

# 10 Creating wealth in organizations: The role of strategic leadership

W. Glenn Rowe

## Executive Overview

*Wealth creation in entrepreneurial and established organizations is a complex, challenging task in today's global and technologically advancing business environment. Strategic leadership enhances the wealth-creation process in entrepreneurial and established organizations, and leads to above-average returns. On the other hand, managerial leadership will likely lead to average returns at best, but is most likely to achieve below-average returns and destroy wealth. Organizations led by visionaries who are not properly supported by strong managerial leadership may destroy wealth even more quickly than organizations led by managerial leaders. This article defines strategic leadership, differentiates among the concepts of strategic, visionary, and managerial leadership, and examines the differential links between the three types of leadership and wealth creation. When organizations restore strategic control and allow the development of a critical mass of strategic leaders, these leaders will be a source of above-average returns. The result will be wealth creation for the employees, customers, suppliers, and shareholders of entrepreneurial and established organizations.*

Without effective strategic leadership, the probability that a firm can achieve superior or even satisfactory performance when confronting the challenges of the global economy will be greatly reduced.

—R. Duane Ireland and Michael A. Hitt<sup>1</sup>

As the entrepreneurial CEO of Starbucks, Howard Schultz's strategic choices have completely changed the gourmet coffee market in which Starbucks operates.<sup>2</sup> When he bought Starbucks from its original owners in 1987, there were six stores and 100 employees. By 1996, Starbucks had grown to 1,300 stores and 25,000 employees, and was operating in North America and Japan. By the end of fiscal year 1999, Starbucks had 2,498 stores (363 were licensed stores and the rest company-owned) and 35,620 employees, with operations expanded into Canada and the United Kingdom. Sales and profits grew by more than 50 percent per year for six consecutive years, and stock price rose tenfold from 1992 to 1997. These growth rates have slowed since 1997,

but are still impressive, with sales and profits increasing 29 percent and 50 percent, respectively, from 1998 to 1999. Schultz's philosophies exemplify those of a strategic leader. His number one priority is to take care of his employees, since they are responsible for communicating passion to Starbucks' customers. He believes that if his employees do this well, Starbucks will accomplish its mission of educating consumers everywhere about fine coffee and creating an atmosphere that will draw people into their stores and "give them a sense of wonder and romance in the midst of a harried life."<sup>3</sup> In addition, the firm will provide long-term growth in shareholder value. From 1992, the year Starbucks went public, to 1998, its market value added (MVA) grew from \$0.41 billion to \$4.26 billion—an increase in shareholder wealth of \$3.85 billion.<sup>4</sup> Such growth exemplifies a firm with a strategic leader.

Strategic leadership is the ability to influence others to voluntarily make day-to-day decisions that enhance the long-term viability of the organization,

while at the same time maintaining its short-term financial stability. Visionary leadership is future-oriented, concerned with risk-taking, and visionary leaders are not dependent on their organizations for their sense of who they are. Under visionary leaders, organizational control is maintained through socialization and the sharing of, and compliance with, a commonly held set of norms, values, and shared beliefs. Managerial leadership involves stability and order, and the preservation of the existing order. Managerial leaders are more comfortable handling day-to-day activities, and are short-term oriented. (See Table 1.)

The stunning MVAs<sup>5</sup> produced by Microsoft (\$420 billion), GE (\$360 billion) and Coca-Cola (\$169 billion) from their inception until the end of 1998 suggest that

Bill Gates<sup>6</sup> and Jack Welch are strategic leaders, and that the late Robert Goizueta<sup>7</sup> was a strategic leader. I am not arguing that because they had stunning MVAs they are strategic leaders. I hope to demonstrate that they had stunning MVAs because they were strategic leaders. The continued destruction of shareholder wealth by organizations such as General Motors (MVA a negative \$17.9 billion at the end of 1998) and K-Mart (MVA a negative \$1 billion at the end of 1998) suggests a lack of strategic leadership and, at best, the presence of only managerial leadership. The lack of strategic leadership and the prevalence of managerial leadership is one of the most important issues facing organizations today. Unless board members, CEOs, and top management teams understand this issue, and the differences among

**Table 1**  
**Strategic, Visionary, and Managerial Leadership**

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

managerial, visionary, and strategic leaders, the problem will persist.

Leadership is a very broad topic, and has a somewhat tarnished reputation in some constituencies.<sup>8</sup> However, some experts believe that leaders make a difference. Franco Bernabe, the CEO of Eni, Italy's large integrated energy company, stated: "And I realized that leaders could make a difference. They could transform situations that seemed impossible." And researchers Sayan Chatterjee, Michael Lubatkin, and William Schulze argue: "Our field's theory, research, and pedagogy are based on the intuition that management matters: firms, through calculated actions, can protect their earnings from market forces in ways that are valuable to investors."<sup>9</sup> I believe that the type of leadership that can do this best is strategic leadership. Ireland and Hitt<sup>10</sup> define strategic leadership as the "ability to anticipate, envision, maintain flexibility, think strategically, and work with others to initiate changes that will create a viable future for the organization." This article presents a different definition of strategic leadership. In addition, it differentiates among the concepts of managerial leadership, visionary leadership, and strategic leadership. Further, some constraints on strategic leadership are discussed. Finally, the impact of managerial, visionary, and strategic leadership on wealth creation is presented.

### Strategic Leadership Defined

The Greek word *strategos* means a general in command of an army. Strategy—the psychological and behavioral skills with which a general functions—came to mean the art of the general. By 450 B.C., the definition had evolved to include managerial skills, such as administration, leadership, oratory, and power. And by 330 B.C., the word meant the ability to employ forces to defeat opposing forces and to develop a unified system of global governance.<sup>11</sup> In this article, strategic leadership is defined as the ability to influence others to voluntarily make day-to-day decisions that enhance the long-term viability of the organization, while maintaining its short-term financial stability.

