

Module
08
Leadership

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Edition 1

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Introduction

This module discusses leadership in depth. Leadership, in a political context, is often characterized by the leader's ability to tap into factors that are common in society and utilize them to mobilize people. For example, the leader of a country talks about nationalism and then uses it in his speeches to mobilize people. Managers, however, have a different pattern. Managers recognize the uniqueness of each person and encourage individual contribution through that uniqueness. For example, let's say there are two employees. One person prefers to sit behind a desk and crunch numbers. The other employee prefers to go out in the field (outside the company). The manager can assign the first employee to finance and the second to marketing. Each employee can contribute in their own way. However, managers and leaders have something in common, which is being able to move people. Thus, leadership and management are a package deal. Managers need leadership. Effective leadership can drive organizational performance.

This module consists of two learning activities. Learning Activity 1 discusses leadership theories. There are several leadership theories: aptitude, behavioral, and situational theories. Aptitude theory looks at the characteristics of leaders that distinguish them from non-leaders. Behavioral theories seek to explain the behaviors of leaders that set them apart from non-leaders. Situational theories argue that effective leadership will depend on the situation. Transformational leadership, psychoanalysis, and romantic leadership are some contemporary theories.

Learning Activity 2 discusses strategic leadership. Strategic leadership is leadership that aims to build a company's competitiveness. Strategic leadership is closely related to strategic planning. Strategic leadership enables the execution of strategic planning. The implementation of strategic leadership is both the most important and the most difficult process. Resources in the organization must be mobilized to support the implementation of strategic leadership. Strategic leadership is necessary because business conditions are increasingly uncertain. Failure to establish effective strategic leadership can have fatal consequences, such as the destruction or bankruptcy of the company.

After studying this module, students are expected to be able to explain the following.

1. Definition of leadership.
2. Talent theory in leadership.
3. Behavioral theory of leadership.
4. Situation theory in leadership.
5. Contemporary theories in leadership.
6. Definition of strategic leadership
7. Levels of leadership.
8. Why is strategic leadership needed?
9. Characteristics of strategic leadership.

8.4 Leadership

10. Functions of strategic leadership.
11. Planning functions of strategic leadership, including self-evaluation analysis, determination of vision and mission, determination of strategy, and determination of key strategic drivers.
12. The implementation function of strategic leadership.
13. Evaluation function of strategic leadership.

Learning Activity

1

Leadership

This learning activity discusses leadership. Leader or leadership is a variable that is closely related to the duties of managers. Managers are expected to be able to lead their organizations well. However, leaders and managers have different meanings. A good manager is not necessarily a good leader, and vice versa. Although ideally, a good manager is also a good leader.

This module consists of two learning activities. Learning Activity 1 discusses leadership. Theories that try to explain leadership will be discussed in Learning Activity 1. Understanding these theories is expected to equip managers to be good leaders. Learning Activity 2 discusses strategic leadership.

A. DEFINING LEADERSHIP

What do we mean by leader or leadership? There are as many definitions of the word as there are people trying to define it. In general, leadership can be defined as the process of directing and influencing the task activities of people in a group.

Leadership means involving other people, namely subordinates or employees who will be led. Leadership also involves the sharing of power. Leaders have more power than the ones they lead. Power comes from several sources: reward power, coercive power, legitimate power, referent power, and expert power. Here are the sources of power.

Sources of Power

John R.P. French and Bertram Raven (1959), in their article “The Bases of Social Power”, in Dorwin Cartwright, ed., *Studies in Social Power*, Ann Arbor, The University of Michigan Press, 1959, identified five kinds of power sources, namely reward power, coercive power, legitimate power, referent power, and expert power.

a. Reward power

This power comes from a person’s ability to reward others for doing certain jobs. Managers can pay their employees to do the tasks they are told to do. Rewards are best used to encourage desired behavior from employees, not as a means of “bribing” employees.

b. Coercive power

This power comes from a person's ability to punish others if they fail to do something. It is the negative side of reciprocal power. Punishment can be as mild as a warning, to as severe as termination of employment. Punitive power is usually used to maintain minimum standards of performance or maintain compliance with the organization.

c. Legitimate power

This power comes when someone has the right or is legally allowed to influence others within a certain area. In organizations, this kind of power is often referred to as formal (official) authority. Managers have the official authority to order subordinates to achieve organizational goals. Subordinates implicitly have an obligation to accept and carry out these orders. This authority is legitimized authority that comes from the mandate of shareholders.

d. Referent power

This power comes from a person or group wanting to emulate or identify themselves as a certain individual. A popular manager will have reference power because subordinates will try to imitate the manager's behavior. Reference power depends on the value of prestige and the admiration of subordinates or people who want to imitate the model.

e. Expert power

This power comes from a person's expertise or specialization. Certain people are believed to have expertise in a particular field and can influence others who do not have expertise in that field. A doctor can tell his patient to take medicine and the patient willingly takes the medicine. The patient assumes that the doctor has expertise in health, while the patient does not.

These power sources are potential power sources. Possession of these sources does not automatically make subordinates do something specific. For example, subordinates want to imitate the manager's achievements, but due to limited abilities, subordinates cannot fully imitate. There are other factors that influence a person's behavior. Managers usually have all five sources of power to some degree. A manager's position is always accompanied by legitimising power. Managers can exercise the power of reward and punishment by using organizational resources. Managers generally have more expertise than their subordinates. Managers may also have a reference power that encourages subordinates to imitate the manager's behavior, although this power may not be as strong as the previous ones.

Leaders will use their power to influence those who follow them. Usually, leaders have many ways to use this power. The level of use of power is also very different from one leader to another. There are leaders who can use their power to the fullest, while there are other leaders who do not use their power to the fullest.

Leaders are not the same as managers. Leaders are usually associated with people who have high spirits, charisma, and the ability to motivate others. Managers are usually associated with people who are able to plan, manage, and control the organization well but do not have the ability to motivate others well. President Soekarno is perhaps an example of an effective leader because, only with his speeches, he was able to mobilize the Indonesian people against colonialism. While managers usually motivate their employees with salary incentives, words alone from managers are not strong enough to motivate their employees.

Theories that discuss leadership can be summarized into three types: (1) talent theory, (2) behavioral theory, and (3) situation theory. The following section will discuss these theories.

B. TALENT THEORY

Talent theory seeks to identify the personal characteristics of a leader. Not only that, this theory also aims to see what characteristics distinguish effective leaders from ineffective ones. Such a view assumes that leaders have traits or characteristics that they are born with. In other words, this theory conforms to the view that leaders are born, not learned.

Most studies on the aptitude theory focus on the traits that leaders have and those that they do not have. The most frequently mentioned traits that leaders possess are being more intelligent, more extroverted, more confident, more responsible, and taller compared to the traits of non-leaders. But the theory fails to explain why some people are more intelligent than leaders yet do not become leaders. People like Bung Hatta may have been more introverted, but he was able to become a great leader. Napoleon Bonaparte was shorter than most people, but he was able to become a highly respected general.

It is also very likely that a person becomes more confident and responsible after becoming a leader. Thus, the experience of being a leader enables one to master the characteristics necessary to be a leader. Thus, leadership traits are the result of leadership experience, not the cause of the leadership itself. Studies that have been conducted so far have not found specific traits that can distinguish leaders from non-leaders.

Another attempt was made to look at traits that distinguish effective leaders from ineffective leaders. Research found that the ability to supervise using supervisory techniques for specific situations is the single variable that affects management or leadership effectiveness.

Effective leadership is not only influenced by the traits of the leader but also by the suitability of those traits to the environment at hand. Someone who is very assertive may not be an effective leader in a university environment that requires greater autonomy. Conversely, someone who is democratic may not be an effective leader if placed in a military organization.

C. BEHAVIORAL THEORY

Behavioral theories of leadership focus on the behaviors that leaders possess that differentiate them from non-leaders. If leader behaviors can be identified, then someone who wants to become a leader can learn these behaviors to become an effective leader. Thus, the behavioral theory of leadership is more in line with the view that leaders can be learned, not that leaders are innate as in the trait or talent theory of leadership.

The functions of leaders include two things: (1) task-related functions and (2) functions related to social life (group maintenance or social functions).

The first function is related to work, such as directing subordinates or encouraging subordinates to complete their tasks well. The second function is related to human relations issues, such as mediating and maintaining relationships among members. If a person successfully performs both functions, that person can be an effective leader. In practice, a person may only be an expert in one of the functions, while the other is not so much. In certain situations, the functions that the leader lacks may cause him or her to be replaced by someone else. This is frequently the case in situations where the manager excels at the task function but struggles with the social function. The social function is then replaced by someone else, for example, the most senior person in the organization.

The two functions mentioned above will be reflected in two leadership styles. Some of the theories or research on leadership behavior that we will discuss below take ideas from the distinction of the two functions of leaders above. The humane leadership style (employee-oriented style) will pay attention to the issue of worker satisfaction or worker or subordinate development. Managers with this type of leadership style will value subordinate motivation over controlling work or subordinates. Managers with a task-oriented personality will be more concerned with work and will closely control and supervise employees.

1. Tannenbaum and Warren H. Schmidt's Theory

The two academics tried to explain the factors that influence leadership style. Leadership style can be explained through two extremes, namely, a focus on superiors (leaders) and a focus on subordinates. Then there is a continuum line connecting the two extremes. The following image in Figure 8.1 shows the leadership styles according to Tannenbaum and Schmidt.

