that has to be bridged between the organisation's 'as is' status and their 'to be' aspirations. At this stage a primary challenge is not to position the shift to new economy practices as something more to do, but rather as doing different things.

This is a crucial insight for leaders to grasp. All too often one of the reasons that is given for not taking the first step is that there is not enough time for it, and that it will over burden the organisation. Of course there are new competencies (knowledge, attitudes, skills and expertise) that have to be developed and applied, but it is not about doing more! Instead it is often about doing less, but doing more of it. In other words, *doing everything about some things and not doing something about everything*. Meeting this challenge is one of the primary requirements for this step. For this reason, the development of really good execution plans is critical. At the start of any new process it is unlikely that significant shifts will occur without the discipline of developing and executing clear plans of action.

In step three, business organisations will now need to focus on the execution of the desired best practices. In other words they must establish the initial building blocks for selected shifts that need to be undertaken. This invariably requires a certain degree of up-skilling to ensure that people across all levels appreciate what is required of them, and how they need to operate differently in the future.

One of the most important elements of this step is to establish ways in which progress and adherence to the required new economy practices can be evaluated and improved. It is the time of *virtuous monitoring* in which people establish ways of regularly evaluating progress. This information is used to stimulate dialogue on how to further improve practices and to overcome bottlenecks where they may exist.

Whereas step two is largely to do with developing the commitment and establishing the first basic remedial steps, this step is about developing greater clarity about the desired end state and establishing increased understanding of what that end state has to look like in practice.

At this stage there would be a critical mass of people who understand what it takes to entrench the best practices and evolutionary pathway to get there. They continuously engage the system and management teams to ensure that continuous progress is occurring. Usually this is the role of people who have developed as “change leaders” (see Nel & Beudeker (2009:19) who form a *creative minority* of people who operate with the support of leadership, and take charge of driving the mind shifts and required behaviour of leaders at all levels.

High performance should now start to emerge across the system. Different areas of the organisation will start to experience shifts in a variety of areas. One of the dominant forces that accelerate execution at this step is the capacity of people to learn from what is happening in the organisation, and to spread this learning as widely as possible.

During this step the organisation and its people will begin to develop a clearer understanding of what is required to make the shift to new economy leadership and high performance. More and more people will begin to realise that this is not about doing more things but about doing more things differently.

In step four, best practices and new competencies start to become entrenched. The organisation and its people become increasingly ready to make the quantum shift that is capable of transforming the organisation. This is the step where it

becomes possible to expect and demand the wide spread execution of new economy leadership and high performing practices, and to require leaders across all levels to live the values that accompany this shift.

In change leadership terms, it is the time when it is both possible and desirable to increase the pressure to practise the new economy leadership requirements. By this stage all policies and procedures, as well as practices that contribute to organisational development and culture, should be aligned to the shift towards new economy leadership and competitiveness (Nel & Beudeker, 2009).

One of the most critical challenges at this stage is to ensure that people in more senior levels of leadership demonstrate commitment and adherence to the required practices. This entails a combination of:

- providing the support for staff functions that are involved in the execution of the new culture;
- increasingly taking on change leadership roles;
- insisting that people who are being considered for promotion should have a track record of living the new economy leadership and high performance culture; and
- making the ongoing development of the high performance culture a primary focus of management at every level of the organisation.

4.3 STRATEGY MONITORING OF PERFORMANCE IN BUSINESS ORGANISATIONS

It is up to the executive leadership in an organisation to formulate a challenging view of the future, providing all the employees with a clear idea of where threats could come from and how the organisation is positioning itself to cope with it. Having some certainty, midst the uncertainty of the future, is crucial. While endless scanning and assessing of all factors cannot pre-empt future threats completely, the people in the organisation need to know that there is a plan to cope with some eventualities.

The organisation's vision can only be brought to life if it is communicated effectively to the people who have to live it. With the pressures of technology and competition in the new economy, it is very easy to lose sight of the human element. Yet, as the world and the challenges become more complex, it is increasingly important for the leadership to interact personally with all the people in the organisation to help them to mould their responses to the vision. This requires the patience and a willingness to interact with people over a sustained period of time. The opportunity must be provided for your people to interact with you and the other leaders; to raise concerns; to ask questions and to receive clarity about how they should respond to challenges in their day-to-day activities. Forget indirect non-human processes like newsletters, e-mails, poster campaigns, and even audiovisual communication. You will need to be physically present, and able to translate vision to all levels of workers, in order to communicate the vision with passion.

Microsoft CEO, Steve Ballmer, has become a legend in this regard (see Nel & Beudeker, 2009). Video clips of his passionate antics at company gatherings - screaming at the top of his lungs, running around on stage while professing his enthusiasm in no uncertain terms - are hosted on a number of internet sites and attract thousands of hits a day.

South African Breweries (SAB) CEO, Norman Adami, introduced one of the most successful concepts in SAB of '*the power of presence*', where he instructed his executive leadership to be more 'present' with their employees and share the organisation's vision with passion.

4.3.1 MONITORING THE STRATEGIC PERFORMANCE

Fast-moving and frequently chaotic conditions demand the disciplined monitoring of performance. This should not be an exercise in blame or seeking scapegoats for problems, but an attempt to address errors and under-performance.

Monitoring cannot be efficient without the feedback of customers. The organisation's employees should have a very clear understanding of what customers think of their service delivery through constant feedback.

Monitoring conventional standards like quality, sales and production targets is only the first step in creating stable conditions. Equally important are the organisation's achievements and performance in areas like people development, living its values or transparency. These less-quantifiable elements are often ignored because it requires more effort to set standards and evaluate conformance in these areas. But international experience has shown that it is the accomplishment of softer variables that ensures achievement of the harder targets. The softer variables contain the genetic code and DNA of an organisation's strategy, providing the human impetus to execute strategy and achieving success (Nel & Beudeker, 2009).

The right kind of information is integral to the process of performance monitoring. The people in an organisation have to be able to access relevant and useful information to measure their performance and adherence to standards.

Unfortunately many organisations have responded to the coming of the 'information age' by just generating more and more data and forcing it on stakeholders (see Nel & Beudeker, 2009:69). Information about the organisation's performance objectives and standards must be designed to address the specific context and requirements of the users. Specialist functions like sales, finance and production in particular have to learn how to shape information to empower people. The information should measure their performance against benchmarks in no uncertain terms, preferably understandable at a glance. The information should also be able to excite all the employees in the organisation to action, compelling them to initiate measures to enhance their performance.

4.3.2 DEFINING THE CONSEQUENCES FOR NON-PERFORMANCE

The thriving 21st century workplace is far-removed from Siberian labour camp autocracy, but it is also not a free-love commune (Nel & Beudeker, 2009). Often

leaders equate inclusiveness, participation and transparency with disorder, or pseudo-humanist principles like self-realisation at any cost. Whilst actually liberating structure results in empowerment liberation does not mean a lack of structure.

To the contrary, a democratised workplace – as with a well-established democratic society – should run according to rules, regulations and prescriptive behaviours. The stability element of strategy can only be fulfilled if there is discipline. Everyone in the organisation must know the rules of the game, what is expected of them and that there will be consequences in the case of non-conformance. While not being vindictive or harsh, the leadership in the organisation will have to be assertive when enforcing these consequences. If they fail, the discipline, and credibility, of performance management processes will suffer.

4.3.3 MAKING THE VISION AND STRATEGY RELEVANT TO ALL THE OPERATIONAL AREAS

Translating vision and strategy into action is hard enough. Trying to understand the executive's exciting new vision, as well as the complexities of the larger competitive environment which gave shape to it, without any guidance, is even tougher, especially if you work in the operational levels.

This is one of the key reasons for the failure of two thirds of organisational strategies (Nel & Beudeker, 2009). Strategy is not explained to employees, and they are not empowered to align their own actions to the greater strategy. You have to interact with your people at operational levels - in person. They have to convey the larger challenges and environment within which the organisation operates. Your employees should be able to ask questions, raise concerns and make contributions, as well as receive the tools to measure and align their performances against your organisation's strategies.

Leaders have to see this as a personal accountability, and be committed to allocating adequate time to convey performance requirements. Leaders and managers often complain that they do not have the time to do this. This is

probably because they are so embroiled in work that should be done at more operational levels that they do not have the time to fulfil their own strategic accountabilities. In the absence of leadership, and those who fulfil the personal power of presence, people at more operational levels tend to lose direction, and their activities can detract from the larger strategic vision.

4.4 PERFORMANCE IN SOUTH AFRICAN BUSINESS ORGANISATIONS

In 1999, and again in 2003, Nel and Beudeker (2009) conducted nationwide research to establish the extent to which South African organisations have adopted new economy strategic leadership and organisational practices to enhance their performance. To achieve this they asked managers to rate the extent to which their organisations had transformed seven key organisational practices that in essence carry the DNA of their culture (see figure 4.1).

The 1999 study involved leaders from a broad variety of sectors including financial services, mining, FMCG (fast moving consumer goods), retail, manufacturing (both light and heavy), and both long-term and short-term insurance industries. These organisations were asked to rate their organisation's practices against a range of old versus new economy practices. To do this the following steps were taken:

- They conducted an international research survey of established best practices that were proven to enhance the sustainable competitiveness and performance of organisations.
- They also reviewed the literature on leadership practices that were shown to enhance the performance of individuals, teams and organisations.
- They then defined seven clusters (see Figure 4.1) in terms of old economy practices that undermine competitiveness and performance, and new economy practices that enhance sustainable competitiveness of organisations. In other words, they created a framework of polarities that enabled participants to rate the extent to

which old versus new economy practices were prevalent in their organisations (Nel & Beudeker, 2009).

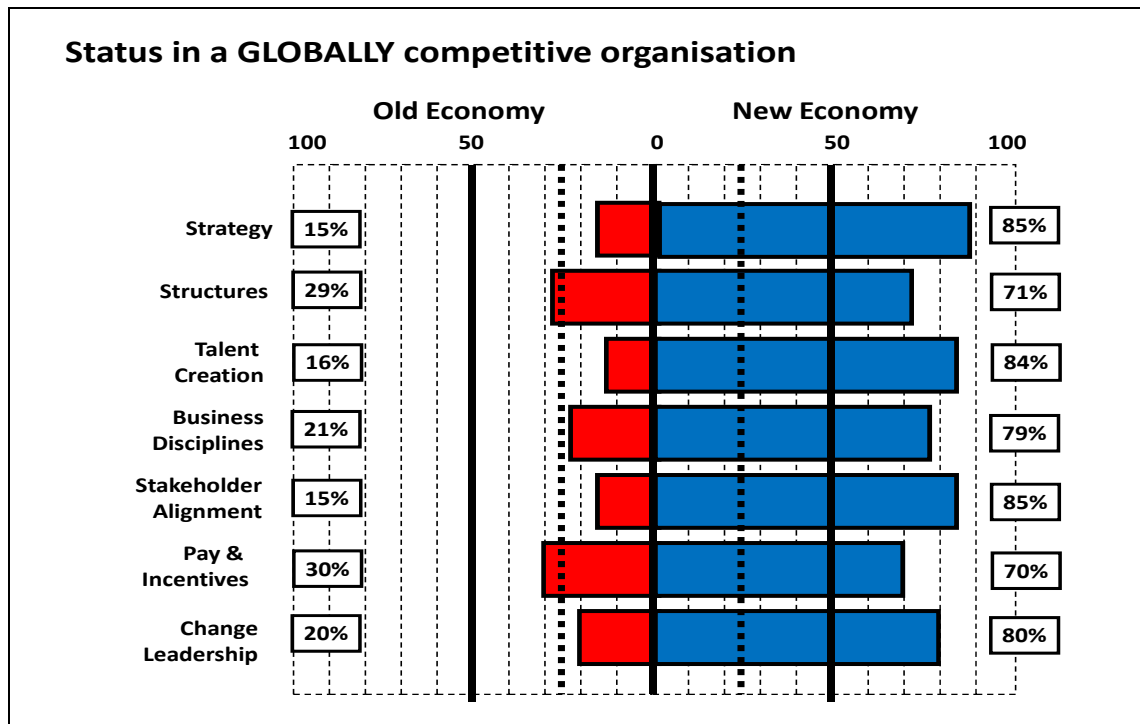


Figure 4.1: The status of leadership practices in international organisations – 2003

Source: Nel (2008:156)

In Figure 4.1 above, the status of international organisations in 2003 is illustrated (see Nel, 2008: 156). It is clear that high performance new economy leadership practices are already part of the international organisations. The results in South Africa were, however, significantly different. The vast majority of South African organisations still clearly relied on old economy practices, as seen in Nel (2008), Figure 4.2 below, with scant exceptions. Both strategy and change leadership were areas in which South African organisations did not do well.

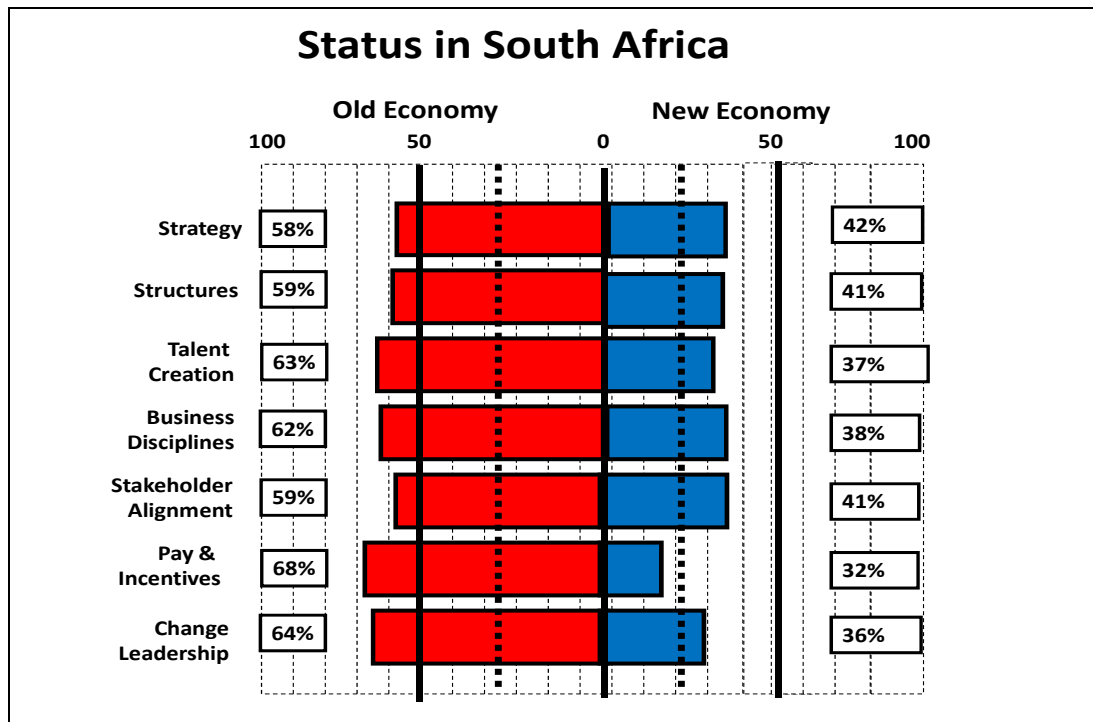


Figure 4.2: The status of leadership practices in South African organisations – 2003

Source: Nel (2008:157)

Not surprisingly, the “best-in-class” organisation was South Africa’s most globally competitive organisation, South African Breweries Limited (SAB). As illustrated below in Figure 4.3, SAB is head and shoulders above the average (Nel & Beudeker, 2009).

As SAB demonstrates, organisations and their leaders need to target achieving well into the 70 percent mark on the new economy side of the graph to ensure that it can rely on its culture to contribute significantly to sustainable competitiveness and performance.

SAB also successfully encouraged their employees to translate their success as well as each of the operation’s business targets – budget, operational, delivery and productivity aims etc. – into personal goals. The employees, therefore, have the opportunity to participate directly in setting these targets for their own

activities. They are now aware of SAB's growth and success and do not just frequently celebrate these successes, but are also prepared and allowed to provide significant input towards the viability of the future goals.

With the above in mind, the initial focus in SAB was transformed from “change leadership” to “high performance strategic leadership” (see Nel & Beudeker, 2009: 155). Leading change is not enough in SAB. Transformation has to be accompanied by disciplined professional interventions by the leadership. SAB was therefore geared towards an environment of change so that they could use it as an opportunity to perform as confirmed in Nel & Beudeker (2009), Figure: 4.3 below.

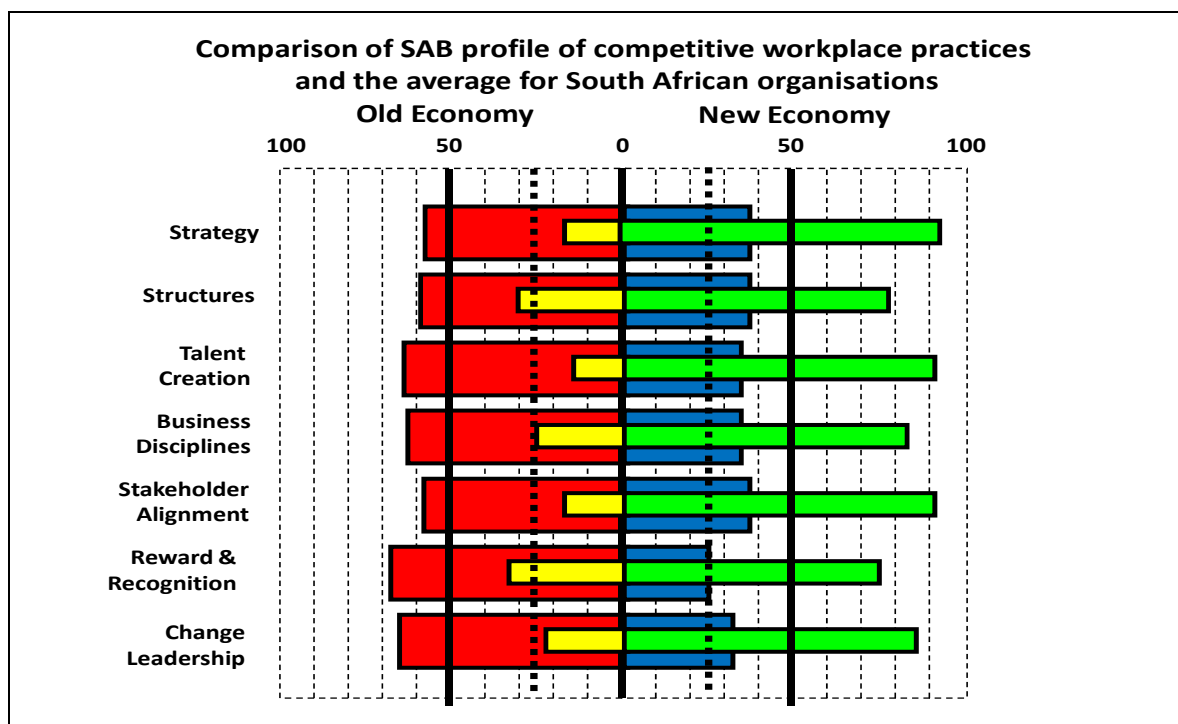


Figure 4.3: Comparison of SAB profile (green and yellow) of competitive workplace practices and average of South African organisations – 2003

Source: Nel & Beudeker (2009:13)

The research was repeated in 2008 (Nel and Beudeker, 2009). This time they focused on currently employed individuals with a masters degree in business administration (MBA). They wanted to get an idea of the perceptions of middle to senior managers who had undergone advanced managerial education. The

results were somewhat better, but nothing to get happy about. As illustrated in Figure 4.4, middle to senior managers with MBAs still felt that their organisations were halfway between the old and the new economy. So, while people at these levels felt somewhat more optimistic, they still indicated that they believed their own organisations had not yet managed to entrench a sustainable high performance and new economy culture (Nel & Beudeker, 2009).

The research conducted in 2008 amongst currently employed staff with MBAs shows that smaller organisations are marginally better than others, with medium size organisations faring the worst. In follow up focus groups one of the primary reasons that emerged is that the smaller enterprises, with less than 50 people, had managed to retain more informal, interactive, and often personalised relationships. Medium sized enterprises with between 50 and 500 people were often struggling to come to grips with the complexities of managing larger work forces, and had not yet invested in establishing the disciplines and practices that drove a high performance and new economy culture. Large organisations with more than 500 people fared marginally better, but it appears that the legacy of the old economy is still very pervasive. This study (Section 6.2.2) has confirmed the above view that the size of an organisation had no significant impact on the strategic leadership performance of the sample organisations.

Since 2003, Nel and Beudeker (2009) have been involved with several dozen organisations who have evaluated the status of their culture and related leadership practices to enhance organisational performance. The data base at the end of 2005 contained more than 25 000 assessments. The good news is that several South African organisations have been capable of making exceptional progress within one to two years. This progress in entrenching a new economy leadership cultures has been accompanied by, amongst other indicators, the following:

- Significant improvements in employee morale and employee satisfaction surveys;
- Improvements in attraction and retention of talent;
- Great financial results (ROA and EPS);

- Share price growth;
- Brand reputation; and
- Public reputation for having good leadership in place.

This progress is in line with the growing body of international evidence (Boal & Hooiberg, 2001; Breene & Nunes, 2006) that strategic leadership and culture are primary drivers of sustainable competitiveness. But, as Nel and Beudeker (2009:14) indicated, “it is still much too early to declare the victory of the new economy”. All leaders and organisations are still caught in the vortex and need to learn how to transform themselves to gain a sustainable competitive advantage and high performance!

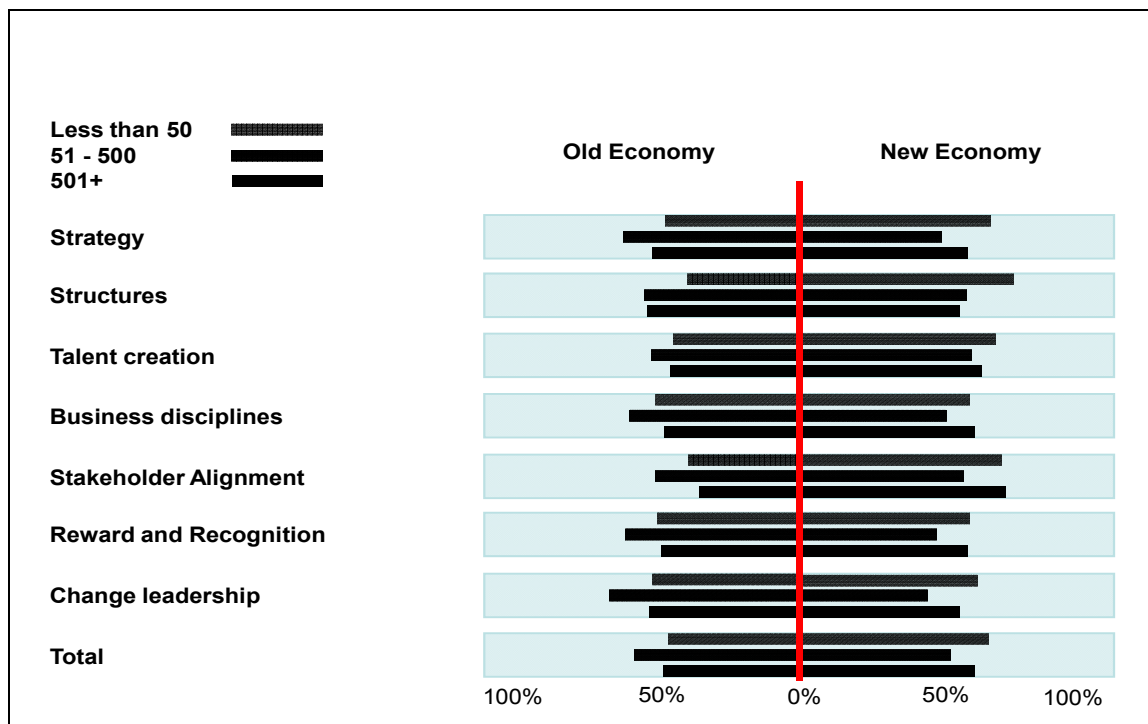


Figure 4.4 Comparison of organisation by number of employees: currently employed MBA's, 2008

Source: Nel & Beudeker (2009:14)

In this section of this chapter, this exciting, but still poorly mapped, territory of the strategic leadership elements of the new economy that are critical in the performance of South African business organisations has been explored.

4.5 SUMMARY

To be a high performer, an organisation must survive and thrive across economic and market disruptions. The focus of this chapter were on the attributes of high performing organisations and the strategies that they employ to maintain high performance and the critical success factors that their leadership employs to achieve these outstanding results.

There is a definite relationship among the leadership's characteristics, an organisation's strategies, and its performance. When the board of directors and the leadership in the organisation are involved in shaping an organisation's direction, the organisation generally improves its performance (Ireland & Hitt, 2002). A critical element of strategic leadership and organisational performance, is the ability of leadership to manage and utilise the organisation's resource portfolio. This includes integrating resources to create capabilities and leveraging those capabilities through strategies to build competitive advantages and high performance. As indicated in this chapter, perhaps the most important resources are human capital and social capital.

South African business organisations have made good progress from 1999 to 2003 by implementing high performance strategic leadership practices, "but nothing to be happy about" (Nel & Beudeker, 2009:17).

The rest of this study will focus on the empirical research about the impact of strategic leadership on the operational strategy and performance in South African business organisations as published in the Financial Mail of 2009.

CHAPTER 5

RESEARCH METHODOLOGY

5.1 INTRODUCTION

As discussed in the literature review of this dissertation, and detailed in Chapters 3 and 4, the main objective of this study is to determine how strategic leadership impact on the operational strategy and performance of business organisations in South Africa. Essentially this study will, therefore, test the propositions that strategic leadership is positively associated with operational strategy as well as financial and self reported organisational performance.

The secondary aims of this dissertation are to establish:

- The positive link between strategic leadership and operational strategy;
- That effective leadership practices could help South African business organisations to enhance performance, while competing in turbulent and unpredictable environments; and
- That strategic leadership is directly and positively associated with organisational performance.

In order to address the above objectives, a structured research methodology was followed. As Welman and Kruger (2002:2) state: "Research involves the application of various objective methods and techniques to create scientifically obtained knowledge". This view explicitly requires that a research project should be well designed and unbiased to achieve the goal of the study. Perry (1998:76-79) concurs and recommends that research methodology chapters should be written in such a manner that another "research knowledgeable colleague" should

be able to replicate the research. Additionally the writer needs to provide sufficient detail to supply evidence of his or her knowledge regarding the methodology, procedures underlying assumptions and reasons for the relevant choices made. The methodology needs to be justified and not merely described.

In order to fulfill these requirements, the aim of this chapter is to restate the research problem; to formulate hypotheses; to explain the research design and data collection process; and data analysis conducted in Chapter 6. Finally, the reliability and validity of the measurement instrument is discussed in order to successfully assess a model of the impact of strategic leadership on the operational strategy and organisational performance of South African business organisations.

5.2 RESEARCH PROBLEM AND HYPOTHESES

A research objective provides a broad indication of what a researcher wishes to achieve in the research study. The definition of the research problem is of considerable importance since it guides subsequent actions. As stated in Chapter 1(Section 1.6.1), the ***purpose*** of the study is ***to identify a number of possible ways of how strategic leadership may influence the operational strategy and organisational performance of business organisations in South Africa.***

When a proposition is formulated as a statement for empirical testing or assessment, it is referred to as a hypothesis. According to Terre Blance and Durheim (2002:117) and Sekaran (1992:72), hypotheses are educated guesses about a solution to a problem, or expectations about groups in a population expressed in empirical testing. The nature of a hypothesis is tentative and conjectural. The functions of hypotheses are to provide a framework for and give direction to the study. Additionally, hypotheses create certain boundaries or limits within which a problem could be examined.

Key terms in the study, such as strategic leadership, strategy, organisational performance and operational strategy are defined in Chapter 1 and critically analysed and discussed in subsequent chapters. From this perspective, as

indicated in Section 1.4.1 of Chapter 1, strategic leadership can be seen as a competency that is creating capabilities within an organisation by the acquisition, recombination and renewal of these activities and resources (Eisenhardt *et al.*, 2000; Miller, Eisenstat, & Foote, 2002). In Chapter 6, relating to empirical research, the following underlying hypotheses will be assessed.

Hypothesis 1:

Strategic leadership is directly and positively associated with operational strategy.

Hypothesis 2:

Strategic leadership is directly and positively associated with organisational performance.

These hypotheses are empirically assessed in Chapter 6, according to the research design set out below.

5.3 RESEARCH DESIGN

According to Malhotra (2004:86), a research design is a framework or a detailed blueprint to guide a research project towards its objectives. Babbie and Mouton (2003:97-98) advise that although research design occurs at the beginning of a research project, it involves all the steps of the subsequent project.