This definition is different from Ireland and Hitt's in that it explicitly includes the concept of voluntary decision-making, and focuses on the present as well as the future. Managers and employees make decisions every day as they interact with each other and stakeholders, especially customers, suppliers, and the communities in which they operate. Are these decisions in accord with the strategic direction of the organization? Will they enhance the future viability of the organization as

well as short-term financial stability? Relying on managers and employees to voluntarily make decisions that benefit the organization means that senior management will not have to expend as much effort on monitoring and controlling employees, and will have more capacity to examine what the organization needs to do in both the short and long terms. On the other hand, if managers and employees do know the strategic direction of the organization, they may inadvertently make decisions that damage the organization. In addition, if they do know the strategic direction and want to do damage to the organization in some small way, they may voluntarily make decisions that hurt the organization. This requires a greater effort at monitoring and controlling and less effort on what needs to be done for short- and long-term viability. Influencing employees to voluntarily make decisions that enhance the organization is the most important part of strategic leadership. Tichy writes that "when you can't control, dictate or monitor, the only thing you can do is trust. And that means leaders have to be sure that the people they are trusting have values that are going to elicit the decisions and actions that they want."<sup>12</sup>

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The definition of strategic leadership presented above presumes an ability to influence subordinates, peers, and superiors. It also presumes that the leader understands the emergent strategy process that some authors consider more important than the intended strategic planning process for organizational performance.<sup>13</sup> The decisions voluntarily made and the actions voluntarily taken by managers and employees on a day-to-day basis eventually determine what strategy emerges. Strategic leaders understand and use this process to ensure the future viability of their organizations. Strategic leadership presumes a shared vision of what an organization is to be, so that the day-to-day decision-making, or emergent strategy process, is consistent with this vision. It presumes agreement among corporate and divisional senior managers on the opportunities that can be taken advantage of, and the threats that can be neutralized, given the resources and capabilities of the organization.<sup>14</sup> 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 organizations so that the environment in which their organizations operate will also change.<sup>15</sup> In the next two sections, the concepts of managerial and visionary leadership are discussed. A major portion of this discussion is based on a classic article by Zaleznik.<sup>16</sup>

### Managerial Leadership

Most managers exercise managerial leadership. For several reasons, organizations implicitly and explicitly train their people to be managerial leaders. Diversified business organizations are more likely to do this. Governments train their people to be managerial leaders even more than do business organizations, the result of public accountability for every penny spent, the diversification of government, the political context of reelections, and, for most governments, an enormous debt load.<sup>17</sup> 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 organizations, but the nature of the organizations 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 organization has come from, and are deeply embedded in the history and culture of the organization.<sup>18</sup> Jack Welch and the late Roberto Goizueta argued that there has to be insensitivity to the past.<sup>19</sup> Managerial leaders are sensitive to the past.

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Managerial leaders view work as a process that enables some combination of ideas and people to interact to establish strategies and make decisions. In this process, they negotiate, bargain, and use rewards, punishment, or other forms of coercion. Managerial leaders relate to people according to their roles in the decision-making process. They relate to how things get done. Managerial

leaders may lack empathy. They may seek out involvement with others, but will maintain a low level of emotional involvement in these relationships. Managerial leaders need order, not the chaos potentially inherent in human relations. They see themselves as regulators and conservators of the current state of their organization's affairs, and personally identify with this existing order. Strengthening and perpetuating their existing institutions enhances the self-worth of these managers. For example, if people feel that they are members of an institution and contributing to that institution's well-being, they may consider that a mission in life has been fulfilled and may feel rewarded for having measured up to an ideal. This reward may far surpass material rewards and fulfill desires for personal credibility that is achieved by identifying with existing organizations. If this is true, managerial leaders in institutions in which they have devoted their careers may feel as if they are being ripped apart after the organizations are restructured.<sup>20</sup>

Managerial leaders influence only the actions and decisions of those with whom they work.<sup>21</sup> They are involved in situations and contexts characteristic of day-to-day activities<sup>22</sup> and are concerned with, and more comfortable in, functional areas of responsibilities. They possess more expertise about their functional areas.<sup>23</sup> Managerial leaders may make decisions that are not subject to value-based constraints.<sup>24</sup> This does not mean that they are not moral, ethical people, but that, as managers, they may not include values in their decision-making because of such pressures as being financially controlled. These leaders engage in, and support, short-term, least-cost behavior activities, to enhance financial performance figures in the short term.<sup>25</sup> They focus on managing the exchange and combination of explicit knowledge and on ensuring compliance to standard operating procedures.<sup>26</sup> They use a linear thought process. Finally, managerial leaders believe in determinism—what they do is determined by their organization's internal and external environments.<sup>27</sup> Managerial leadership is similar in some ways to transactional leadership.<sup>28</sup>

It needs to be emphasized that being a managerial leader is not bad and that organizations need managerial leadership. However, it is possible that too many organizations are led by managerial leaders and that managerial leaders do not create wealth. They will at best maintain wealth that has been created, and may even be a source of wealth-destruction in the long term if they are the predominant leadership type in their organization.

## Visionary Leadership

Visionary leadership is being touted as the cure for many of the ills that affect organizations in today's fast-changing environment.<sup>29</sup> Unfortunately, visionary leaders are not readily embraced by organizations, and, unless they are supported by managerial leaders, may not be appropriate for most organizations. Being visionary and having an organizational 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. Visionary leaders have attitudes toward goals that are opposite to those of managerial leaders. They are relatively more proactive, shaping ideas as opposed to reacting to them. Visionary leaders exert influence in a way that determines the direction an organization will take by evoking images and expectations, altering moods, and establishing specific desires and objectives. Their influence changes the way people think about what is possible, desirable, and necessary. Visionary leaders strive to develop choices and fresh approaches to long-standing problems. They create excitement in work. Visionary leaders work from high-risk positions, and seek out risky ventures, especially when the rewards are high. They are concerned with ideas and relate to people in intuitive and empathetic ways. Their attention is on what events and decisions mean to people. With visionaries in charge, human relations are more turbulent, intense, and sometimes even disorganized. This may intensify individual motivation and produce positive or negative unanticipated outcomes. Visionary leaders feel separate from their environment, and sometimes from other people. They work in, but do not belong to, organizations. Their sense of who they are does not depend on their work, roles, or memberships, but on their created sense of identity. This identity may result from major events in their lives.<sup>30</sup>

Visionary leaders influence the opinions and attitudes of others within the organization.<sup>31</sup> They are concerned with insuring the future of an organization through the development and management of people.<sup>32</sup> Visionaries embed themselves in complexity, ambiguity, and information overload.

Their task is multifunctional and they have a much more complex integrative task.<sup>33</sup> Because of this they come to know less than their functional area experts about each of the several areas for which they are responsible.<sup>34</sup>

Visionaries are more likely to make decisions that are based on values<sup>35</sup> and more willing to invest in innovation, human capital, and creating and maintaining an effective culture to ensure long-term viability.<sup>36</sup> Visionary leaders focus on tacit knowledge and develop strategies as communal forms of tacit knowledge that promote the enactment of a vision.<sup>37</sup> They utilize nonlinear thinking and believe in strategic choice—that their choices make a difference in what their organizations do and these differences affect their organizations' environment.<sup>38</sup>

Visionary leadership is future-oriented and concerned with risk-taking, and visionary leaders are not dependent on their organizations for their sense of who they are. Under these leaders, organizational control is maintained through socialization and the sharing of, and compliance with, a commonly held set of norms, values, and shared beliefs. In some senses, visionary leadership is similar to the inspirational component of transformational leadership.<sup>39</sup> Organizations need visionary leadership to ensure their long-term viability; however, organizations that are led by visionaries without the constraining influence of managerial leaders are probably more in danger of failing in

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the short term than those led by managerial leaders. Visionary leaders are willing to risk all and in doing so may create wealth. However, visionaries may also invest more in their vision than the returns warrant, and, without the constraining influence of managerial leaders, could destroy wealth.