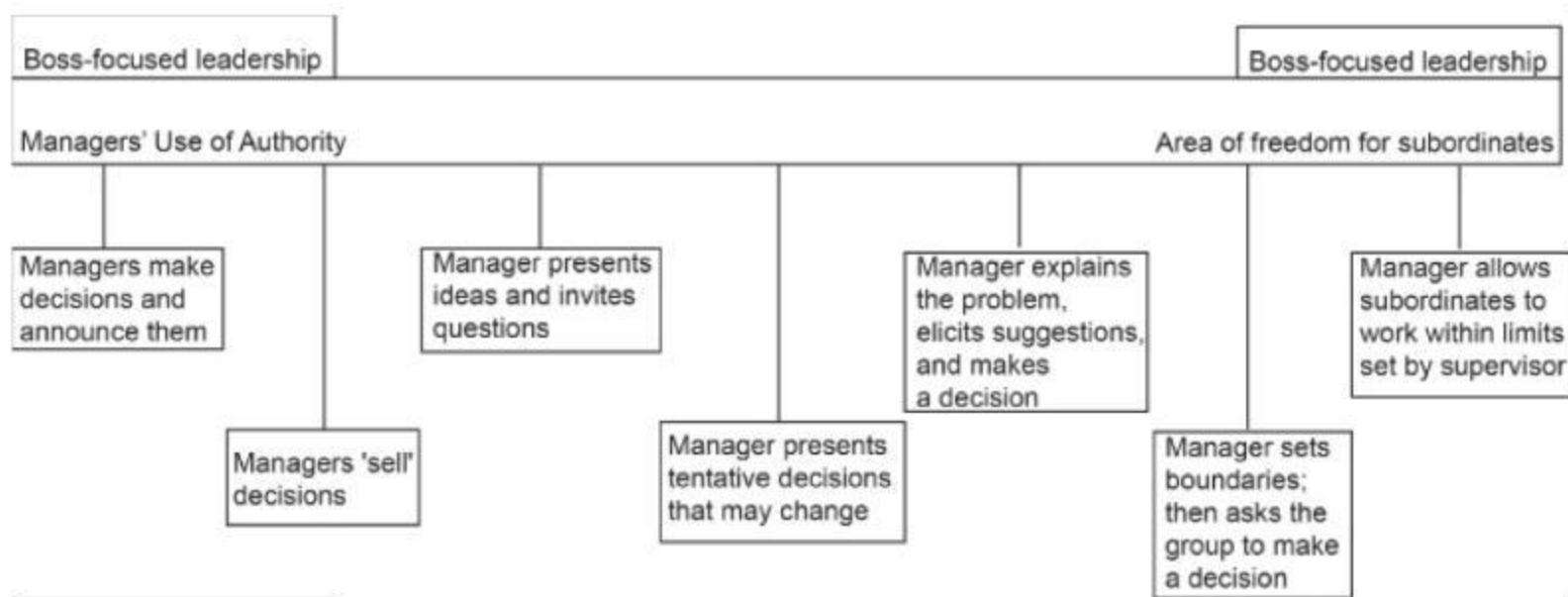


Figure 8.1
Tannenbaum and Schmidt's Leadership Framework

According to these two academics, leadership style will be determined by several factors: (1) factors from the manager, (2) factors from the employee, and (3) situational factors. If the manager believes that the interests of the organization should take precedence over individual interests, the manager will be more authoritarian. If employees have good experience, want participation, and can dive into organizational values, the manager can apply a more participatory style. Greater authority will be given to subordinates. Situational factors also determine leadership style. If a job is under time pressure and must be completed quickly, a more authoritarian leadership style may be more effective.

Note that the leadership style described by Tannenbaum and Schmidt is a "zero-sum game." That means that if a manager has a 100 percent authoritarian leadership style (the left extreme), then that manager will have a 0 percent subordinate-focused leadership style. A manager may have a 50 percent superior-focused leadership style, which means the manager's subordinate focus is 50 percent. Subsequent research has shown that managers' leadership styles are not a "zero-sum game." A manager's leadership style is multidimensional, in that a manager can be both subordinate-focused and superior-focused.

2. The Ohio State University Study

Research at Ohio State University examines leadership effectiveness through two variables referred to as: (1) initiating structure, and (2) consideration. The matrix with these two variables can be seen in Figure 8.2 below.

		Attention		Initiative Structure	
		Attention			
High		Low Structure	High Structure		
	High Attention	High Attention	Low Attention		
Low	Low Structure	High Structure	Low Attention	Low	
	Low Attention	Low Attention	High	High	

Figure 8.2
Leadership Styles at Ohio State Study

The study found that highly attentive leadership that pays attention to employees results in the highest levels of employee satisfaction and low levels of absenteeism and turnover. In contrast, low attentive leadership resulted in complaints and high turnover. Thus, the study concluded that highly attentive leadership is effective leadership.

But the study also found that leadership effectiveness depends primarily on the work situation and not on leadership style alone. A task-oriented (low attentiveness) commander, for example, produced less effective leadership than a highly attentive Air Force commander. Such results make sense. War or military situations demand fast-paced and decisive decisions. On the other hand, as with the results above, managers in non-production areas will produce effective leadership if they are highly attentive.

3. The University of Michigan Study

The study conducted by the University of Michigan and pioneered by Rensis Likert used two variables similar to those in the Ohio State University study. The variables used are as follows:

- a. production-centered: managers set harsh work standards, determine the methods of work to be done, organize work in detail, and closely supervise the work of employees.
- b. employee-centered: managers encourage participation in goal setting and work issues and encourage trust and respect among members.

The study found that an employee-centered leadership style is more effective than a production-centered style. The study also found that most effective leaders have good relationships with subordinates and that decision-making relies more on groups than individuals. Such leaders also encourage employees to set and achieve high goals and achievements.

In detail, the leadership styles proposed by Likert are grouped into the following four systems.

a. System 1: Exploitative-Authoritative

This type of manager is very authoritarian, has low trust in his subordinates, motivates his subordinates through threats or punishments, but sometimes through rewards, one-way communication (downward or top-down), one-way communication (downward or top-down), and one-way communication (top-down), and restricts decision-making to managers.

b. System 2: (Benevolent-Authoritative)

This manager trusts subordinates to a certain degree, motivates subordinates through threats and punishments at times, allows upward communication, pays attention to ideas or opinions from subordinates, and delegated decision-making authority although with close supervision.

c. System 3: Consultative

This manager has considerable trust in his subordinates, although not completely. usually uses subordinates' opinions or ideas to motivate them, uses rewards (incentives) to motivate them with the occasional use of threats and punishments to motivate them, uses two-way communication (top-down and vice versa), makes general decisions at the top level and allows more specific decisions to be made at the lower level, and is willing to consult in some situations

d. System 4: Participative-Group

This manager is the most participative manager. This manager has complete trust in employees, always utilizes employee ideas and opinions, uses economic incentives to motivate employees, and encourages participation in setting goals and assessing progress toward achieving these goals. Communication is two-way, encourages decision-making in all parts of the organization, and makes employees into work groups.

In general, managers who implement System 4 are the most effective managers. Organizations or departments led in a System 4 style are the most effective at setting and achieving goals. This success is mainly due to the participative approach that maintains the support of subordinates.

4. Managerial Grid

In contrast to the Tannenbaum and Schmidt study, the Ohio State University and University of Michigan studies concluded that leadership styles are not single-dimensional but multidimensional. Managers do not have only one task or employee orientation but can have both. Both are important to promote superior performance. The management grid developed by Robert Blake and Jane Mouton (1964) aims to encourage

managers to have two leadership qualities at once, namely task or employee orientation. The managerial grid begins with the identification of the manager's leadership style using a scale from 1 to 9. Figure 8.3 below is a combination of leadership styles in the management grid using attention to production as the horizontal axis and attention to people as the vertical axis.

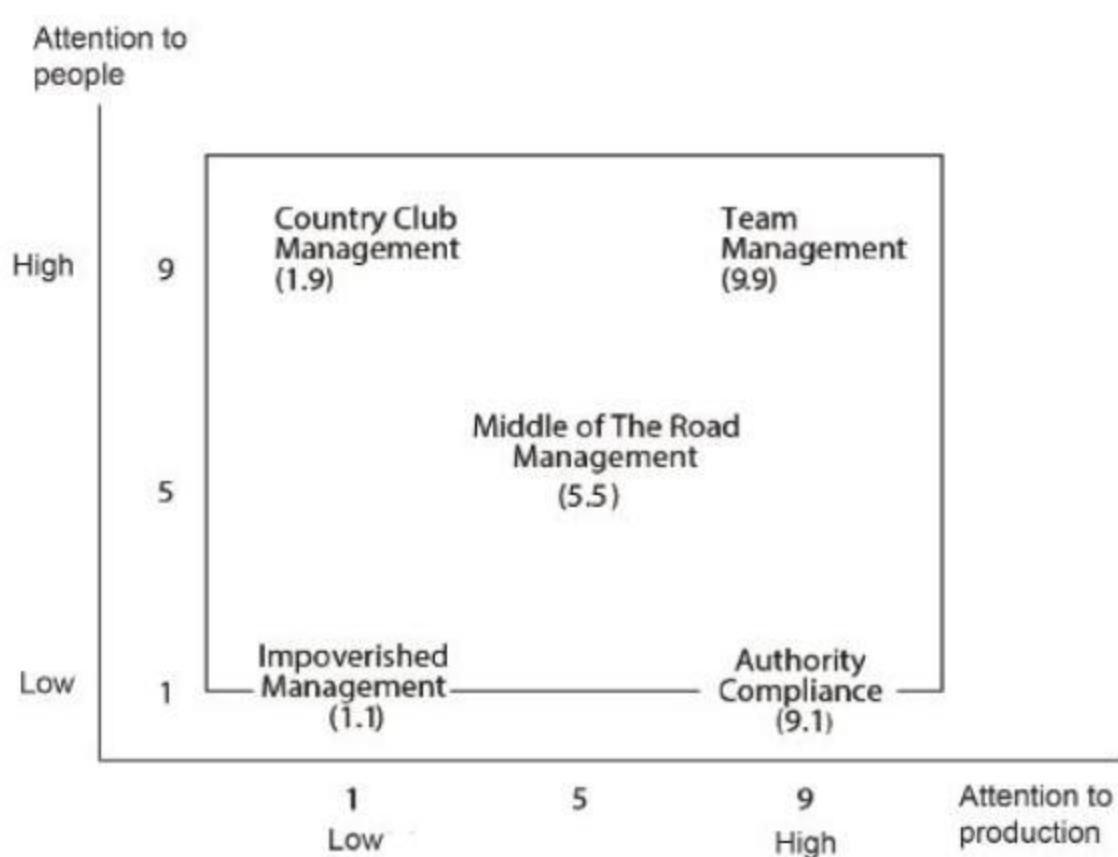


Figure 8.3
Managerial Grid

There are five combinations seen in the image above. A leadership style of 1.1 (bottom left) implies that the manager has little regard for employees and work. It is referred to as impoverished management or laissez-faire management because management does not play a leadership role. The 1.9 leadership style (country club management) has high attention to employees but low attention to production. In contrast, the 9.1 leadership style (task or authoritarian management) has a high concern for production but a low concern for employees. The 5.5 leadership style is middle-of-the-road management, which pays moderate attention to employees and production.