As a number of authors (Tull & Hawkins, 1993:51-179; Saunders *et al.*, 1997:72-273; Hair *et al.*, 2000:34-44; Welman & Kruger, 2002:32-170) have proposed, the methodology section addresses the following decision stages: the type of study, the target population and sample, the data collection method, the research instruments used and how the collected data are analysed. Figure 5.1 depicts the components of the research design and illustrates how these components are discussed in the chapter, starting with the introduction; research problem and hypotheses; the research design stages; data collection and analysis; and reliability and validity issues, followed by the summary.

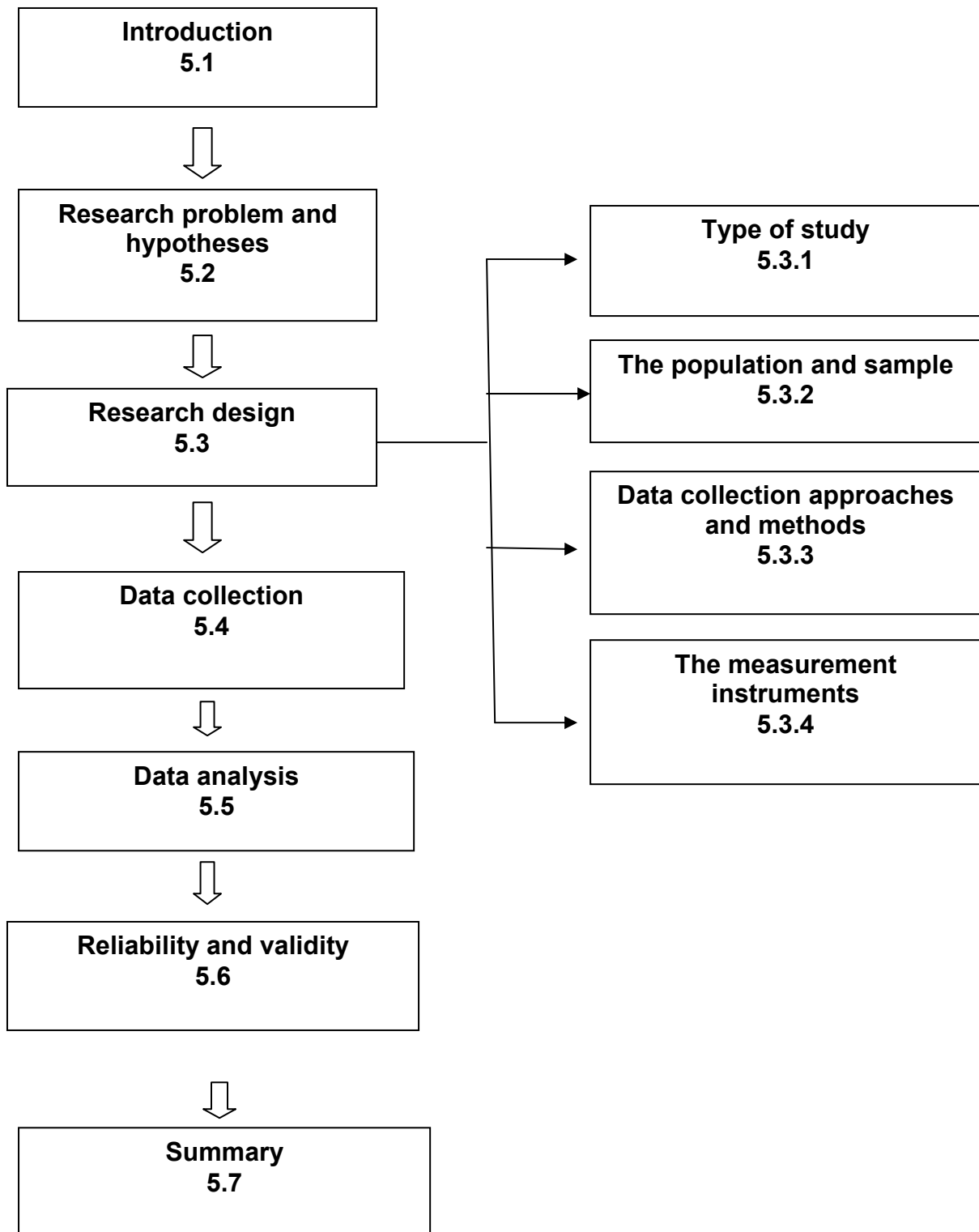


Figure 5.1: A graphical representation of the structure and layout of the chapter on research methodology

5.3.1 TYPE OF STUDY

This study was an exploratory and descriptive study of the impact of strategic leadership on operational strategy and performance of business organisations in South Africa. A cross sectional survey was used to determine what the impact is of strategic leadership in South African business organisations. A survey design allows for the collection of a large volume of data from a sizable population in a highly economical way. Mail surveys in particular can be used to collect data from a substantial number of geographically dispersed respondents. However, a common problem relating to mail surveys is the low response rate (Tull & Hawkins, 1993: 188) and, therefore, it was decided to conduct a series of telephone surveys. These interviews were conducted after identifying the key informant in each organisation, as discussed in the next section.

5.3.2 THE POPULATION AND SAMPLE

A sample is the total collection of elements about which inferences are to be made (Cooper & Schindler, 2006: 164). A research frame refers to all the elements from which information may be gleaned to solve the research problem (McDaniel & Gates, 2001: 328). The sample selected for this study was listed South African organisations that are part of the 200 top performing organisations in South Africa as published in the Financial Mail survey of 2008 (*Financial Mail*, 2009). These organisations represent all sectors of business and the performance of these organisations was measured over a 5 year period to ensure consistency in their performance. All the organisations in the population were contacted.

The key informant (respondent) was typically the CEO (chief executive officer) or a member of the senior executive group. These individuals have been targeted in the study as key informants. Their responsibilities and position in their organisations give them a unique and comprehensive view of strategic leadership activities. Zahra (1991:206) argues that CEOs and directors responsible for strategy formulation and implementation, are familiar with the organisation's environment, strategy and structure and are able to see their organisation "holistically". As the top ranking individual, responsible for strategic direction in an

organisation they are often called upon to evaluate major new ventures, to approve financial support for projects and are involved in evaluating ongoing activities.

A total of 118 (59%) valid responses (of the sample) were received. This response rate was very good when compared to similar studies. In a series of surveys of Fortune 1000 companies in 1990, 1993 and 1996 the Center for Effective Organisations had response rates of 32, 28 and 22 percent (Lawler, Albers Mohrman, & Ledford, 1998).

The organisations in the sample represented all major industry groups. Financial and industry performance information (ROA and EPS) has been used from the Financial Mail survey of 2008.

The revenue for organisations in the sample has been in the range from approximately 1 million rands to over 15 billion rands. It is important to note that, given the size of these organisations by revenue and tangible assets, the following discussion of strategic leadership relates to large South African organisations only. All organisations in the sample were classified as the 200 top performers of 2008 in South Africa (*Financial Mail*, 2009).

Other study sample lists that were considered included the Decision Maker Database. The cost was prohibitive and since it is used for commercial purposes it may not provide a representative picture of the study population.

The sample frame was available from the Financial Mail publication of 2008. All the companies listed as the 200 Top Performers of 2008 have been used in this study.

5.3.3 DATA COLLECTION APPROACHES AND METHODS

A variety of data collection methods could be used to collect data, such as observation, testing, analysis of secondary texts and surveys (Mouton 2001:105). As mentioned earlier, the researcher decided to use telephone surveys, since they

allow for the collection of a large volume of data from a sizable population in a highly economical way.

Three methods may be used to collect data in surveys, namely a mail (self-administered) questionnaire, a personal face-to-face interview and a telephone interview (Malhotra, 2004: 199; Babbie & Mouton, 2003: 262-264). Each of these methods has its strengths and drawbacks, which need to be considered in relation to the goal of the study. These methods are compared and summarised in Table 5.1.

Self-administered (mail) questionnaires are only an option when the population being surveyed is literate and has recognisable addresses. Self-administered questionnaires are generally economical (needing limited resources in terms of cost and staff) and quicker to complete than face-to-face interviews, as indicated in Table 5.1. However, respondents are sometimes reluctant to report what they may consider as confidential information, for example, certain company procedures or company culture. Alternatively respondents may omit answering certain questions if they face some hurdle in recalling certain details, such as: "Within our organisation, all employees know how their individual efforts contribute to organisational success". For these reasons incomplete questionnaires create "non-response errors" for the researcher. Additionally, response rates for corporate surveys are relatively low, typically in the range of 10 to 30 percent (Welman & Kruger, 2002: 178; Dillman & Dillman, 2000). Therefore, self-administered mail surveys were ruled out as a data collection method.

Table 5.1: Comparison of the strengths and drawbacks of the three primary survey data collection methods

| Type | Strengths | Drawbacks |
|--|--|--|
| Self-administered electronic questionnaire (email) | <ul style="list-style-type: none"> • Economical to collect large amounts of data • Ease of administration • Relatively short time to collect data | <ul style="list-style-type: none"> • Sample must be literate • Recognizable email addresses • Respondents reluctant to report sensitive information • Incomplete questionnaires • Low response rates • Wrong email addresses |
| Face-to-face interviews | <ul style="list-style-type: none"> • Higher number of completed questionnaires • Effective for sensitive or complicated questions • Appropriate respondent can easily be identified | <ul style="list-style-type: none"> • High cost per questionnaire • Trained interviewers • Large number of staff to administer • Long time to complete questionnaire |
| Telephone interviews | <ul style="list-style-type: none"> • In comparison to face-to-face interviews: • Lower cost • Quicker • Safer in high crime areas | <ul style="list-style-type: none"> • Biased towards those respondents who have phone numbers |

Source: Babbie & Mouton (2003: 262)

As indicated in Table 5.1, face-to-face interviews offer a number of advantages. They produce fewer incomplete questionnaires, the correct respondent can more easily be identified, the question may be clarified and it is a more effective method than self-administered questionnaires for collecting “confidential” information. Additionally, interviewers are able to make important observations based on the quality of the interaction – whether the respondent had difficulty in answering

certain questions, whether it was hostile, and so forth. On the other hand, face-to-face interviews are very costly and require intensive monetary and non-monetary resources. Interviews are also very time-consuming.

The major strengths of telephone interviews are savings in time and money and the reduction of the potential for bias, as compared with personal interviews, reflected in Table 5.1. However, a critical limitation of the telephone interview relates to the limited volume of data that can be obtained, because it is normally shorter than a personal interview (Welman & Kruger, 2002: 159). Nevertheless, telephone interviews, especially in a corporate context, can be efficient for, firstly, identifying the correct respondent and secondly reaching respondents via a mobile telephone, even when they are not in the office. In this study it was decided to use telephone interviews, considering the research problem, type of population and resources. Another key advantage considered was that responses could be captured electronically while the interview was being conducted. The measurement instrument was adapted to be suitable for telephone interviews.

Data collection in this study is detailed in Figure 5.2. Firstly the measurement instrument was pre-tested in a pilot study, modified and administered to the population. Knight (1997) recommends that all measurement instruments should be cross-culturally validated. Secondly, the data was collected from the population after which it was administered

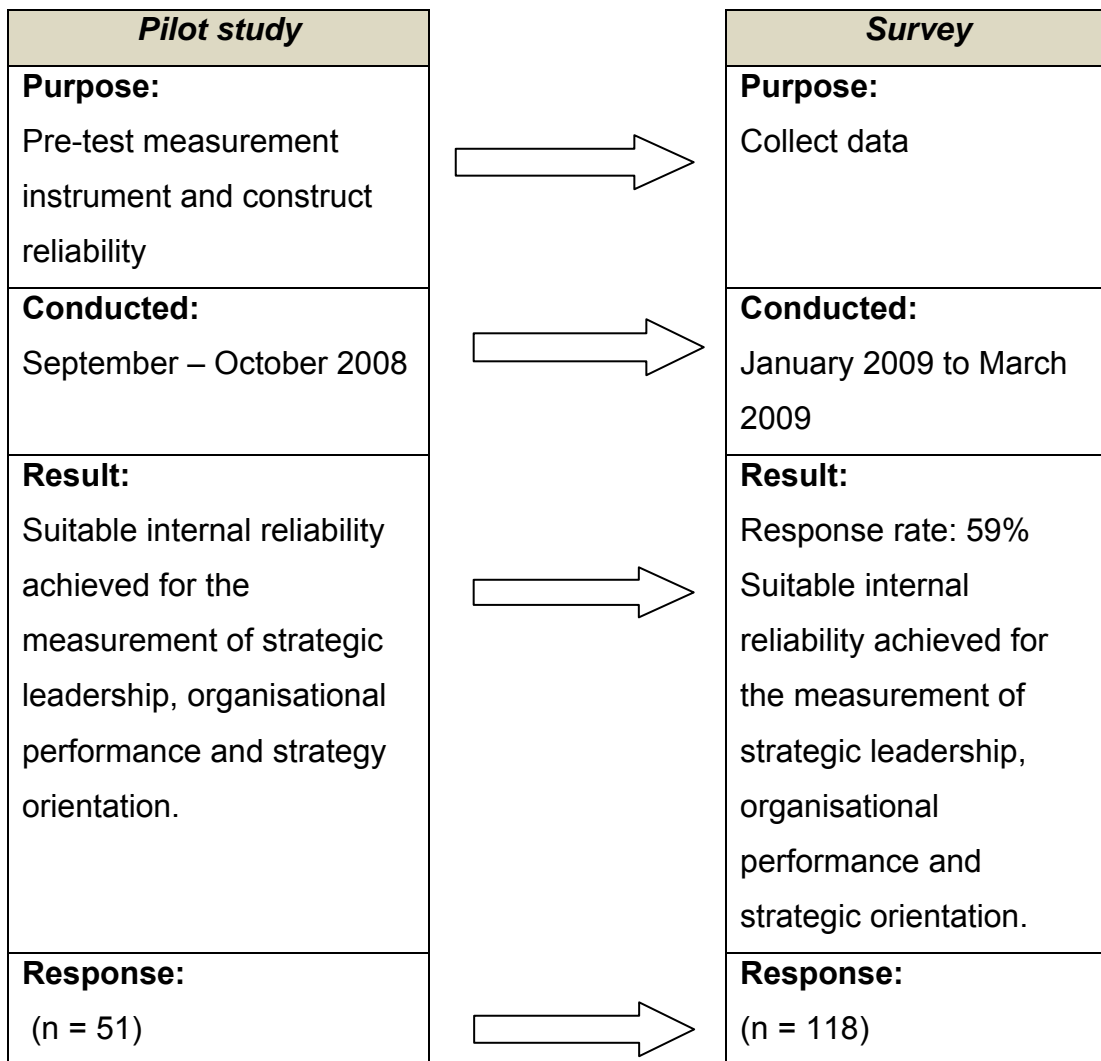


Figure 5.2: Illustration of the purpose, duration, results and data collection.

5.3.4 THE MEASUREMENT INSTRUMENT

The measurement instrument⁸ was developed to assess impact of strategic leadership on the operational strategy and performance of business organisations in South Africa. In order to ensure the validity and reliability of the measurement instrument, it was essential to define the key variables accurately and clearly. From this purpose, items from existing measuring instruments that had proved to be reliable and valid in previous research studies were used where possible. These items were enhanced by questions formulated by the researcher (based on

⁸ In this study the terms measurement instrument, measuring instrument and questionnaire are used interchangeably.

the literature) to ensure that each variable in the measurement instrument was represented at least three times. (Refer to Table 5.2 for main variables assessed).

5.3.4.1 Scales of measurement

Four scales of measurement can be used when designing a questionnaire: nominal, ordinal, interval and ratio. The measurement scales used to measure company characteristics, strategic leadership, organisational performance, operational excellence and strategy orientation were as follows:

Nominal scale: A nominal scale uses numbers to identify and categorise objects or events (Babbie & Mouton, 2003:131). This type of scale was used to record data regarding the sample group.

Ordinal scale: In an ordinal scale the relative position of items on a characteristic can be indicated, but not the magnitude of the difference between positions (Tull & Hawkins, 1993:307). This type of scale was used to measure constructs such as organisation size and age.

Interval scale: In an interval scale, items can be ranked such that numerically equal distances on the scale represent equal distances in the property being measured. However, both the zero point and the unit of measurement are arbitrary (Tull & Hawkins, 1993:307). This type of scale was used to measure constructs such as action, coherence and discipline as part of strategic leadership as well as organisational performance, operational excellence and strategy orientation, for which summated scores were used.

During the design of the questionnaire, attention was given to the wording of questions. The latter needed to be clear, simple and easy for the respondents to understand, especially since data were collected using telephone interviews (Babbie & Mouton, 2003:258). Table 5.2 provides a summary of the questionnaire used in the study, the items measured and the relevance measurement scale used, detailed in Appendix 2.

Table 5.2: Summary of the variables, type of questions, purpose, question numbers and scales used in the questionnaire

| Questions | Purpose, appendix and question number | Scale |
|---|--|--------------|
| Organisational characteristics | | |
| Annual turnover | Annual Turnover App ⁹ 2: Q A1 | Ordinal |
| Company size in terms of number of permanent employees | Size App 2: Q A2 | Ordinal |
| Financial performance of company as published by the Financial Mail survey of 2008 | Financial performance (ROA & EPS) | Nominal |
| Strategic leadership | | |
| Questions are meant to identify the executive's strategic direction as well as exploiting the core competencies | Action App 2: Q B1 (a); Q B1 (b); Q B1 (c); Q D1 (g) | Interval |
| Emphasis on ethical practices, developing human capital as well as maintaining core competencies | Coherence App 2: Q B1 (d); Q D1 (a); Q D1 (d) | Interval |
| Establishing strategic controls and sustain effective corporate culture | Discipline App 2: Q B1 (e); Q B1 (f); Q B1 (g); Q D1 (e); Q D1 (f) | Interval |
| Self reported organisational performance | | |
| Measuring the ability of the leadership in the organisation to adapt to a changing environment | Adaptive leadership App 2: Q C1 (c); Q C1 (f); B2 (c) | Interval |

⁹ App is used as an abbreviation for Appendix in Table 5.2.

| | | |
|---|---|----------|
| Ability of the organisation to communicate the vision and strategy to all the employees | Communication App 2: Q C1 (b); Q C1 (d); Q C1 (e) | Interval |
| Decision-making authority and responsibility of employees regarding tasks, mistakes and freedom to use initiative | Autonomy App 2: Q B2 (a); Q B2 (b); Q D1 (l) | Interval |
| The way the organisation manages knowledge and skills | Knowledge App 2: Q D1 (h); Q D1 (k); Q D1 (m) | Interval |
| Processes, policies and procedures referring to approval of documentation, rules and performance criteria | Process and systems App 2: Q D2 (a); Q C4 (a); Q D1 (i) Q D2 (b) | Interval |
| Values and organisational norms | Values App 2: Q D1 (b); Q D1 (c) Q D1 (n) | Interval |
| Operational excellence | | |
| Ability to manage costs in the organisation in order to ensure operational effectiveness | Cost management Q C4 (b); Q C4 (g); Q C4 (h) | Interval |
| Developing better products faster and reducing defects in products | Product differentiation Q C4 (c); Q C4 (d) Q C4 (e); Q C4 (f) | Interval |
| Ability of organisation to effectively integrate and align the functional areas | Integration Q C3 (a); Q C2 (c); Q C3 (c); Q C3 (d) | Interval |
| Strategy orientation | | |
| The effective creation and formulation of the strategic process | Creation and formulation of the strategy App 2: Q C1 (a); Q C2 (a); Q C2 (b) | Interval |
| The way the organisation executes and implements the strategic decision practices | Execution of strategy Q C3(b); Q C1 (g); Q D1 (j) | Interval |

5.3.4.2 Operationalising the variables

As explained, items of existing measurement instruments were combined, expanded, adapted or reduced as required to achieve the goals of the study, taking the prerequisites of validity and reliability into account. The measurement instrument needed to measure:

- Strategic leadership (independent variable)
 - Action
 - Coherence
 - Discipline

- Strategy orientation (dependent variable)
 - Strategy creation and formulation
 - Strategy execution

- Operational excellence (dependent variable)
 - Cost management
 - Product differentiation
 - Integration

- Organisational performance (dependent variable)
 - ROA
 - EPS
 - Self reported performance

(a) Independent variable: Strategic leadership

As discussed in Chapter 3, Fujimoto (1998) suggests that since competitive performance and capabilities change over time it is possible to distinguish three levels of an organisation's capability. The first level is *static* capability, which affects the level of performance. The second level is *improvement* capability, which affects the pace of performance through problem solving and learning. The third level is an *evolutionary* capability and it affects the

organisation's ability to take action. Strategic leadership is the capability that co-ordinates the maintenance and development of these three capabilities.

Using Fujimoto's (1998) framework, the six components of the Hitt, Ireland & Hoskisson (2007) model, can be re-conceptualised as three interrelated constructs and can be briefly reviewed as follows:

- **Action:** can be defined as the component of strategic leadership that determines strategic direction and exploits core competencies.
- **Coherence:** is the component that maintains core competencies, develops human capital and emphasises ethical practices.
- **Discipline:** can be defined as the component of strategic leadership that involves establishing strategic controls and sustaining an effective corporate culture.

Samson and Challis (Samson, 1999a; Samson & Challis, 1999b) developed an integrated model that explored the relationship between strategic leadership principles and organisational financial performance. Samson & Challis's (1999a; 1999b) initial framework was extended and refined to better illustrate a resource-capability perspective. They were initially trailed with 101 MBA students and the expected 3 factor structure was produced. The strategic leadership scale was then tested on the study sample.

All data was analysed using SPSS 14 and AMOS 5. Since the strategic leadership scale was based on a priori structure, confirmatory factor analysis (CFA) was conducted on each subscale and the full scale was treated as a second order factor. This is consistent with the theoretical three-factor measurement model proposed. To test the adequacy of the CFA models, a range of Goodness-of-Fit Indexes are used (Schumacher & Lomax, 1996). The CFAs are presented in Table 5.3. An examination of the goodness-to-fit indexes for each subscale and the total scale as a second order factor suggest that a three-factor structure seems to be an acceptable structure for the strategic leadership scale.

Table 5.3: Confirmatory Factor Analysis (CFA) of the Strategic Leadership Scale

| Scale Component | CFI¹⁰ | NFI | GFI | AGFI | RMR | RMSEA |
|-----------------------------|-------------------------|--------------|--------------|--------------|--------------|--------------|
| Action | 0.990 | 0.964 | 0.995 | 0.076 | 0.036 | 0.035 |
| Coherence | 0.991 | 0.981 | 0.986 | 0.953 | 0.037 | 0.052 |
| Discipline | 0.991 | 0.977 | 0.986 | 0.959 | 0.052 | 0.047 |
| Strategic Leadership | 0.992 | 0.949 | 0.962 | 0.928 | 0.055 | 0.026 |

Source: Samson & Challis (1999a; 1999b)

(b) Company characteristics

Company characteristics that were measured included the sample group into which companies could be categorised, i.e. Top 200 performing JSE listed companies as published in the Financial Mail survey of 2008. The size of the company was measured by the number of permanent employees in their South African operations.

(c) The dependent variables

Operational strategy and self reported performance measures are dependent variables which influence organisational performance.

- **Strategy orientation**

To measure the competitive strategy in the sample companies, two scales were developed based on Treacy and Wiersema's (1995) strategy model, namely the creation and formulation of strategy and the execution of the strategy. Organisations were asked "To what extent do the following statements best describe their workplace's competitive strategy?"

¹⁰ The abbreviations in Table 5.3 represent the following: CFI = Comparative fit index, NFI = Normed fit index, GFI = Joreskog goodness to fit index, AGFI = Adjusted Joreskog goodness to fit index, RMR = Root mean square, RMSEA = Root mean square error of approximation.

- **Creation and formulation of strategy:** The ability of the organisation to create and formulate a competitive strategy.
 - **Execution of the strategy:** Many organisations have the ability to create and formulate a very good strategy, but they do not have the ability to execute the strategy.
- **Operational excellence**

Porter (1996) argues that operational excellence can be seen as a particular type of cost-management positioning. He also states that organisations can only attain a competitive advantage and earn superior returns if they pursue a dedicated positioning strategy. Tracy and Wiersema (1995) include more than just cost-management as operational effectiveness. They refer to practices that allow a company to better utilise its inputs by developing better products faster and reducing defects in products. The effective integration of functional areas is also a key factor for operational effectiveness and offers different advantages in successful management of industry change (Kaplan & Norton, 2004).

- **Cost management:** Ability of the organisation to manage costs in order to ensure operational effectiveness.
 - **Product differentiation:** Developing better products faster and reducing defects in productions.
 - **Integration:** Ability of organisation to effectively integrate and align the functional areas in order to successfully manage industry change.
- **Self reported performance measures**

As stated in Chapter 1 (Section 1.6.5), there are some concerns for researchers using self reported performance measures (see Rosenzweig, 2007). It is, however, still widely used by many researchers to measure the performance of organisations. In this study self reported performance measures refer to aspects such as adaptive leadership, communication, culture, systems, structures,

processes, people and values. Adaptive leadership includes vision, strategic orientation of the organisation; commitment and organisational support for strategic leadership (see Lumpkin & Dess, 1996; Morris & Kuratko, 2002). The importance of communication has also been highlighted by authors such as Goosen (2002); Antonic and Hisrich, (2001); and Zahra, (1991). Systems refer to reward systems, the control system such as budget and cost controls, as well as the planning systems and have been studied by authors such as Hornsby, *et al.* (1993); and Antonic and Hisrich (2001). The role of people in championing strategic leadership and their skills and competencies (see Morris, 1998; Goosen, 2002) is also a crucial factor. Finally, resource commitment (Hornsby, Kuratko & Montagno, 1999; Goosen, 2002; Covin & Slevin, 1991) is also needed to make strategic leadership possible.

- **Adaptive leadership:** As stated in Chapter 3 (Section 3.2.5), organisations today face huge adaptive leadership challenges (Heifetz & Laurie, 1997). Changes in future will engage organisations in new ways of operating. To motivate leaders to do adaptive work will be one of the greatest challenges in future.
- **Communication:** Refers to the way that the leadership communicates in the organisation with particular reference to their communication of the vision and strategy of the organisation (Goosen, 2002; Antonic and Hisrich, 2001; and Zahra, 1991)
- **Autonomy:** The decision-making authority and responsibility of employees regarding tasks, mistakes and freedom to use initiative (Hornsby, Kuratko & Montagno, 1999; Goosen, 2002; Covin & Slevin, 1991).
- **Processes and systems:** Processes, policies and procedures referring to approval and documentation, rules and performance criteria (Morris & Kuratko, 2002; Morris, 1998; Strategos Survey, 2004) also play an important role. Systems refer to reward systems, the control system such as budget and cost control, as well as the planning systems and

have been studied by authors such as Hornsby, *et al.* (1993); and Antonic and Hisrich (2001).

- **Knowledge:** The way the organisation manages knowledge and skills as well as the opportunity for staff to develop and grow (see Morris, 1998; Goosen, 2002).
- **Values:** The organisational culture, which refers to values and organisational norms (see Morris & Kuratko, 2002; Goosen, 2002; Covin & Slevin, 1991; Lumpkin & Dess, 1996) also influences internal factors in the strategic leadership process.

5.3.4.3 Pre-testing the questionnaire

Pre-testing the questionnaire is a critical activity that should be conducted prior to administering any but a completely routine questionnaire (Tull & Hawkins, 1993:361). The purpose of a pilot study is to ensure that respondents have no difficulties in answering the questions and that there will be no problems in recording the data (Saunders *et al.*, 1997). As other researchers (Tull & Hawkins, 1993:360-362); Welman & Kruger, 2002:141; Babbie & Mouton, 2003) suggest, the pilot study needs to determine:

- how long the questionnaire took to complete;
- the clarity of questions;
- which, if any, questions were unclear or ambiguous;
- which, if any, questions the respondents felt uneasy about answering;
- whether in their opinion there were any significant topic omissions;
- whether the layout was clear and attractive; and
- any other comments.

As shown in Figure 5.2, questionnaires were pre-tested in the pilot study, before the survey was administered. In the pilot study the questionnaire was tested by first presenting it to knowledgeable academics in the leadership and strategy fields and soliciting their input. The necessary changes were made and the questionnaire was then pre-tested in a pilot study with 51 respondents (senior managers of large organisations) that were part of the Senior Management

Development Programme (SMP) of the University of Stellenbosch Business School (USB). Based on the feedback from their respondents, adjustments were made to the final questionnaire. Changes made include the following:

Length of questionnaire: The questionnaire took between 15 and 20 minutes to complete. Most respondents as business people felt that their time is too valuable to spend this amount of time on the completion of the questionnaire. Attempts were therefore made to shorten the questionnaire where possible to prevent respondents' fatigue and to respect the time of executives.

