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Critical Strategic Leadership Components: An Empirical Investigation

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Introduction

Leadership is the process through which leaders influence the attitudes, behaviors, and values of others (Vecchio, 1995). Strategic leadership is the leader's ability to anticipate, envision, maintain flexibility, and empower others to create strategic change as necessary (Byrd, 1987). Strategic change is that which occurs in the firm's existing strategy due to a stimulus caused by triggering events (Wheelen and Hunger, 1998).

Strategic leadership is multifunctional, involves managing through others, and helps organizations cope with change that seems to be increasing exponentially in today's globalized environment (Huey, 1994). It requires the ability to accommodate and integrate both external and internal conditions, and to manage and engage in complex information processing. Firms use the strategic management process successfully through effective strategic leadership (Hitt and Keats, 1992).

As these conditions and realities suggest, strategic leadership is an extremely complex but critical form of leadership. Because some believe that organizations are relatively underled and overmanaged (Kotter, 1990), today's business schools offering Master of Business Administration degrees are challenged to guide students regarding strategic leadership and its effective practice (O'Reilly, 1994).

The primary responsibility for effective strategic leadership practices rests at the top of an organization, with the CEO. The CEO cannot delegate this responsibility to the manager of another function, regardless of how important that function may be. All managers throughout the organization should be strategic leaders, to some extent, to effectively formulate and implement business-unit and corporate-level strategies (Hitt, Ireland, and Hoskisson, 1995).

Background of this Study

Hitt, Ireland, and Hoskisson (1995) developed a strategic leadership model which included six critical components: (1) Determining strategic direction; (2) Exploiting and maintaining core competencies; (3) Developing human capital; (4) Sustaining an effective corporate culture; (5) Emphasizing ethical practices; and (6) Establishing strategic controls. The purpose of this study is to explore these components and examine American CEOs' perceptions of the ranking suggested by the authors and presented in this study.

1. Determining Strategic Direction

Determining strategic direction of the organization refers to developing a long-term vision (Hunt, 1991). Strategic intent means leveraging the firm's internal resources, capabilities, and core competencies to accomplish what may at first appear to be unattainable goals in the competitive environment. It gives employees the only goal worthy of personal effort and commitment — to become the best or remain the best in the world (Hamel and Prahalad, 1989).

Strategic intent exists when all employees of a firm are committed to pursue a specific performance criterion, believe fervently in their product and industry, and focus totally on doing what they do better than competitors (Hamel and Prahalad, 1989). Intel, Microsoft, Canon, and Xerox are typical examples of firms offering expressions of strategic intent (Loeb, 1993).

A long-term vision of the organization's strategic intent usually requires a view at least five to 10 years in the future. This would include the organizational strategy, design and subsystems, planning, and the information and control systems (Hunt, 1991). For instance, Boeing is attempting to maintain its market leadership and control system. Top Boeing executives suggest that their focus is 15 to 20 years (West, 1994). On the other hand, Toyota has a 100-year plan to determine its strategic direction (Yang and Rothman, 1993).

2. Exploiting and Maintaining Core Competencies

Core competencies are the resources and capabilities that serve as a firm's source of competitive advantage. Typically, core competencies relate to the functional skills of an organization, such as manufacturing, finance, marketing, and research and development. Core competencies allow organizations to produce and deliver products that have unique benefits and value for customers (Hamel and Prahalad, 1993). For example, Philip Morris has developed a core competence in its marketing function, especially in terms of promotion skills. (Hitt and Keats, 1992).

As strategic leaders, corporate managers make decisions intended to help their firm develop, maintain, strengthen, leverage, and exploit core competencies. Exploiting core competencies involves sharing resources across units. In general, the most effective core competencies are based on intangible resources, which are less visible to competitors because they relate to employees' knowledge or skills. Effective strategic leaders promote the sharing of intangible resources across business units in their firms (Hitt and Keats, 1992).

In many large, diversified firms, core competencies are developed and applied across different units in the organization (economies of scope) to create a competitive advantage. Miller Beer, for example, has applied marketing and promotion competencies across its multiple businesses (Maruca, 1994). In many multinational corporations, the development, nurturing, and application of core competencies also facilitate managing complex relationships across business operating in different international markets. Whirlpool has emphasized competency across country borders (Lei, Hitt, and Bettis, 1990).