The 9.9 leadership style (team or democratic management) has a high level of concern for both employees and work. Blake and Mouton argue that this 9.9 leadership style is the most effective for almost all situations. This leadership style will reduce absenteeism or turnover, increase achievement, and increase employee satisfaction. A manager's leadership style should be changed to 9.9. These managerial grids are widely used for training managers.

D. SITUATION (CONTINGENCY) THEORY

Previous studies that attempted to look at leadership characteristics and styles were unable to find characteristics or styles that applied to all situations. The situation thus plays an important role in leadership effectiveness. The situational (contingency)

approach to leadership theory includes several factors: (1) the job; (2) expectations and behavior of co-workers; (3) employee traits or characteristics, expectations, and behaviors; and (4) organizational culture and policies. The following section describes situational theories of leadership.

1. Hersey and Blanchard Leadership Model

Paul Hershey and Kenneth H. Blanchard (1969) created a leadership model in which leadership effectiveness depends on the readiness of subordinates. The readiness factor includes the willingness to achieve, the ability to accept responsibility, the ability to perform tasks, and the experience of subordinates. These variables will affect leadership effectiveness.

They then classified leadership styles into four categories, with work behaviour on the horizontal axis and human relations behaviour on the vertical. Figure 8.4 below shows the boxes.

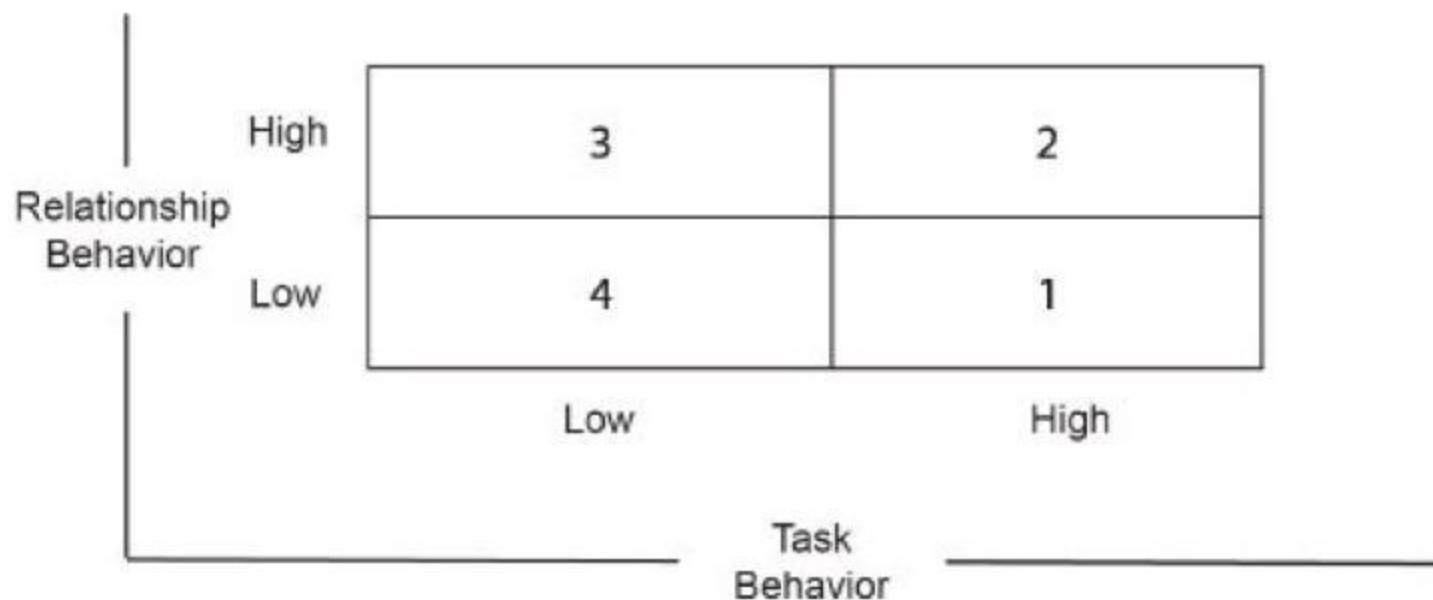


Figure 8.4
Hersey and Blanchard Leadership Matrix

At the beginning of the organization's journey, leadership style number 1 is the most effective. At that time, employees do not know much and still lack experience. Leadership style number 1 (high work, low relationship) provides more detailed instructions regarding the rules and procedures of the organization so as to clarify the work situation of employees. If a lax leadership style (e.g., number 4) is implemented, employees will be more undirected in their work, and leadership will not be effective.

When employees are learning and getting used to the organization, detailed work instructions are still needed, but managers need to improve human relations by encouraging or supporting (leadership style number 2). A clear work structure is still needed in this situation. In the third stage, employees are so well prepared that managers no longer need a firm and directive leadership style. Perhaps even the directive leadership style is no longer preferred by employees at this stage. At the next stage, when employees are more experienced, can direct themselves, and have more confidence in carrying out their duties, managers no longer need to encourage or direct them. At this stage, the employee has begun to be "released," and managers practise leadership style number 4.

According to the model, the manager or leader must constantly evaluate the condition of the employee. Then, once the condition of the employees is known, the manager adjusts his leadership style to suit the condition. As a result, the leadership style will be effective based on the employee's situation. If the right leadership style is applied, the manager not only motivates employees but also develops employee professionalism. Perhaps the question or problem is whether managers can easily change their leadership style. If the manager is flexible, then the leadership model discussed above does not pose a significant problem. But if the manager is not flexible and it is not easy to change the leadership style, the effectiveness of the leadership will be reduced, and the development of employees will even be hampered.

2. Fiedler's Model

Fred E. Fiedler of the University of Illinois created another situational leadership model. The theory is based on the opinion that a person becomes a leader not only because of their individual characteristics but also because of several situational variables and interactions between leaders and subordinates. Fiedler (1967) described three critical dimensions that explain effective leadership situations. With these three dimensions, Fiedler developed his leadership theory as follows.

- a. Power position. This dimension explains the power possessed by the leader, such as expertise or personality, which is able to make subordinates follow the leader's will. Leaders who have power from a clear and large position can get greater subordinate compliance.
- b. Job structure. This dimension explains the extent to which work can be detailed or explained and makes subordinates responsible for carrying out the work. If the job structure is clear, the work can be done easily, and subordinates can be entrusted with the responsibility of carrying out the work better.
- c. Leader-subordinate relationship. This dimension relates to the relationship between subordinates and leaders: whether subordinates trust and like their leaders and are willing to follow them. This dimension is considered the most important because the previous two dimensions, namely positional power and job structure, can be controlled by the organization.

To analyze his approach, Fiedler then created two leadership styles, namely, (1) task-oriented and (2) employee relationship-oriented. Fiedler then explained a key term, which is the favorableness of the situation. Leadership style is measured by an unusual technique: first, the least preferred coworker (LPC) scale. Managers are asked to rate their least favourite coworker. Second, the assumed similarity between opposing parties. Managers are asked to rate the extent of similarity between the subordinate and them (the manager). The assumption is that people like and will enjoy working with people with whom they have a lot in common.

Fiedler found that people who gave favorable ratings to their most preferred co-workers (meaning high LPC) tended to have a human relations-oriented leadership style. The person derives satisfaction from successful interpersonal relationships. People who rate their least favorite people lowly (low LPC) will tend to have a task-oriented leadership style. The person will derive satisfaction from performing a task. The second method of assuming similarity between opposing parties also yields similar results to the first method. People who perceive high similarity between leaders and subordinates will tend to have a human relations-oriented leadership style, and vice versa.

Then, Fiedler developed various situations with a combination of the three dimensions mentioned earlier, namely power, job structure, and the relationship between leaders and subordinates. Favorable situations are described as work situation where power is clear, work structure is clear, and the relationship between superiors and subordinates is good. Conversely, an unfavorable situation occurs when the power position is small, the work structure is unclear, and the superior-subordinate relationship is not so good. From these two extreme situations, other situations are then drawn that connect the continuum line between the two extremes (see Figure 8.5 below).