Items that measured operational excellence: A number of respondents remarked that these questions were ambiguous and difficult to answer. Their suggestions were incorporated to reword and simplify these items.

The questionnaire was adapted and changed after the stage one pilot study, based on the feedback of respondents who participated in the pilot study.

5.4 DATA COLLECTION

At this stage of the research process, the survey methodology was implemented and interviewers collected the data. As shown in Figure 5.2, data collection took place in two stages (pilot study and survey). The data collection was outsourced to a professional organisation, specialising in telephone interviews and surveys (see Appendix 2).

Since the quality of the data collected using telephone questionnaires is affected by the competence¹¹ of the interviewer and organisation conducting the interviews, a step-wise *quality* control procedure was agreed upon beforehand. The steps followed were:

¹¹ "Competence" refers to the opening of the interview, using appropriate language, questioning, listening, testing and summarising understanding, behavioural cues and recording of data (Saunders *et al*, 1997:225).

1. The questionnaire was uploaded on a secure website and tested. Interviewers used this web-based interface to record the answers of respondents.
2. Where possible, respondents were contacted beforehand (by telephone) and 10-minute telephone appointments were made. With a view to enlisting the support of respondents, an introductory letter explaining the purpose of the research was also made available in a format (e-mail or fax) requested by the respondent.
3. During the telephone interview all answers and details, such as the date and time of call and whether or not the questionnaire was completed, were recorded electronically. If necessary, call-backs were arranged, for example if the call was disconnected or the respondent initially refused to participate.
4. If calls were unsuccessful or where there was no reply, the interviewer would try three times more, each at a different time and on a different day, and note the required information.

As indicated in Figure 5.2, telephone interviews took place from January 2009 to the end of March 2009. The purpose of this survey was to collect data from the sample to inform the research problem. Even though the interview progressed relatively smoothly, interviewers experienced a major challenge in that it was very time-consuming to identify and contact the correct respondent, since directors, CEOs and other executives were very busy, and were often in meetings or even overseas. Consequently, after attempts had been made to contact all the companies listed on the sample, 118 interviews were completed. Despite the difficulties, the response rate was 59 percent. The results of the survey yielded data which showed suitable reliability for the positive impact of strategic leadership on the performance and operational excellence of business organisations.

However, a number of problems were experienced during this survey with regard to the response rate of the original respondents. In Table 5.4 the responses and non-responses, as well as reasons, are summarised.

Table 5.4: Summary of the response results from the 200 respondents who participated in the survey

| Response result | Number | Percentage of original sample n = 200 |
|--------------------------------------|---------------|--|
| Completed surveys | 118 | 59% |
| Refusal to participate | 12 | 6% |
| Respondent requested call-back | 47 | 23.5% |
| Problem with telephone number | 9 | 4.5% |
| Company no longer existed | 0 | 0% |
| Original respondent left the company | 4 | 2% |
| Total | 200 | 100% |

Table 5.4 summarises various reasons for the low response rate in the response result column. The reasons were that 6 percent of the original respondents refused to participate; 23.5 percent kept requesting the survey company to phone them back, but never completed the survey; 4.5 percent of respondents' telephone numbers were out of order, 2 percent of the original respondents had left the company.

In this study, missing data values were encountered regarding some questions, such as a respondent not being aware of exactly what their organisation's ROA and EPS were. These values were left blank and the statistical program (Statistica 7.1) only used the data points where data were available to complete the relevant analysis. Therefore, statistical analysis could only be performed regarding those cases where all the data values were available.

5.5 DATA ANALYSIS

During this stage of the research process, data collected are converted into a format that can be used to inform the research problem. When data are processed, they need to be prepared and then analysed. Data preparation is the process of extracting data from questionnaires so that these can be read and manipulated by computer software. During data preparation the data are validated, edited, coded, entered and then cleaned (Hair *et al.*, 2000:499-501). In this study numerical responses were entered into an electronic spreadsheet file as respondents answered the questions. Interviews recorded responses online, using a web-based interface. Efforts were made to minimise errors by providing interviewers with a pro-forma web page, where they had to “click” on the correct alternative, thus capturing the data. These files were returned to the researcher when the surveys had been completed.

Since nominal, ordinal and interval data were used in the study, various descriptive and inferential statistical analyses could be performed. Table 5.5 indicates the applicable statistical test for the measurement scales used.

Table 5.5: A summary of the permissible descriptive and inferential relevant statistical tests used in the study on nominal, ordinal and interval scales

| Measurement scale | Permissible statistics | |
|-------------------|-----------------------------|--|
| | Descriptive statistics | Inferential statistics |
| Nominal scales | Mode | |
| Ordinal scales | Mean and standard deviation | |
| Interval scales | Mean and standard deviation | Confirmatory factor analysis Correlation analysis Spearman correlation coefficient |

As indicated in Table 5.5, researchers have two options when analysing data. Descriptive statistics are used to describe data, and inferential statistics are used to determine significance levels of relationships between independent and dependent variables. Descriptive statistics will be discussed in the next section, followed by inferential statistics.

5.5.1 DESCRIPTIVE STATISTICS

Descriptive statistics describe the characteristics of the respondents. As indicated in Table 5.5, descriptive statistics use means, modes, medians, and standard deviations to summarise the characteristics of large sets of data. In this study, the following descriptive statistics are used:

- **Mean:** A mean is the sum of the values for all observations of a variable divided by the number of observations. It measures the central tendency – in other words, the average response of respondents.
- **Standard deviation:** The standard deviation is the measure of average dispersion of the values in a set of responses around their mean.

5.5.2 INFERENCE STATISTICS

Correlation analysis, and the Spearman correlation coefficient were used to describe the relationship between the independent and dependent variables.

5.5.2.1 Correlation analysis

Correlation analysis refers to the degree to which changes in one variable are associated with changes in another (McDaniel & Gates, 2001:448). In other words, it determines whether a linear relationship exists between variables. The most frequently used measure of relationships is the Pearson product moment correlation (Hair, Black, Babin, Anderson & Tatham, 2006:530). This technique is normally used when two or more scales measure on an interval or ratio scale.

The Spearman correlation coefficient is used for ordinal data, and was used in this study for company characteristics such as organisation age and size.

The descriptive measure coefficient or correlation (r) is a measure of the degree of association between two variables and indicates the estimate extent to which the changes in one variable are associated with changes in the other on a range of +1.00 to -1.00. A correlation of +1.00 indicates a perfect positive relationship; a correlation of 0.00 indicates no relationship and a correlation of -1.00 a perfect negative relationship (Saunders *et al.*, 1993:321). As a rule of thumb, a correlation of -0.3 indicates a weak negative correlation between two variables, while -0.7 indicates a strong negative correlation. Similarly a correlation of +0.3 indicates a weak positive correlation and +0.7 a strong positive correlation. In the case of a positive correlation between two variables, a higher score on the variable tends to indicate a higher score on the other. If the correlation is negative, a higher score on one variable tends to indicate a lower score on the second variable (Saunders *et al.*, 1993:322).

In Section 6.4 correlations analysis and scatter-plots were used to assess the nature and strength of the relationship between the various dimensions, as hypothesised in Section 5.2. The probability statistic (p) was used to determine whether the correlations were statistically significant.

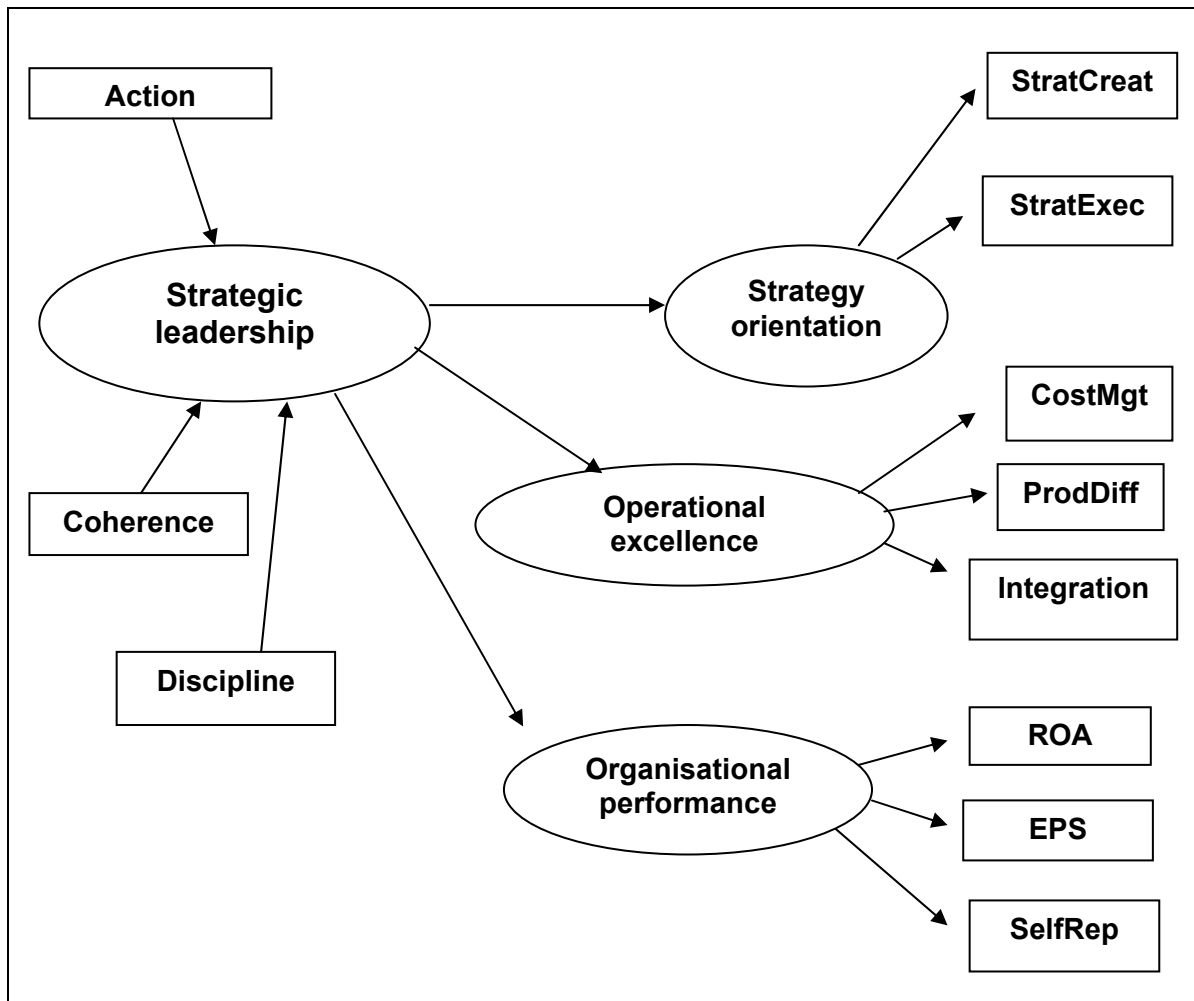


Figure 5.3: An illustration of the conceptual correlation model of strategic leadership, strategy orientation, operational excellence and organisational performance

Figure 5.3 illustrates the influence of strategic leadership re-conceptualised as three interrelated constructs of action, coherence and discipline as exogenous constructs. Endogenous constructs of strategy orientation, operational excellence and organisational performance are also displayed. Strategy orientation is measured by the ability to create a strategy (StratCreat) as well as to execute the strategy effectively (StratExec). Operational excellence is measured by cost management (CostMgt), product differentiation (ProdDiff) and integration (Integration). Finally, organisational performance is measured by ROA, EPS and self reported measurements (SelfRep). These hypothesised relationships are assessed and discussed in Chapter 6.

5.6 RELIABILITY AND VALIDITY

A measurement instrument needs to be evaluated applying three criteria: practicality, reliability and validity (Cooper & Schindler, 2006:210).

- Practicality is concerned with a wide range of factors, such as resource availability, cost-effectiveness, convenience and interpretability.
- Reliability is an assessment of the degree of consistency between multiple measurements of the same variable. It is, therefore, concerned with whether alternative measurements at different times would reveal similar information.
- Validity refers to the extent to which a measure or set of measures correctly represents the construct of the study. It is thus concerned with how well the construct is defined by the measure(s).

Variables differ in 'how well' they could be measured, i.e. how much measurable information their measurement scales is able to provide. There is some measurement error involved in every measurement, which determines the "amount of information" that can be obtained. Another factor that determines the amount of information that a variable may provide is its 'type of measurement scale'. According to Babbie and Mouton (2003:178), the data gathered in a research survey need to be reliable and valid if the survey results are to be credible. Although this is extremely important in any social research, Nueman (2003:178) argues that perfect reliability and validity are virtually impossible to achieve.

5.6.1 RELIABILITY

According to Welman and Kruger (2002:139) and McDaniel and Gates (2001:254), reliability refers to the consistency and stability of scores from a measurement scale, i.e. whether the results in the survey could be duplicated in similar surveys.

Reliability is said to be particularly important when latent variables are calculated from underlying item scales. Since these scales consist of a group of interrelated items designed to measure underlying constructs, it is important to establish whether the same set of items would be exactly the same responses if they were re-administered to the same sample group on more than one occasion. Variables derived from test instruments are only said to be reliable when it is clear that they elicit stable responses over multiple measurements of the instrument (Bearden & Netemeyer, 1999:158).

According to Bearden & Netemeyer (1999), there are several approaches for establishing reliability. These include the following:

- Equivalent from reliability is a character of measurement in which two instruments which is as similar as possible are used to measure the same object during the same test period. Parallel forms could be employed and results correlated. If a high correlation exists, then the instrument will have demonstrated equivalence.
- Internal consistency-reliability is a characteristic of measurement in which an instrument measures consistency among responses of a single respondent. Cronbach alpha coefficient is a measure used to determine the degree to which items (on the questionnaire) are homogeneous and reflect the same underlying constructs. The more items there are in a scale designed to measure a particular concept, the more reliable the measurement instrument will be.
- Test-retest reliability ensures consistent results with repeated measurements of the same person with the same instrument. The correlation between the first and second tests is then examined.

Internal-consistency reliability and test-retest reliability were used in this study and are discussed in the following section.

5.6.1.1 Internal consistency reliability in this study

Cronbach's alpha coefficient was used as a measure of internal consistency reliability of the scale used in this study. Cronbach's alpha is a measure of internal reliability for multi-item summated rating scales. Its values range between 0 and 1, where the higher the score, the more reliable the scale. Although Cronbach's alpha coefficient is a widely used measure of reliability, there is no fixed rule with regard to what score of reliability should be considered acceptable. Nunnally (1978) recommended that the minimally acceptable reliability for exploratory research should be in the range of 0.5 to 0.6, while higher values, such as 0.80, generally indicate that the measure is highly reliable (Sekaran, 1992:284, 287). Hair *et al.* (2006:137) continue to indicate that the value of alpha to be considered acceptable has to be related to the purpose of the research: lower scores are acceptable for exploratory research, but even then these scores should be used only as an indication rather than a test of reliability. Since this study is a case of exploratory research on the topics of the impact of strategic leadership on the performance of organisations in South Africa, a score of 0.5 or higher was considered to be an acceptable score of reliability.

a) Strategic leadership

In Section 5.3.4.2 of this study, using Fulimoto's (1998) framework, the six components of the Hitt, Ireland & Hoskisson (2007) model, the three interrelated constructs of *action*, *coherence* and *discipline* have been discussed. Samson and Challis (Samson, 1999a; Samson & Challis, 1999b) developed an integrated model that explored the relationship between strategic leadership principles and organisational performance and their framework was extended and refined to better illustrate a resource capability perspective.

The internal consistency of the scale of strategic leadership is shown in Table 5.6. The columns in the table show the various Cronbach alpha scores of the pilot study and the survey.

Table 5.6: A summary of Cronbach alpha coefficient values to determine the internal consistency of strategic leadership from the literature, pilot study and the survey

| Construct | Pilot study | Survey |
|------------|-------------|--------|
| Action | 0.82 | 0.77 |
| Coherence | 0.79 | 0.76 |
| Discipline | 0.61 | 0.75 |

The above Cronbach alpha scores for *action*, *coherence* and *discipline* were all higher than the threshold score of 0.5, which are higher than the minimally acceptable reliability for exploratory research as recommended by Nunnally (1978).

b) Operational strategy

The internal consistency for of the scale for operational strategy is reflected in Table 5.7. All the Cronbach's alpha scores are higher than minimally acceptable reliability as recommended by Nunnally (1978)

Table 5.7: A summary of Cronbach alpha coefficient values to determine the internal consistency of operational strategy from the pilot study as well as the survey

| Construct | Pilot study | Survey |
|--------------------------------------|-------------|--------|
| Cost management | 0.39 | 0.71 |
| Product differentiation | 0.81 | 0.87 |
| Integration | 0.77 | 0.72 |
| Creation and formulation of strategy | 0.68 | 0.76 |
| Execution of strategy | 0.83 | 0.66 |

c) Organisational performance

The internal consistency of the scale for organisational performance is reflected in Table 5.8. All the Cronbach alpha scores are higher than minimally acceptable reliability as recommended by Nunnally (1978).

Table 5.8: A summary of Cronbach alpha coefficient values to determine the internal consistency of organisational performance from the pilot study as well as the survey

| Construct | Pilot study | Survey |
|---------------------|-------------|--------|
| Adaptive leadership | 0.85 | 0.72 |
| Communication | 0.84 | 0.90 |
| Autonomy | 0.77 | 0.72 |
| Knowledge | 0.68 | 0.43 |
| Process & systems | 0.73 | 0.72 |
| Values | 0.76 | 0.77 |

5.6.2 VALIDITY

The extent to which a particular measure is: “free from both systematic and random error indicates the validity of the measure” (Tull & Hawkins, 1993:316). Validity could be defined as the extent to which differences in observed scale scores reflect true differences between objects on the characteristics being measured, rather than systematic or random error (Neuman, 2003:183). In other words, validity is the extent to which a set of measured items actually reflects the theoretical latent construct that those items are designed to measure (Hair *et al.*, 2006:724).

Validity is essential in confirming a measurement model. Multiple components of validity can be identified. These include the following (Neuman 2003:183-184, McDaniel & Gates 2001:259-260; Hair *et al.*, 2006:807-812).

- Convergent validity: If an instrument is measuring what it is supposed to measure, it should relate positively to other measures of the same construct, i.e. they all should be converging on the same trait or share a high proportion of variance in common. An instrument is said to have convergent validity if in numerous cases it is statistically shown that there is agreement on the rating (Statsoft, 2007). When using correlation analysis, several ways are available to estimate the relative amount of convergent validity among item measures, such as factor loadings, variance extracted estimates, and constructs reliabilities. Standardised factor loading estimates should ideally range from 0.5 to 0.7 or higher; the variance extracted should be 0.5 or greater and the construct reliability should be 0.7 or higher. All these indicators provide evidence of good convergent validity (Hair *et al.*, 2006:807-808).
- Discriminant validity is the extent to which a variable or construct is distinct from other variables or constructs. A test is to compare the variance extracted percentages for any two constructs with the square of the correlation estimate between these two constructs. The variance extracted should be greater than the squared correlation estimate (Hair *et al.*, 2006:808).
- Face validity is established when the measurement items are conceptually consistent with the definition of a variable, and this type of validity has to be established prior to any theoretical testing. At a basic level, face validity is established by developing measures from well-grounded theory (Antoncic & Hisrich, 2001).
- Nomological validity is supported to the extent that a construct relates to other constructs in a theoretically consistent way (Hair *et al.*, 2006:811-812).

5.6.2.1 Validity in this study

Pre-testing of a questionnaire can assist in determining construct validity, or the degree to which a measuring instrument measures what it is supposed to. In the present study the questionnaire was pre-tested with experts in the academic and business community and 51 students of the Senior Management Development

Programme (SMP) of the University of Stellenbosch Business School (USB). As indicated earlier, their comments led to adjustments to the questions in both stages of the research. The measurement instrument was pre-tested for content, criteria and construct validity. Instrument reliability and stability were also pre-tested. Special attention was given to order of questions, question content, and wording of questions. Pre-testing allowed for the identification and removal of problems.

Face validity was achieved through a thorough literature review and by developing and using theoretical definitions and validated measurement instruments. However, Ireland and Hitt (1999:42) suggested that: "Competition in the 21st century's global economy will be complex, challenging and filled with competitive opportunities and threats. They asserted that effective strategic leadership practices could help organisations enhance performance while competing in turbulent business environments". Thus, although strategic leadership, organisational performance and operational strategy measures have good reliability and have performed well in previous studies, they are based on a stream of literature that is still developing.

5.7 SUMMARY

This chapter discussed the research methodology followed in this study to determine the impact of strategic leadership on the performance and operational strategy of business organisations in South Africa. The research objective and hypotheses were stated. The hypotheses formulated were that strategic leadership is directly and positively associated with operational strategy and organisational performance.

The research design used to test these hypotheses was an empirical cross-sectional telephone survey of the top 200 listed organisations as published in the Financial Mail survey of 2008. The key informant was typically the CEO or and member of the senior executive group. Their responsibilities in their organisations give them a unique and comprehensive view of strategic leadership activities. In the study, the measurement instrument was pre-tested in a pilot study, refined and

administered to the sample. The questionnaire in Appendix 2 was compiled from existing measuring instruments that had proved to be reliable and valid in previous research studies. These items were enhanced by questions formulated by the researcher (based on the literature) to ensure that each variable in the measurement instrument was represented at least three times.

Descriptive statistics used, were explained in the last section of this chapter. Chapter 5 concluded with a discussion and assessment of reliability and validity criteria. The constructs used in the study were evaluated against these criteria.

In Chapter 6 descriptive statistics are used to describe the data as well as to assess the relationships between strategic leadership and operational strategy and organisational performance of business organisations in South Africa. Furthermore, the next chapter focuses on the findings of the study and works towards achieving the objectives and aim of the study.

CHAPTER 6

FINDINGS AND DISCUSSION OF RESULTS

6.1 INTRODUCTION

In this chapter the results of the empirical studies are reported. Figure 6.1 shows the statistical techniques used in this chapter and the intended outcome of each technique. The first part of the chapter presents the profile of the population, followed by the descriptive analysis. The descriptive statistics included means and standard deviations to describe the impact of strategic leadership on the operational strategy as well as the performance of business organisations in South Africa. Cronbach alpha coefficients were used to test the consistency and reliability of the constructs. The last part of the chapter (paragraph 6.4) focuses on the nature of the relationship between strategic leadership, operational strategy and organisational performance.

Correlation analysis and Spearman correlation coefficients were used to describe the relationship between the independent and dependent variables and to test the hypotheses. The purpose of the hypotheses test is to determine the probability that the difference between the value of a variable, as estimated from the sample, and the value of that same variable, as estimated from another sample, is the result of random characteristics of the sample (Tull & Hawkins, 1993:628).

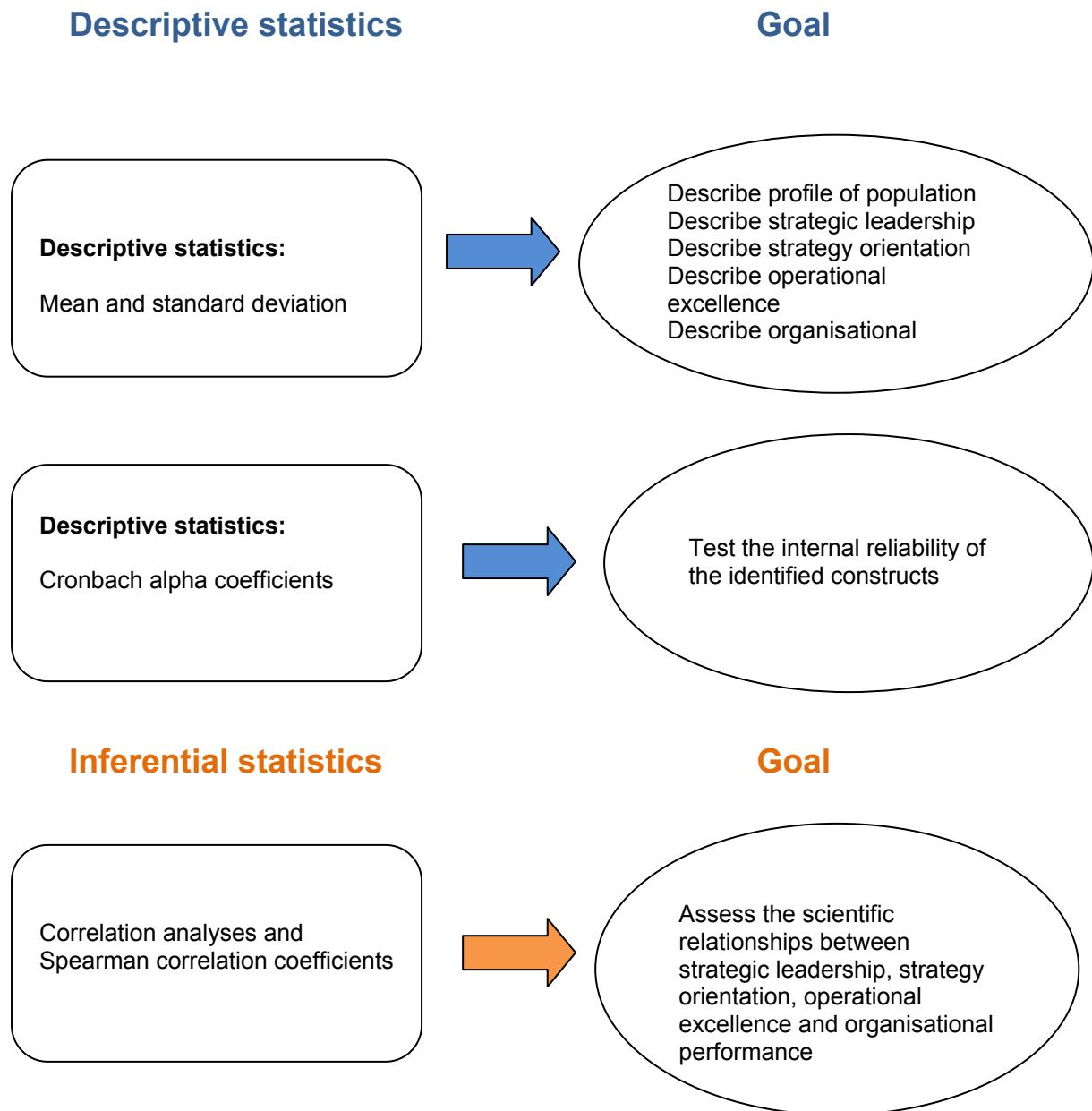


Figure 6.1: A graphical representation of the statistical techniques used

6.2 PROFILE OF THE SAMPLE

The profile of the sample is discussed in terms of two characteristics: annual turnover and the size of the organisation. As discussed in Chapter 1 (Section 1.6.3), the strategic leadership literature highlights these characteristics as having an impact on the operational strategy and performance of business organisations.

6.2.1 ANNUAL TURNOVER

The revenue for organisations in the population ranged from approximately 1 million to over 15 billion. It is important to note that the selected population consisted of the top 200 listed organisations for 2008 as published in the Financial Mail (2009).

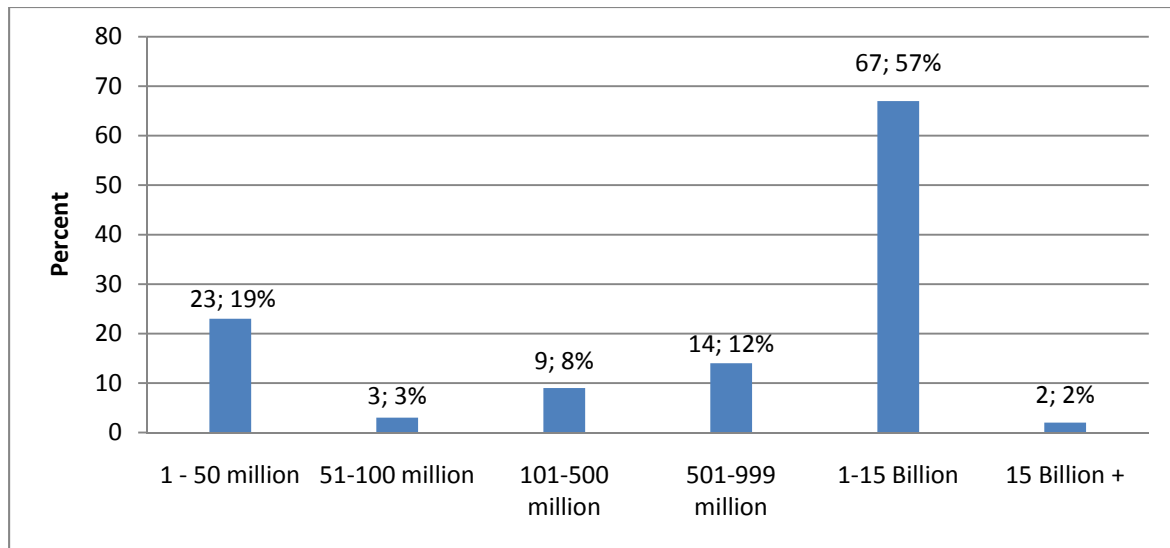


Figure 6.2: Annual turnover of the respondent organisations

As seen in Figure 6.2, the majority of the organisations (67.57%) reported a turnover of between 1 and 15 billion rands.