One solution for organizations is a combination of managerial leaders and visionaries to lead organizations, with visionaries having more influence than managerial leaders.<sup>40</sup> A better solution is to have an individual who can exercise both visionary and managerial leadership. But Zaleznik argues that leaders and managers are different, and that no one person can exercise both types of leadership simultaneously.<sup>41</sup> He suggests that visionary leaders and managerial leaders are at op-



FIGURE 1  
Zaleznik's Single Continuum of Visionary and Managerial Leadership

posite 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. (See Figure 1.)

This is not an unreasonable perspective when we consider the following. Managerial leaders want stability and order, and to preserve the existing order, whereas visionary leaders want creativity, innovation, and chaos, and to change the existing order. If an organization is in a transition phase driven by a vision of what it should be to maintain and enhance long-term viability, it is very hard on those who are managerial leaders. The organization they have worked so hard to build and which is part of their identity is being ripped apart and put together as something that they are very uncomfortable with because they do not know what it is going to be. Under visionary leaders, this will be more the norm than the stability and order experienced under managerial leadership. In fact, the environment being created by today's technological and global forces is one of change and complexity. Kotter suggests that organizations need leaders to cope with change, and managers to cope with complexity.<sup>42</sup>

I believe, contrary to Zaleznik, that visionary and managerial leadership are two separate constructs. Having said this, it is necessary to reiterate and emphasize that both visionary and managerial leadership are vital for long-term viability and short-term financial stability. As I said earlier, visionary leadership without managerial leadership may be more detrimental to creating organizational wealth in the short term<sup>43</sup> than having only managerial leadership. Having visionary and managerial leadership can be accomplished by having the two different organizational mindsets coexist, but with visionary being more influential than managerial; however, an organization will be more viable in the long term and better able to maintain its financial stability in the short term, if strategic leadership is prevalent in that organization. To conceptualize strategic leadership, I contend that visionary leadership and managerial leadership must be viewed as separate continuums. (See Figure 2.) This depicts strategic leadership as a synergistic combination of visionary and managerial leadership that is not possible under Zaleznik's thinking.<sup>44</sup>

### Strategic Leadership

There are three categories of people—the person who goes into the office, puts his feet up on his desk, and dreams for twelve hours; the person who arrives at 5 A.M. and works for 16 hours, never once stopping to dream; and the person who puts his feet up, dreams for one hour, then does something about those dreams.

—Steven J. Ross, former chairman and co-CEO of Time Warner<sup>45</sup>

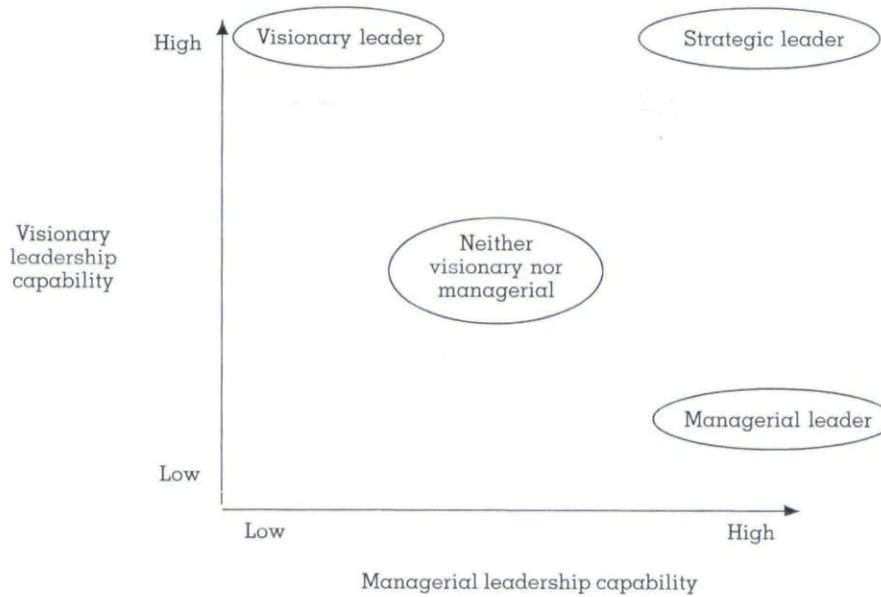
As Steven Ross suggested, strategic leaders are different from managerial and visionary leaders. They dream and do something about their dreams. They are a synergistic combination of managerial leaders who never stop to dream, and visionary leaders, who only dream. A strategic leader will probably create more wealth than a combination of a visionary leader and a managerial leader.<sup>46</sup> Managerial leaders emphasize the organization's short-term financial stability. Consequently, they maintain the existing order and do not invest in innovations that will change the organization and enhance organizational wealth in the long term. Visionary leaders emphasize the long-term viability of the organization. They want to change and be innovative to create wealth in the long term. Unfortunately, if not subject to some constraining influence, they may make an investment that will destroy organizational wealth in the short term. As suggested earlier, combining these two leadership types may develop a team of two or more individuals who may provide strategic leadership and

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create wealth for the organization. However, one individual who can synergistically combine the qualities of a manager and a visionary will enhance long-term viability and maintain short-term financial stability. These strategic leadership



**FIGURE 2**  
A Dual Continuum of Managerial, Visionary, and Strategic Leadership

types will create the most wealth for their organizations. (See Figure 3.)

Strategic leaders emphasize ethical behavior.<sup>47</sup> They are very rare in most organizations.<sup>48</sup> They oversee day-to-day operating and long-term strategic responsibilities.<sup>49</sup> Strategic leaders formulate and implement strategies for immediate impact and the preservation of long-term goals to enhance organizational growth, survival, and viability. They use strategic controls and financial controls, with emphasis on the former.<sup>50</sup> Strategic leaders have strong, positive expectations of the performance that they expect from their superiors, peers, subordinates, and themselves. They utilize and interchange tacit and explicit knowledge on both the individual and organizational levels,<sup>51</sup> and they use both linear and nonlinear thinking patterns. Finally, they believe in strategic choice—that their choices make a difference in what their organizations do, and that this will affect their organizations' internal and external environments.<sup>52</sup>

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Strategic leaders manage the paradox created by managerial and visionary leadership models. They use metaphors, analogies, and models to allow the juxtaposition of apparently contradictory concepts by defining boundaries of mutual coex-

istence. They guide the organizational knowledge-creation process by encouraging the organization's capability to combine individual, group, and organizational tacit and explicit knowledge to generate the organizational and technological innovations<sup>53</sup> required for enhanced future performance.