3. Developing Human Capital

Human capital refers to the knowledge and skills of the organization's work force — employees as a capital resource (Hitt, Ireland, and Hoskisson, 1995). Much of the development of American industry can be attributed to human capital. One-third of the growth in the U.S. gross national product (GNP) from 1948 to 1982 was attributed to increases in the education level of the work force. Fifty percent resulted from technical innovations and knowledge that also depend on education. Only fifteen percent of GNP growth during that time was attributed to capital investment (Nassbaum, 1998). In the view of many top-level executives, employees are the key source of the firm's competitive advantage (Chilton, 1994).

A good approach to developing human capital is through training and development programs. Management development programs can help build skills and facilitate communication among employees by providing a common language, building employee networks, and constructing a common vision of the firm. Because development programs socialize and help inclucate a common set of core values, they promote cohesion among the employees. Furthermore, they should help employees improve skills critical to the firm's primary operations, core competencies, and customers (Kerr and Jackofsky, 1989). General Electric and Procter & Gamble exemplify an emphasis on human capital development. Core competencies can not be effectively developed or exploited without appropriate human capital (Hitt, Ireland, and Hoskisson, 1995).

4. Sustaining Effective Corporate Culture

Corporate culture refers to the core values shared by all or most employees. It consists of a complex set of shared ideologies, symbols, and values that influence the way the firm conducts its business. Corporate culture is the social energy that drives or fails the organization (Barney, 1986).

Strategic leaders must develop and nurture an appropriate culture, one that promotes focused-learning and human development, the sharing of skills and resources among units in the firm, and the entrepreneurial spirit important for innovation and competitiveness. An appropriate corporate culture can encourage an entrepreneurial spirit, foster and facilitate a long-term vision, and create an emphasis on strategic actions linked with the production of high-quality goods and services. Corporate culture helps regulate and control employee behavior (Lei, Hitt, and Bettis, 1990).

Changing culture is more difficult than sustaining it. But effective strategic leadership involves recognizing the need to change the culture and implement the changes. Restructuring may provide an appropriate time to effect a change. In the 1990s, Lee Iacocca succeeded in implementing major changes in Chrysler's corporate culture (Hitt, Hoskisson, and Harrison, 1991).

5. Emphasizing Ethical Practices

Effective strategic leaders emphasize ethical practices within their organizations, and seek to infuse them through the organizational culture. The ethics that guide the individual actions are based on principles formed by long-term influences that extend beyond the organization. However, organizations can shape and control employees' and managers' behavior through formalized rules, economic rewards and sanctions, and the values and norms that represent corporate culture (Sinclair, 1993).

To the extent that employees and managers share a common set of ethical principles, there is a strong likelihood that ethical practices will be observed. For example, top executives of the pharmaceutical firm Johnson & Johnson claim that one of the major sources of their success was their firm's culture, which emphasizes ethnical conduct even across international boundaries (Sinclair, 1993). GE's culture also emphasizes values that underlie important ethical principles. For instance, GE's CEO confirms that integrity is an important value for the company and its employees (Hitt, Ireland, and Hoskisson, 1995).

6. Establishing Strategic Control

Strategic control refers to the corporate leaders' understanding of the strategies being implemented within the various business units. Strategic control focuses on the content of strategic actions in order to achieve appropriate outcomes. Although some firms' strategic actions may be correct, they may have poor results (e.g., financial results) caused by high interest rates, inflation, unfavorable economic conditions, or natural disasters.

Therefore, strategic control encourages lower-level managers to make decisions that incorporate moderate and acceptable levels of risk. In fact, most corporate restructuring actions are designed to refocus the firm on its core businesses, thereby allowing top executives to reestablish control over their separate business units (Hoskisson and Johnson, 1992).

Effective use of strategic controls by corporate leaders is integrated frequently with appropriate autonomy for the subunits so they can gain competitive advantage in their respective markets. Strategic controls can be used to promote the sharing of both tangible and intangible resources among independent businesses within a corporate portfolio. In addition, the autonomy provided by strategic control allows the flexibility and innovation necessary to take advantage of specific market opportunities. As a result, strategic leadership promotes the simultaneous use of strategic controls and autonomy (Hitt and Keats, 1992).