6.2.2 SIZE OF THE RESPONDENT ORGANISATIONS

Organisational size was determined by the number of permanent employees. The replies of respondents were categorized into six response categories, as shown in Figure 6.3.

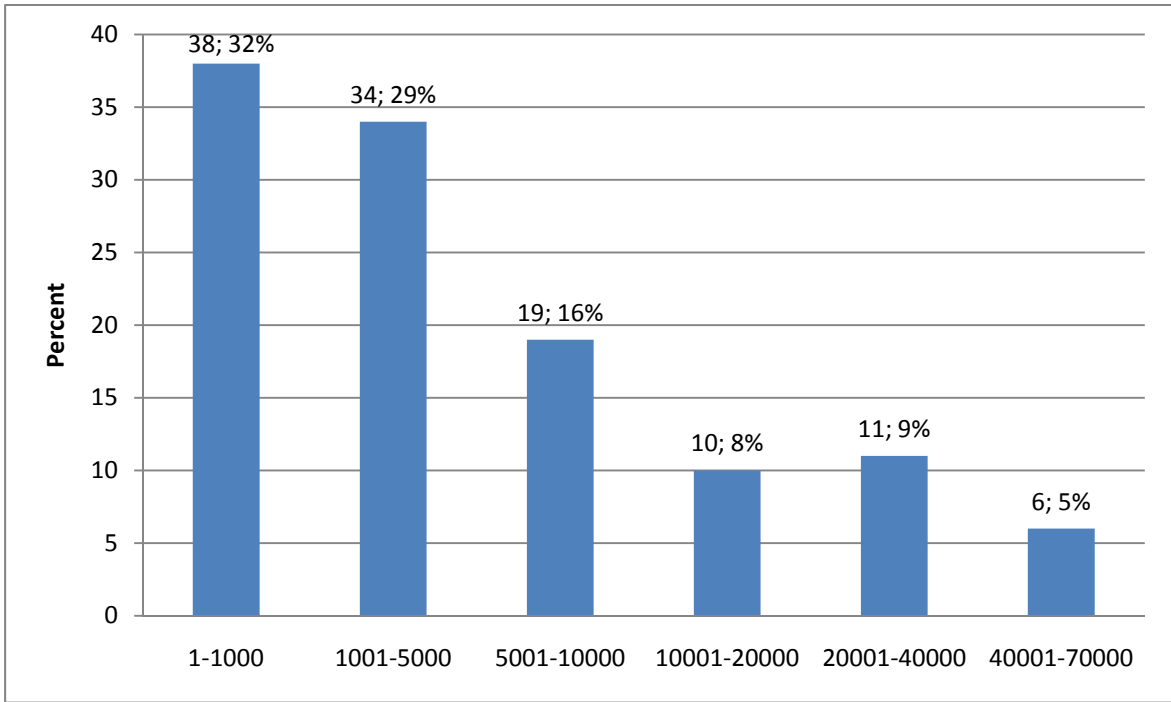


Figure 6.3: Number of employees

As seen in Figure 6.3, the largest proportional category was organisations with 1-1000 employees, which represented 38.3% of the respondents. The majority of the organisations (72.61%) have a staff complement of between 1 and 5000 employees.

6.3 DESCRIPTIVE ANALYSIS

The perceptions among senior executives in South Africa of the impact of strategic leadership on the operational strategy and performance in business organisations are described in this section.

For each construct and dimension a composite score was obtained by totaling the individual scores of the relevant items and calculating the average. The various scores were then compared with one another to establish their relevant status in the dataset. In other words, if the score of dimension A was lower than that of the average of all the scores, dimension A was said to have a low score relative to the other dimensions, as will be shown in the subsequent graphs. In the sections that follow, each construct and dimension is discussed in terms of the mean scores and dispersion of data.

6.3.1 INDEPENDENT VARIABLE: STRATEGIC LEADERSHIP

As discussed in Chapter 5 (see Section 5.3.4.2), Fujimoto (1998) suggested that the six components of the Hitt, Ireland & Hoskisson (2007) model, can be re-conceptualised as three interrelated constructs (action, coherence and discipline).

Figure 6.4 illustrates how the scores of these different variables relate to one another. For example, the mean score for action was 27.07 and the mean score for coherence was 21.72. Discipline recorded a mean score of 35.40.

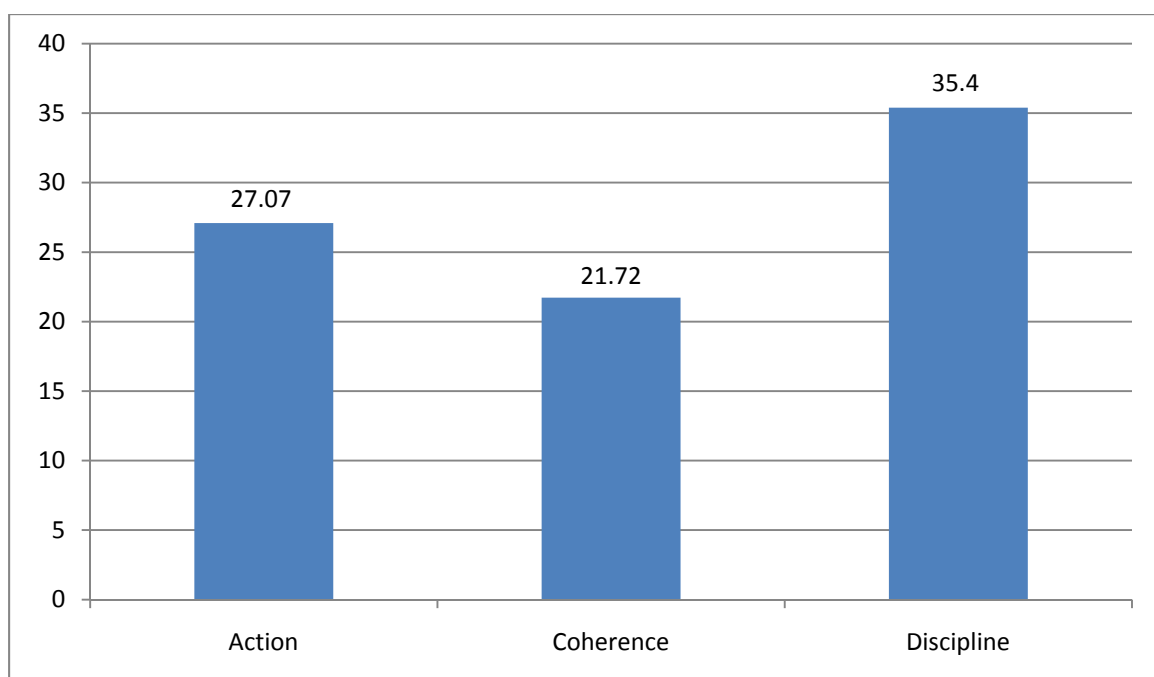


Figure 6.4: A bar chart representing the mean scores for the dimensions of strategic leadership

Table 6.1 shows the descriptive statistics of strategic leadership and its dimensions. As discussed in Chapter 1 (Section 1.6.5.1), 118 organisations participated in the survey and all respondents replied to all the questions. The means, standard deviations and Cronbach alphas are shown in Table 6.1.

Table 6.1: A comparison of means, standard deviation and Cronbach alpha for strategic leadership constructs

| Dimension | N | Mean | Standard deviation | Cronbach alpha |
|------------------|----------|-------------|---------------------------|-----------------------|
| Action | 118 | 27.07 | 4.14 | 0.77 |
| Coherence | 118 | 21.72 | 3.42 | 0.76 |
| Discipline | 118 | 35.40 | 5.02 | 0.75 |

6.3.1.1 Action

Action can be defined as the component of strategic leadership that determines strategic direction and exploits core competencies. The Cronbach's alpha coefficient for this dimension was 0.77, which is more than acceptable, since it is above the threshold of 0.5 for exploratory research (Nunnally, 1978).

6.3.1.2 Coherence

As discussed in Chapter 5 (see Section 5.3.4.2), coherence can be defined as the component that maintains core competencies, develops human capital and emphasises ethical practices. It is essential for any organisation to maintain and develop the core competencies of their people and to be a learning organisation. It is also expected of the leadership and people of these organisations to act in an ethical way and to practice good corporate governance. The Cronbach's alpha for the dimension was 0.76 and is acceptable, since it exceeds the threshold of 0.5 set in Section 5.6.1.1 (Nunnally, 1978; also refer to Table 5.7)

6.3.1.3 Discipline

Discipline can be defined as the component of strategic leadership that involves the establishment of strategic controls and sustaining an effective corporate culture. A low score suggests that there are no or very few strategic controls and there is not a cohesive corporate culture in the organisation. The Cronbach's

alpha for this dimension was 0.75 and is acceptable, since it exceeds the threshold of 0.5.

6.3.2 DEPENDENT VARIABLE: STRATEGY ORIENTATION

As discussed in Chapter 5, (see Section 5.3.4.2) strategy orientation consists of the organisation's ability to create a compelling strategy as well as to execute that strategy in an effective manner in order for the organisation to perform at the required and planned level.

Figure 6.5 illustrates how the scores of these different variables relate to one another. For example, the mean score for creation of strategy was 19.75 and execution of strategy recorded a mean score close to that of 20.42 (see 6.3.2.1 and 6.3.2.2 for a discussion).

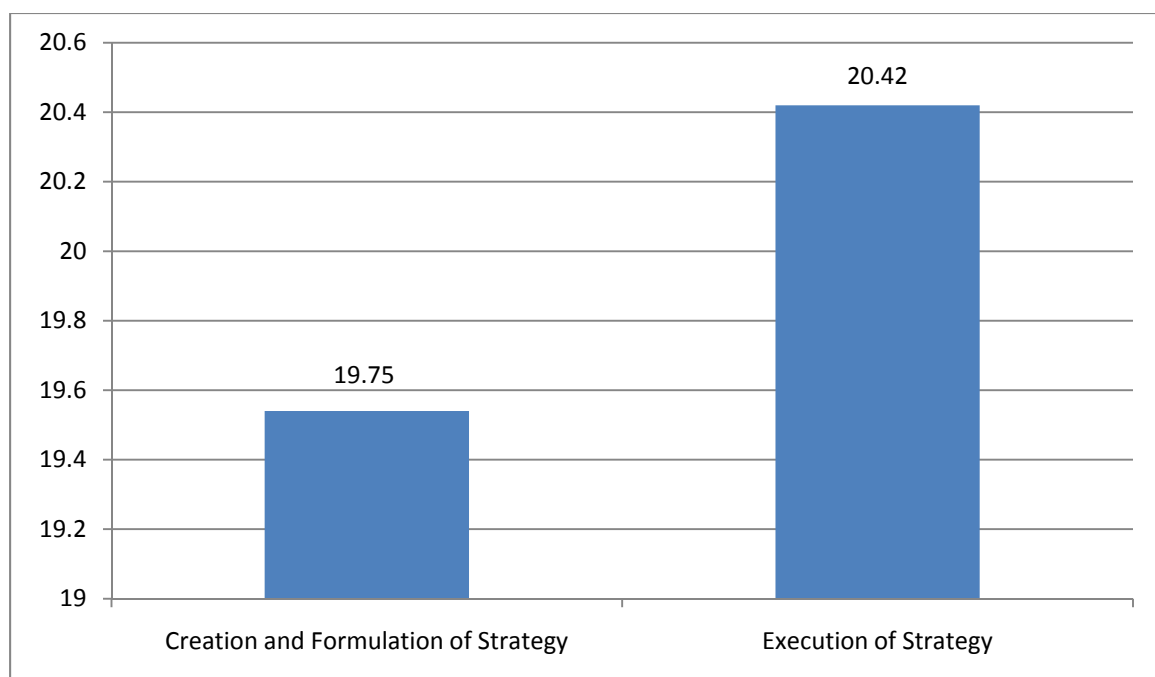


Figure 6.5: A bar chart representing the mean scores for the dimensions of strategy orientation

The descriptive statistics for strategy orientation are shown in Table 6.2. All 118 respondents answered these questions. The mean scores, standard deviations

and Cronbach alphas are reflected in Table 6.2 and discussed in the subsequent section.

Table 6.2: A comparison of the means, standard deviation and Cronbach alpha for strategy orientation

| Dimension | N | Mean | Standard Deviation | Cronbach alpha |
|--------------------------------------|----------|-------------|---------------------------|-----------------------|
| Creation and formulation of strategy | 118 | 19.54 | 3.89 | 0.76 |
| Execution of strategy | 118 | 20.42 | 3.11 | 0.66 |

6.3.2.1 Creation and formulation of strategy

As discussed in Chapter 5 (Section 5.3.4.2), creation and formulation of the strategy is the ability of the organisation to create and formulate a competitive strategy. A low score suggests that the leadership of the organisation do not have the ability or the desire to create and formulate a compelling strategy. The Cronbach alpha of this dimension was 0.76 which is acceptable, since it exceeds the threshold of 0.5.

6.3.2.2 Execution of strategy

Many organisations have the ability to create and formulate a very good strategy, but they do not have the ability to execute the strategy. As stated in Chapter 3 (Section 3.3.2), it is not easy to execute the strategy and a sobering fact that less than 10 percent of strategies effectively formulated are effectively implemented (see Stewart, 2007). The Cronbach alpha for this dimension was 0.66, which is a positive indication of the consistency and reliability of the construct.

6.3.3 DEPENDENT VARIABLE: OPERATIONAL EXCELLENCE

Operational excellence consists of cost management, product differentiation and integration. As discussed in Chapter 5 (see Section 5.3.4.2), cost management is the ability of the organisation to manage costs in order to ensure operational effectiveness. Product differentiation on the other hand means that the organisation has the ability to develop products faster and reduce defects in production.

Figure 6.6 illustrates how the scores of these different variables relate to one another. For example, the mean score for product differentiation (28.23) was higher than cost management (21.31) and integration (26.74) (see 6.3.3.1, 6.3.3.2 and 6.3.3.3 for a discussion).

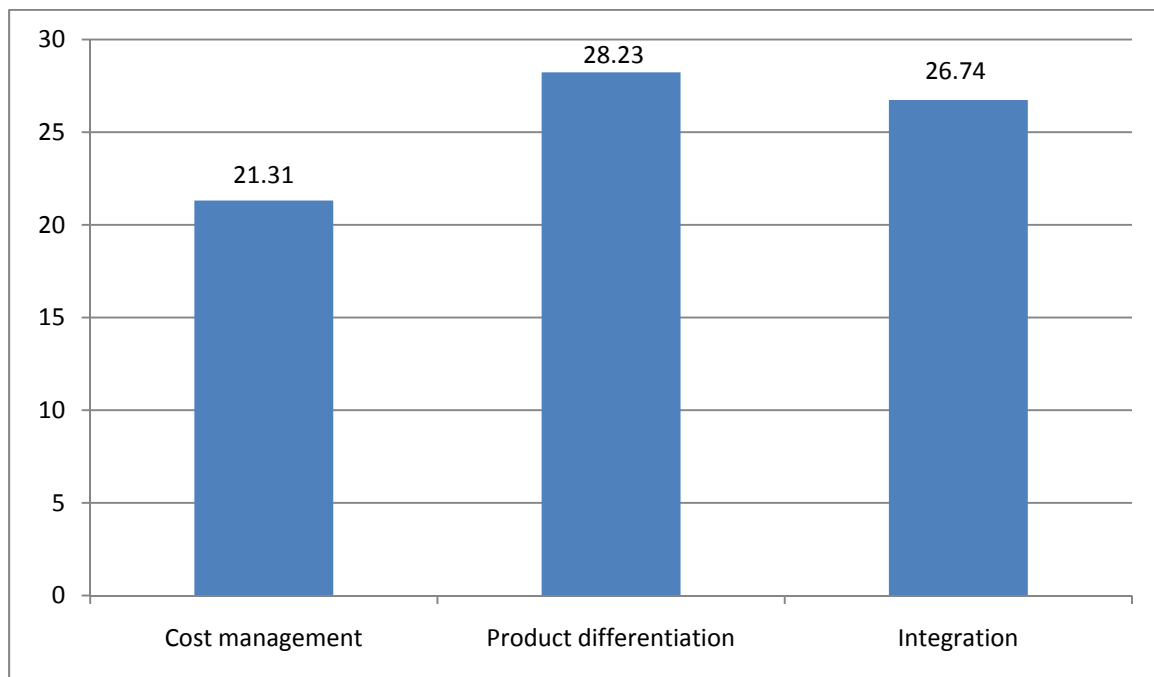


Figure 6.6: A bar chart representing the mean scores of the interrelated constructs of operational excellence

The descriptive statistics for strategy orientation are shown in Table 6.3. All 118 respondents answered these questions. The mean scores, standard deviation and

Cronbach alphas are reflected in Table 6.3 and discussed in the subsequent section.

Table 6.3: A comparison of the means, standard deviation and Cronbach alpha for operational excellence

| Dimension | N | Mean | Standard deviation | Cronbach alpha |
|-------------------------|----------|-------------|---------------------------|-----------------------|
| Cost management | 118 | 21.31 | 3.08 | 0.71 |
| Product differentiation | 118 | 28.23 | 4.43 | 0.87 |
| Integration | 118 | 26.74 | 4.11 | 0.72 |

6.3.3.1 Cost management

As described in Chapter 5 (Section 5.3.4.2), cost management is the ability of the organisation to manage costs in order to ensure operational effectiveness. If the costs in an organisation are not managed effectively, it will certainly lead to the destruction of the organisation. The mean score for cost management was 21.31 which is a good indication of the importance of this dimension. The Cronbach alpha was 0.71 and confirmed the consistency and reliability of this construct.

6.3.3.2 Product differentiation

Developing better products faster and reducing defects in productions is very important towards the future performance of any organisation. The mean score for this dimension was 28.23 and the Cronbach alpha was 0.72 which is also acceptable as it exceeds 0.50.

6.3.3.3 Integration

As explained in Chapter 5 (Section 5.3.4.2), integration is the ability of an organisation to effectively integrate and align the functional areas in order to successfully manage industry change. If the functional areas are not successfully

integrated with the line function, the organisation will not be able to perform as a whole. The mean score for integration was 26.74 and the Cronbach alpha was 0.72 which was above the threshold of 0.50 and also confirms the reliability of this dimension.

6.3.4 DEPENDENT VARIABLE: ORGANISATIONAL PERFORMANCE

The sample organisation's performance was measured using two financial based measures. Since return on assets (ROA) is the most commonly used to date in strategy research (Lee & Miller, 1999), it was also used in this study. Earnings per share (EPS) is also another highly used measure. As discussed in Chapter 5, (see Section 5.3.4.2), both ROA and EPS are well recognised measurements to determine the impact of strategic leadership in the performance of an organisation.

The average ROA of all the organisations that participated in this study was 10.33 percent, which is an indication that all the organisations that were part of the sample performed above average. The standard deviation was 25.43, and the lowest score for ROA recorded in the study was -45.32 percent and a highest score recorded for ROA was 127.74 percent.

Earnings per share recorded an average of 25.00 percent with a standard deviation of 29.25. The lowest score was recorded at -62.57 percent and the highest score recorded for EPS was 159.86 percent.

The above average results recorded for both ROA and EPS is a strong indication that a strong positive correlation exists between the good performance of these financial measures and good strategic leadership practices. In addition to the financial measures above, self reported performance measures were also used to determine the performance of business organisations in South Africa.

In Chapter 5 (see Section 5.3.4.2), self reported performance measures refer to aspects such as adaptive leadership, communication, autonomy, processes and systems, knowledge and values. Adaptive leadership includes vision, strategic orientation of the organisation; commitment and organisational support for

strategic leadership. The importance of communication and knowledge has also been highlighted. Autonomy, the way in which employees have work discretion and can make their own decisions, as well as the effective integration of people, is very important for the performance in an organisation. Processes and systems, refer to reward systems, the control system such as budget and cost controls, as well as the planning systems.

Figure 6.7 illustrates the different scores of these different variables. For example, the mean score for communication was the lowest at 19.00 and the highest was processes and systems with 28.24.

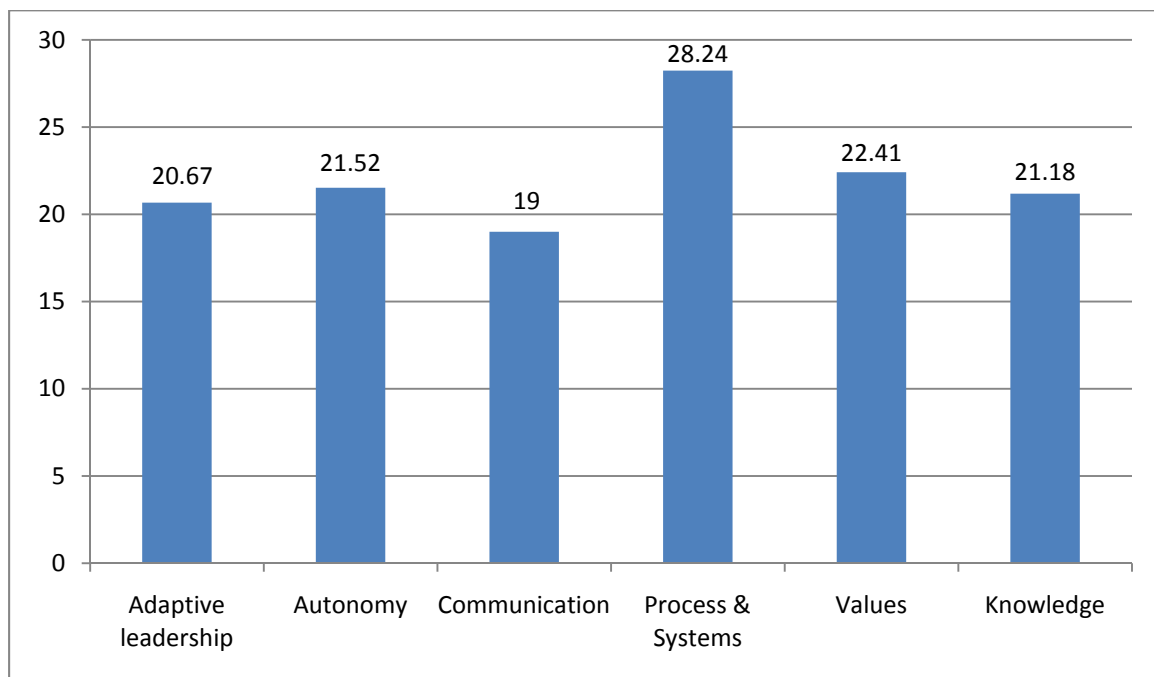


Figure 6.7: A bar chart representing the mean scores of the interrelated constructs of self reported organisational performance

The descriptive statistics for strategy orientation are shown in Table 6.4. All 118 respondents answered these questions. The mean scores, standard deviation and Cronbach alpha scores are reflected in Table 6.4 and discussed in the subsequent section.

Table 6.4: A comparison of the means, standard deviation and Cronbach alpha for self reported organisational performance

| Dimension | N | Mean | Standard Deviation | Cronbach alpha |
|---------------------|----------|-------------|---------------------------|-----------------------|
| Adaptive leadership | 118 | 20.67 | 3.33 | 0.72 |
| Autonomy | 118 | 21.52 | 3.04 | 0.72 |
| Communication | 118 | 19.00 | 4.12 | 0.90 |
| Process & systems | 118 | 28.24 | 3.88 | 0.72 |
| Values | 118 | 22.41 | 3.25 | 0.77 |
| Knowledge | 118 | 21.18 | 2.88 | 0.43 |

6.3.4.1 Adaptive leadership

As stated in Chapter 3 (Section 3.2.5), and confirmed by Heifetz & Laurie, (1997:124): “Organisations today face huge adaptive leadership challenges. Changes, in societies, markets, customers, competition, and technology around the globe are forcing organisations to clarify their values, develop new strategies, and learn new ways of operating. Often the toughest task for leaders in effecting change is mobilising people throughout the organisation to do adaptive work”. The importance of the above statements is supported in study with a recorded mean for adaptive leadership of 20.67. The Cronbach alpha was 0.72 which is acceptable as it is significantly higher than the threshold of 0.5

6.3.4.2 Autonomy

Autonomy, also referred to as work discretion, involves permitting employees to make decisions about performing their own work in the way they believe is most effective, and allowing them to use their initiative. The mean score for this dimension was 21.52. The Cronbach alpha score for this construct was 0.72 which is acceptable as it is higher than the threshold of 0.50 and confirms the consistency and reliability of the construct.

6.3.4.3 Communication

Communication refers to the way that the leadership communicates in the organisation with particular reference to their communication of the vision and strategy of the organisation (Goosen, 2002; Antonic and Hisrich, 2001; and Zahra, 1991). The mean for this dimension was 19.00 which is a very positive indication of the reliability of communication as a construct in the sample organisations. The Cronbach alpha coefficient for communication measured significantly high at 0.90 and exceeds 0.80, seen as indicative of a highly reliable construct (Sekaran, 1992).

6.3.4.4 Processes and systems

As discussed in Chapter 5 (Section 5.3.4.2), processes, policies and procedures referring to approval and documentation, rules and performance criteria (Morris & Kuratko, 2002; Morris, 1998; Strategos Survey, 2004) also play an important role. Systems refers to reward systems, the control system such as budget and cost control, as well as the planning systems and have been studied by authors such as Hornsby, *et al.* (1993); and Antonic and Hisrich (2001). The mean score recorded for this construct was 28.24. The Cronbach alpha was 0.72 which is acceptable for the reliability of this dimension.

6.3.4.5 Values

The organisational culture, which refers to values and organisational norms (see Morris & Kuratko, 2002 and Goosen, 2002) also influences internal factors in the strategic leadership process. Good and well communicated values in an organisation are the responsibility of leadership. There needs to be buy-in by all employees in the organisation to live the values. If this does not happen, the leadership will find it difficult to create a culture where all employees can get the opportunity to perform to their full potential. The mean score for this construct was 22.41 and the Cronbach alpha was 0.77 which was again highly acceptable as it was well above the threshold of 0.5.

6.3.4.6 Knowledge

The knowledge economy requires all employees in organisations to engage in continuous learning. By far the most fundamental and important element of strategic architecture is organisational learning. In this century, the case for the “learning organisation,” (see Kiernan, 1993:9) with knowledge creation as its primary strategic task, will be overwhelming. Organisational learning will replace control as the dominant responsibility and test of leadership. Propelled by the competitive exigencies of speed, global responsiveness and the need to innovate constantly or persistently enabled by new information technologies, learning will become the only viable alternative to organisational extinction. The mean for this important construct was 21.18. The Cronbach alpha of 0.43 was not acceptable as it measured below the recommended threshold (0.50) for exploratory research by Nunnally (1978). Knowledge was the only dimension of self reported organisational performance that measured below the acceptable threshold and this is indicative of the fact that many organisations have not yet converted to new economy learning organisations.

6.4 NATURE OF THE RELATIONSHIP BETWEEN STRATEGIC LEADERSHIP AND OPERATIONAL STRATEGY, AND ORGANISATIONAL PERFORMANCE

Different combinations of relationships between strategic leadership and operational strategy as well as organisational performance are possible. In its simplest form, it can be seen as a set of logically interconnected regressions. It is used for testing antecedents and consequences in a casual model. The casual model can be temporal or conceptual ordered (Schumacker *et al.*, 1996).

In this study a hypothesised model was developed using the existing two propositions previously discussed in Chapter 1 (Section 1.5.1). The refinement of the strategic leadership model to the three components of action, coherence and discipline was discussed in Chapter 5 (Section 5.3.4.2). It was further hypothesised that strategic leadership has a direct and indirect impact on

operational strategy and performance of business organisations in South Africa. In this section, the nature of the relationship between the constructs of strategic leadership, operational strategy and organisational performance will be discussed.

6.4.1 THE INFLUENCE OF STRATEGIC LEADERSHIP ON STRATEGY ORIENTATION

Theoretically speaking, the three constructs of strategic leadership (action, coherence and discipline) should exert a strong effect on strategy orientation and its dimensions. These relationships were examined by means of correlation analysis.

The results of the correlation analysis are shown in Table 6.5. The Spearman correlation coefficients (ρ) and p-values of the separated dimensions of strategy orientation are shown with the strategic leadership constructs. Saunders *et al.* (1997:321) remarked that a correlation of +0.3 indicates a weak positive correlation and +0.7 a strong positive correlation.