Organizations need to let a critical mass of managers develop the skills and abilities required to exercise strategic leadership.<sup>54</sup> This means that managerial leaders need to bear with those who are visionary leaders and strategic leaders as they create chaos, destroy order, take risks, and maybe destroy a part of the organization that is important to them. This does not mean throwing out managerial leadership; it means including visionary and managerial leadership to enhance long-term viability and short-term financial stability. In fact, strategic leaders need to understand what managerial and visionary leaders bring to the organization, and utilize the skills, knowledge, and abilities of both.

#### Constraints on Strategic Leadership

Unfortunately, many organizations constrain strategic leadership. One of them is government,<sup>55</sup> an organization where the wealth-creation process needs to be understood. Governments have a mandate to create wealth in terms of social value. This means that governments are responsible for the productive and allocative efficiency of economies as a whole, the level of employment achieved in their jurisdictions, and the achievement of a better

standard of living from year to year.<sup>56</sup> Certainly, we do attribute some credit or some blame to our government if our state, province, or country's standard of living increases or decreases. This implies that we use our standard of living as a measure of wealth creation.

Looking at governments with knowledge that comes from studying business organizations, it seems that some of the principles that affect businesses also affect governments. Governments compete for resources just as other organizations do. Governments are sometimes thought of as monopolies with the power to impose their will on the people. But governments compete for human resources with other organizations, with other governments for tax dollars from their constituents, and with other governments for new businesses to locate in their jurisdictions.<sup>57</sup> Unfortunately, some governments also grow large and become diversified. This high level of diversification, plus the massive debt loads of many state, provincial, and national governments, along with public accountability for every penny spent and the political context of an election every four years, forces governments to use only financial controls and to curtail the use of strategic controls.

This leads to managerial control and forces those with the potential to be strategic leaders to do one of three things: exercise managerial leadership only, leave the organization, or fight within the system, which uses the strategic energy they should be expending on leading and managing their part of the organization. People who work for government do have the capability to be visionary and strategic leaders, but the nature of government precludes them from exercising such leadership.

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A sociologist who served in a Canadian provincial government has this to say about what strategic and visionary leaders are up against in government:<sup>58</sup>

The organization of the Newfoundland and Labrador public service is very bureaucratic and hierarchical. There is a place for everyone and everyone should know his or her

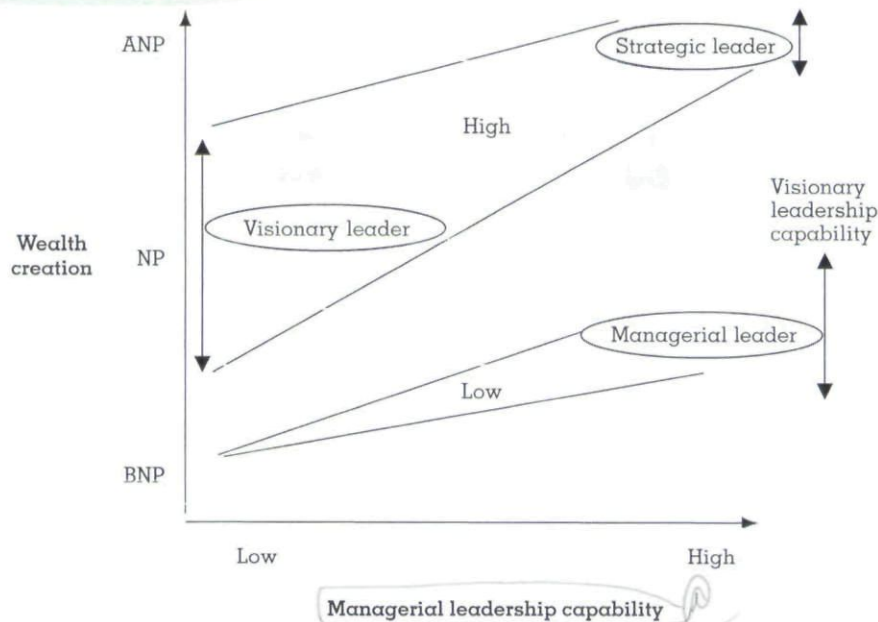
place. Communications go up the hierarchy from officer to manager to director to assistant deputy minister to deputy minister, and possibly to the minister, and down the hierarchy in a reverse chain. Much gets lost or reinterpreted along the way, and it is often a slow process. Not surprisingly, the public and the business community who deal with government as "clients," often complain about "red tape" and "bureaucracy."

Such a system is not well suited to dealing with change. To the extent that change has to occur—and able senior officials recognize that it does—they prefer that it take place at a modest pace under their control and direction. They are naturally skeptical about and resistant to premiers, ministers, and other agencies that want to initiate a lot of change on a number of fronts within a short period of time.

This system also tends to select out or mold certain personality types for career success. The premium is on reliability, steadfastness, and loyalty to the service rather than on creativity, innovation, and critical thinking. People who do not fit the mold either stagnate, leave, or are forced out of service. Creative individuals are usually damned with faint praise in epithets such as "He's a smart guy but he can't manage people" or "She's got some good ideas but she's a bit of a loose cannon."

Is strategic leadership possible in this type of organization? The answer is a qualified yes, given two very hard-to-impose conditions. These conditions are autonomy and protection.<sup>59</sup> If a corporate management team can give a division management team some autonomy, coupled with protection from stringent bureaucratic and financial controls, strategic leadership may be possible. Unfortunately, as this smaller part of an organization becomes more successful and achieves visibility because it is taking risks and bruising the bureaucracy, it is much more difficult to maintain this autonomy and protect it from the managerial leadership of the organization. This is especially true when that managerial leadership tends to control financially and bureaucratically because the organization is unrelatedly diversified, has a massive debt load, operates in a political context, and must be publicly accountable for every dollar it spends.





Notes: The double-headed arrows represent the differential effects of type of leadership on wealth creation. ANP refers to above-normal performance, NP to normal performance, and BNP to below-normal performance.

FIGURE 3

### Wealth Creation and Managerial, Visionary, and Strategic Leadership

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##### Wealth creation and managerial leadership

Managerial leaders will at best maintain the level of wealth that has been created in the past, but over time may cause wealth to be slowly destroyed. This means that the stewards (board of directors, CEO, top management team) of productive assets are only creating the wealth that the owners of those assets expected them to create.<sup>60</sup> In Figure 3, this is illustrated by the top of the arrow next to the managerial leaders ellipse. Unfortunately, in managerially led organizations, only financial controls are exercised. This leads to a stifling of creativity and innovation and to below-normal performance in the long term. There are creative, innovative people in such organizations, but it is harder for them to be creative and innovative. This lower level of performance is illustrated by the bottom of the arrow next to the managerial leader ellipse in Figure 3.