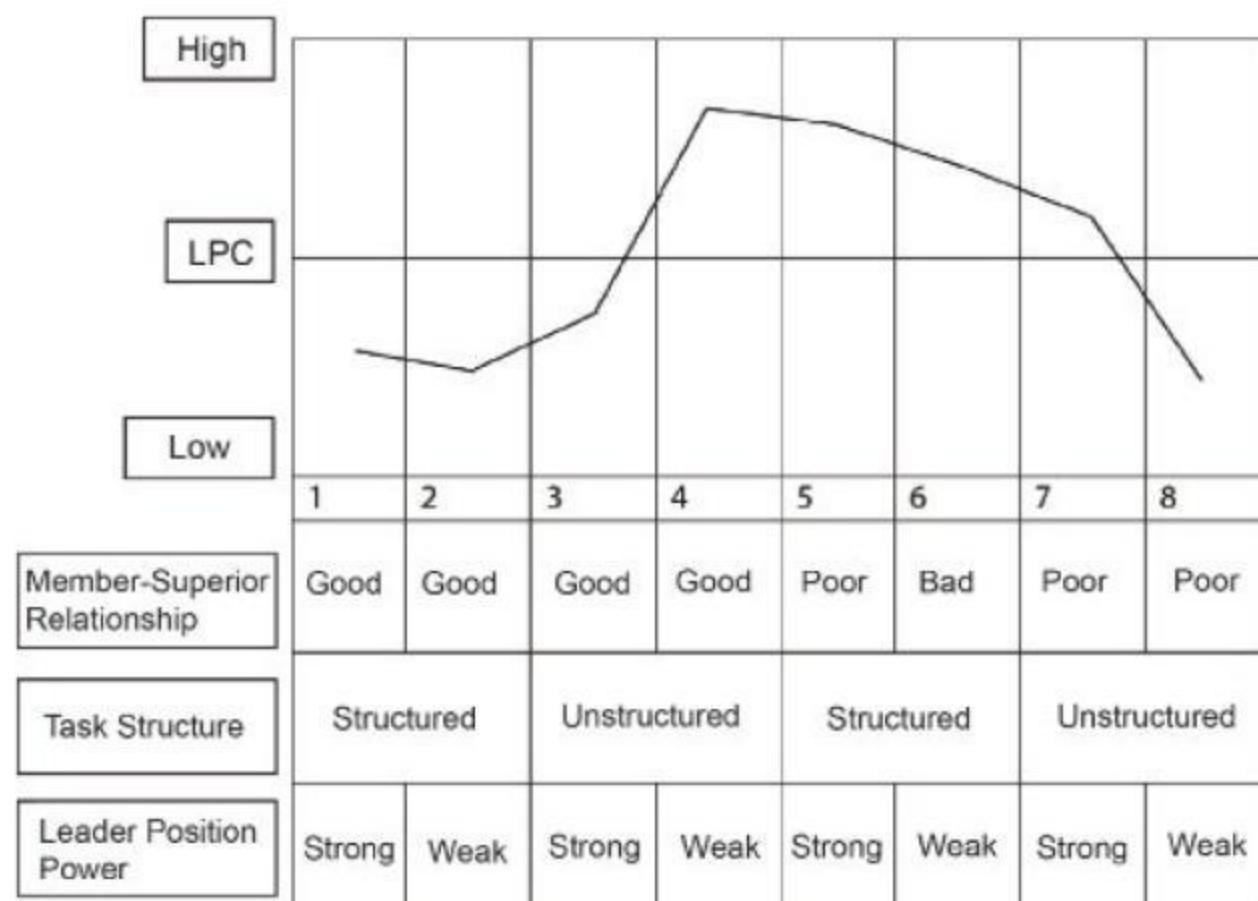


Figure 8.5
Effective Leadership by Situation

Then, the two leadership styles of human relations orientation and work orientation are applied to each situation, and their effectiveness is examined. It turns out that, according to Fiedler's findings, leadership effectiveness varies. Managers with low task orientation (low LPC) will be effective in extreme situations: unfavorable situations and favorable situations. If the work situation is moderate (between the two extremes), a human relations-oriented leadership style is more effective.

These results make sense. For example, in a highly structured situation, such as a war situation, where the power of the position and the work structure are clear, the superior-subordinate relationship is good, and the cohesiveness in the war atmosphere is quite high, a work-oriented leadership style will be more effective. At the other extreme, where the superior-subordinate relationship is poor, the work structure is unclear, and positional power is high, a work-oriented leadership style will also be more effective. This style will reduce uncertainty among subordinates, which might occur if the leadership style was more lax. Between the two extremes, a leadership style that emphasizes cooperation and human relationships is better and more effective.

3. Path-Goal Theory

The Path-Goal Theory formulated by Martin G. Evans (1970) and Robert House (1971) is based on the expectancy theory of motivation, which says that a person's motivation depends on expectations about rewards and the strength (valence) of the appeal of these rewards. The manager's job is to explain what rewards the employee will get and the ways and means that the employee can take in order to get the promised rewards. Other factors that affect leadership effectiveness also need to be considered, namely: (1) subordinate characteristics, which include perceived ability and self-control (locus of control); (2) the work environment, which includes work (task structure), authority structure, and relationships between employees (work groups).

Leader behavior can be categorized into the following four groups.

- Supportive leadership. This leader pays attention to the needs and the welfare of subordinates, and creates a pleasant organizational atmosphere.
- Participative leadership. This leader provides opportunities for subordinates to participate in decision-making.
- Instrumental (directive) leadership. This leader provides specific direction and explains what is expected of subordinates.
- Achievement-oriented leadership. This leader sets goals, looks for ways to improve achievement, and encourages confidence in subordinates that they can achieve the goals or objectives.

This theory argues that leadership style will depend on the situation at hand. Leaders are assumed to have the flexibility to change leadership styles. For example, if a new manager starts a new project, a directive style may be used. The manager sets the desired procedures and standards for doing the task. If the manager then wants to improve group unity and cohesiveness, a supportive leadership style is used. If subordinates are already proficient in their work, use the participative leadership style. If the manager wants to increase achievement, he should adopt an achievement-oriented leadership style. Figure 8.6 below presents the framework of the path-goal approach.

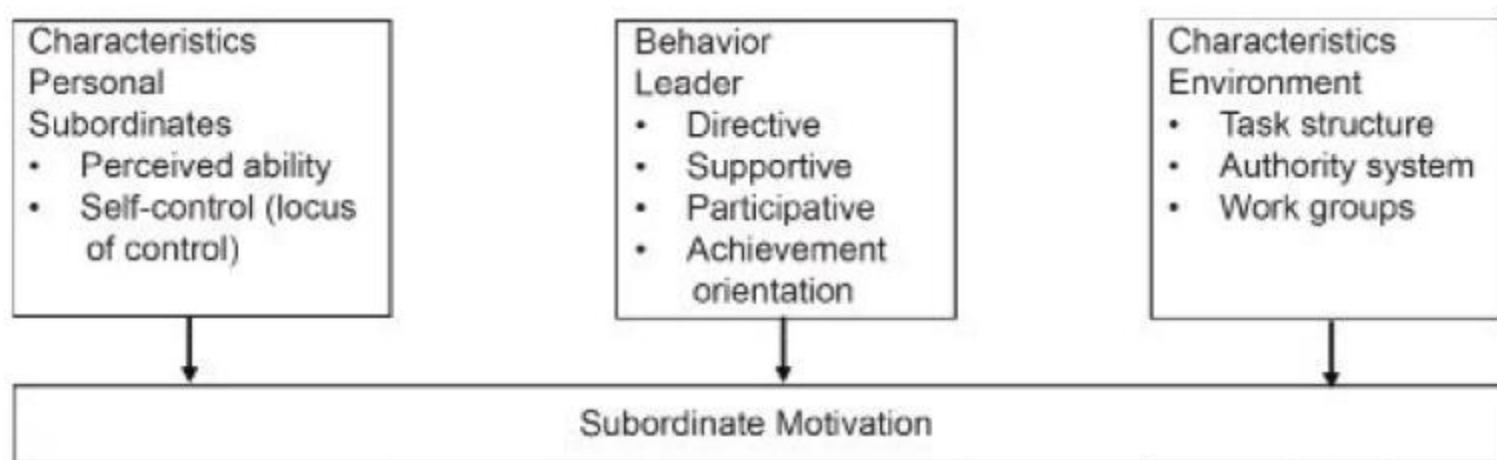


Figure 8.6
Path-Goal Framework

Employee personality traits influence an effective leadership style. If subordinates feel they have poor abilities, instrumental (directive) leadership will be more appropriate. Conversely, if subordinates feel they have good abilities, the directive style will be perceived as excessive, and employees will likely be hostile. Thus, a participative leadership style is more appropriate. If the subordinate has a high locus of control and feels that his life path is more controlled by himself than by external factors such as fate, a participative leadership style is more appropriate. Conversely, if the locus of control is low, a directive leadership style will be more appropriate.

In addition to personal characteristics, environmental factors also influence leadership style. If the work structure is complex, a directive leadership style is not so appropriate. Subordinates are certainly not happy if they are always told what to do. A formal system of authority is more in line with a less directive leadership style. Work groups also influence leadership style. If subordinates can get social satisfaction from the group, a supportive style is not so important. In the opposite situation, a supportive style will be more important.

4. The Vroom-Yetton and Vroom-Jago Models

Victor Vroom and Arthur Jago criticized the path-goal theory for failing to take into account situations where subordinate involvement is required. Victor Vroom and Philip Yetton (1973) created the model, which was later improved and expanded upon by Vroom and Arthur G. Jago (1988). The model is narrower than other situational theories as it only focuses on one part of the leadership process, namely, the extent to which subordinate participation in decision-making is allowed. This model introduces five leadership styles that reflect a continuum from an authoritarian approach to a participative approach. Table 8.1 below describes these leadership styles.

Table 8.1
Decision Styles in the Vroom-Yetton-Jago Model

Decision Style	Explanation
AI	Managers make decisions alone, based on the information available at that time.
AII	The manager obtains information from subordinates but makes decisions alone. The manager may tell them the problem at hand. The role played by subordinates is only to provide information and not to generate or evaluate alternative solutions.
CI	The manager shares the problem with relevant subordinates and requests information and the evaluation of alternatives. Subordinates do not meet as a group. The manager makes decisions alone, which may or may not reflect the influence of subordinates.
CII	Where managers and subordinates meet and discuss problems and evaluate alternative solutions. The manager then makes a decision, which may or may not reflect the influence of subordinates.
CIII	Managers and subordinates meet as a group and discuss the problem at hand. The group makes the decision. The manager does not try to influence the group in decision-making and is willing to implement decisions made together.

A = Autocracy, C = Consultative, G = Group

To measure the effectiveness of decision-making, two criteria can be used: the quality of the decision and the acceptance of the decision by employees. A high quality decision is usually the best or ideal decision and not a compromised decision, even though subordinates may not like the decision. Employee acceptance of decisions reflects the extent to which subordinates are willing to accept and support the decisions made. Some questions can be asked to see what type of leadership is appropriate.

- a. Does the manager have the information or ability to solve problems on his or her own? If not, AI style is not an appropriate style.
- b. Does the manager want a high-quality decision, even though he may not agree with it? If yes, the G style is not an appropriate style.
- c. Is the problem sufficiently structured? What information is required and where can it be obtained? If not, CII and GII styles, which allow for greater group interaction would be more appropriate.
- d. Is group acceptance critical to the success of the decision? If yes, AI and AII styles, which involve the least number of subordinates, are not appropriate.
- e. If acceptance of the decision is critical and subordinates are likely to disagree among themselves about the best alternative, the CII and GII styles are preferable. In groups, differences can be better resolved.

The situation that determines the leadership style is defined through a series of questions about the characteristic of the problem being analyzed. Managers can use a decision tree to select the appropriate style.