Table 6.5: A summary of the correlation analysis (r) and p-values as well as the Spearman correlation coefficient comparing the dimensions of strategy orientation with the constructs of strategic leadership

| Dimensions of strategy orientation | n | Correlation analysis (r) | Correlation analysis (P-value) | Spearman correlation (ρ) | Spearman correlation (p-value) |
|--|-----|--------------------------|--------------------------------|---------------------------------|--------------------------------|
| Action versus Execution of strategy | 118 | 0.71 | 0.0000 | 0.64 | 0.00 |
| Coherence versus Creation of strategy | 118 | 0.76 | 0.0000 | 0.74 | 0.00 |
| Coherence versus Execution of strategy | 118 | 0.76 | 0.0000 | 0.68 | 0.00 |
| Discipline versus Creation of strategy | 118 | 0.62 | 0.0000 | 0.62 | 0.00 |

6.4.1.1 Action versus execution of strategy

The data from the study shows a strong positive relationship between action and the execution of strategy ($r = 0.71$; $p = 0.0000$). The Spearman correlation coefficient also indicates the same relationship ($\rho = 0.64$; $p = 0.00$). The correlation analysis and scatter-plot shown in Figure 6.8 are indicative of a strong, positive relationship between action and execution of strategy as the data points illustrated the cluster in close proximity to the trend line.

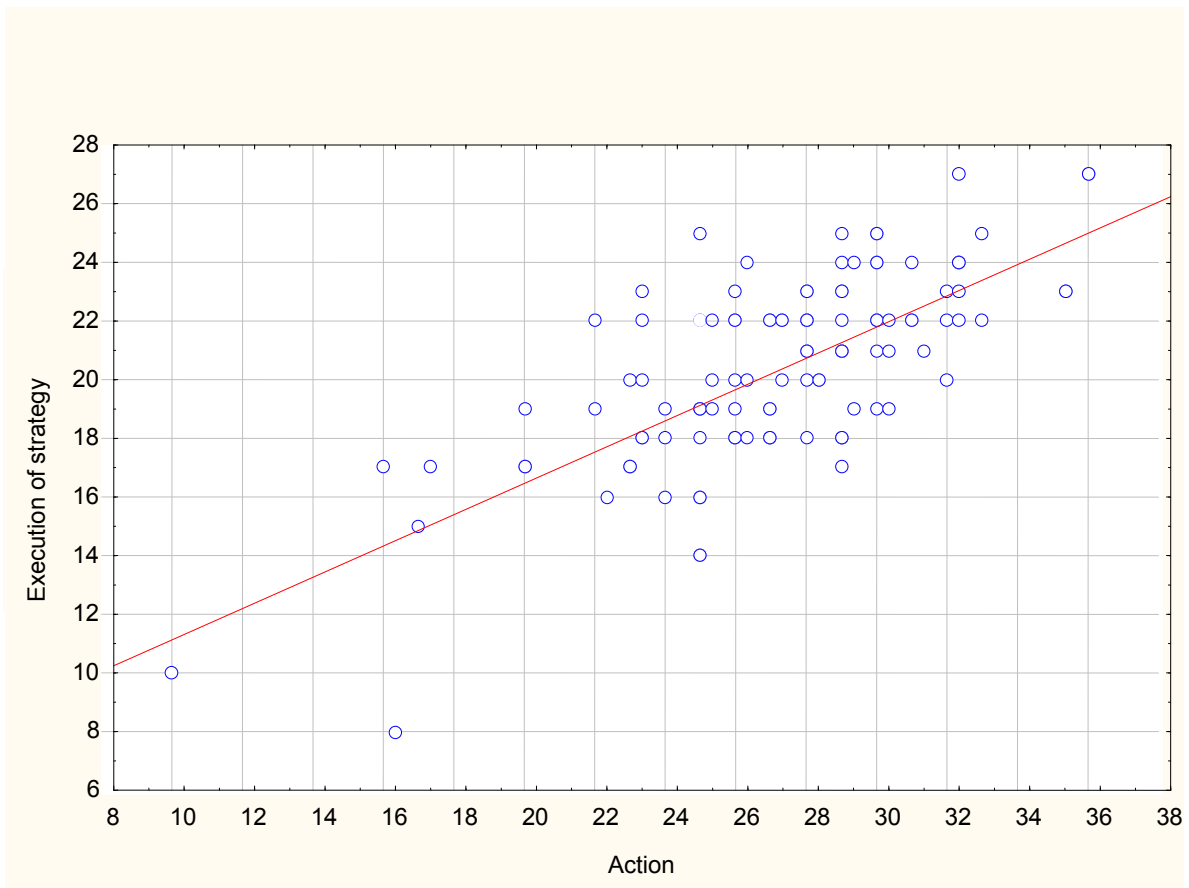


Figure 6.8: A scatter-plot representing the nature and strength of the relationship between action and execution of strategy

As indicated earlier, Hitt, Ireland and Hoskisson (2007) defined action as the component of strategic leadership that determines strategic direction and exploits core competencies. These aspects are both crucial in the process to execute the strategy of the organisation. If the organisation does not have a strategy and people do not have the necessary competencies it will be impossible to effectively execute the strategy. As discussed above, this study has confirmed a strong, positive relationship ($r = 0.71$) in the sample organisations between action and the execution of the strategy which is indicative of the theory discussed in chapter 3 (Section 3.3.2).

6.4.1.2 Coherence versus creation of strategy

The data from the study confirmed a strong, positive relationship between coherence and the creation of strategy ($r = 0.76$; $p = 0.000$). The Spearman correlation coefficient confirmed the same relationship ($\rho = 0.74$; $p = 0.00$). The correlation analysis and scatter-plots are shown in Figure 6.9 below.

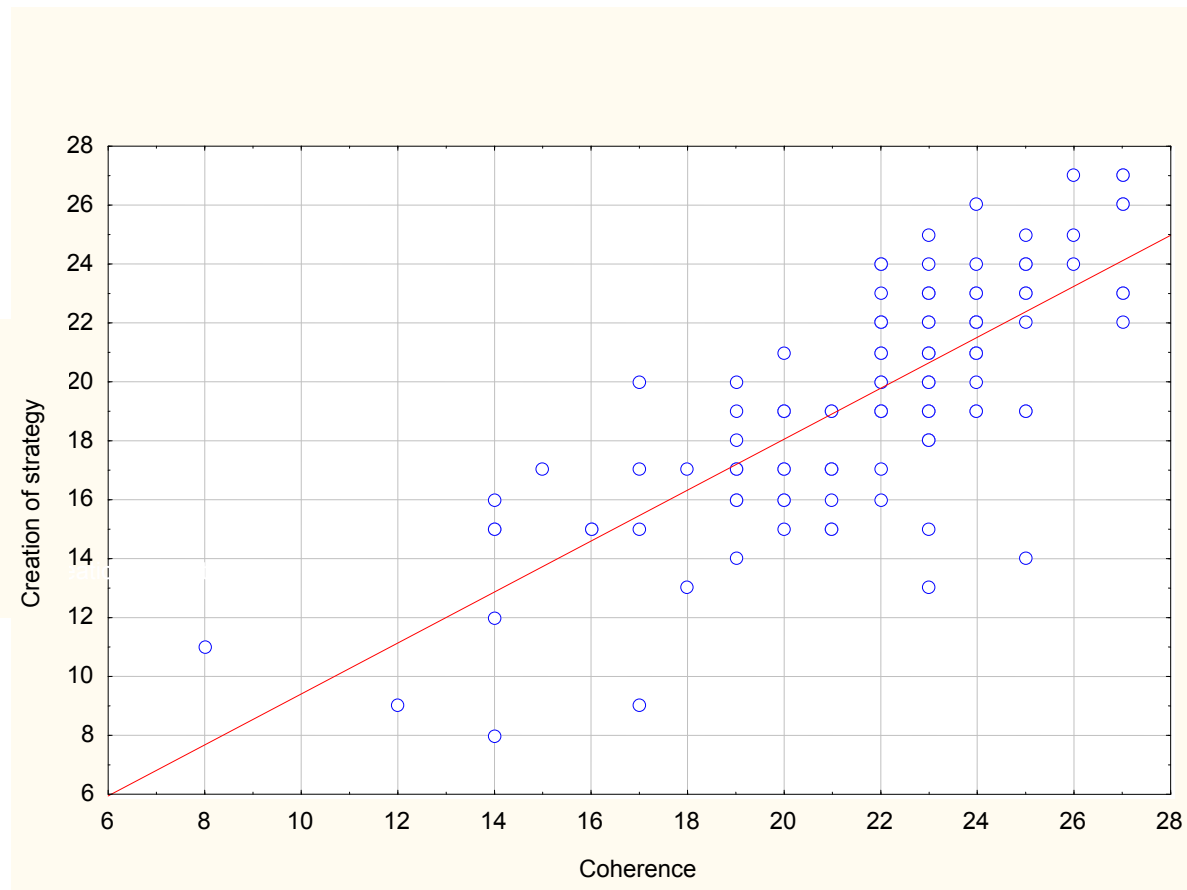


Figure 6.9: A scatter-plot representing the nature and strength of the relationship between coherence and creation of strategy

Coherence can be defined as the component that maintains core competencies, develops human capital and emphasises ethical practices (Hitt, Ireland and Hoskisson, 2007). It is significant that the research is indicative of such a statistically strong, positive relationship between coherence and creation of strategy. If the leadership, teams and employees do not have and maintain the core competencies and develop the human capital, the organisation will find it very difficult to create and maintain a competitive advantage. With this study, the very

important relationship between coherence and the creation of strategy has been confirmed.

6.4.1.3 Coherence versus execution of strategy

The data from the study was indicative of a strong relationship between coherence and the execution of strategy ($r = 0.76$; $p = 0.000$). The Spearman correlation coefficient confirmed the same relationship ($\rho = 0.68$; $p = 0.00$). The correlation analysis and scatter-plots are shown in Figure 6.10 below.

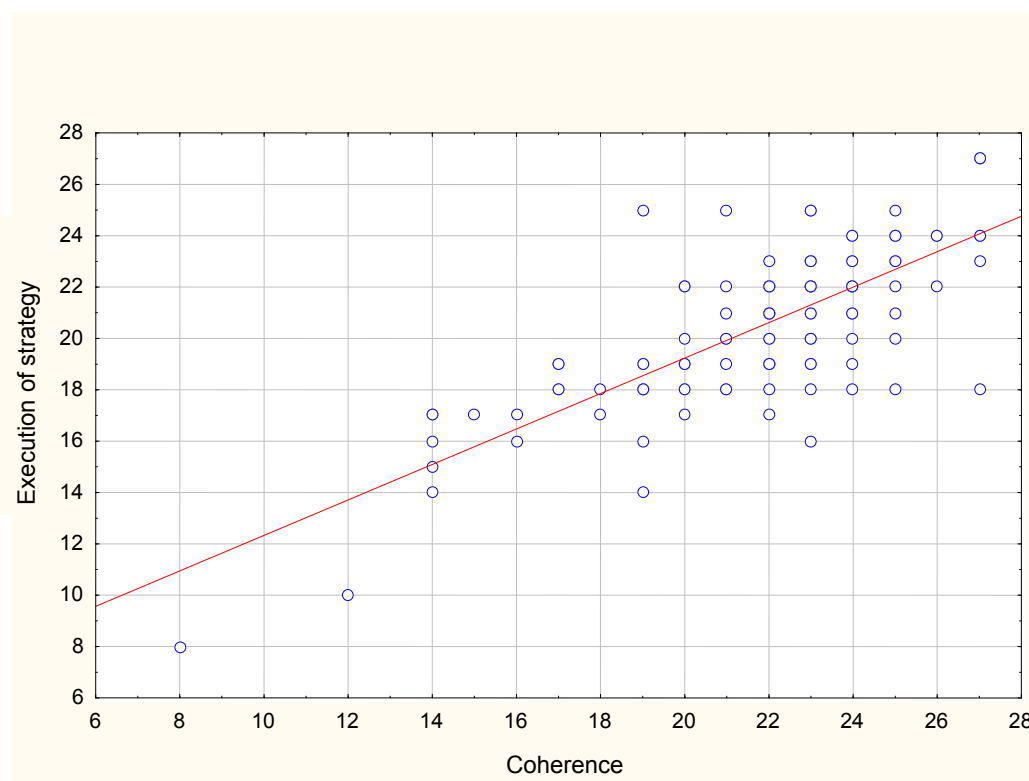


Figure 6.10: A scatter-plot representing the nature and strength of the relationship between coherence and execution of strategy

According to Hitt, Ireland and Hoskisson (2007), coherence can be defined as the component that maintains core competencies, develops human capital and emphasises ethical practices. As previously mentioned in Section 6.4.1.2, the research has also confirmed a statistically significant relationship between coherence and execution of strategy. It is also very important for the leadership and employees of business organisations to maintain their core competencies and

develop their human capital. This study has again proven the very important relationship between coherence and the execution of strategy, which has been confirmed by the data received.

6.4.1.4 Discipline versus creation of strategy

The data from the study has confirmed a strong, positive relationship between discipline and the creation of strategy ($r = 0.62$; $p = 0.000$). The Spearman correlation coefficient confirmed the same relationship ($\rho = 0.62$; $p = 0.00$). The correlation analysis and scatter-plots are shown in Figure 6.11 below.

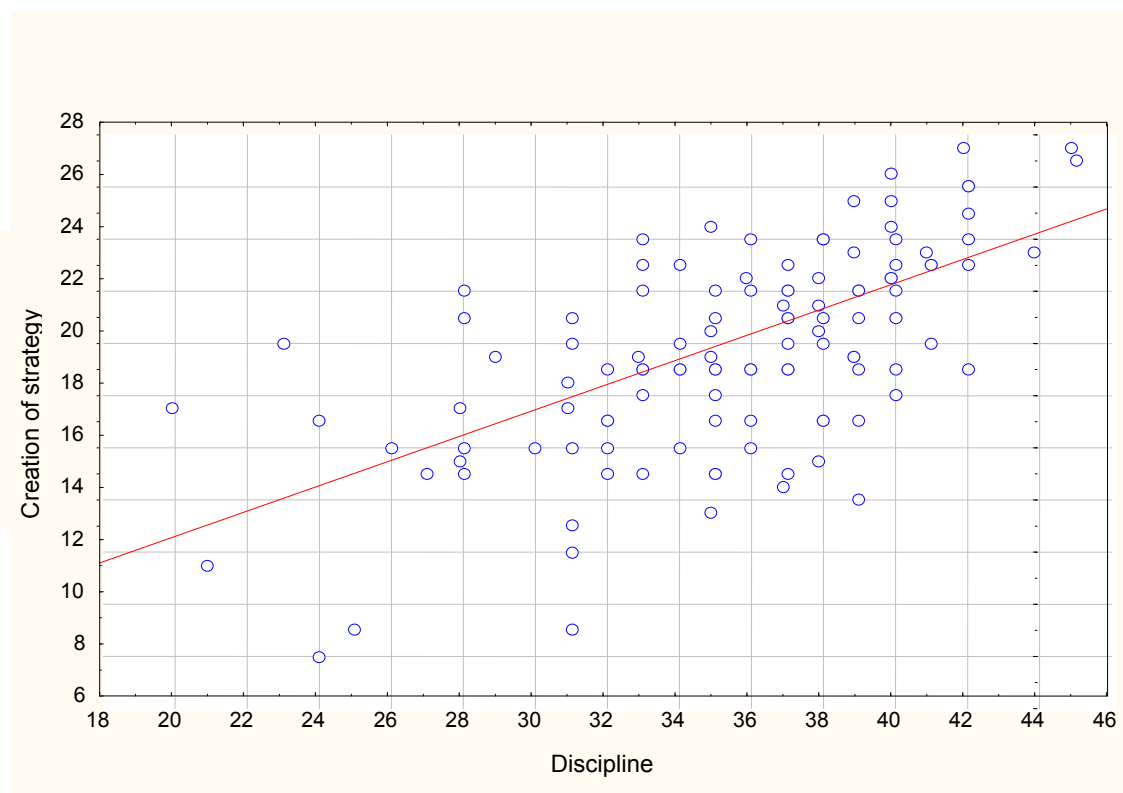


Figure 6.11: A scatter-plot representing the nature and strength of the relationship between discipline and creation of strategy

Discipline has been defined by Hitt, Ireland and Hoskisson (2007) as the component of strategic leadership that involves the establishment of strategic controls and sustaining an effective corporate culture. It is recorded that the research was indicative of a significant, positive relationship between discipline and creation of strategy. In the process of the creation of a compelling strategy, it is very important for the organisation to establish strategic controls and to sustain

an effective corporate culture where all employees can unleash their creativity and potential. The result ($r = 0.62$; $p = 0.0000$) confirms this strong, positive relationship.

Based on the correlation analysis and scatter-plots shown in Figures 6.9, 6.10 and 6.11, hypothesis one in Chapter 1 (Section 1.6.1) can be assessed. Null hypothesis one (H_{01}) contends that no relationship exists between strategic leadership and operational strategy. The alternative hypothesis (H_{A1}) is, therefore, that a relationship exists between strategic leadership and operational strategy orientation. As indicated in Figures 6.9, 6.10 and 6.11, there is a strong positive statistically significant relationship between strategic leadership and operational strategy orientation. Based on this finding the null hypothesis is not supported. By implication, the respondents who participated in this study confirmed that strategic leadership is directly and positively associated with the operational strategy orientation of business organisations in South Africa.

6.4.2 THE INFLUENCE OF STRATEGIC LEADERSHIP ON OPERATIONAL EXCELLENCE

In this study it is hypothesised that strategic leadership (action, coherence and discipline) is directly and positively associated with operational strategy, which includes operational excellence in organisations. Strategic leadership should, therefore, also have a strong effect on operational excellence and its dimensions. These relationships were examined by means of correlation analysis.

The results of the correlation analysis of the relationship between strategic leadership and operational excellence are shown in Table 6.6. The Spearman correlation coefficients and p-values of the separated dimensions of operational excellence are shown with the strategic leadership constructs. Saunders *et al.* (1997:321) remarked that a correlation of +0.3 indicates a weak positive correlation and +0.7 a strong positive correlation.

Table 6.6: A summary of the correlation analysis (r) and p-values as well as the Spearman correlation coefficient comparing the dimensions of operational excellence with the constructs of strategic leadership

| Dimensions of operational excellence | n | Correlation analysis (r) | Correlation analysis (P-value) | Spearman correlation (ρ) | Spearman correlation (p-value) |
|---|-----|--------------------------|--------------------------------|---------------------------------|--------------------------------|
| Action versus Cost management | 118 | 0.61 | 0.0000 | 0.56 | 0.00 |
| Action versus Product differentiation | 118 | 0.40 | 0.0001 | 0.42 | 0.00 |
| Coherence versus Integration | 118 | 0.66 | 0.0000 | 0.66 | 0.00 |
| Discipline versus Integration | 118 | 0.64 | 0.0000 | 0.67 | 0.00 |
| Discipline versus Cost management | 118 | 0.72 | 0.0000 | 0.70 | 0.00 |
| Discipline versus Product differentiation | 118 | 0.54 | 0.0000 | 0.56 | 0.00 |

6.4.2.1 Action versus cost management and product differentiation

The data from the study showed that a strong, positive relationship existed between action and cost management ($r = 0.61$; $p = 0.0000$), but weak positive relationship existed between action and product differentiation ($r = 0.40$; $p = 0.0001$). The Spearman correlation coefficient indicates a stronger relationship ($\rho = 0.64$; $p = 0.00$) towards action and cost management, but an equally weak positive relationship between action and product differentiation. The correlation analysis and scatter-plot shown in Figure 6.12 is indicative of a strong, positive

relationship between action and cost management, but a weak positive relationship between action and product differentiation was evident in Figure 6.13.

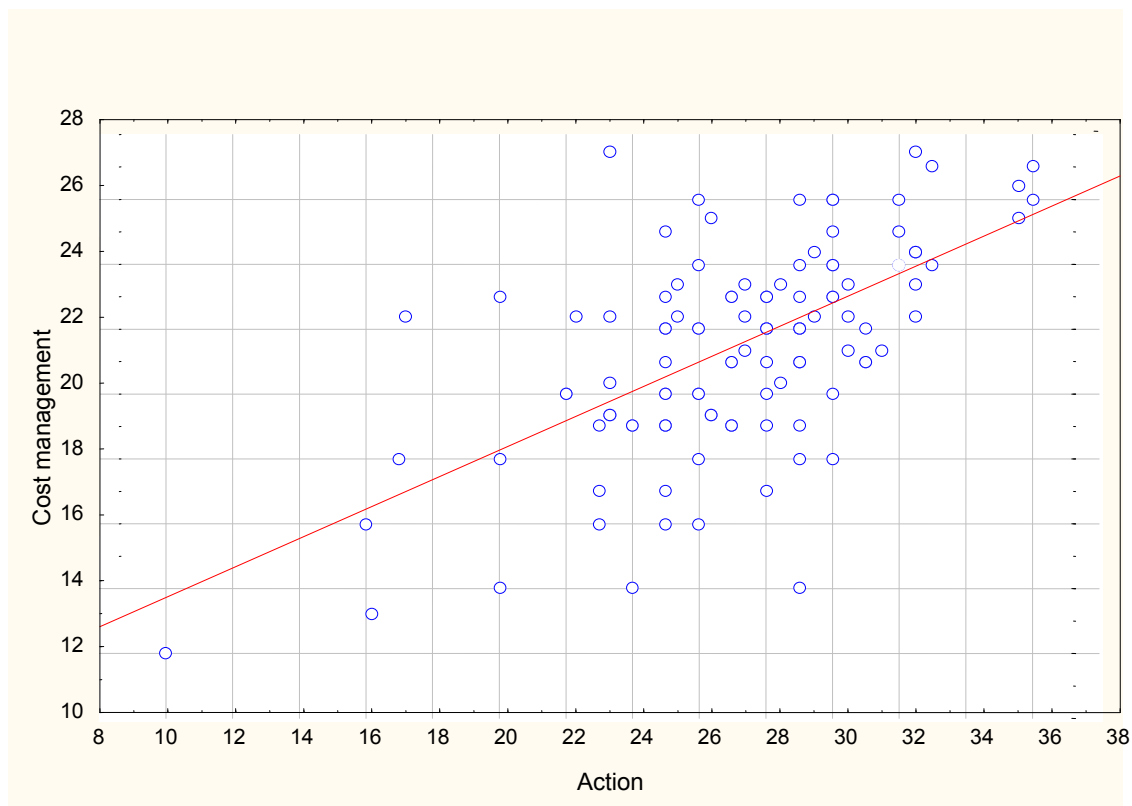


Figure 6.12: A scatter-plot representing the nature and strength of the relationship between action and cost management

Action was defined by Hitt, Ireland and Hoskisson (2007) as the component of strategic leadership that determines strategic direction and exploits core competencies. Cost management, as described in Chapter 5 (Section 5.3.4.2), is the ability of the organisation to manage costs in order to ensure operational effectiveness. The importance of a positive relationship between action and cost management is described in the literature. The positive relationship ($r = 0.61$; $p = 0.0000$) was supported by the Spearman correlation coefficient ($\rho = 0.64$; $p = 0.00$). Cost management should be a strong emphasis in the strategic direction of the organisation that leadership and employees should have a direct focus and involvement on the proper management of costs.

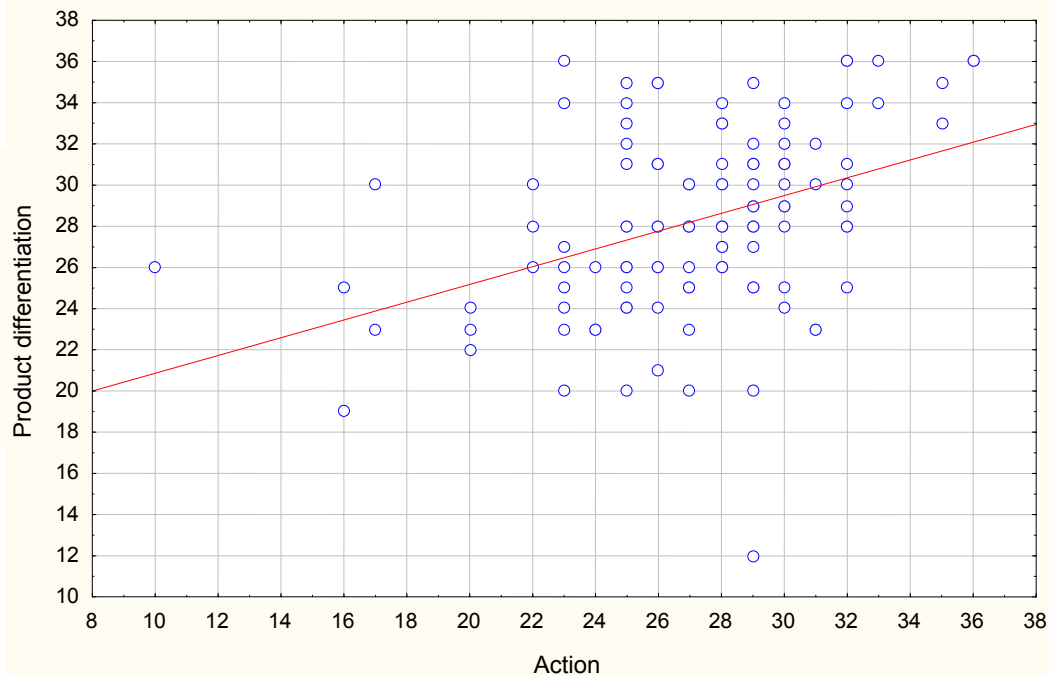


Figure 6.13: A scatter-plot representing the nature and strength of the relationship between action and product differentiation

As seen in Figure 6.13, there was, however, a weak positive relationship observed from the research towards the relationship between action and product differentiation. Tracy and Wiersema (1995) emphasised good operational excellence practices that allow a company to better utilise its inputs by developing better products faster and reducing defects in products. It seems that the danger of a price leader position is that it can quickly become a commodity seller position. This is consistent with Porter's (1996) contention that operational effectiveness is not strategy. The inability of the organisation to identify, develop and deploy competencies for competitive benefits might be the reason for this weak positive relationship.

6.4.2.2 Coherence versus integration

The data from the study showed that a strong, positive relationship existed between coherence and the integration ($r = 0.66$; $p = 0.0000$). The Spearman correlation coefficient indicated an equally strong relationship ($\rho = 0.66$; $p = 0.00$).

The correlation analysis and scatter-plot shown in Figure 6.14 are indicative of a strong, positive relationship between coherence and integration as the respondents illustrated the cluster in close proximity to the trend line.

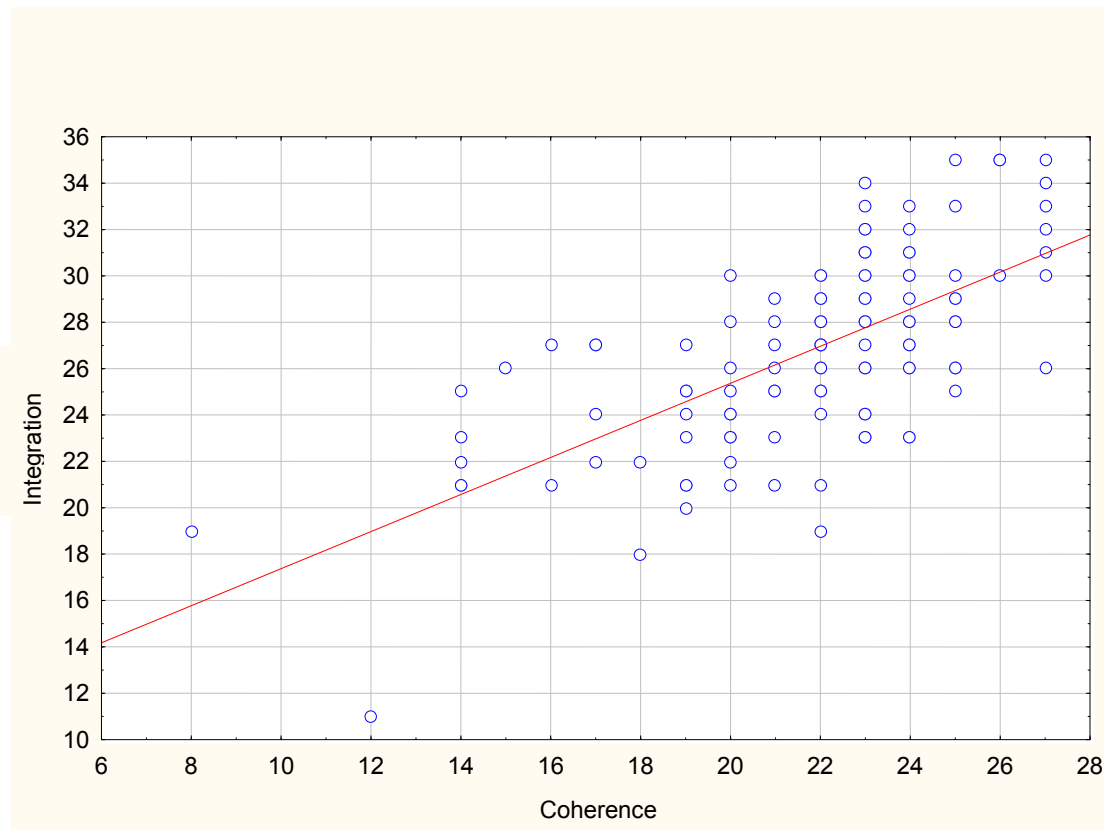


Figure 6.14: A scatter-plot representing the nature and strength of the relationship between coherence and integration

According to Hitt, Ireland and Hoskisson, (2007) coherence is the component that maintains core competencies, develops human capital and emphasises ethical practices. The effective integration of functional areas on the other hand, is also a key factor for operational effectiveness and offers different advantages in the successful management of industry change (Kaplan & Norton, 2004). The literature suggests that there should be a strong relationship between coherence and integration and it was confirmed in this study as indicated in Figure 6.14. The human capital in organisations needs to be integrated with a specific emphasis on ethical practices. If business organisations are successful with this, they will find it less difficult to manage industry change.