This article has already suggested that unrelatedly diversified organizations will be managerially led and will achieve, at best, average returns and only normal performance. Unfortunately, other business organizations, such as rate-regulated monopolies and relatedly diversified organizations, may achieve only normal or below-normal performance. Rate-regulated monopolies tend to develop managerial leadership because they are

financially controlled by their publicly appointed regulators, whose sole purpose is to ensure a prescribed rate of return to keep revenues at an appropriate level to satisfy consumers. Some relatedly diversified organizations develop only managerial leadership or even bad leadership (low on both the managerial and visionary continuums). Examples of such companies are Kmart; Apple Computer during Stephen Job's absence; USX - U.S. Steel Group; and Digital Equipment Corp. From 1988 to 1997, Kmart's market value added (MVA) dropped from \$0.837 billion to (\$2.257) billion—a destruction of \$3.094 billion of shareholder wealth. Over the same period, Apple destroyed \$4.85 billion of shareholder wealth, going from an MVA of \$3.261 billion to minus \$1.594 billion.<sup>61</sup>

##### Wealth creation and visionary leadership

Visionary leaders may or may not create value. If they do, their style of leadership is rare and difficult for other organizations to duplicate. Unfortunately, some visionaries who are capable of creating value are not supported by their organizations with appropriate structures, controls, and rewards.<sup>62</sup> These visionaries probably do not have strong managerial support, either because the organization cannot supply it or because the visionary will not allow it. These organizations are more likely to achieve below-normal performance.

Visionary leadership is the hardest style of leadership to assess regarding performance. As illustrated in Figure 3, visionaries have the potential for a range of performance implications—from below normal to above normal. The bigger danger is that visionaries may achieve below-normal performance much more quickly than managerial leaders. Stephen Jobs, the visionary founder of Apple, had to leave because of poor performance. Anita Roddick, the long-time CEO of The Body Shop, finally had to step down because her husband, Gordon, the managerial leader, stepped back from the organization; her visionary leadership alone could no longer sustain the level of performance that investors had come to expect. Michael Cowpland, the CEO of Corel in Canada, has been described as a visionary, and Corel has been experiencing wealth creation problems for several years. Because of these problems, Cowpland stepped down in August 2000. On the other hand, visionaries coupled with managerial leaders may achieve above-normal performance. Two examples are Thomas Watson, Jr. (the visionary) and Al Williams (the managerial leader), his chief financial officer at IBM from 1956 to 1970.<sup>63</sup>

#### *Wealth creation and strategic leadership*

Because strategic leaders are concerned with the future viability and present financial stability of their organizations, they make decisions that achieve above-average returns, and therefore create wealth for their organizations. (See Figure 3.)

Throughout the decade of the 1990s, no two appointed CEOs have exemplified wealth creation on a consistent basis as well as Jack Welch and Robert Goizueta. Either GE or Coca-Cola was ranked number one and two in MVA from 1992 to 1998.<sup>64</sup> Coke's return on capital was consistently 24 percent higher than its cost of capital. What characteristics did these two CEOs display during that period? Both refocused their companies to regain strategic control. Both believed that their actions affected their companies and determined what happened in the respective industries in which their companies operated. This belief in strategic choice is exemplified by the following paraphrased comments from Goizueta: If you are number one or two in your industry, you can have a lot of say in what the future is going to be like by what you do; if you can take actions that create the future, or at least shape it, you can benefit from it; and belief in strategic choice is about creating what can be, as opposed to what is. Welch and Goizueta relentlessly strove to reduce the stifling effect of

bureaucracy on creativity and innovation. Both were internally focused and exhibited an insensitivity to the past in order to demonstrate proper respect for the future. They believed in revolutionary change and not evolutionary change. Most observers were surprised at how fast Jack Welch changed GE. Welch expressed surprise at how long it took to change GE. His deep, abiding, philosophical values are summed up in the following: get into the right businesses, those with growth potential, those which respond quickly to change, and get as much as possible out of the capital you employ. These values exemplify strategic leadership.<sup>65</sup>

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***Most observers were surprised at how fast Jack Welch changed GE. Welch expressed surprise at how long it took to change GE.***

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Strategic leadership is not just for professional managers appointed to the CEO position who did not start or revitalize their companies in an entrepreneurial manner. Consider two entrepreneurs who made a difference to their firms and their industries. The first is Konosuke Matsushita, founder and former CEO of Matsushita Electric. His revenue growth was the highest of any 20<sup>th</sup> century entrepreneur, at \$49.5 billion. The next closest were Soichiro Honda, at \$35.5 billion, and Wal-Mart's Sam Walton, at \$35 billion. Matsushita was a visionary who demanded revenue growth, but with even more dramatic profit growth. He told his senior managers that within five years he wanted revenue growth to quadruple and profit to more than quadruple. These goals were achieved in four years.<sup>66</sup> He concentrated on creating products for his customers that created value in their minds that was greater than they expected. However, he always wanted value created at a profit for his company. His long-term vision was for the products his companies sold to create worldwide prosperity to such a degree that in several hundred years there would be world peace.

The second entrepreneur is Bob Kierlin,<sup>67</sup> the CEO of Fastenal, a company that sells nuts and bolts. His leadership style is characterized by employee empowerment, participation, symbolic egalitarianism, wage compression (he pays himself \$120,000 a year), and promotion from within.<sup>68</sup> However, he strongly encourages profitable revenue growth. This has been very beneficial for employees, customers, and shareholders. In 1988, Fastenal's MVA was \$0.077 billion—it was \$1.609

billion in 1996—an increase of \$1.53 billion. Kierlin started Fastenal in 1967 because he was not happy with the bureaucracy at IBM.

Two other interesting companies from a strategic leadership perspective are Wal-Mart and Coke. From 1988 to 1992, Wal-Mart created \$50 billion of wealth for shareholders under Sam Walton's leadership. From 1992 to 1996, Wal-Mart destroyed \$30 billion of wealth for shareholders under David Glass's leadership. Wal-Mart did rebound from 1996 to 1997, and finished 1997 at an MVA of \$69.7 billion. Thus from 1992 to 1997, Wal-Mart created wealth of \$5.7 billion, approximately one-tenth of what Sam Walton created over a similar five-year period. However, Wal-Mart's MVA at the end of 1998 was \$213 billion. Wal-Mart had jumped to third place in the MVA rankings, and from 1992 to 1998 had created \$143 billion in MVA for its shareholders.