Table 8.2
Decision Making According to Vroom-Yetton-Jago

- | |
|---|
| A. Does it have quality requirements? |
| B. Do managers have the information to make quality decisions? |
| C. Is the problem structured? |
| D. Is the acceptance of the decision by subordinates essential for effective implementation? |
| E. If managers make decisions by themselves, is it reasonably certain that they will be accepted by subordinates? |
| F. Do subordinates feel that organizational goals will be achieved by the decision? |
| G. Is there likely to be conflict among subordinates over the chosen solution? |

From the decision tree that can be created, it would appear that the answer to each set of questions can result in more than one leadership style. These resulted styles are the ones that are feasible. To choose the most appropriate style from the feasible styles, managers can use two criteria: decisions must be made quickly (saving time), and efforts must be made to encourage subordinates' decision-making skills (time investment). On the first criterion, an authoritarian leadership style is more appropriate. The results of this style are visible in the short term, in the form of faster and more efficient decisions. In the second criterion, a participative leadership style is more appropriate. The results of this style are seen in the long term, in the form of more effective subordinates and a better working atmosphere or relationship. In the figure above, the circled leadership style is the most efficient, while the last leadership style is the most participative.

The Vroom-Yetton-Jago model has better empirical support than other situational leadership models. The problem is the complexity of the model for a manager. To help managers, computer programs for the VYJ model have begun to be developed so that they can assist managers in using the model.

E. CONTEMPORARY LEADERSHIP THEORIES

The development of leadership research and theory is evolving in many directions. Some new developments will be discussed in this section.

1. Transformational or Charismatic Leadership

Bernard M. Bass (1985) distinguished transactional leadership from transformational leadership. Transactional leaders determine what employees must do in order to achieve their own or organizational goals and help employees gain confidence in performing these tasks. In contrast, transformational leaders motivate subordinates to do more than originally expected by increasing the subordinates' sense of importance and the value of the work. This leader is able to make subordinates aware of a broader perspective so that individual interests will be subordinated to the interests of the team, organization, or other broader interests. Such leaders are also able to increase the needs of subordinates toward their highest needs, namely the need for self-actualization.

The leadership theory discussed earlier is more suitable for transactional leadership. Transactional leadership theory is sufficient, but to be more effective, a leader should not only exercise leadership in an "ordinary" way but use extraordinary ones. The leader must be able to inspire his subordinates to be moved or become a transformational type of leader.

2. Psychoanalytic Leadership Theory

Kets de Vries attempted to explain leader behaviour using Sigmund Freud's psychoanalysis (psychology). According to Sigmund Freud, people behave because they want to fulfil their unconscious needs. The person may not even be aware of these needs. These needs can sometimes be traced back to a person's childhood. Someone who did not receive toys as a child will be overjoyed to receive toys as an adult the person may not realize why they are collecting toys now. The toys are there to fulfill a need for toys that was never met when the person was a child.

A leader may behave in a certain way not to fulfill the interests of his subordinates but perhaps to compensate for his own frustrated personality. A leader may even act like a three-year-old child. Napoleon Bonaparte, the French general who was adept at war, may not have acted out of nationalism but to fulfill a subconscious need, for example, because he was forbidden to play war as a child.

According to this theory, human behavior is very complex. Outward appearances cannot be used as a guide. The analysis needs to go back to the most basic nature/human theory to understand the very complex behavior of humans or leaders.

3. Romantic Leadership Theory

According to this theory, leaders exist because of their followers. These followers develop a "romantic" (idealized) view of a leader who can help them achieve their goals or improve their lives. Leaders are needed to help them simplify the problems of a very complex world. If subordinates no longer trust the leader, leadership effectiveness is lost, regardless of the leader's actions. If subordinates are able to organize themselves, then leaders will no longer be needed. This theory tries to balance the superior side with the subordinate side so that the portions of both become more or less balanced.



Exercise

To understanding of the material above, please complete the following exercise!

Describe the leadership style proposed by Likert in detail.

Key Ideas for Exercise Answer

The leadership style proposed by Likert refers to the results of research from the University of Michigan. It can be seen in Section 4 of Likert's leadership style system.



Summary

Although there is a difference between managers and leaders, to some degree, managers are expected to be leaders in organizations. There are several theories of leadership: talent, behavioral, and situational theories. The talent theory aims to look at the characteristics of leaders that distinguish them from non-leaders. Unfortunately, there is no conclusive evidence for this theory. Behavioral theories attempt to explain the characteristics of leaders that set them apart from non-leaders. Some examples of this theory are Tannenbaum and Schmidt, the Ohio State University study, The University of Michigan study, and managerial grids.

Situational theory seeks to look at the influence of the situation on effective leadership. Some of these factors include work, expectations and behavior of co-workers, individual traits or characteristics, expectations and behavior of employees, and organizational culture. Some examples of situational leadership theories are Hersey and Blanchard; Fiedler; Goal-Path theory; and Vroom-Yetton-Jago. The development of leadership theory is moving in many directions. Transformational leadership, psychoanalysis, and romantic leadership are some examples of contemporary theories.

Term Index

Power	Initiative structure	Work-Oriented
Reward Power	Consideration	Employee relation-oriented
Coercive Power	The University of Michigan Study	LPC
Legitimate Power	<i>Production centered</i>	Assumed Similarity Referent
Power	<i>Employee centered</i>	<i>Path-Goal Theory</i>
Expert Power	System 1	Vroom-Yetton-Jago
Authoritarian- exploitative		
Talent Theory of Leadership		
System 2:	Transformational	
Benevolent- Authoritative		
Behavioral theory of leadership		
System 3:		
Consultative	Psychoanalysis	
Task-related function	System 4: Participatory	Romanti
Group and social functions	Rensis Likert	
Tannenbaum and Schmidt	Managerial Grids	
Zero-Sum Game	The Ohio State University study	Fiedler

Formative Test 1

Choose the correct answer!

- 1) Doctors have power that comes from power of
 - A. reciprocation
 - B. coercion
 - C. legitimacy
 - D. expertise

- 2) Tannenbaum and Warren H. Schmidt's leadership theory is an example of leadership ... theory.
 - A. situational
 - B. behavioral
 - C. talent
 - D. dynamic

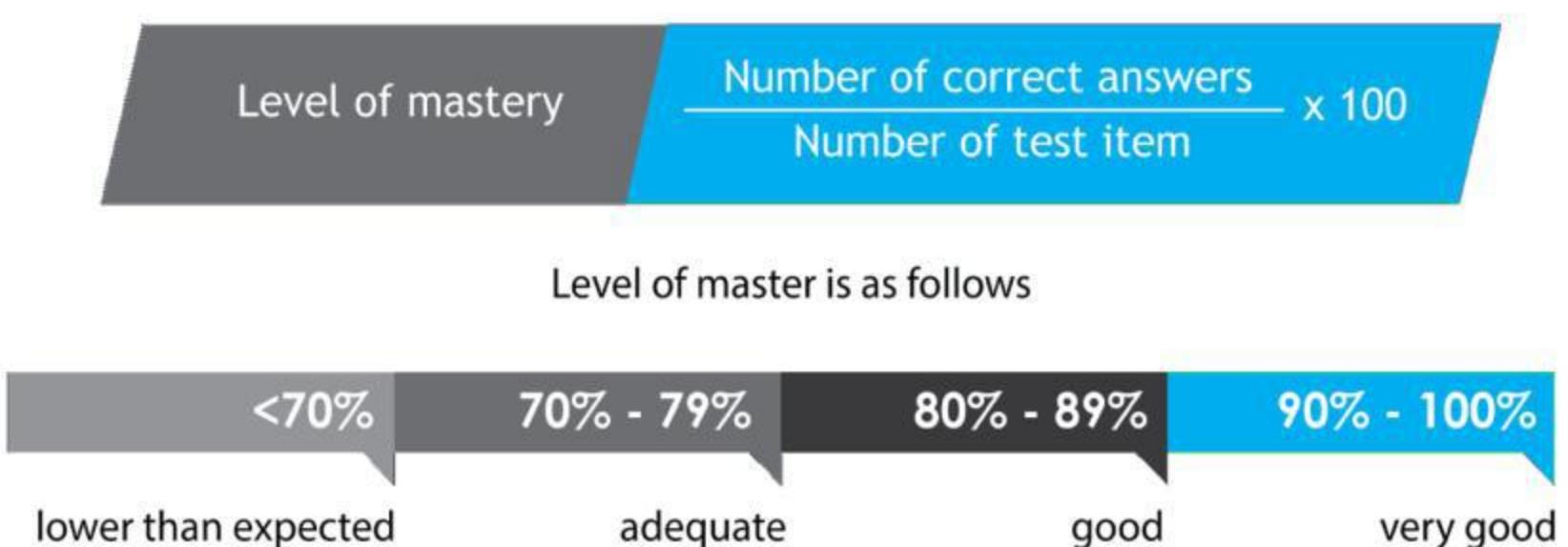
- 3) Leadership theories that focus on the traits present and absent in leaders are theories
 - A. situational
 - B. behavioral
 - C. talent
 - D. dynamic

- 4) The following that is an example of situational leadership theory is
 - A. the University of Michigan study pioneered by Rensis Likert
 - B. Ohio State University study
 - C. the theory of Tannenbaum and Warren H. Schmidt
 - D. the theory of Hersey and Blanchard

- 5) Rensis Likert conducted a leadership study using two dimensions, namely a focus on
 - A. production and employees
 - B. military and college sectors
 - C. public and private leadership
 - D. production and marketing departments

- 6) According to Bernard M. Bass, leaders who motivate subordinates to do more than expected are referred to as ... leadership.
- A. transactional
 - B. transformational
 - C. psychoanalytic
 - D. romantic
- 7) Path-Goal Theory suggests that
- A. leadership depends on two dimensions, namely the production and human dimensions
 - B. the ideal leader is one who can encourage the spirit of subordinates
 - C. leadership exists because there are leaders and followers
 - D. a person's motivation depends on expectations about rewards and the strength (valence) of the attractiveness of these rewards

Use key answers for Formative Test 1 which is located at the end of this module to determine the correctness of your answer. To make sure your mastery of the learning materials use the following formula.



When you attain level of mastery 80% or more, very good, you may continue to Learning Activity 2. Otherwise you have to review the material of Learning Activity 1. Pay attention to parts which you don't master yet.

Strategic Leadership

The previous learning activity discussed leadership. This learning activity discusses strategic leadership. Strategic leadership is leadership in organizations that can develop and maintain organizational competitiveness. Strategic leadership is thus very relevant to managers. The manager's job is to manage the organization so that the manager can gain a competitive advantage, improving company performance. Strategic leadership is also closely related to strategic planning, which was discussed in the Planning Module. Strategic planning tries to identify the future direction of the company and anticipate its long-term direction. If the company has a clear direction for its future, it will not be easily swayed by the changes around it.