6.4.2.3 Discipline versus integration, cost management and product differentiation

The data from the study showed that an acceptable to strong positive relationship existed between discipline and integration ($r = 0.64$; $p = 0.0000$); cost management ($r = 0.72$; $p = 0.0000$); and product differentiation ($r = 0.54$; $p = 0.0000$). The Spearman correlation coefficient indicates a stronger relationship towards discipline and integration ($\rho = 0.67$; $p = 0.00$); cost management ($\rho = 0.70$; $p = 0.00$); the product differentiation ($\rho = 0.56$; $p = 0.00$). The correlation analysis and scatter-plots of all three the different constructs, shown in Figures 6.15, Figure 6.16 and Figure 6.17 are indicative of an acceptable to strong positive relationship between discipline and integration, cost management and product differentiation as the respondents illustrated the cluster in close proximity to the trend line.

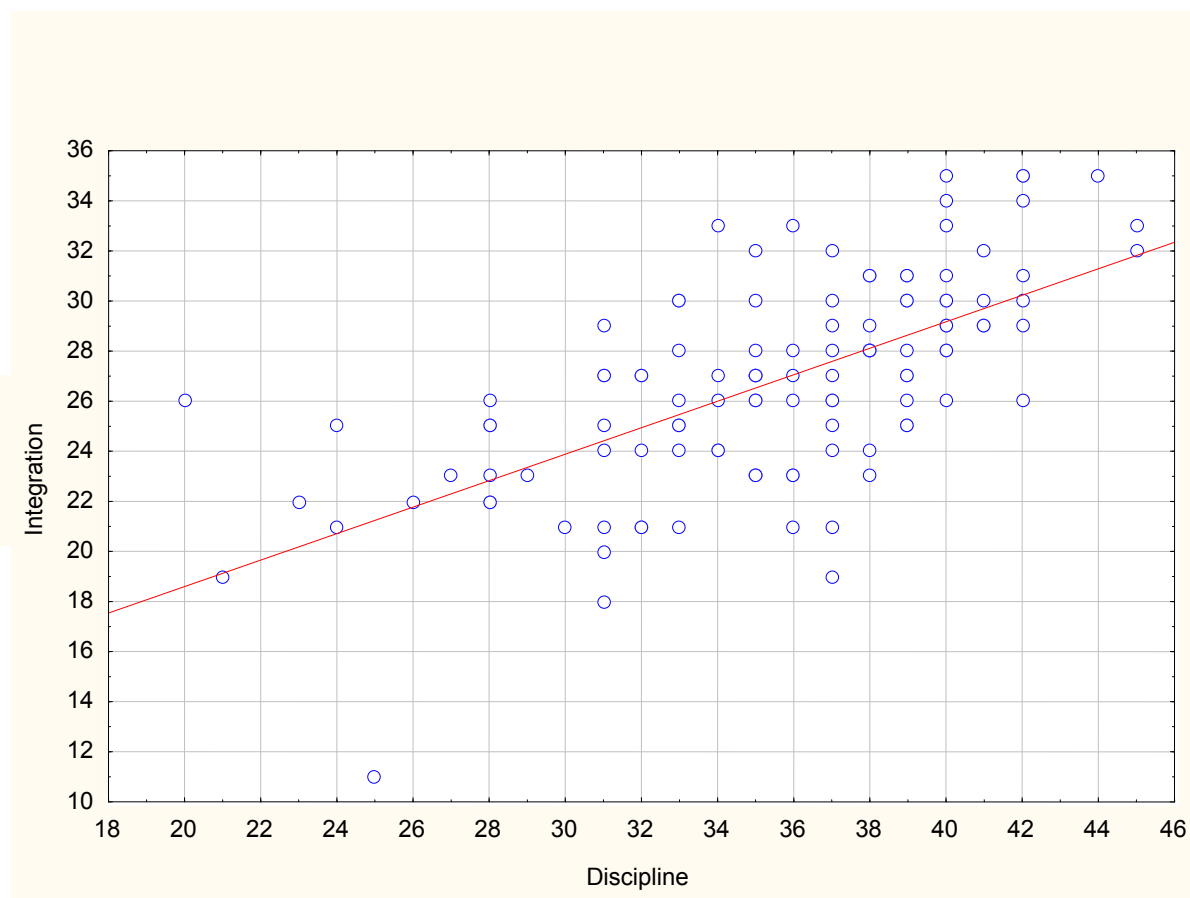


Figure 6.15: A scatter-plot representing the nature and strength of the relationship between discipline and integration

Hitt, Ireland and Hoskisson (2007) defined discipline as the component of strategic leadership that involves the establishment of strategic controls and sustaining an effective corporate culture. Leadership must have the discipline to create an environment where all the people and departments in the organisation have the ability to integrate their competence, initiative and skills. It is recorded that the research done in this study was indicative of a significant relationship between discipline and integration ($r = 0.64$; $p = 0.0000$). This means that the respondents in this study agreed to the fact that the effective integration of all processes and structures in the organisation is very important.

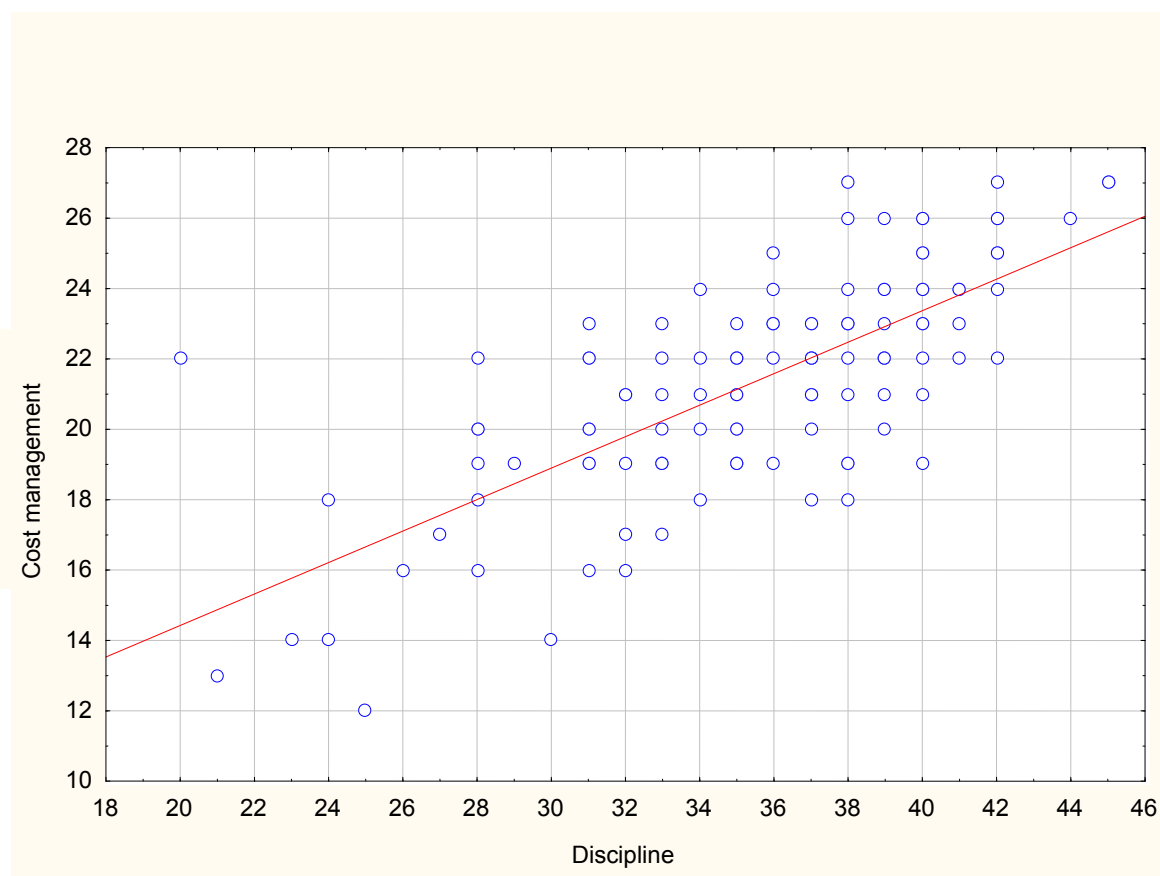


Figure 6.16: A scatter-plot representing the nature and strength of the relationship between discipline and cost management

Cost management has always been one of the biggest challenges for organisations as it has a direct and indirect impact on the operational effectiveness of the organisation. Even if the organisation has an acceptable or

high turnover and it does not have the ability to effectively manage its costs, the organisation will find it very difficult to survive in a competitive environment. This is even more true in a turbulent environment when the global economy is heading towards a recession. The leadership needs to establish a culture of discipline in the organisation where all the people in the organisation understand the impact and are disciplined to manage costs effectively. This phenomenon was supported by the research done in this study with the very strong, positive relationship that was recorded between discipline and cost management ($r = 0.72$; $p = 0.0000$).

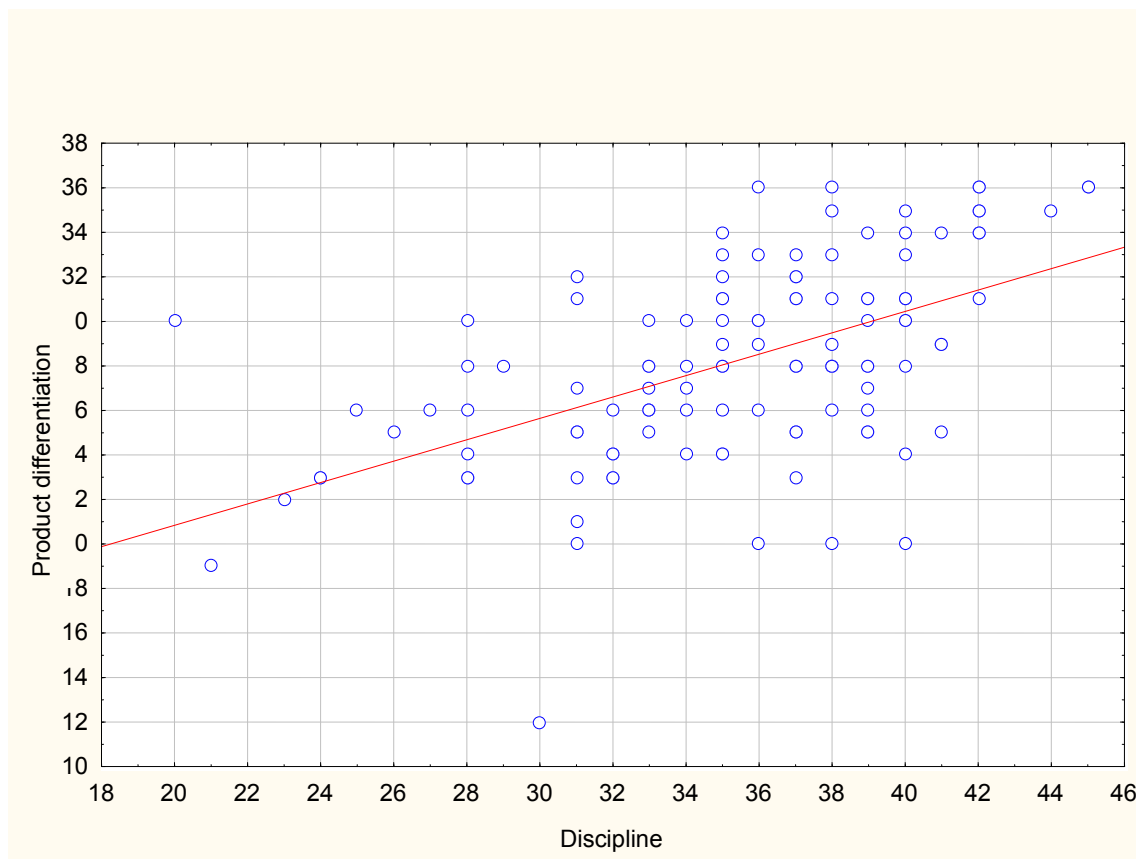


Figure 6.17: A scatter-plot representing the nature and strength of the relationship between discipline and product differentiation

There was, however, a weak positive relationship observed from the research towards the relationship between discipline and product differentiation ($r = 0.54$; $p = 0.0000$). Tracy and Wiersema (1995) emphasised good operational excellence practices that allow a company to better utilise its inputs by developing better products faster and reducing defects in products. The weak positive relationship

recorded in this study confirmed the literature and is consistent with Porter's (1996) contention that operational effectiveness is not strategy.

Based on the correlation analysis and scatter-plots shown in Figures 6.15; 6.16; and 6.17, hypothesis one in Chapter 1 (Section 1.5.1) can be assessed. Null hypothesis one (H_{01}) contends that no relationship exists between strategic leadership and operational strategy orientation. The alternative hypothesis (H_{A1}) is, therefore, that a relationship exists between strategic leadership and operational strategy orientation. As indicated in Figures 6.15; 6.16 and 6.17, there is a strong positive statistically significant relationship between strategic leadership and operational excellence. Based on this finding the null hypothesis is not supported. By implication, the respondents who participated in this study confirmed that strategic leadership is directly and positively associated with the operational excellence of business organisations in South Africa.

6.4.3 THE INFLUENCE OF STRATEGIC LEADERSHIP ON ORGANISATIONAL PERFORMANCE

The second hypothesis in this study is that strategic leadership (action, coherence and discipline) is directly and positively associated with organisational performance. Strategic leadership should, therefore, also have a positive effect on organisational performance and its dimensions. These relationships were examined in this study by means of correlation analysis and Spearman's correlation coefficient.

The results of the correlation analysis on the relationship between strategic leadership and organisational performance are shown in Table 6.7. The Spearman correlation coefficients and p-values of the separated dimensions of organisational performance are shown with the strategic leadership constructs. Saunders *et al.* (1997:321) remark that a correlation of +0.3 indicates a weak positive correlation and +0.7 a strong positive correlation.

Table 6.7: A summary of the correlation analysis (r) and p-values as well as the Spearman correlation coefficient, comparing the dimensions of self reported organisational performance with the constructs of strategic leadership

| Dimensions of organisational performance | n | Correlation analysis (r) | Correlation analysis (P-value) | Spearman correlation (ρ) | Spearman correlation (p-value) |
|---|----------|---------------------------------|---------------------------------------|---|---------------------------------------|
| Action versus Adaptive leadership | 118 | 0.69 | 0.0000 | 0.65 | 0.00 |
| Action versus Processes and Systems | 118 | 0.67 | 0.0000 | 0.58 | 0.00 |
| Action versus Knowledge | 118 | 0.58 | 0.0000 | 0.48 | 0.00 |
| Coherence versus Autonomy | 118 | 0.72 | 0.0000 | 0.66 | 0.00 |
| Coherence versus Communication | 118 | 0.69 | 0.0000 | 0.69 | 0.00 |
| Coherence versus Knowledge | 118 | 0.69 | 0.0000 | 0.66 | 0.00 |
| Discipline versus Adaptive leadership | 118 | 0.69 | 0.0000 | 0.64 | 0.00 |
| Discipline versus Processes and Systems | 118 | 0.61 | 0.0000 | 0.53 | 0.00 |
| Discipline versus Values | 118 | 0.65 | 0.0000 | 0.57 | 0.00 |

6.4.3.1 Action versus adaptive leadership, processes and systems and knowledge

The data from the study showed a strong positive relationship existed between action and adaptive leadership ($r = 0.69$; $p = 0.0000$); action and processes and

systems ($r = 0.67$; $p = 0.0000$) as well as action and knowledge ($r = 0.58$; $p = 0.0000$). The Spearman correlation coefficient indicates an equally strong relationship ($\rho = 0.65$; $p = 0.00$) towards action and adaptive leadership; action and processes and systems ($\rho = 0.67$; $p = 0.00$) as well as action and knowledge ($\rho = 0.67$; $p = 0.00$). The correlation analysis and scatter-plots shown in Figures 6.18, 6.19 and 6.20 are indicative of a strong positive relationship between action and adaptive leadership; action and processes and systems as well as action and knowledge, as the respondents illustrated cluster in close proximity to the trend line.

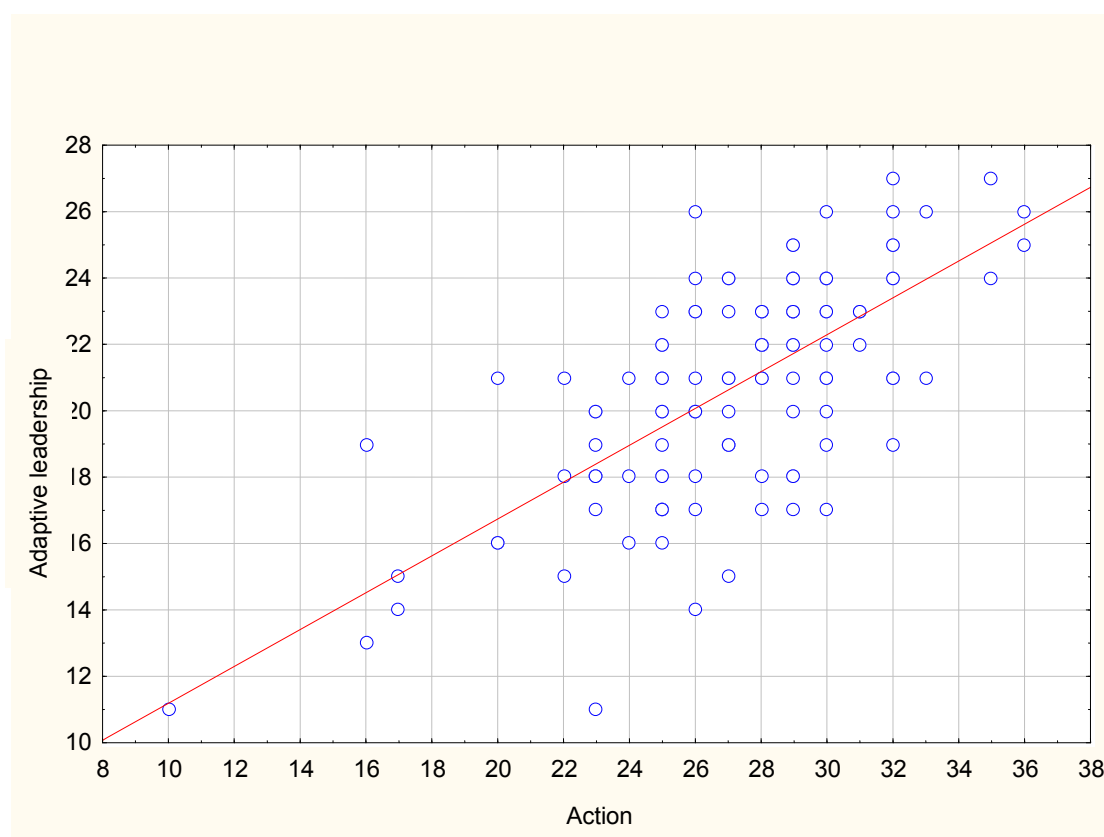


Figure 6.18: A scatter-plot representing the nature and strength of the relationship between action and adaptive leadership

In Chapter 3 (Section 3.2.5.2) Heifetz and Laurie (1997) suggest that the new economy leader is responsible for direction, protection, orientation, managing conflict, and shaping norms. Fulfilling these responsibilities is also important for a leader in technical or routine situations. But a leader engaged in adaptive work uses his or her authority to fulfill them differently. A leader provides direction by identifying the organisation's adaptive challenge and framing the key questions

and issues. A leader protects people by managing the rate of change. A leader orients people to new roles and responsibilities by clarifying business realities and key values. A leader helps expose conflict, viewing it as the engine of creativity and learning. Finally, a leader helps the organisation maintain those norms that must endure and challenge those that need to change.

Action, as defined by Hitt, Ireland and Hoskisson (2007), is the component of strategic leadership that determines strategic direction and exploits core competencies. Both these viewpoints suggest that the new economy leader needs to give strategic direction in the organisation and also needs to make sure that all the employees in the organisation have the competence and ability to perform. The data in this study (Table 6.7) confirmed the above literature as the respondents in this study also confirmed that a strong relationship exists in their organisations between action and adaptive leadership and that it is directly and positively associated with self-reported organisational performance.

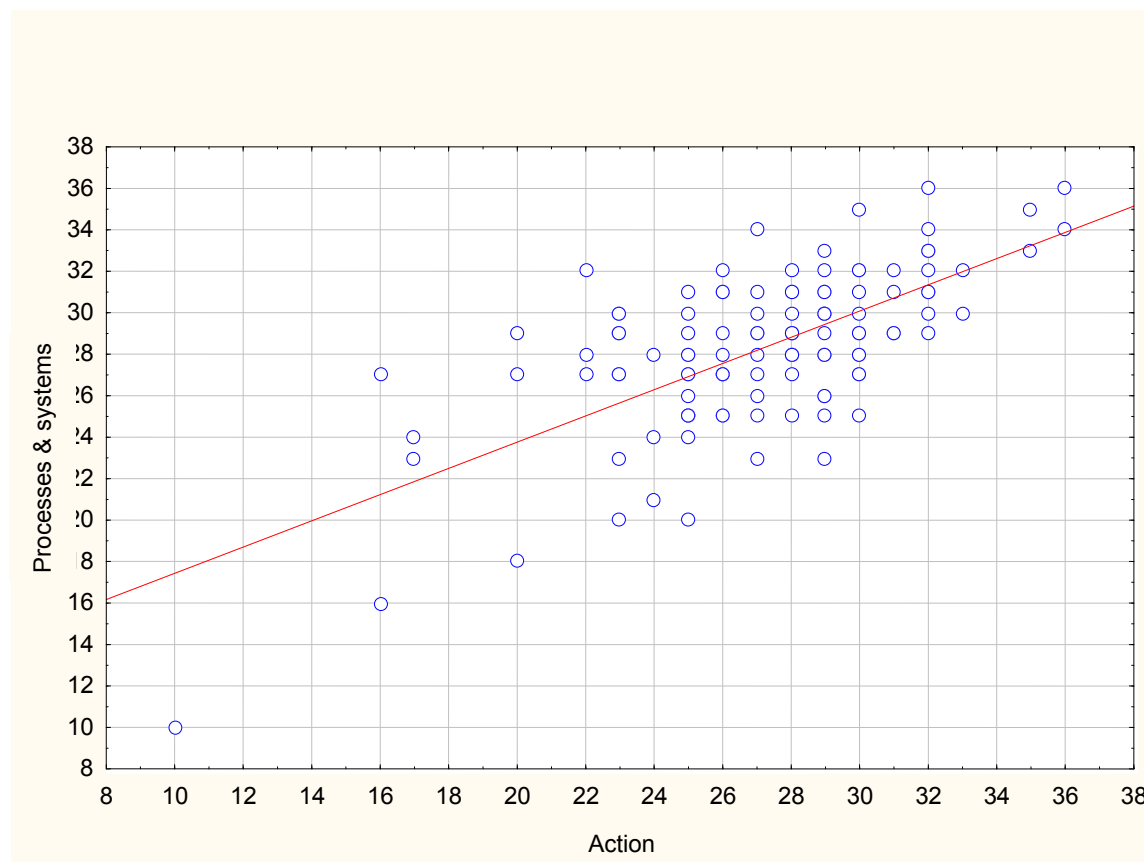


Figure 6.19: A scatter-plot representing the nature and strength of the relationship between action and processes & systems

In Figure 6.19 the relationship between action and processes and systems is displayed and the close cluster proximity to the trend line confirms the strong positive relationship between action and the implementation of effective processes and systems in the organisation.

These findings are supported by the literature, with Mintzberg (1994) arguing that a strategic leader should always be a learner. According to Dostal (2004), it is also vital for the strategic leader to have a *systems thinking* approach towards the future success of the organisation. Dostal (2004) argues that systems are holographic which means that one system's concept in an organisation contains the others. Strategic leaders, therefore, cannot truly understand one system concept in the organisation without understanding all the others. This means that strategic leaders should understand the "whole" organisation and all its complexities before they determine the strategic direction. If it does nothing else, the strategy process prepares the minds in the organisation for an uncertain future. As Louis Pasteur stated, "change favours the prepared mind" (Stewart, 2007:3).

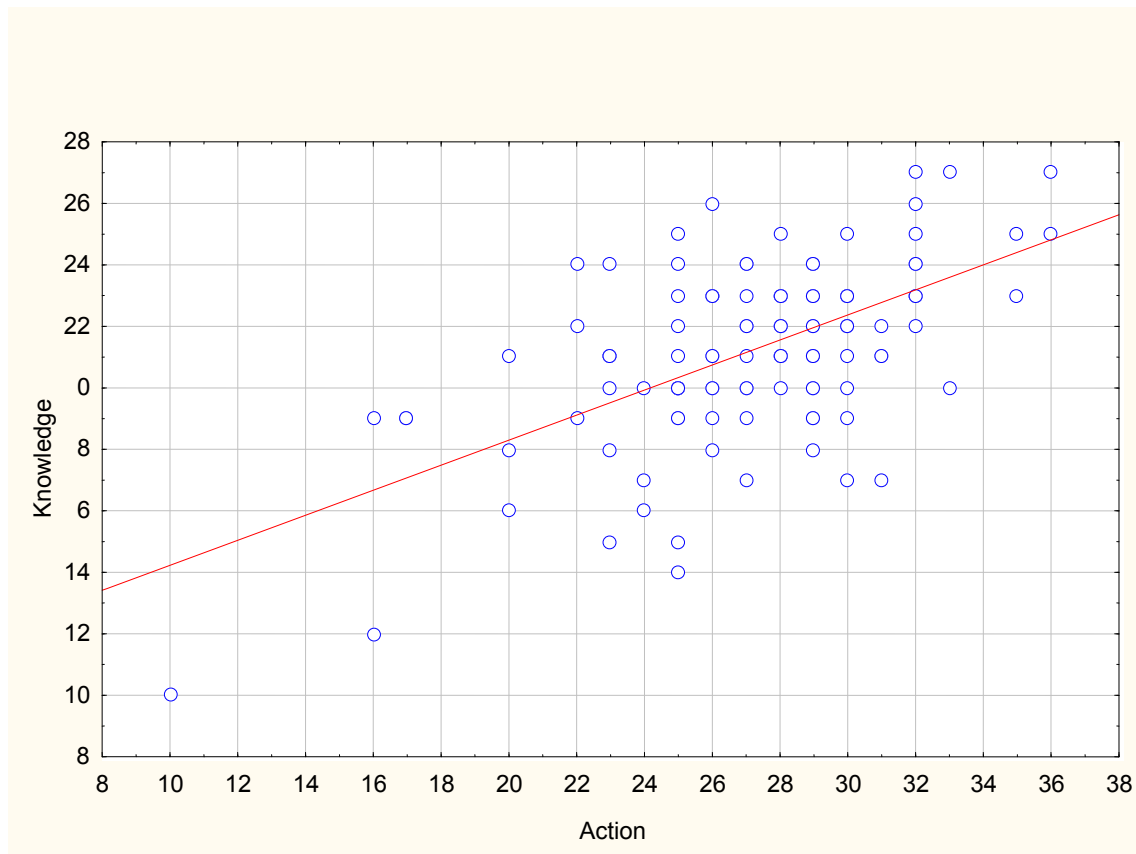


Figure 6.20: A scatter-plot representing the nature and strength of the relationship between action and knowledge

In Chapter 2 (2.6.2) Steward (1997:2) argues that: “Knowledge is shared and learning occurs through superior execution of the human tasks of sensing, judging, creating, and building relationships”. Leveraging knowledge requires a conscious commitment and access to a range of focused disciplines and business processes that pursue and mine the knowledge of the system. This occurs only when people respect knowledge as a lively and dynamic organism in its own right. Leveraging knowledge taps into the capacity of people to search for new insights that often occur outside the borders of their own more focused disciplines.