Is David Glass the strategic leader that Sam Walton was? It may be too soon to tell. Certainly Walton's perspective was similar to Matsushita's. He wanted to improve the quality of life of customers and employees through free enterprise practiced correctly and morally. He stated: "We've improved the standard of living of customers, whom we've saved billions of dollars, and of our associates, who have been able to share profits."<sup>69</sup> He wanted to market the highest quality goods at the lowest prices possible. Under Goizueta, Coke's rank in the MVA rankings rose from seventh in 1988 to first in 1994, and stayed at number one until 1996. In 1997, the year Goizueta died, it dropped to second, and in 1998 to ninth. Coke's absolute MVA was still improving under Doug Ivester, and was still much better than Pepsico, Coke's closest competitor. But Ivester was not able to create MVA for Coke's shareholders at the same rate as Goizueta. Consequently, he stepped down as CEO in April 2000.<sup>70</sup>

These strategic leaders all believed that their decisions would affect their companies and their environments. They put great emphasis on achieving their visions by influencing employees and associates. They also ensured that their visions were achieved in a way that was best for their employees, customers, and shareholders.<sup>71</sup> However, their vision had to be achieved without destroying their organizations financially in the short-term. Goizueta relentlessly pursued a return on capital that exceeded Coke's cost of capital. These leaders managed the paradox of investing strategically in their employees, in promotion through advertising, R&D, and capital

equipment, while ensuring that their organizations were financially stable in the short term.

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*These leaders managed the paradox of investing strategically in their employees, in promotion through advertising, R&D, and capital equipment, while ensuring that their organizations were financially stable in the short term.*

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### The Paradox of Leading and Managing

Wealth creation for organizations 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.<sup>72</sup> They influence a critical mass of managers and employees to voluntarily make decisions on a day-to-day basis that enhance future viability and current financial stability. 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 riskier than allowing the exercise of strategic leadership to permeate the organization. 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, large, unrelatedly diversified organizations 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 organization in the long term. The nature of some organizations precludes visionary and strategic leadership from even occurring. Hoskisson and Hitt<sup>73</sup> refer to this phenomenon as the loss of strategic control. This occurs in governments, universities (whether state-sponsored or not), and businesses that allow too much inappropriate diversification.

A Canadian government study<sup>74</sup> found that the two most important reasons for the bankruptcies of small-to-medium-sized firms 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 firms need to be trained in general management and financial management skills, and that visionary and managerial leadership is needed in small-to-

medium-sized firms just as it is in such large firms as General Motors and IBM. Dollinger<sup>75</sup> argues that entrepreneurs are the architects of organizational purpose and that business ventures are created to achieve the visions of entrepreneurs. He says the major problem for entrepreneurs is to be managerial 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 firms suffer more from a lack of managerial ability, while larger firms 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 organizations 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.<sup>76</sup>

A strategic leader creates chaos, makes mistakes, occasionally gets rapped on the knuckles by bosses and subordinates, and even occasionally has to apologize to staff for creating too much disorder before they were ready for it. But the rewards are worth it as those with whom the leader works become energized and more productive, accomplishing more in less time. They come to enjoy work more, as they become more creative and innovative, and more prone to taking risks because they know this is what it takes to enhance long-term viability.<sup>77</sup>

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***A strategic leader creates chaos, makes mistakes, occasionally gets rapped on the knuckles by bosses and subordinates, and even occasionally has to apologize to staff for creating too much disorder before they were ready for it.***

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Working through the paradox of leading and managing is demanding and difficult, but is achievable for a critical mass in organizations that have not lost strategic control. Executives in such organizations should start thinking of themselves as strategic leaders who have to accept and merge the visionaries and managerial leaders in their organizations. They should fight against the constraining influence of financial controls and fight for the exercise of strategic and financial controls, with the emphasis on strategic controls. They need to understand the concepts of explicit and tacit knowledge and linear and nonlinear thinking and how to integrate them for the benefit of your organization. The rewards will often be wealth creation

and above-normal performance whether an organization is entrepreneurial or established.

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### Endnotes

<sup>1</sup> Ireland, R. D. & Hitt, M. A. 1999. Achieving and maintaining strategic competitiveness in the 21st century: The role of strategic leadership. *The Academy of Management Executive*, 13(1), 43-57.

<sup>2</sup> Mintzberg, H., Ahlstrand, B. & Lampel, J. 1998. *Strategy safari*. New York: The Free Press. Schultz is being included on the basis of Mintzberg et al.'s definition of an entrepreneur (page 129): the founder of an organization, the manager of a self-owned business, or an innovative leader of an organization owned by others. Schultz bought Starbucks from its original owners in 1987 and grew it before he took it public in 1992.

<sup>3</sup> Schultz, H. & Yang, D. J. 1997. *Pour your heart into it: How Starbucks built a company one cup at a time*. New York: Hyperion, 181; and Starbucks: Making values pay. *Fortune*, 29 September 1997, 261-272.

<sup>4</sup> Walbert, L. 1995. The 1994 Stern Stewart Performance 1000. *Journal of Applied Corporate Finance*, 7(4), Winter, 104-118; Ross, I. 1996. The 1995 Stern Stewart Performance 1000, excerpts from the *Journal of Applied Corporate Finance*, 8(4), Winter, 1-18; Ross, I. 1997. *The 1996 Stern Stewart Performance 1000*. New York: Stern Stewart & Co., 1-19; Ross, I. 1998. The 1997 Stern Stewart Performance 1000. *Journal of Applied Corporate Finance*, 10(4), Winter, 116-128; Ross, I. 1999. *The 1998 Stern Stewart Performance 1000*. New York: Stern Stewart & Co., 1-15.

<sup>5</sup> MVA means market value added and is the equivalent of the difference in the firm's current total market value (stocks and bonds) and the total capital (debt and equity offerings, bank loans, and retained earnings) invested in the firm since its inception. It is the cash investors could get out of the firm at a point in time minus all of the cash that has been invested in the firm since its beginning.

<sup>6</sup> This analysis predates the current antitrust environment and legal action brought against Microsoft by the U.S. Attorney General's office.

<sup>7</sup> A conversation with Roberto Goizueta and Jack Welch: The wealth builders. *Fortune*, 11 December 1995, 96-102; Sellers, P. How Coke is kicking Pepsi's can. *Fortune*, 28 October 1996, 70-84; and Morris, B. Robert Goizueta and Jack Welch: The wealth builders. *Fortune*, 11 December 1995, 80-94.

<sup>8</sup> Gardner, W. L. & Avolio, B. J. 1998. The charismatic relationship: A dramaturgical perspective. *Academy of Management Review*, 23(1), 32-58; Chen, C. C. & Meindl, J. R. 1991. The construction of leadership images in the popular press: The case of Donald Burr and People Express. *Administrative Science Quarterly*, 36, 521-551. Kerr, S. & Jermier, J. M. 1978. Substitutes for leadership: Their meaning and measurement. *Organizational Behavior and Human Performance*, 22, 735-403; Meindl, J. R.,

Ehrlich, S. B., & Dukerich, J. M. 1985. The romance of leadership. *Administrative Science Quarterly*, 30, 78-102; Meindl, J. R. 1990. *On leadership: An alternative to the conventional wisdom*. In B. M. Staw & L. L. Cummings, (Eds.), *Research in Organizational Behavior*, 12, 159-203. Greenwich, CT: JAI Press.