Strategic leadership discusses the role of managers as strategic leaders. The leader is able to direct the organization toward achieving a vision or goal for the future. The leader is able to formulate the direction of the organization in the future, mobilizing existing resources to achieve these goals.

A. DEFINITION AND DIMENSIONS OF STRATEGIC LEADERSHIP

1. Definition of Strategic Leadership

Strategic leadership can be defined as a person's ability to anticipate, predict the future, maintain flexibility, think strategically, and work with others to initiate changes that encourage organizations to be competitive. This definition combines two words, namely manager and leader. Leaders are expected to be able to foresee the future (have a vision of the future) and motivate or inspire their subordinates to work towards that vision. To achieve this future, a manager is expected to be able to mobilize the resources that the organization has better than what its competitors are doing. Strategic leadership combines two things, namely leadership skills and managerial skills. If strategic leadership is effective, the organization will have high competitiveness and achieve the desired vision in the future. Conversely, if the organization does not have strategic leadership, it may not survive in the future. Here are examples of organizations that have succeeded and failed with strategic leadership.

In 1993, IBM was in big trouble. Some observers predicted that IBM would not be around much longer. The company had been able to make good profits in previous years through the sale of mainframe computers. However, the early 1990s witnessed

significant changes in the computer world. Small computers (such as PCs or Personal Computers and Network stations) were growing in popularity and reliability. Companies that used to buy more expensive mainframes were now turning to cheaper PCs. As a result, IBM's sales fell sharply. Lou Gerstner was then appointed as CEO (Chief Executive Officer) with a mission to save IBM from collapse. Gerstner then did several things. First, Gerstner did not break up IBM but kept it as one company. Some observers suggested that IBM should be broken into several parts to make it more agile. However, Gerstner did not do this because his discussions with IBM's clients showed that the clients wanted a one-stop service company. IBM was expected to provide integrated solutions for all client needs. More importantly, Gerstner had to change IBM's product-oriented culture to a service-oriented culture. If IBM used to love making good products (even when consumers may not have needed them), now it must make products that consumers want. This culture change is not easy. It requires changes in processes, systems, and people. But after the change was successful, IBM was able to survive and grow into the large technology company it is today. Lou Gerstner's strategic leadership saved and even grew IBM.

The opposite example was experienced by Digital Equipment Corporation (DEC). DEC was founded in 1957 and is known as a company that made many innovations in the world of computers, including minicomputers and laptops. It was the second-largest computer company in the late 1980s. But with this success, the company became increasingly inflexible. The company made good, well-designed products, but they were not compatible with products from other manufacturers. Consumers eventually tended to ignore DEC products. DEC believed that products that were technically superior would survive and did not need to be made compatible with products from other manufacturers, nor did they need advertising. As it turned out, this view could not work. DEC suffered constant losses. In 1998, the company was sold to Compaq. Hewlett-Packard then acquired Compaq in 2002. DEC's ineffective strategic leadership led to its demise.

2. Levels of Leadership

Leadership has several levels, as shown in Figure 8.7. below.



Sources: Griffin, 2016

Figure 8.7
Leadership Tiers

Strategic leaders are analogous to generals in military language. The scope of the strategic leader is broader and involves the organization as a whole. Below the strategic leader is the operational leader. Operational leaders can be analogized to colonels in the military. The Colonel will go directly to the field, becoming a bridge between the General and the troop commander in the field. The operational leader is the leader of one part of the organization. Group leaders lead groups of individuals. In a military analogy, a group leader can be analogized to a lieutenant or corporal in charge of troops operating in the field. The general's job is to win the war, even though he may lose a battle or two. A war consists of a number of battles. An organized group will largely determine the success of the battle. In the language of war, there is a proverb that says "ten well-commanded soldiers can defeat a hundred soldiers without command."

3. Why is Strategic Leadership Necessary?

As mentioned earlier, strategic leadership maintains and develops organizational competitiveness so that the organization's vision will be achieved.

Managing organizations today will be more difficult than managing organizations in the past. Environmental changes, such as technology, a wider scope of company operations (e.g., operating abroad), an increasingly educated society that is aware of its rights, and other conditions make managing organizations more difficult. In short, the organizational environment has become more complex, has higher levels of uncertainty, and has a greater degree of interdependence. These conditions require more effective strategic leadership. Here are some reasons why strategic leadership is needed.

a. Accelerating rate of change

The rate of change in the current environment is becoming increasingly rapid from year to year. Competitor reactions are getting faster while product cycles are getting shorter.

b. *Higher uncertainty*

Due to the rapid changes, uncertainty will be higher. Long-term planning and forecasting have become increasingly difficult. For example, in 2012, an automotive and automotive financing company tried to create a five-year plan. After the plan was finalized, a regulation suddenly came out that increased the down payment for motorcycle loans. The increase in down payments was expected to significantly reduce motorcycle sales and the motorcycle financing business. The plan that had been made for the next five years became useless and needed to be revised.

c. *Higher level of ambiguity*

Problems with higher levels of ambiguity require more in-depth consideration. These problems cannot be solved with the usual standard operating procedures (SOPs). There are an increasing number of highly ambiguous problems. For example, is it acceptable to give a gift to an officer (such as a police officer or bank manager) as a token of appreciation? For instance, a police officer saves hundreds of millions that were robbed by a criminal. Some people will consider it not to be bribery and will say it is appropriate. Others might say that it is not necessary because it is the duty of the police. There is no firm limit on whether or not it is permissible until there is a regulation that emphasizes the issue. Another example is whether banks should give loans to unsecured and high-risk microbusinesses. On one hand, such loans will help microbusinesses. However, on the other hand, such lending will increase bank risk and possibly lower the bank's profitability.

d. *Increasingly complex problems*

The problems faced by companies seem to be getting more complex over time. There is more information, which leads to information overload. The impact of a decision on other fields will be greater. This shows a higher level of dependence or interconnectedness between fields. The problems faced by companies seem to be getting more complex over time. There is more information, which leads to information overload. The impact of a decision on other fields will be greater. This shows a higher level of dependence or interconnectedness between fields.

4. Characteristics of Strategic Leadership

Strategic leadership focuses on developing competitiveness. Strategic leadership differs from leadership alone in several ways: (1) a broader scope; (2) a longer impact; and (3) often involves significant organizational change. Strategic leadership can perhaps be contrasted with operational leadership. For example, the leadership exercised by the Managing Director (strategic leadership) will be much different from that exercised by the production supervisor. Leadership by the CEO is broad in scope, has a major impact on the organization, and is long-term oriented. While the production supervisor's scope is limited to the factory and his daily timeframe (daily decisions), the impact will only be felt in the factory.

a. Broad scope

The scope of strategic leadership goes beyond a particular functional unit or business unit. Strategic leadership encompasses the organization as a whole. Because of its broader scope, strategic leadership must view the organization as a whole, including all of its interrelationships. Strategic leadership also needs to look at the interdependencies between the organization and its environment.

b. Longer impact

Strategic leadership has a long-term perspective or view. Decisions that will be made by strategic leaders have a longer impact. Strategic leadership needs to balance short-term interests with long-term interests.

c. Often involves significant organizational change

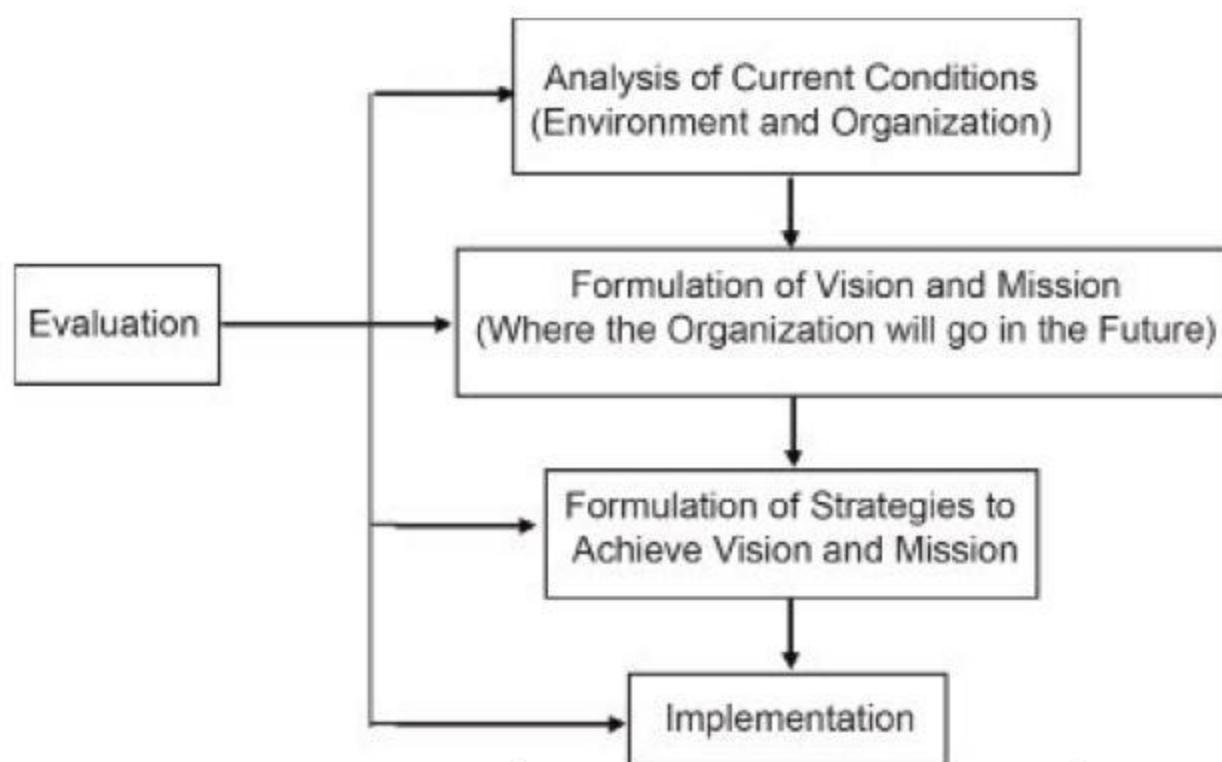
Strategic leadership often involves significant organizational change. For example, suppose a company decides to merge with another company. The merger will result in very significant organizational changes. The organizational leadership decides to launch a new compensation system, such as one using a bonus system and stock options (e.g., ESOP or Employee Stock Ownership Plan). This compensation system can significantly change the behavior of individuals in the organization.