Leaders also need to cultivate decent doubt as the basis for continuous learning. Therefore, even the most respected specialist, needs to perpetually doubt whether he or she has really discovered the totality of knowledge in a particular arena. Needless to say, in an ever-expanding universe where every day sees the

equivalent of thousands of books being published, no one can afford to feel comfortable about their state of knowledge (Nel, 2008:260).

The very important relationship between action and knowledge, described by the literature above, has been confirmed with the strong, statistically significant relationship recorded in this study ($r = 0.58$; $p = 0.0000$). The Spearman correlation of 0.48 does not change the significance of this relationship.

6.4.3.2 Coherence versus autonomy, processes and systems and knowledge

The data from the study showed a strong positive relationship existed between coherence and autonomy ($r = 0.72$; $p = 0.0000$); coherence and processes and systems ($r = 0.69$; $p = 0.0000$) as well as coherence and knowledge ($r = 0.69$; $p = 0.0000$). The Spearman correlation coefficient indicated an equally strong relationship ($\rho = 0.66$; $p = 0.00$) towards coherence and autonomy; coherence and processes and systems ($\rho = 0.69$; $p = 0.00$) as well as coherence and knowledge ($\rho = 0.69$; $p = 0.00$). The correlation analysis and scatter-plots shown in Figures 6.21, 6.22 and 6.23 are indicative of a strong positive relationship between coherence and autonomy; coherence and processes and systems as well as coherence and knowledge, as the respondents illustrated the cluster in close proximity to the trend line.

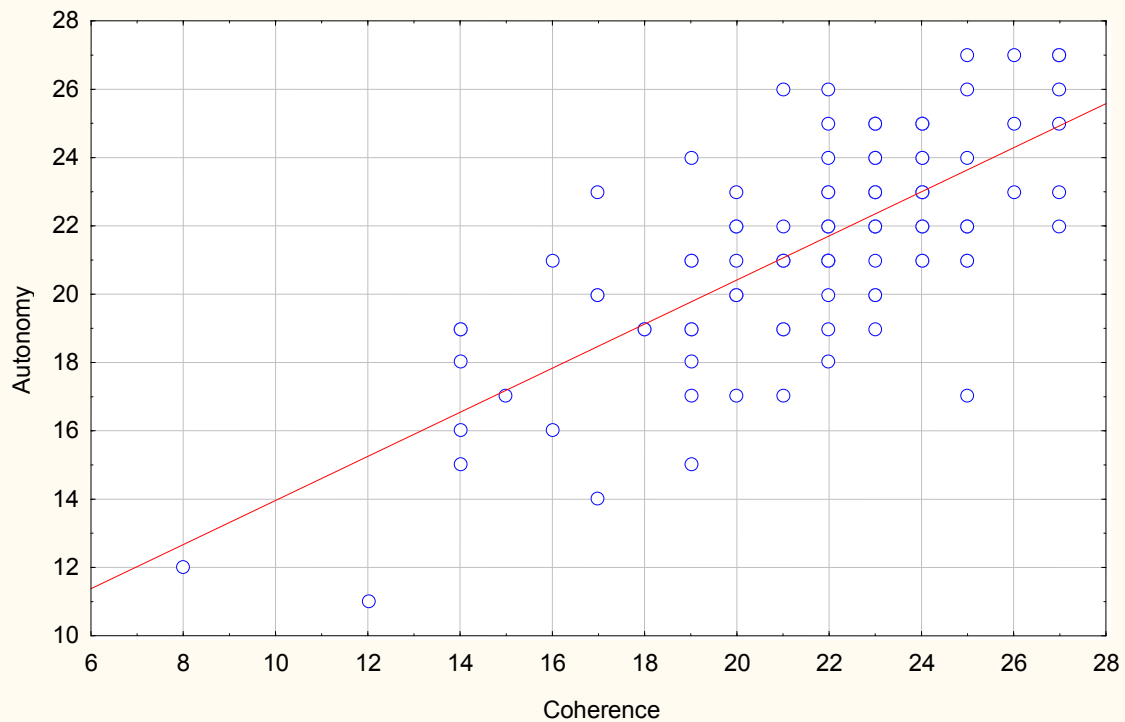


Figure 6.21: A scatter-plot representing the nature and strength of the relationship between coherence and autonomy

The strong and positive relationship between coherence and autonomy ($r = 0.72$), as shown in Figure 6.21, is supported by the literature where Nel (2008:264) stated that: “The world has moved from a command and control paradigm to a new leadership model that is based upon command and connect. The forces of democratisation mean that a few leaders ‘at the top’ can no longer make the majority of important decisions”. The new economy does not tolerate this any longer. It acknowledges that there are risks involved in giving people the freedom and accountability to make and implement decisions, but it relies on a range of competitive workplace practices to minimise risk. And, even if exposure to risk does result in a percentage of errors, this is viewed as a necessary prerequisite to learning.

Autonomy is started when the leaders in an organisation realised that they were inhibiting the performance of the organisation by not allowing members of the

workforce to make a multitude of decisions for which they felt accountable. Leaders should shift their insights and start to involve others in decision-making.

Leaders should simply shift from telling people what was expected to involving them in discussions about decisions. However, leaders should still have specific even if unspoken outcomes in mind. Leaders should move from telling people what their views were, to forcing them to guess what they were. This is the only way that leaders will realise that they have started to truly liberate people to exercise their personal initiative, take charge of making and implementing decisions, and making mistakes.

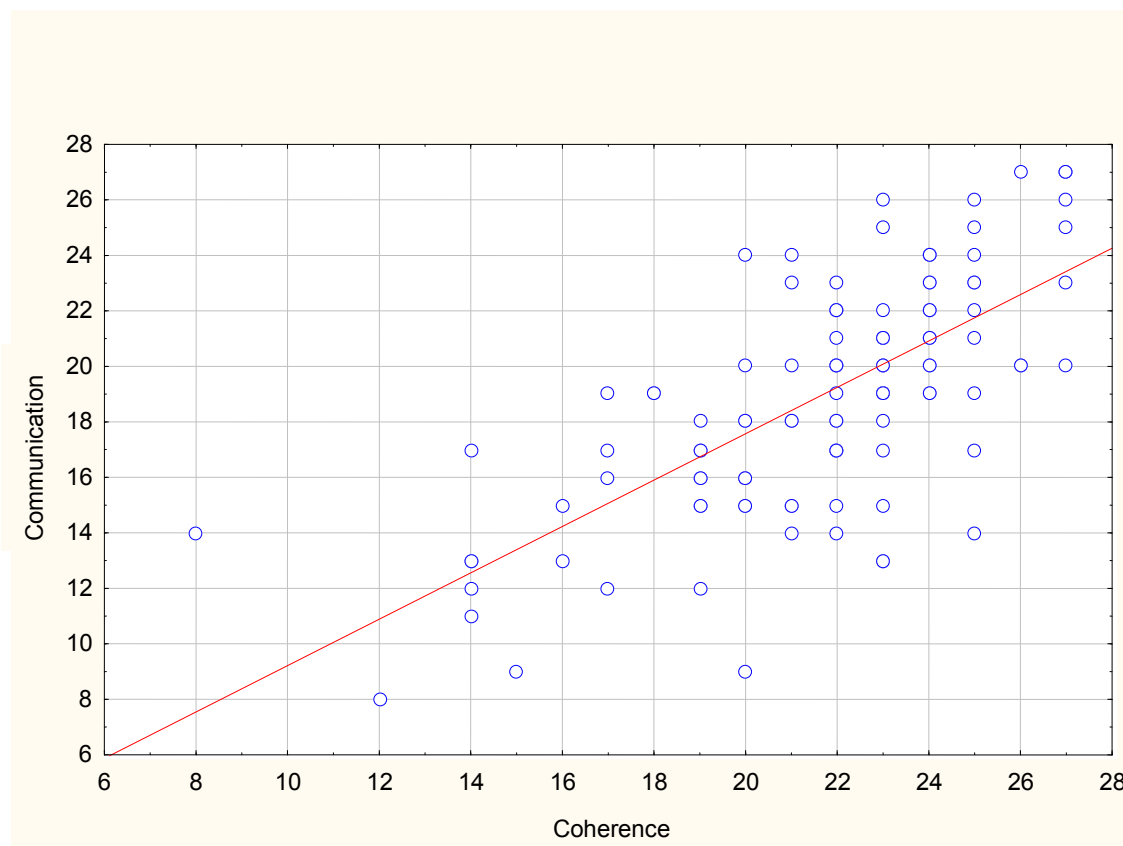


Figure 6.22: A scatter-plot representing the nature and strength of the relationship between coherence and communication

According to Hitt, Ireland and Hoskisson (2007), coherence can be defined as the component of strategic leadership that maintains core competencies, develops human capital and emphasises ethical practices. Good communication on the

other hand is also extremely important for the performance of all employees in the organisation. People need to be informed at all levels. All planning processes are, at the core, vehicles for communication with employees at all levels and between business units. This is particularly true of processes that tackle problems that exist in the organisation. Smart organisations emphasise such communication. At John Deere, for instance, corporate planners say that the quality of senior executives' communications with divisions is the most important indicator of the effectiveness of the strategy planning (Stewart, 2007:4).

In figure 6.22, the positive relationship between coherence and communication that was recorded in this study ($r = 0.69$; $p = 0.0000$) confirmed the positive relationship between leadership understanding and the practice of good communication skills and that all employees should maintain and develop this core competence.

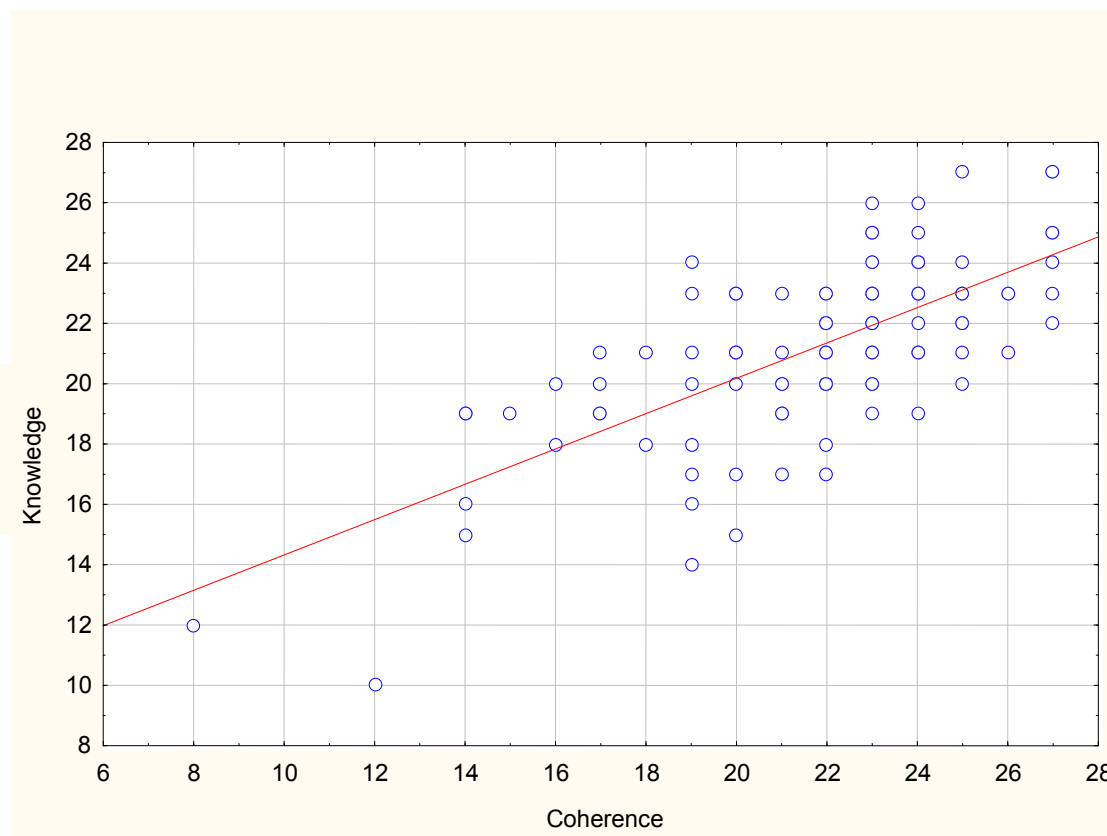


Figure 6.23: A scatter-plot representing the nature and strength of the relationship between coherence and knowledge

As indicated above in Figure 6.23, a strong positive relationship ($r = 0.69$; $p = 0.0000$) was recorded between coherence and knowledge. This statistically significant relationship is supported by several academics and practitioners.

Leaders, who enable an everyday learning and knowledge-sharing environment, add to the total value of organisations. The countries and organisations that have bought into this crucial characteristic of learning and sharing experience in an open, robust and often almost ruthless manner. The successes and failures of organisations and individual leaders are front-page stories in popular magazines and journals. Successful business leaders attain the same high profile exposure and following as pop and movie stars – at least within the relevant community. The democratic principles of transparency, accountability, and publicly communicated standards are woven through the approaches to knowledge.

Old economy mindsets operate from behind screens of secrecy, there is an unwillingness to be quoted, a fear that operational secrets will be exposed and enable competitors to steal a lead, and a general closed-minded mentality that maintains laagers and silos – both within and outside the organisation.

6.4.3.3 Discipline versus adaptive leadership, processes and systems and values

The data from the study confirmed that a strong positive relationship existed between discipline and adaptive leadership ($r = 0.69$; $p = 0.0000$); discipline and processes and systems ($r = 0.61$; $p = 0.0000$) as well as discipline and values ($r = 0.65$; $p = 0.0000$). The Spearman correlation coefficient indicated an equally strong relationship ($\rho = 0.64$; $p = 0.00$) towards discipline and adaptive leadership; discipline and processes and systems ($\rho = 0.53$; $p = 0.00$) as well as discipline and values ($\rho = 0.65$; $p = 0.00$). The correlation analysis and scatter-plots shown in Figures 6.24, 6.25 and 6.26 are indicative of a strong positive relationship between discipline and adaptive leadership; discipline and processes and systems as well as discipline and values, as the respondents illustrated the cluster in close proximity to the trend line.

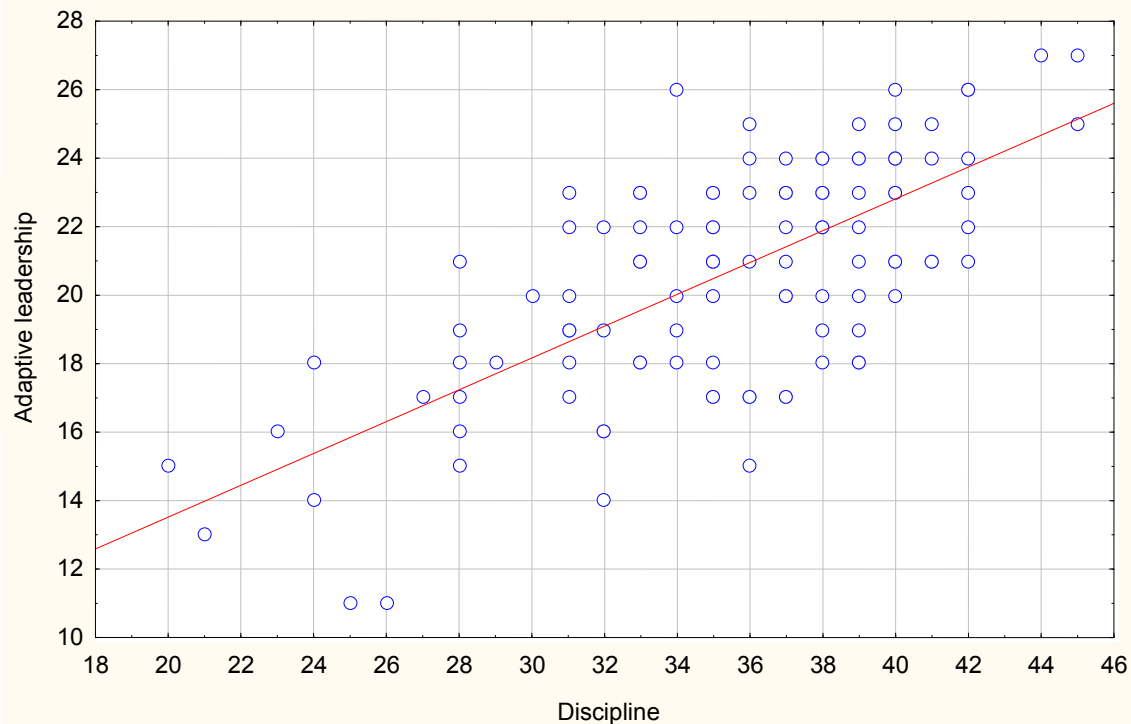


Figure 6.24: A scatter-plot representing the nature and strength of the relationship between discipline and adaptive leadership

As mentioned previously in this Chapter (6.5.1.4), discipline has been defined by Hitt, Ireland and Hoskisson (2007) as the component of strategic leadership that involves the establishment of strategic controls and sustaining an effective corporate culture. This statement by Hitt, Ireland and Hoskisson (2007) is very closely related to the adaptive leadership that is required when our deeply held beliefs are challenged, when the values that made us successful become less relevant, and when legitimate yet competing perspectives emerge. Heifetz & Lurie (1997:124) confirmed that: “Adaptive challenges are seen every day at every level of the workplace when companies restructure or reengineer, develop or implement strategy, or merge businesses. Adaptive challenges are also seen when marketing has difficulty working with operations, when cross functional teams do not work well, or when senior executives complain. We do not seem to be able to execute effectively. Adaptive problems are often systemic problems with no ready answers”.

Heifetz & Larie (1997:124) further argued that: "Mobilising an organisation to adapt its behaviors in order to thrive in new business environments is critical. Without such change, any organisation today would falter. Indeed, getting people to do adaptive work is the mark of leadership in a competitive world. Yet for most senior executives, providing leadership and not just authoritative expertise is extremely difficult. Why? First, in order to make change happen, executives have to break a long-standing behavior pattern of their own: providing leadership in the form of solutions. This tendency is quite natural because many executives reach their positions of authority by virtue of their competence in taking responsibility and solving problems. But the locus of responsibility for problem solving when an organisation faces an adaptive challenge must shift to its people. Solutions to adaptive challenges reside not in the executive suite but in the collective intelligence of employees at all levels, who need to use one another as resources, often across boundaries, and learn their way to those solutions".

This study has, indeed, confirmed the statistically significant relationship between discipline and adaptive leadership ($r = 0.69$; $p = 0.0000$). The Cronbach alphas of both discipline (0.75) and adaptive leadership (0.72) also confirm the reliability of these constructs as they are significantly higher than the threshold of 0.5.

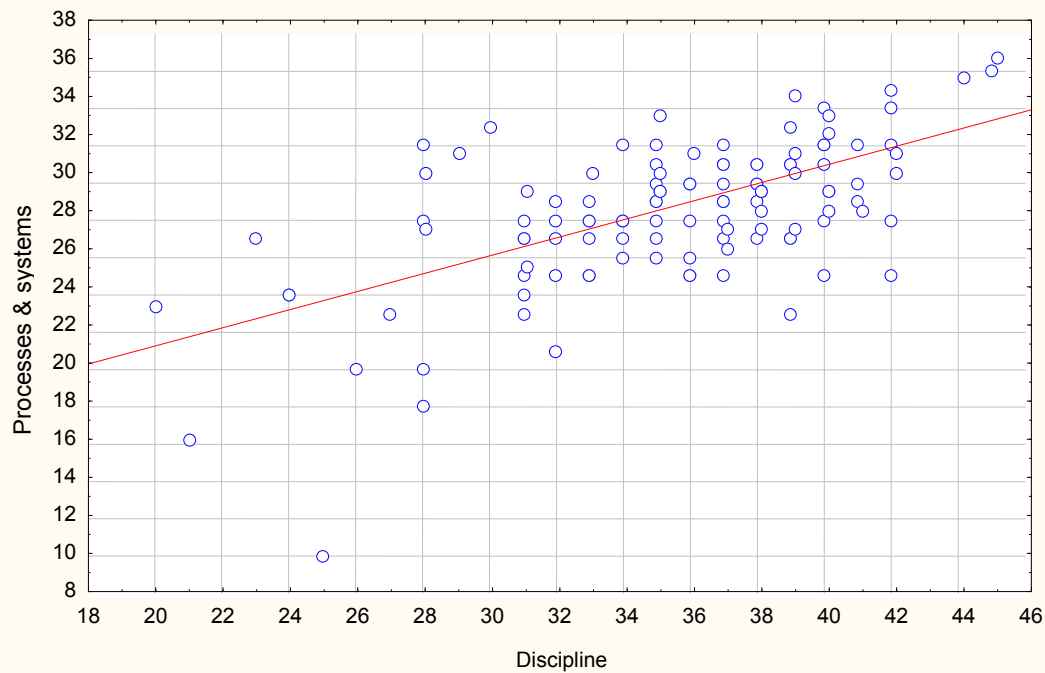


Figure 6.25: A scatter-plot representing the nature and strength of the relationship between discipline and processes and systems

The results in this study represented a strong, positive relationship between discipline and processes and systems ($r = 0.61$; $p = 0.000$). This was confirmed by Stewart (2005) in Chapter 3 (3.3.4) who argued that, one should consider a business as a complex adaptive system populated by purposeful, interdependent people and organisations., The other reality is that we have little *control* over people, other organisations, many processes or events.

This is sobering stuff for those who are of the opinion that they control much of what happens in and around their business! This takes quite a lot of oomph out of the planning, organising and controlling paradigm of management and leadership. Although we can influence, we do not have the ability accurately to predict the behaviour of others, of the system of which we are part nor of other systems!

Absence of control does not mean we cannot influence; those one cannot, are the contextual environment of the business, those one can influence are in the

transactional environment. Leadership now becomes the ability to influence those we do not control! In reality, people will self organise according to the implicit and explicit rules of behaviour of the organisation, irrespective of conventional organisation charts and reporting structures. The embedded *culture*, which may bear no relationship to the espoused values of the organisation, determines how people behave and organise themselves and their relationships. This is one reason why organisations are *policy resistant* and game playing and apparently aberrant or counter-intuitive behaviour occurs.

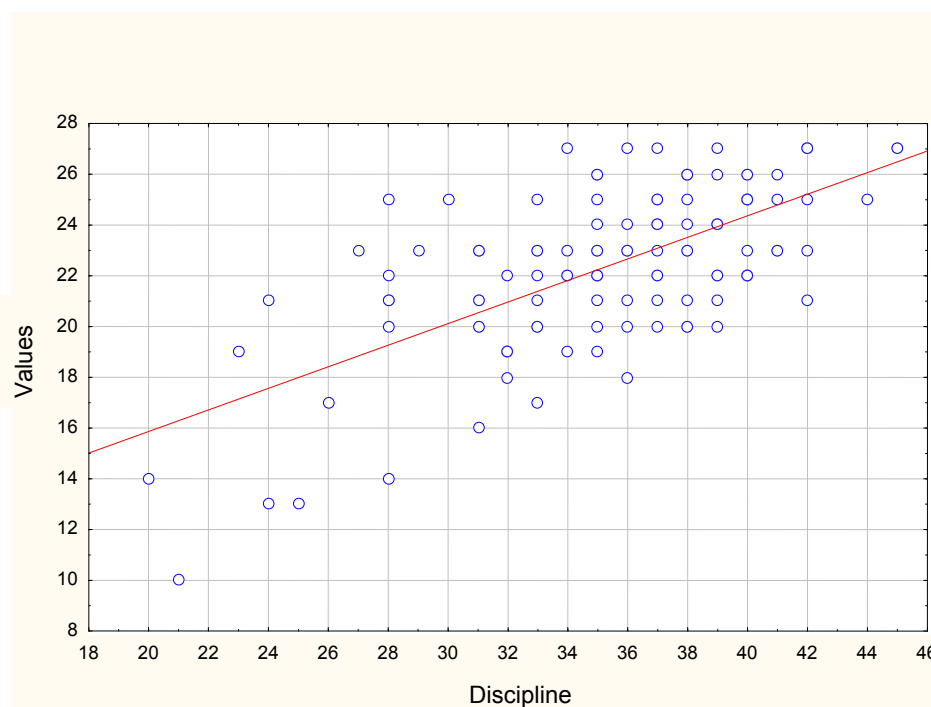


Figure 6.26: A scatter-plot representing the nature and strength of the relationship between discipline and values

Quinn (1988:85) stated that: “The competing values framework reflects distinctly different perceptual biases that influence how we see social action”. The shift from the old to the new economy is above all else a transformation of values. It signifies a powerful, if slow, shift from one large system of values to another that is to all intents mutually exclusive. One of the reasons that so many attempts at creating a transformation of organisational leadership and culture is because leaders underestimate what it takes to shift the behaviours that demonstrate a true

transformation of values. Executive teams sometimes participate in a workshop where they brainstormed the “new” values for the organisation. These then get published in the organisation’s news letter, sometimes captured in glossy brochures, and even put up as posters all over the organisation. That is as far as it often goes. Many leaders underestimate the primary task to make the values part of the entire organisation. As a consequence they often fail to recognise the extent to which existing organisational and leadership practices reinforce the old values, even while they may be sincere in wanting to make a meaningful and lasting impact.

Apart from the above literature suggesting the strong and positive correlation between discipline and values, the data from this study confirmed this relationship with a statistically significant correlation ($r = 0.65$; $p = 0.0000$).

Based on the correlation analysis and scatter-plots shown in Figures 6.18 to 6.26, hypotheses two in Chapter 1 (Section 1.5.1) can be assessed. Null hypothesis two (H_{02}) contends that no relationship exists between strategic leadership and operational strategy orientation. The alternative hypothesis (H_{A2}) is, therefore, that a relationship exists between strategic leadership and organisational performance. As indicated in Figures 6.18 to 6.26, there is a strong positive statistically significant relationship between strategic leadership and organisational performance. Based on this finding the null hypothesis is not supported. By implication, the respondents who participated in this study confirmed that strategic leadership is directly and positively associated with the organisational performance in business organisations in South Africa.

6.5 SUMMARY

This chapter dealt with the findings of the research study. The profile of the sample was the top 200 performing organisations of 2008, as published by the Financial Mail. A total number of 118 valid responses (of the sample of 200) were received with a response rate of 59 percent. More than 67 percent of organisations had an annual turnover of between 1 and 15 billion rands and the

majority of the sample organisations (72.61%) employed between 1 and 5000 employees.

Descriptive analysis was used to describe the data by comparing and discussing the mean and standard deviations. Cronbach's alpha coefficient analysis was used to determine the internal consistency reliability of the constructs. Only one construct (knowledge – 0.43) has been measured marginally lower than the acceptable threshold of 0.5. The reliability of all the other constructs has been measured as consistently acceptable as all of their ratings were higher than the acceptable threshold of 0.5.

Correlation analysis and Spearman correlation coefficient analysis have been used to determine the relationship between strategic leadership and strategy orientation. The relationship between the two indicated a strong, positive relationship between strategic leadership and strategy orientation.

The relationship between strategic leadership and operational excellence was also measured with correlation analysis and the Spearman correlation coefficient analysis. All the relationships were measured as strong, positive except for actions versus product differentiation which measured a weak, positive relationship ($r = 0.40$; $p = 0.0001$).

Finally the relationship between strategic leadership and organisational performance was also measured with the correlation analysis and the Spearman correlation coefficient. Both these analyses have recorded a positive, statistically significant relationship between strategic leadership and organisational performance. These findings have also been suggested and supported by the literature in Chapters 2, 3 and 4.

Based on the Cronbach alphas, the correlation analysis and scatter-plots as shown in Figures 6.8 to 6.26, both hypotheses one and two in Chapter 1 (Section 1.5.1) can be assessed. Null hypothesis one and two (H_{01} and H_{02}) contends that no relationship exists between strategic leadership and operational strategy orientation as well as strategic leadership and organisational performance. The

alternative hypothesis (H_{A1} and H_{A2}) is, therefore, that a positive relationship exists between strategic leadership and operational strategy as well as between strategic leadership and organisational performance. As indicated in Figures 6.8 to 6.26, there is a strong, positive statistically significant relationship between strategic leadership and operational strategy. There is also a strong, positive relationship between strategic leadership and organisational performance. Based on these findings, the null hypothesis is not supported. By implication, the literature and the respondents who participated in this study, confirmed that strategic leadership is directly and positively associated with the operational strategy and organisational performance in business organisations in South Africa. The empirical research done in this chapter, supplemented the theory surrounding strategic leadership by suggesting that if leadership in organisations formulate and execute their strategies effectively, this strategic competitiveness will give them an advantage to survive in a turbulent and uncertain economy. It also suggested that if organisations manage their costs effectively and focus on product differentiation and the integration of their people, they will perform well and yield above average returns.