<sup>9</sup> Hill, L. & Wetlaufer, S. 1998. Leadership when there is no one to ask: An interview with ENI's Franco Bernabe. *Harvard Business Review*, July-August, 80-96; Chatterjee, S., Lubatkin, M. H. & Schulze, W. S. 1999. Toward a strategic theory of risk premium: Moving beyond CAPM. *Academy of Management Review*, 24(3), 556-567.

<sup>10</sup> Ireland & Hitt, op. cit.

<sup>11</sup> Evered, R. 1980. So what is strategy? Working paper, Naval Postgraduate School, Monterey; Quinn, J. B. 1980. *Strategies for change: Logical incrementalism*. Homewood, IL: Richard D. Irwin; and, Mintzberg, H. & Quinn, J. B. 1996. *The strategy process: Concepts, contexts, cases*. 3<sup>rd</sup> ed. Upper Saddle River, NJ: Prentice Hall.

<sup>12</sup> Tichy, N. M. & Cohen, E. 1997. *The leadership engine: How winning companies build leaders at every level*. New York: HarperCollins, 106.

<sup>13</sup> Mintzberg, H. 1987. Five Ps for strategy. *California Management Review*, Fall; and, Mintzberg, H. 1987. Crafting strategy. *Harvard Business Review*, July-August.

<sup>14</sup> Barney, J. B. 1997. *Gaining and sustaining competitive advantage*. New York: Addison-Wesley Publishing Company.

<sup>15</sup> Hitt, M. A., Ireland, R. D. & Hoskisson, R. E. 2001. *Strategic management: Competitiveness and globalization*, 4th ed. Cincinnati: South-Western College Publishing Company. See Chapter 1. For a different view, see Child, J. 1972. Organizational structure, environment and performance: The role of strategic choice. *Sociology*, 6, 1-22.

<sup>16</sup> Zaleznik, A. 1977. Managers and leaders: Are they different? *Harvard Business Review*, May-June.

<sup>17</sup> I will discuss these issues in more depth in the section, Constraints on Strategic Leadership.

<sup>18</sup> Zaleznik, op. cit.

<sup>19</sup> Morris, op. cit.

<sup>20</sup> Zaleznik, op. cit.

<sup>21</sup> Hosmer, L. T. 1982. The importance of strategic leadership. *Journal of Business Strategy*, 3(2), Fall, 47-57.

<sup>22</sup> Schendel, D. 1989. Introduction to the special issue on strategic leadership. *Strategic Management Journal*, Special Issue, 10, 1-3.

<sup>23</sup> Hambrick, D. 1989. Guest's editor's introduction: Putting top managers back in the strategy picture. *Strategic Management Journal*, Special Issue, 10, 5-15.

<sup>24</sup> Hosmer, op. cit., See also Evans, R. 1997. Hollow the leader. *Report on Business*, November, 56-63; Sooklal, L. 1991. The leader as a broker of dreams. *Human Relations*, 44(8), 833-856; Zaleznik, A. 1990. The leadership gap. *The Academy of Management Executive*, 4(1), 7-22.

<sup>25</sup> Hill, C. W. L. & Hoskisson, R. E. 1987. Strategy and structure in the multiproduct firm. *Academy of Management Review*, 12(2), 331-341; and, Hoskisson, R. E. & Hitt, M. A. 1994. *Downscoping: Taming the diversified firm*. New York: Oxford University Press; Zaleznik 1990, op. cit.

<sup>26</sup> Explicit knowledge is highly codifiable. It can be verbally expressed, and includes computer programs, patents, and drawings. It is separable from the person who encoded the knowledge and is highly mobile. See Hedlund, G. 1994. A model of knowledge management and the n-form corporation. *Strategic Management Journal*, Special Issue 15, Summer, 73-90; Kogut, B. & Zander, U. 1992. Knowledge of the firm, combinative abilities, and the replication of technology. *Organization Science*, 3, 383-97.

<sup>27</sup> See Trigg, R. 1996. *Ideas of human nature: An historical introduction*. Cambridge, MA: Blackwell Publishers; Child, op.

cit; and Mintzberg, H., Ahlstrand, B. & Lampel, J., op. cit., chapter 10.

<sup>28</sup> Bass, B. M. 1985. *Leadership and performance beyond expectations*. New York: The Free Press; Yukl, G. 1994. *Leadership in organizations*, 3<sup>rd</sup> ed. Toronto: Prentice Hall.

<sup>29</sup> Conger, J. 1991. Inspiring others: The language of leadership. *The Academy of Management Executive*, 5(1), 31-45; Nathan, M. 1996. What is organizational vision? Ask chief executives. *The Academy of Management Executive*, 10(1), 82-83.

<sup>30</sup> Zaleznik, op. cit.

<sup>31</sup> Hosmer, op. cit.

<sup>32</sup> Schendel, op. cit.

<sup>33</sup> Hambrick, op. cit.; also, Mintzberg, H. 1973. *The nature of managerial work*. New York: Harper and Row, chapters 15-17.

<sup>34</sup> Hambrick, op. cit.

<sup>35</sup> Evans, op. cit.; Hosmer, op. cit.; Sooklal, op. cit.; Zaleznik, op. cit.

<sup>36</sup> Hoskisson & Hitt, op. cit.

<sup>37</sup> Tacit knowledge is so internalized we may not even know we know it. It gives us the ability to know more than we can express. See Polanyi, M. 1966. *The tacit dimension*. Garden City, NY: Anchor; Reed, R. & deFillippi, R. J. 1990. Causal ambiguity, barriers to imitation, and sustainable competitive advantage. *Academy of Management Review*, 15, 88-102; Nelson, R. & Winter, S. 1982. *An evolutionary theory of economic change*. Cambridge, MA: Belknap Press; Itami, H. 1987. *Mobilizing invisible assets*. Cambridge, MA: Harvard University Press. See Kotter, J. & Heskett, J. 1992. *Corporate culture and performance*. New York: The Free Press; Ouchi, W. G. & Maguire, M. 1975. Organizational control: Two functions. *Administrative Science Quarterly*, 20, 559-569; and Schein, E. H. 1993. On dialogue, culture, and organizational learning. *Organizational Dynamics*, 22(2), 40-51, for discussions on the use of tacit knowledge by leaders.

<sup>38</sup> Trigg, op. cit., gives a basic introduction to the philosophical concept of free will. Child, op. cit., discusses strategic choice from the perspective of leaders of firms. See Mintzberg, Ahlstrand, & Lampel, op. cit., Chapter 5, for a very good description of visionary leadership.

<sup>39</sup> Bass, op. cit., and, Yukl, op. cit.

<sup>40</sup> Kotter, J. P. 1990. What leaders really do. *Harvard Business Review*, May-June.

<sup>41</sup> Zaleznik 1977, op. cit., and Zaleznik 1990, op. cit.

<sup>42</sup> Kotter, op. cit.

<sup>43</sup> Ibid.