B. FUNCTIONS OF STRATEGIC LEADERSHIP

Strategic leadership involves three things: (1) planning, (2) implementation, and (3) evaluation. These three things must be done in order for an organization to exercise effective strategic leadership.

1. Planning

Strategic leaders will start with the organization's vision and mission for the future. To determine the vision, the strategic leader will evaluate internal and external (environmental) conditions. The next step is to formulate a strategy to achieve the vision and mission. The implementation of these strategies needs to be supported by an appropriate organization. Therefore, strategic leaders need to design and form the desired organization so that the vision and mission of the organization are achieved. Figure 8.8 illustrates the steps to be taken by the strategic leader.

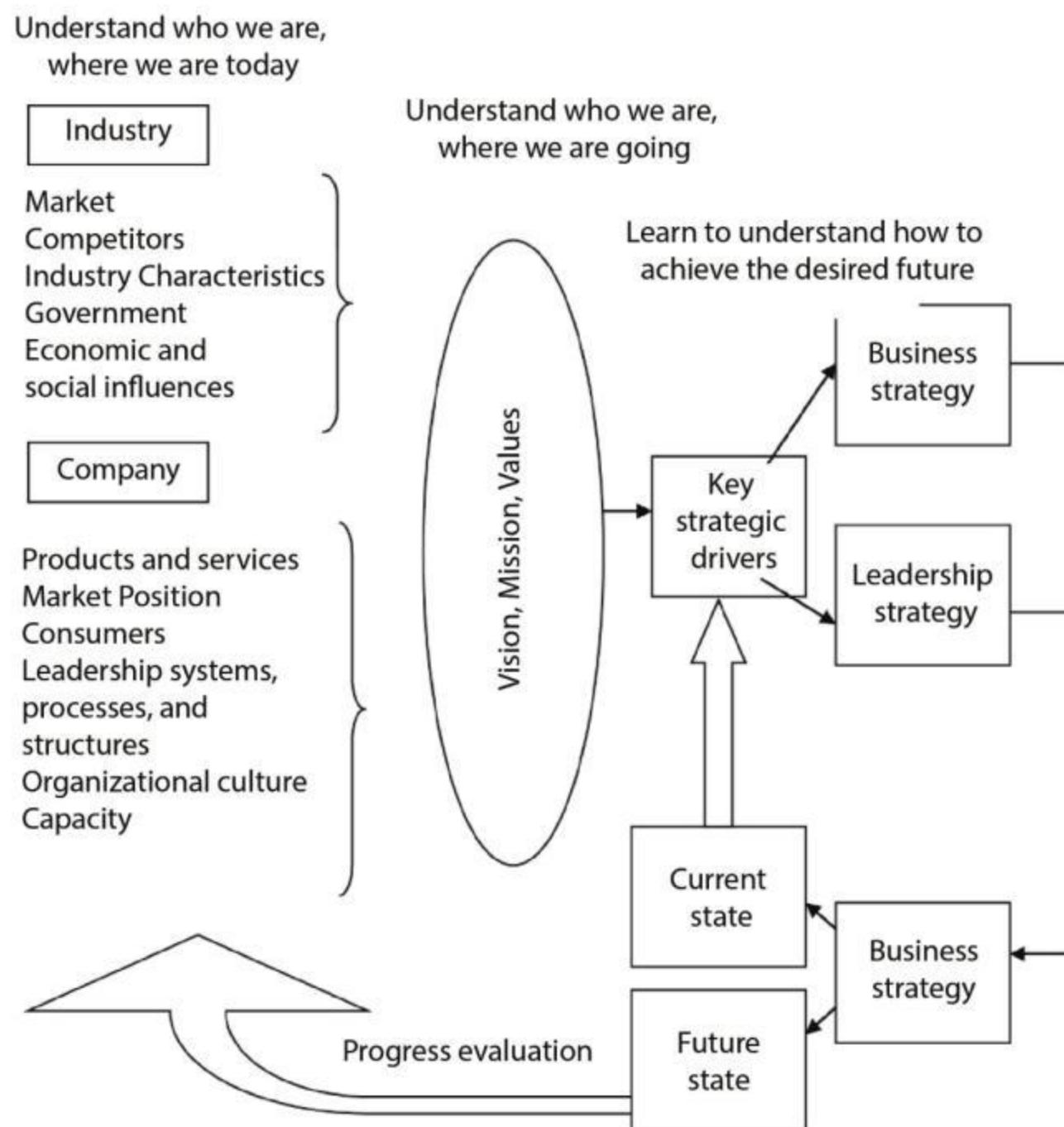


Sources: Stoner *et al.*, 1995

Figure 8.8
Leadership Tiers

Figure 8.8 above shows that the strategic leader will take the following steps: (1) Evaluate current conditions, including organizational and environmental conditions. (2) Formulate where the organization will go in the future or formulate the organization's vision and mission. (3) Formulate strategies to achieve the vision and mission. (4) Implementation of the formulated strategy; and (5) Evaluation of achievement. The results of the evaluation will serve as input for improving the vision, mission, and strategy, as well as for analyzing current conditions.

Figure 8.9 below illustrates the steps of strategic leadership in more detail. As before, the first step is to try to understand what the company looks like. Then, strategic leadership must formulate the direction it wants to take in the future. The next step is to formulate the key strategic drivers, followed by strategy formulation. The next step is to execute or implement the strategy. Strategic leadership should always evaluate the achievement of results.



Sources: Huges, Richard and Katherine C Beatty, 2005

Figure 8.9
Steps of Strategic Leadership

a. *Analysis of current conditions*

At this stage, managers conduct a self-evaluation, including an evaluation of the condition of the company and its environment. A SWOT (Strength, Weakness, Opportunity, and Threat) analysis can be conducted. Figure 8.10 below illustrates the self-evaluation process for a strategic manager. The manager will always ask questions about: company conditions, industry conditions, company vision, mission, and values; key strategic drivers; strategies; implementation tactics; current conditions; future conditions; and always evaluate the achievement of results.

1) Company Condition

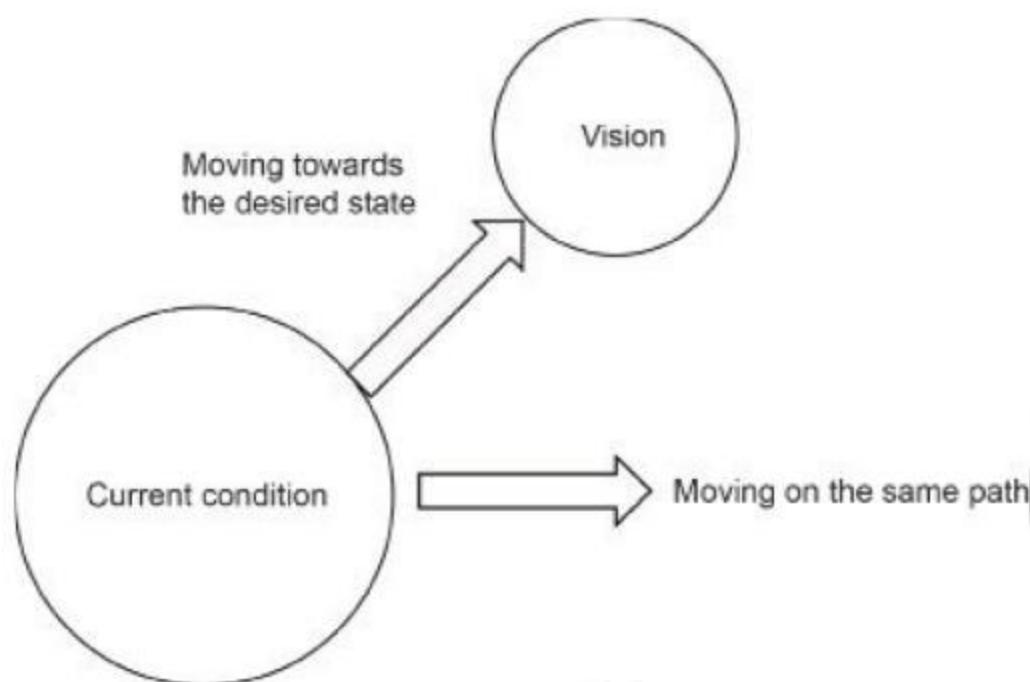
Managers will wonder what the company currently does. What are the products or services produced by the company? What needs does the company's product or service serve? Who are the customers? Why are consumers willing to buy the company's products or services? How is the company positioned in the industry? How is the company positioned compared to its competitors? What is the company culture? How is the company's leadership? These types of questions are expected to shed light on who we are as a company.

2) Industry Conditions

Managers will wonder about the condition of the industry in which the company operates. Is the industry growing or declining? What is the structure of the industry—is it concentrated (few companies) or spread (many companies)? How does the government affect the industry? How do social and economic factors affect the industry? These questions are expected to provide a clearer picture of the condition of the industry in which the company operates.

b. *Formulation of vision and mission*

After gaining a deep understanding of the condition of the company and its industry, strategic managers begin to think about the company's vision and mission. The vision and mission will answer the question of where the company will be taken in the future. Strategic managers need the ability to see the future. For example, Bill Gates, the founder of Microsoft, the largest computer company in the world today, has a vision of every home having a PC computer because operating a PC computer is as easy as operating a television. Starbucks is a coffee restaurant, founded in 1971. In its early days, Starbucks only sold coffee beans and coffee-making equipment. In 1983, its then-CEO, Howard Schultz, travelled to Turin, Italy. He was amazed by the number and variety of coffee shops in the city. In that city alone, there were about 1,500 coffee shops. He concluded that Starbucks should not just sell coffee beans or stores but sell an experience—a gathering place. Customers come to Starbucks to drink coffee while hanging out with their friends. With this vision, Starbucks turned into a coffee shop with branches all over the world. Figure 8.10 below illustrates the role of vision. Vision moves the company in the direction it wants to go. Without a vision, the company will stay on the same path.



Sources: Arranged by the Author

Figure 8.10
Steps of Strategic Leadership

The following characteristics define an ideal vision. (1) Covers a broad spectrum of the organisation (as a whole). (2) Promotes change in order for the organisation to improve. (3) Encourages confidence and hope. (4) Exhibits high idealism. (5) Directs the strategy's goals and journey to completion.