In the next chapter, the objectives and main findings of the study are summarised, conclusions drawn and brief recommendations are made.

CHAPTER 7

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

7.1 INTRODUCTION

Over the past 14 years numerous economic and political reforms in South Africa have created a turbulent and rapidly changing environment for South African business organisations and executives. Strategic leadership literature suggests that hostile and multi-faceted environments serve as stimuli for leaders in business organisations to engage in operational strategy and strategic leadership practices to enhance the performance of their organisations. Limited research has thus far been conducted on the impact of strategic leadership on the performance of business organisations in South Africa. Therefore, as explained in Chapter 1, the purpose of this study was to address the research gap in the strategic leadership field in South Africa by determining the impact of strategic leadership on the operational strategy and organisational performance of business organisations.

In this chapter, a synopsis of the study is provided, the findings are summarised and conclusions are drawn. The focus then shifts to the recommendations and opportunities for further research. The chapter concludes with an overview of the contribution of the study, being the assessment of the impact of strategic leadership in business organisations in the South African context.

7.2 OBJECTIVES OF THE STUDY

The main objective of the study was to address the research gap in the strategic leadership field, by answering the research question: ***How does strategic leadership influence the operational strategy and organisational performance of business organisations in South Africa?***

By means of the literature review and empirical study, the study aimed to:

- ascertain whether certain organisational characteristics (size and turnover) influence strategic leadership;
- establish how strategic leadership influences the strategy orientation of organisations;
- determine the relationship between strategic leadership and operational excellence; and
- determine the relationship and impact of strategic leadership on organisational performance.

When the study commenced, limited previous research had been conducted in South Africa, and no previous doctoral study focused on the impact of strategic leadership on operational strategy and organisational performance in business organisations in South Africa. The planned contribution of this study was to provide business leaders with a clear perspective on the importance of strategic leadership practices in their organisations and how they can influence the operational strategy and performance in their organisations.

7.3 THEORETICAL OVERVIEW

A literature review was conducted to construct a theoretical model of the impact of strategic leadership on operational strategy and organisational performance. Subsequently, hypotheses were formulated to assess how effective strategic leadership practices can influence the operational strategy orientation as well as the performance of organisations.

In their review of strategic leadership literature, Boal and Hooijberg (2000) made the distinction that supervisory theories of leadership are about leadership within an organisation but that strategic leadership is of an organisation. In Chapter 2 the scope and overview of strategic leadership were analysed.

The differences between high performing strategic leadership practices in the 20th and the 21st centuries are also presented in Chapter 2. Leaders who work hard at

implementing practices associated with 21st century strategic leadership will create a competitive advantage for their organisations. The competitive advantages resulting from the work of leaders as members of organisational communities, will allow organisations to improve their operational excellence and performance in a global environment.

Strategic leaders should use their experience and knowledge to predict future challenges. This focus is very important, given that the future constitute new and important competitive frontiers. Major reversals in the trend toward democratisation of countries' markets and their accompanying political structures could have significant implications for strategic leaders and their organisations. Leaders should focus on information that will help them to predict changes in the global environment.

Executives in such organisations should, therefore, view themselves as strategic leaders as well as managerial leaders. They should not focus only on the constraining influence of financial controls but rather on strategic controls. Chapter 2 concluded with the proposition that strategic leadership requires for visionary leadership and managerial leadership to coexist to the benefit of the whole organisation. The ability of strategic leaders to change their organisations to adapt to the environment in which they operate, is extremely important (Rowe, 2001:82) as shown in Table 2.1.

In Chapter 3, a literature review was done on the inter-relationship between leadership, strategy and organisational performance. Finkelstein (1996) has discussed the importance of strategic leadership on organisational performance but suggested that there are a number of possible direct and indirect ways it may influence the performance of an organisation.

It was also revealed in Chapter 3 that effective strategic leadership is a prerequisite to successfully using the strategic management process. Strategic leadership entails the ability to anticipate events, envision possibilities, maintain flexibility, and empower all employees to create strategic change.

The definite relationship among the leadership's characteristics, an organisation's strategies, and its performance was analysed and it was also determined that when the board of directors and the leadership in the organisation are involved in shaping an organisation's direction, the organisation generally improves its performance. Effective strategic leadership has five major components: determining the organisation's strategic direction, effectively managing the organisation's resources, sustaining an effective organisational culture, emphasising ethical practices and establishing balanced organisational controls and measurements of performance.

It was confirmed in Chapter 3, that a critical element of strategic leadership and effective implementation of the strategy is the ability of leadership to manage and utilise the organisation's resource portfolio. This includes integrating resources to create capabilities and leveraging those capabilities through strategies to build competitive advantages and high performance. As indicated in Chapter 3, perhaps the most important resources are human capital and social capital.

Finally it was analysed (in chapter 4), that South African business organisations have made good progress from 1999 to 2003 by implementing high performance strategic leadership practices, "but nothing to be happy about" (Nel & Beudeker, 2009:17). For this reason, the rest of this study focused on the empirical research on the impact of strategic leadership on the operational strategy and performance in South African business organisations.

7.4 RESEARCH METHODOLOGY

The research problem was investigated by applying the methodology outlined in Chapter 5. This study was an empirical cross-sectional telephone survey and the sample selected for this study was the top 200 organisations as published in the Financial Mail of 2008. A pilot study was conducted with 51 senior managers who were part of the Senior Management Development Programme (SMP) of the University of Stellenbosch Business School. The purpose of a pilot study was to ensure that respondents have no difficulties in answering the questions and that there will be no problems in recording the data. As a result of the strategic nature

of this study, the key respondents targeted for the final sample were chief executive officers or a member of the executive team. A total of 118 of the possible 200 valid responses were received with a response rate of 59 percent, which is above average to other empirical studies of this nature.

The development of the questionnaire is detailed in Section 5.3.4. The collected data were analysed by descriptive and inferential statistics. The inferential statistics were used to assess the hypotheses and objectives of the study. Reliability and validity issues were addressed in Section 5.6.

7.5 SUMMARY OF MAIN FINDINGS

The main findings are summarised in this section and address the hypotheses and objectives of the study.

7.5.1 THE INFLUENCE OF ORGANISATIONAL CHARACTERISTICS ON STRATEGIC LEADERSHIP

All the sample organisations were listed with the JSE and formed part of the top 200 organisations as published in the Financial Mail of 2008. These organisations performed very well on their internal rate of return (IRR) but since IRR is not a good indicator for strategic leadership, ROA and EPS have been used. The average ROA for the sample organisations was 10.33 percent which is an acceptable result. This is an indication that the leadership has a strong focus on the vision and strategy of the organisation. The average EPS for the sample organisations was 25.00 percent which was also a good indicator of the focus of high performing leadership practices.

In this study, size, (as an organisational characteristic) did not have an influence on strategic leadership practices, as 72.61 percent of the sample organisations only employed between 1 and 5000 employees and only 29.2 percent organisations employed more than 10 000 employees. Strategic leadership is, therefore, unrelated to the size of an organisation's tangible assets and its market power position. Even when size, market power and listing status are controlled for,

strategic leadership still explains variation in an organisation's performance. Strategic leadership is also more likely to occur in turbulent business environments and within listed organisations.

7.5.2 THE RELATIONSHIP BETWEEN STRATEGIC LEADERSHIP AND OPERATIONAL STRATEGY

As mentioned in Chapter 1, operational strategy includes strategic (directional) orientation and operational excellence of the organisation. The relationship between strategic leadership and strategy orientation was found to be statistically significant as the dimensions of strategic leadership (action, coherence and discipline) all measured between 0.62 and 0.76 with p-values of 0.0000 as indicated by the correlation analysis. The Spearman coefficient correlation analysis confirmed this relationship (ρ = between 0.62 and 0.74; p-values of 0.00).

The **creation and formulation of a compelling strategy** is extremely important for any business organisation as it determines the future direction of the organisation as well as exploits the core competencies of the employees. In this study it was also confirmed that organisations need to develop their human capital in order to perform according to the new goals and direction. The respondents in the study also confirmed the importance of establishing effective strategic controls and to sustain a corporate culture that emphasises ethical practices.

According to Stewart (2007) the sobering fact is that less than 10 percent of strategies effectively formulated are effectively implemented. The **execution of the strategy** is, therefore, critically important. In this study the very important relationship between strategic leadership and the execution of the strategy was confirmed by the respondents. Through this, the sample organisations acknowledged that they need to establish strategic controls to make sure that the strategy is effectively executed. There also needs to be a corporate culture that all the employees understand the strategy and also know what their role is to make the strategy work.

This study confirmed the relationship between strategic leadership and **operational excellence** in business organisations in South Africa as the results of the correlation analysis showed strong positive relationships between strategic leadership and cost management as well as strategic leadership and integration (refer to hypothesis 1). The study did, however, reveal a weak positive relationship between strategic leadership and **product differentiation**. The price leader position seems to be a danger as it can quickly become a commodity seller position, which leads to a lower ROA. This is consistent with Porter's (1996) contention that operational effectiveness is not strategy. Therefore operational excellence is best seen as a basis, and perhaps a prerequisite, for the growth orientated strategies of product leadership and integration of the functional areas of the organisation.

Cost management has always been one of the major challenges in business organisations and it has a direct and indirect impact on the operational effectiveness of the organisation. Even if the organisation has an acceptable or high turnover and it does not have the ability to manage and control the costs, the organisation will find it very difficult to survive. This is even more applicable in the current turbulent environment where the global economy is heading towards a recession. The strong positive relationship between strategic leadership and cost management was confirmed in this study.

Finally, it was confirmed in this study that leadership must have the discipline to create a culture and environment where all people and departments in the organisation have the ability to **integrate** their competencies, initiatives and skills.

7.5.3 THE RELATIONSHIP BETWEEN STRATEGIC LEADERSHIP AND ORGANISATIONAL PERFORMANCE

The literature in this study asserted that high performance strategic leadership practices will help organisations to enhance their performance while competing in changing environments. The literature was empirically confirmed in South African business organisations with the correlation analysis done in this study on the relationships between strategic leadership constructs and self reported

organisational performance dimensions. All the constructs of strategic leadership and self reported organisational performance measured a strong, positive statistically significant relationship.

Adaptive leadership showed a strong, positive relationship with strategic leadership, which confirms the importance of leaders engaging in adaptive work by providing direction and protects the employees by managing the rate of change. The respondents also confirmed the importance of the leaders' ability to orient people to their new roles and responsibilities. The leader should also help the people in the organisation to maintain those norms.

Autonomy, also referred to as work discretion, showed the strongest significant relationship with strategic leadership of all the self reported performance dimensions. This means that the leadership's ability and discipline to permit employees to make decisions about performing their work in a way they believe is most effective is extremely important. This is even more challenging in a diverse South African business environment, where strategic leaders of the sample organisations confirmed the importance of this relationship.

The data from this study confirmed the statistically significant and strong relationship between strategic leadership and effective **processes and systems** in the organisation. The literature in this study suggested that the business is a complex, adaptive system populated by purposeful, interdependent people. The leadership, therefore, needs to understand the whole system in the organisation as one system concept in an organisation contains the others. The study suggested that it is therefore no longer just the products that are important, it is the *process* that is important.

The Cronbach alpha for **communication** was measured as the highest in the study at 0.90 which confirms the reliability of this construct. The importance of good communication in business organisations was suggested by the literature and confirmed by this study for business organisations in South Africa. In order to perform, people at all levels need to be informed as all planning processes are, at the core, vehicles for communication.

This literature in this study found that **values** is especially relevant not just for top-level executives, but for all employees, who constantly need to balance demands from their stakeholders, the market, because it highlights the leader's and all the people in the organisation's capability to change. The empirical data in this study confirmed this notion as values showed a consistent positive relationship with strategic leadership. The test for first-rate leaders in business organisations in South Africa is, therefore, the ability to exhibit contradictory or opposing behaviours while still maintaining some measure of integrity, credibility and direction.

In this study the relationship between strategic leadership and **knowledge** was measured as statistically significant and positive (refer to hypothesis 2). The literature, through Rudnitsky (1996:56), suggested that: "We are in the knowledge business". Leaders in business organisations in South Africa confirmed that an organisation's productivity will lie more in its collective capacity to gain and use knowledge, rather than in its hard assets such as land, plant and equipment.

7.5.4 AN INTEGRATED MODEL OF THE INFLUENCE OF STRATEGIC LEADERSHIP ON OPERATIONAL STRATEGY AND ORGANISATIONAL PERFORMANCE

The proposed model below (Figure 7.1) is based on the following principles:

- It is associated with scientific and un-biased research;
- The model is relevant in a South African context;
- Indicates a strong and positive relationship between key concepts of the leadership and strategy domains.

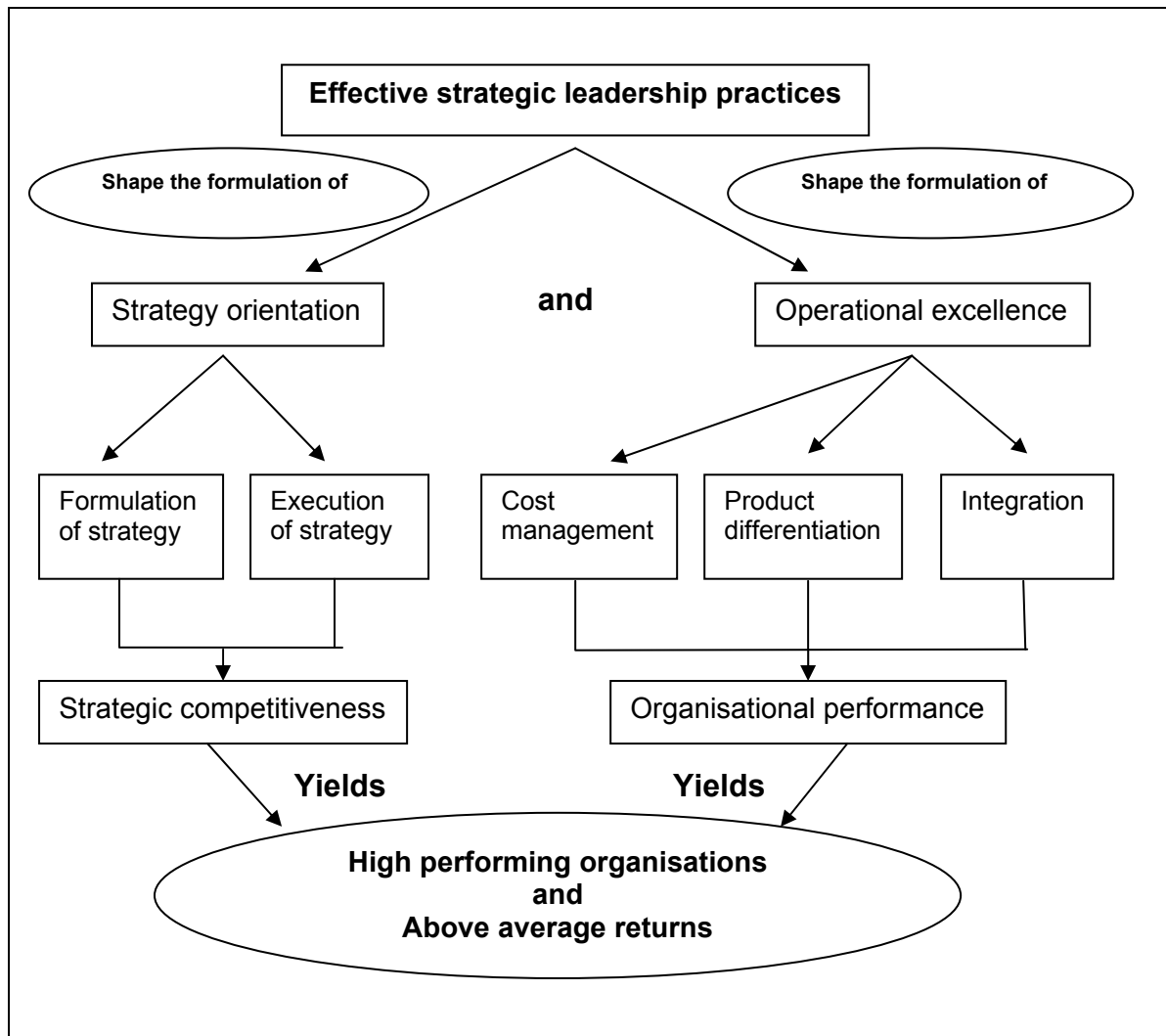


Figure 7.1: Proposed model of the impact of strategic leadership on operational strategy and organisational performance of business organisations in South Africa

The literature and statistical analysis in this study showed that effective strategic leadership practices are directly and indirectly positively associated with operational strategy and organisational performance. In Figure 7.1, this relationship is illustrated and an integrated model is proposed.

The model further illustrates and proposes possible solutions to the research question of how strategic leadership can influence the operational strategy and organisational performance of business organisations in South Africa. The model suggests that effective strategic leadership practices shape and formulate a strategy orientation as well as the operational excellence of the organisation. This

will result in the formulation of compelling strategies and will also ensure the effective control measurements to execute these strategies. This will ensure the strategic competitiveness of the organisation.

Operational excellence organisations have disciplined cost management processes and a value orientation that will enable the organisation to produce its products and services at a lower cost than its nearest competitor. In this model, operational excellence also suggests the integration of all the employees in such a way that they have the willingness and ability to innovate and perform.

The last section in the model confirms that if effective strategic leadership practices are followed by the leadership in those organisations, it will yield successful new economy organisations with above average returns.

7.6 RECOMMENDATIONS

This study contributes to supplementing the existing theory on strategic leadership and its impact on the performance of organisations. The managerial value is found in the following recommendations underpinned by the findings of this study.

The findings of this study underline that strategic leadership is directly and indirectly positively associated with operational strategy and organisational performance of business organisations in South Africa. Organisations that want to improve their performance need to implement effective strategic leadership practices. With the research confirming that strategic leadership is more likely to occur in turbulent business environments and with listed organisations, the findings indicate that, in the current turbulent and difficult world economy, it is highly recommended for leaders in business organisations in South Africa to engage in the following high performing strategic leadership practices:

- Leadership interventions to improve strategic leadership need to focus on strategy orientation as well as operational excellence verified in this study. These actions will ensure the strategic competitiveness and performance of their organisations.

- Leaders, managers, management consultants, industry bodies and other researchers should use the measurement instruments developed and verified in this study to measure these phenomena in the South African context. The questionnaire developed to measure the impact of strategic leadership on operational strategy and organisational performance in business organisations in South Africa was shown to be reliable.
- Strategic leadership theories developed in the first-world countries need to be assessed and adapted in the South African business environment before their validity is accepted. This proved to be the case in the measurement of strategic leadership in this study with the current turbulent economic environment in South Africa. There is now, more than ever, the need for strategic leaders in business organisations in South Africa who can explore the opportunities in this diverse and exciting environment.
- Finally, future research should refine the measurement of the impact of strategic leadership on the operational strategy and performance of business organisations in South Africa. Improved measures could lead to better model specification.

7.7 LIMITATIONS OF THE STUDY AND OPPORTUNITIES FOR FUTURE RESEARCH

Although this study aimed to make a significant contribution to the body of knowledge on strategic leadership and its impact on operational strategy and organisational performance, certain areas still need to be explored or expanded. Based on the outcomes of this research, the following limitations are stated and opportunities for future research on strategic leadership are outlined:

Using only one respondent per organisation was a limitation of this study, since it is possible that the use of more respondents per organisation could have provided a different picture and result of the implementation of strategic leadership practices. This study is nevertheless a step towards providing insight in the

implantation of strategic leadership practices in business organisations in South Africa. Future research should incorporate views of other executives and business leaders who are also responsible for the formulation and execution of the strategy in their organisations.

Using only the top 200 organisations as published in the Financial Mail of 2008 as the sample has also been a limitation of this study. These organisations were selected because they were already performing very well and although the aim of this study was to measure the impact of strategic leadership on the performance of business organisations, the measurement of strategic leadership on non-performing organisations could have given other insights to the implantation of strategic leadership. It might be worth to pursue similar studies in the public sector.

It would be useful to replicate this study in other emerging economies to verify to what extent strategic leadership practices are being used to enhance the organisations in those markets. It is worth pursuing the question: to what extent culture and diversity affects the implementation of strategic leadership.

This research in South African organisations is an early attempt to understand the complex nature of the relationship between strategic leadership and operational strategy and organisational performance and to operationalise some of the key constructs. The insights though consistent with the literature need to be replicated with other samples and organisations.

7.8 CONCLUSION

The main contribution of this study was the assessment that strategic leadership is directly and positively associated with operational excellence and performance in business organisations in South Africa. The managerial implications of the proposed model constructed in the study are that leadership and executives in business organisations are able to implement high performing strategic leadership practices to enhance the strategy orientation and operational excellence in their organisations.

This study also supplemented the theory surrounding strategic leadership by suggesting that if organisations formulate and execute their strategies effectively, this strategic competitiveness will give them an advantage to survive in an turbulent and uncertain new economy. It also suggested that if organisations manage their costs effectively and focus on a product differentiation and the integration of their people, they will perform well and yield above average returns.

The study identified several avenues for further research by using different research methods and examining the impact of strategic leadership in different contexts. Future researchers should examine the impact of strategic leadership on the operational strategy and performance in different business sectors as well as in public organisations in order to have a holistic view on the impact of strategic leadership on the performance of organisations in South Africa with its diverse and uncertain environment.

Competition in the remainder of the 21st century's global economy will be complex, challenging and filled with competitive opportunities and threats. This study asserted that effective strategic leadership practices could help organisations enhance their performance while competing successfully in the turbulent and unpredicted South African environment.

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APPENDICES

APPENDIX 1: UNIVERSITY OF STELLENBOSCH LETTER



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Departement Ondernemingsbestuur
Department of Business Management

5 January 2009

To Whom It May Concern

SURVEY: THE IMPACT OF STRATEGIC LEADERSHIP ON THE OPERATIONAL STRATEGY AND PERFORMANCE OF BUSINESS ORGANISATIONS IN SOUTH AFRICA

The pace and urgency of daily demands can make it difficult to be more than the step ahead into the future. But in a world of changing conditions and priorities, leaders and individual contributors alike must be able to look beyond the “now” and take a more strategic leadership approach to their work and responsibilities. Without effective strategic leadership, the probability that an organisation can achieve superior, or even satisfactory, performance when confronting the challenges of the global economy will be greatly reduced.

Against this background, Mr. Kobus Serfontein, a PhD student at the University of Stellenbosch, is conducting research on the possible direct and indirect ways that strategic leadership may influence the performance in business organisations in South Africa. We ask your support in this regard.

The interview and accompanying questionnaire has been designed for easy completion and should take between 7 and 9 minutes to complete. We are aware that this will entail a sacrifice on your part. Your willingness to participate in this survey is highly appreciated.

Your honest response in answering the questions would be greatly appreciated. All correspondence will be treated with the utmost confidentiality. Should you have any additional queries, please do not hesitate to contact me directly at jhough@sun.ac.za.

A copy of the final research report will be available on the website, via a secure username and password to all respondents. If so required, the research report could be followed up with a detailed analysis of your organisation in comparison with the industry. We truly appreciate your valuable contribution to the knowledge base on the impact of strategic leadership on the performance of business organisations in South Africa.

Sincerely

Prof. Johan Hough (Promoter)
Department of Business Management
University of Stellenbosch

APPENDIX 2: QUESTIONNAIRE SURVEY

Topic: THE IMPACT OF STRATEGIC LEADERSHIP ON THE OPERATIONAL STRATEGY AND PERFORMANCE OF BUSINESS ORGANISATIONS IN SOUTH AFRICA

The questionnaire forms part of a PhD study conducted under supervision of the Department of Business Management of the University of Stellenbosch and will be used for **academic purposes ONLY**. Your responses will be kept confidential and used as data for model assessment. The name of your organisation will not be used. Your responses will not be published in any way that the organisation or you can be identified.

The purpose of the study is to determine the impact of strategic leadership on the operational excellence strategy orientation and performance and of business organisations in South Africa. Your organisation is part of the 200 Top Performing organisations in South Africa as published in the Financial Mail of 2008 and therefore forms part of the sample of this study.

THE FOLLOWING QUESTIONS WILL BE ASKED BY THE TELEPHONE INTERVIEWER AS THEY APPLY TO THE OPERATIONS IN YOUR ORGANISATION

A. ORGANISATIONAL BACKGROUND

A1. What is the annual turnover of your organisation?

(Amount)

A2. Number of South African employees (FTE)

(Number)

B: QUESTIONS ON STRATEGIC LEADERSHIP

B1. The ability of your organisation to adapt to a changing business environment

(For each statement, rate one number between 1 and 9 to indicate the extent to which it describes the current practice in your organisation.)

- a. Processes and implementation plans are developed to support change
- b. Reasons for change initiatives are communicated well
- c. Processes are implemented to address human resistance to change
- d. Formal monitoring processes are being used to identify and resolve problems
- e. There are clear consequences for not implementing change
- f. There exist a bold and aggressive posture in making decisions
- g. There exist a strong emphasis on research and development

B2. Your organisations view on employee relations and corporate culture

(For each statement, rate one number between 1 and 9 to indicate the extent to which it describes the current practice in your organisation.)

- a. Negotiations take place in an atmosphere of good faith
- b. Worker grievances are normally settled promptly
- c. The relationship between employees and leadership is very good

C. QUESTIONS ON OPERATIONAL EXCELLENCE STRATEGY ORIENTATION

C1. The strategic process in your organisation:

(For each statement, rate one number between 1 and 9 to indicate the extent to which it describes the current practice in your organisation.)

- a. Processes are in place that enable people at all levels to influence strategy formulation
- b. All areas in the organisation understand and interpret the strategy in the same way
- c. Leadership personally ensure that the strategy is understood by people at all levels
- d. People at all levels are well informed with regard to the practical implications of the strategy
- e. Well entrenched and formal processes are in place to facilitate the implementation of the strategy
- f. All senior managers share a common opinion about the strategic challenges
- g. Policies and procedures are aligned to the strategy

C2. The ability of your organisation to execute the formulated strategy.

(For each statement, rate one number between 1 and 9 to indicate the extent to which it describes the current practice in your organisation.)

- a. The strategic decisions nearly always result from extensive quantitative analysis of data.
- b. The strategic decisions are nearly always detailed in formal written reports
- c. Your leadership rely principally on experienced-based intuition when making major operating and strategic decisions

C3. Execution of your strategy in your functional areas

(For each statement, rate one number between 1 and 9 to indicate the extent to which it describes the current practice in your organisation.)

- a. Your organisation is excellent at integrating and coordinating cross-functional activities
- b. The employees are enabled to be flexible and responsive to changes
- c. Your employees are enabled to develop initiatives that are difficult for your competitors to quickly imitate

- d. Employees are enabled to selectively adopt and customize best practice

C4. Your organisation's competitive strategy?

(For each statement, rate one number between 1 and 9 to indicate the extent to which it describes the current practice in your organisation.)

- a. Ability to increase operating efficiencies
- b. Develops new process innovations that reduce costs.
- c. Tailors and shapes products/services to fit customers' needs.
- d. Produce a continuous stream of state-of-the-art products/services.
- e. Is 'first in the market' with new products/services.
- f. Develop products/services which are considered the best in the industry.
- g. Produce products/services at a cost level lower than that of your competitors.
- h. Manage costs effectively

D: QUESTIONS ON ORGANISATIONAL PERFORMANCE

D1. The capabilities which contributes to the performance in your organisation.

(For each statement, rate one number between 1 and 9 to indicate the extent to which it describes the current practice in your organisation.)

- a. Your organisation has aligned employee values.
- b. Individuals and work teams accept responsibility for operational decision-making and performance improvement.
- c. Your organisation is a value based organisation
- d. Your organisation applies high standards of integrity and openness in everything you do.
- e. Our organisation is able to effectively balance short term and medium term issues.
- f. Time is a critical organisational value.
- g. Your organisation's ability to implement ideas and strategies.
- h. All employees are involved in learning programs.
- i. Applies a strong systems perspective investing in policies, procedures and standards.
- j. Employees understands the financial and non-financial performance information they need to excel.
- k. Your organisation has identified their competitive capabilities
- l. All employees know how their individual efforts contribute to organisation success.
- m. Talented employees stay in your organisation
- n. Respect is a critical organisational value

D2. Self reported performance measures available in your organisation

(For each statement, rate one number between 1 and 9 to indicate the extent to which it describes the current practice in your organisation.)

- a. Employee satisfaction and retention measures.
- b. An integrated financial and non financial performance measurement exist (balanced scorecard).