For instance, the current CEO of IBM is exercising strategic control, but when he was the CEO of RJR Nabisco in 1992, that firm performed poorly because he did not exercise appropriate strategic control. He purposefully distanced himself from the tobacco business because of its social stigma (Hitt, Ireland, and Hoskisson, 1995).

Research Hypotheses

As stated, the first purpose of this study is to explore the most critical corporate strategic leadership components. The second is to investigate American CEOs' perception of the ranking of these components developed by Hitt, Ireland, and Hoskisson (1995). Accordingly, the following hypothesis was formulated, the majority of American CEOs will agree that:

- H1: determining corporate strategic direction ranks first among the six critical corporate strategic leadership components;
- H2: exploiting and maintaining core competencies ranks second;
- H3: developing human capital ranks third;
- H4: sustaining effective corporate culture ranks fourth;
- H5: emphasizing ethical practices ranks fifth; and
- H6: establishing strategic control ranks last among the six critical components.

Research Methods

Research methods included a survey questionnaire, sample and data collection, and statistical techniques.

• *Survey Questionnaire*

The survey questionnaire was developed by the researchers of this study to include the six critical corporate strategic leadership components developed by Hitt, Ireland, and Hoskisson (1995). The ranking suggested by the authors in their strategic leadership model was; determining strategic direction, exploiting and maintaining core competencies, developing human capital, sustaining an effective corporate culture, emphasizing ethical practices, and establishing strategic controls.

The questionnaire consisted of six statements to assess opinions of the surveyed CEOs about the ranking of the suggested leadership components. Each statement has a five-point Likert response format ranging from "strongly disagree" (1) to "strongly agree (5)." The two scale points of "strongly disagree" and "disagree" were combined as the lower points. The two scale points of "strongly agree" and "agree" were combined as the higher points. The scale points of "neither disagree nor agree" were excluded from data analysis. An alpha coefficient of 0.92 was obtained for the overall scale scores.

This survey elicited opinions from executives who had practiced some or all the suggested six leadership components. Respondents were asked if they disagreed or agreed with the suggested ranking of each of the six components. For example, if a respondent disagreed that "determining strategic direction" should not occupy the first rank as the survey suggested, he or she would circle "no" and numbers "1" or "2" to indicate the degree of his or her disagreement.

A pilot study was conducted to verify the questionnaire's construct validity and the split-half procedure was used to verify its reliability. The split-half procedure is used for internal consistency measure of test reliability and is obtained by dividing the items into halves and correlating the scores on these halves. The most common procedure is to obtain the odd-even reliability by correlating the scores on odd-numbered and even-numbered test items. The questionnaire was found to be valid and reliable.

Table 1
Comparison Between the Mean Scores of the Responses of American CEOs Who Disagreed and Those Who Agreed with the Suggested Ranking order of the Most Critical Strategic Leadership Components

Components	ranking order	Strongly Disagree and Disagree	Neither agree or disagree	Strongly Agree and agree	Chi-Square	Sig. Level
1.Determining the firm's strategic direction	1	4%	3%	93%	46	.0000
2. Developing human capital	2	4%	5%	91%	38	.0000
3.Exploiting and maintaining core compentencies	3	7%	4%	89%	25	.0001
4.Sustaining an effective corporate culture	4	10%	3%	87%	28	.0001
5.Emphasizing ethical practices	5	9%	6%	85%	27	.0001
6.Establishing strategic controls	6	10%	7%	83%	22	.0001

• *Sample and Data Collection*

The research sample consisted of 1,000 CEOs randomly selected from companies throughout the United States. In the fall of 1995, CEOs were mailed a cover letter requesting their participation, the survey questionnaire, a stamped return envelope, and a brief definition and summary of the six strategic leadership components. Of the 1,000 mailed questionnaires, 320 (32%) were completed and returned.

• *Statistical Analysis*

This study utilized the Statistical Package for Social Science (SPSS-X) to compute frequencies, means, percentages, and Chi-square. Because of the nominal grouping of the responses, contingency tables and the Chi-square were used to test for the independence of the distributions.