<sup>44</sup> Zaleznik, 1977, op. cit.

<sup>45</sup> Loeb, M. Steven J. Ross, 1927-1992, *Fortune*, 24 January 1993, 4, quoted in Hitt, et. al., op. cit.

<sup>46</sup> Many writers (e.g., Mintzberg 1975) argue for a balance between visionary and managerial skills. I argue for a synergistic combination. The reason is clear from Figure 2. If one draws a diagonal from the lower left quadrant to the upper right quadrant, everywhere on that diagonal is a balance between visionary and managerial. What is important is to use a high level of managerial leadership and a high level of visionary leadership and to be more than the sum of these two.

<sup>47</sup> Ireland & Hitt, op. cit.

<sup>48</sup> The most common form of leadership is managerial. Given the call for visionary leadership in recent years (See Conger, J. 1991. Inspiring others: The language of leadership. *The Academy of Management Executive*, 5(1), 31-45; and, Nathan, op. cit.), it is logical to assume that visionary and strategic leadership are rare.

<sup>49</sup> Hambrick, op. cit. and Schendel, op. cit.

<sup>50</sup> Hoskisson & Hitt, op. cit.

<sup>51</sup> Nonaka, I. 1994. A dynamic theory of organizational knowledge creation. *Organization Science*, 5(1), 14-37; and, Nonaka, I.

& Takeuchi, H. 1995. *The knowledge creating company*. New York: Oxford University Press.

<sup>52</sup> Trigg, op. cit.; Child, op. cit.; Mintzberg, et. al., op. cit., chapters 5 and 10.

<sup>53</sup> Nonaka & Takeuchi, op. cit.; Kogut & Zander, op. cit. Also see Sherman, S. & Rowe, W. G., 1996. Leadership and strategic value: A resource-based typology. *Proceedings of the Texas Conference on Organizations*, March 1.

<sup>54</sup> Mintzberg, H. 1975. The manager's job: Folklore and fact. *Harvard Business Review*, July-August. Mintzberg argues that managers need two faces, one insightful and the other cerebral.

<sup>55</sup> House, J. D. 1999. *Against the tide: Battling for economic renewal in Newfoundland and Labrador*. Toronto: University of Toronto Press.

<sup>56</sup> Barney, J. B. 1997. *Gaining and sustaining competitive advantage*. New York: Addison-Wesley.

<sup>57</sup> A 1999 TV news report stated that almost 50,000 people have moved to Calgary, Alberta, Canada, from other parts of Canada because of lower taxes and better job opportunities.

<sup>58</sup> House, op. cit.

<sup>59</sup> I am indebted to Mike Hitt, who helped to clarify this very thorny issue.

<sup>60</sup> Barney, op. cit. See chapter 2 for an excellent explanation of above-normal performance (ANP), normal performance (NP), and below-normal performance (BNP). ANP means that more wealth was created than owners of assets expected the organization to create; NP means that the wealth created was what owners of assets expected the organization to create; and BNP means that less wealth was created than expected. Under ANP, organizations will retain their current assets, attract new and better assets, and prosper. Under NP, organizations will retain their current assets, but not attract new assets, and will survive. Under BNP, organizations will lose their assets as they migrate to other organizations, and these organizations will cease to exist economically.

<sup>61</sup> See endnote number 4.

<sup>62</sup> Barney, op. cit. See chapter 5.

<sup>63</sup> Watson, Jr., T. J. & Petre, P. 1990. *Father son & Co.: My life at IBM and beyond*. New York: Bantam Books.

<sup>64</sup> See endnote number 4.

<sup>65</sup> *Fortune*, 11 December 1995, op. cit.; Sellers, op. cit.; Morris, op. cit.

<sup>66</sup> Kotter, J. P. 1997. *Matsushita leadership*. New York: Free Press. This was growth while the entrepreneur was associated with the firm and expresses growth through mid-1994.

<sup>67</sup> Teitelbaum, R. Who is Bob Kierlin—and why is he so successful? *Fortune*, 8 December 1997, 245–248.

<sup>68</sup> Conger, J. 1989. Leadership: The art of empowering others. *The Academy of Management Executive*, 3(1), 17–24; Pfeffer, J.

1995. Producing sustainable competitive advantage through the effective management of people. *The Academy of Management Executive*, 9(1), 55–72.

<sup>69</sup> Walton, S. & Huey, J. 1992. *Sam Walton: Made in America—my story*. New York: Doubleday.

<sup>70</sup> Greenwald, J. 1999. Spring a leak: Five lessons from a Corporate king's downfall. *Time*, 20 December 1999, 46–48.

<sup>71</sup> Walton & Huey, op. cit.

<sup>72</sup> Some strategic leaders are able to downscope unrelatedly diversified organizations so that strategic control is restored. When this happens, strategic and visionary leadership are possible.

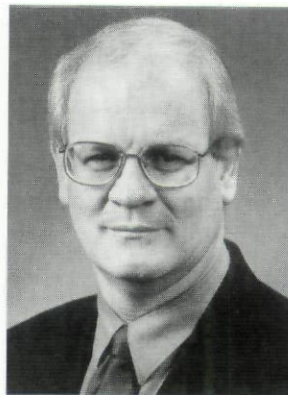
<sup>73</sup> Hoskisson & Hitt, op. cit., chapters 4 and 11.

<sup>74</sup> Baldwin, J., Gray, T., Johnson, J., Proctor, J., Rafiqzaman, M. & Sabourin, D. 1997. *Failing concerns: Business bankruptcy in Canada*. Ottawa: Statistics Canada, November, Catalogue No. 61-525-XPE.

<sup>75</sup> Dollinger, M. J. 1999. *Entrepreneurship: Strategies and resources*, 2nd ed. Upper Saddle River, NJ: Prentice Hall.

<sup>76</sup> Tichy & Cohen, op. cit., provide an excellent description of how this has been done. It is amazing that GE is so successful and ranked second in MVA at \$360 billion, given the complexity of its corporate-level strategy. It is even more amazing when one considers that Jack Welch spends 30 percent of his time on leadership development. Or maybe it is not so amazing, given that Welch spends 30 percent of his time developing strategic leaders.

<sup>77</sup> The author applied the principles of strategic leadership and watched as organizational revenues quadrupled and profits rose even more dramatically over a three-year period. Unfortunately, the principle of higher visibility kicked in, and the autonomy and protection required to exercise strategic leadership was slowly eroded. The organization was a small division of a large unrelatedly diversified organization that was managerially led and financially controlled.



W. Glenn Rowe is an associate professor of strategic management and associate dean, Graduate Programs and Research, in the Faculty of Business Administration at Memorial University of Newfoundland, Canada. He received his Ph.D. in management from Texas A&M University. His research interests include strategic leadership, CEO succession, organizational control systems, and organizational performance. Contact: growe@mun.ca.

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