Results

Table 1 presents the CEOs' responses to the six statements in the questionnaire. Data analysis in Table 1 shows the ranking and the percentages who disagreed, agreed, or did not decide about each of the six leadership components. It appears that the majority realized the importance of the suggested components, with high majority agreeing that the components listed were the most critical.

A majority accepted the ranking order of the first, fourth, fifth, and sixth components and rejected the order pertaining to the second and third. Whereas the authors of the model had assigned the second and third ranks to "exploiting maintaining core competencies" and "developing human capital," respectively, the majority of CEOs reversed this order.

Most of the respondents (93%, 91%, 89%, 87%, 85%, and 83%) assigned the ranking for each of the six components as shown in Table 1. On the other hand, 4%, 4%, 7%, 10%, 9%, and 10% did not concur. However, 3%, 5%, 4%, 3%, 6%, and 7% were undecided; they neither disagreed nor agreed with the order. Therefore, while data analysis in Table 1 does not support the second and the third hypotheses, it supports the others.

Discussion

No wonder the largest majority of the responding CEOs assigned the first rank to "determining the firm's strategic direction of the organization" since this component requires the CEOs to infuse their vision throughout their organizations. CEOs create a clear vision of their organizations by being aware of and exploiting the existing strengths of their organizations. Achieving this objective requires that CEOs should balance the short-term needs of organizations with long-term growth and survival.

The next majority (91%) assigned the second rank to "the ability of developing human capital" because they view employees as a capital resources. They claim that while organizations often emphasized investments in capital equipment, the primary opportunity to improve productivity comes from investments in human capital. This is why many organizations are now de-emphasizing automation and robotics and emphasizing employee skills and problem-solving instead. In fact, core competencies can not be effectively developed or exploited without appropriate human capital.

The third majority (89%) assigned the third rank to "exploiting and maintaining core competencies" because they consider this crucial to compete effectively. This helps them to achieve more resource sharing, greater economies of scale and to establish sustainable competitive advantages. Core compencies allow organizations to produce and deliver products that have unique benefits and values for customers and organizations.

The fourth majority (87%) assigned "sustaining an effective corporate culture" the fourth rank for several reasons. First, corporate culture can be important for developing and managing human behavior. Second, top-level managers can infuse the organization with their vision and thereby affect the core values emphasized throughout their organization. Third, an appropriate corporate culture can foster an entrepreneurial spirit. Fourth, corporate culture affects the way a firm does its business. Finally, it facilitates a long-term vision and creates an emphasis on strategic actions linked with high quality products and services.

The fifth majority (85%) gave "ethical elements" in their organizations the fifth rank. They agreed that ethical practices help build a positive reputation for the organization. This is why top-level managers should serve as role models, hire employees who share the organizational ethical values, reward ethical behavior, and promote a culture that emphasizes ethical values.

Although establishing strategic control is extremely important, the majority (82%) assigned this the sixth rank. We believe that this rank was selected by these CEOs because this component comes at the end of strategic leadership models developed in the literature. However, the responding CEOs asserted that strategic controls balance the evaluation of strategic actions with the outcomes of such actions (e.g., quality, creativity, finance, etc.). For example, autonomy, flexibility, and innovation provided by strategic control help managers take advantage of particular marketplaces.

Conclusion

The results indicate that determining strategic direction, exploiting and maintaining core competencies, developing human capital, sustaining effective corporate culture, emphasizing ethical practices, and establishing strategic controls are the most critical components of the corporate strategic leadership. However, exercising strategic controls affects the other five components.

American CEOs identified the integration of the six components included in the suggested strategic leadership model. As Hitt, Ireland, and Hoskisson (1995) predicted, CEOs accepted the ranking of the most critical components with one exception: they emphasized developing human capital over exploiting and maintaining oganizational core competencies to reflect the importance of human resources in the twenty-first century.

Dr. Hagen has presented papers at regional, national, and international conferences and has published research on human resource management, strategic management, and other topics in a variety of journals; Dr. Hassan is on the faculty at Grambling State University; the late Dr. Amin served on the editorial review board of the SAM Advanced Management Journal.

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