If the vision describes the company's position in the future, the mission describes what the company does, the purpose and reason why a company exists, what the company does, and the reason why the company exists, and is the basis for the formulation of the vision. For example, what is the mission of a railroad company such as PT KAI (Kereta Api Indonesia)? As managers, we might come up with several answers: PT KAI is a transportation company with trains, PT KAI is a transportation company, PT KAI is a company that aims to make a profit. These answers are the reasons why PT KAI was established. Formulating a mission that is too narrow or too broad may not be ideal. If a railroad company formulates its mission as a railroad company, it may become insensitive to changes in its environment. The emergence of new competitors from outside the railroad, such as airline companies that offer cheap tickets, cannot be anticipated by the company. A mission that is too broad is also less than ideal. For example, the mission of a profit-making company may be too broad. The company can earn profits in many ways. The optimal mission might be formulated as a company that transports goods and people with a high level of safety and comfort. Such a mission allows the railway company to see the dynamics in the transportation industry. A company with such a mission can monitor the development of airlines.

c. Identifying key strategic drivers

Strategic drivers are variables that have the greatest impact on the competitiveness of an organization in a particular industry. There are several other names for this term, such as key success factors and key value drivers. Most organizations have no more than five key strategic drivers. By focusing on these key drivers, strategic managers can focus their energy on the most important variables in the organization. Some examples of key strategic drivers:

Table 8.3
Key Driver Example

Industry	Key Driver
Television channel	Rating number of clicks
Website (internet)	Sales
Retailer (department store)	Value/meter

Key strategic drivers can change over time. Key strategic drivers can also change in importance over time.

d. Developing a strategy

The next step is to formulate a strategy that will be used to take the company to its vision and mission. The business strategy is the strategy aimed at improving the

competitiveness of the company. The choice of leadership style and resource capability to effectively execute the business strategy is referred to as leadership strategy. Two companies operating in the same industry are likely to have different strategies. For example, in the banking and finance industry, BCA Bank has a strategy of using cheap sources of funding. Therefore, the bank vigorously develops public savings. The cheap funds are invested in assets that provide lower returns but have lower risks. Pegadaian has expensive sources of funds, for example, by issuing bonds that have higher interest rates than savings. Then, Pegadaian invests in sectors or businesses that can provide high returns, such as small and microbusiness loans. Small and microbusiness loans provide a higher rate of return, although they also have higher risks.

The ideal strategy must fit the environment faced by the organization. Therefore, strategies can and should always change whenever the organization's environment changes. In addition to using the environment as the basis for formulating a suitable strategy, the strategy must be based on the internal conditions of the company. The strategy should focus on three internal characteristics of the company. (1) Core competence; (2) Synergy; and (3) Value Creation Orientation. An organization's core competence is something that the organization can do very well, far exceeding its competitors. Synergy can be defined as a combined effect that is greater than the individual effect. For example, a company can produce shoes and bags at the same time because both products can provide synergy. The materials can be the same (e.g., leather), the distribution network can be the same (e.g., shoe and bag stores), and the brands can also be the same. By using the same inputs for two different products, the company can save a lot of money. In other words, there is synergy between the two products. A value-creating orientation is necessary because ultimately the company's goal is to make a profit. Value can be defined as price minus cost.

2. Implementation

The next stage is execution, or implementation. Strategic managers don't simply dream; they work to make the vision a reality. Strategy implementation is perhaps the most important and difficult part of strategic leadership. Implementation of strategic leadership requires support from all elements in the organization.

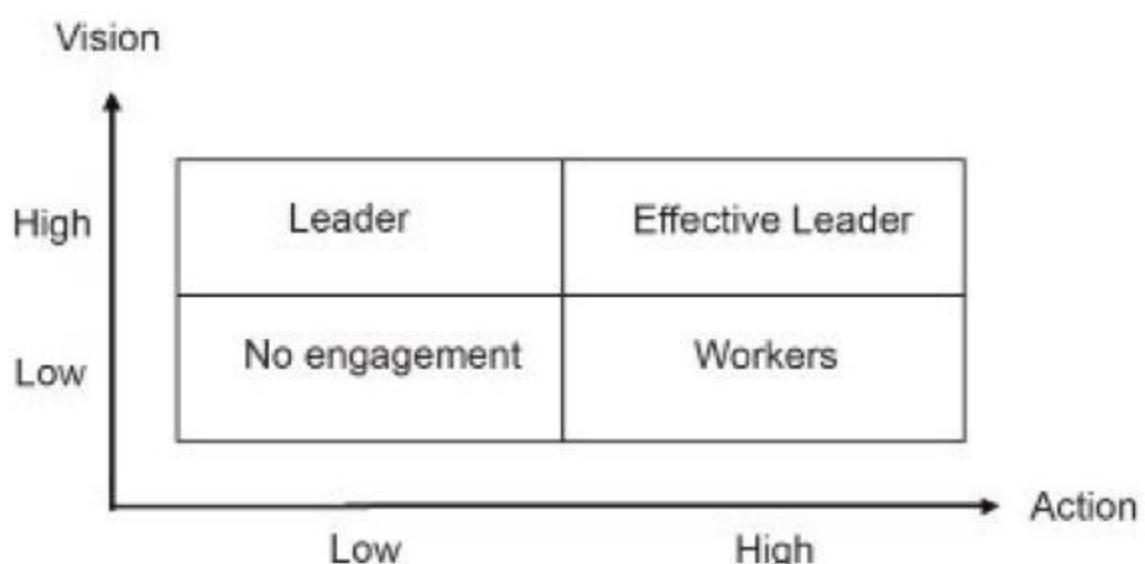


Figure 8.11
Strategic Manager's Vision and Action Matrix

If the manager formulates too much vision yet takes no action (upper left quadrant), then the manager is practically a leader. If the manager has no vision but a lot of action, then he is just a worker (a doer) who does things without knowing the direction of his actions. The ideal situation is for the manager to have a high vision and to act high in order to achieve it. The manager will be an effective leader.

Implementation by strategic managers can be illustrated through the following figure of strategic leadership functions. The figure illustrates the functions that strategic managers will perform, namely achieving common tasks, motivating and developing individuals, as well as building and maintaining groups. The three functions will also intersect with each other, as illustrated by the intersection of the three circles.

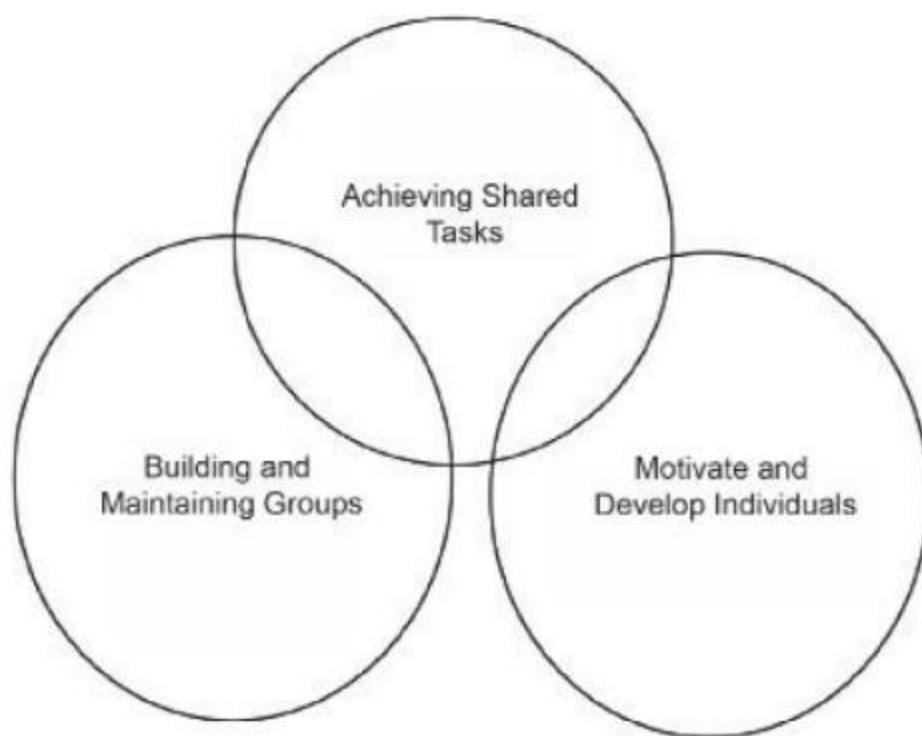


Figure 8.12
Strategic Leadership Functions

a. *Achieving a common task*

Strategic managers must be able to mobilize individuals and groups within the organization to work on common tasks to achieve specific goals. Organizations are established to achieve specific tasks.

b. *Motivating and developing individuals*

Strategic managers need to motivate individuals in the organization and develop their potential. The motivation module discusses techniques for motivating employees. The Human Resource Management module addresses the issue of managing and developing human resources.

c. *Building and maintaining groups*

Groups are an important component of any organization. Many tasks are more effectively done by groups than by individuals. Strategic managers need to improve group effectiveness to achieve organizational goals.

The strategic leadership functions described above need to be complemented by a set of organizational tools or resources for the function to be carried out effectively. Some examples of necessary resources are support from top management, mechanisms and procedures within the organization, and funds.

3. Evaluation of Strategic Leadership

The last stage is to evaluate the achievements of strategic managers. Evaluation needs to be done to improve the effectiveness of strategic leadership. Why does strategic leadership fail? There are several reasons why strategic leadership fails, namely (1) lack of focus, (2) ineffective strategies and tactics, and (3) a narrow view.

a. *Lack of focus*

Many organizations or leaders are tempted to do many things. However, due to limited resources, the organization ends up with nothing. Some managers complain about not having enough time. Such complaints may indicate a lack of focus. Managers want to do many things. This lack of focus can have a negative impact on the organization. First, because there is no focus, managers cannot prioritize their energy and time. Second, because of the lack of focus, there is no clear agenda; individual agendas start to emerge. Political activities within the organization begin to emerge, which results in the organization not being able to achieve its goals.

b. *Ineffective strategies and tactics*

Strategies and tactics can be ineffective due to poor strategies, yet it can also be due to poor implementation of those strategies (tactics). Some studies show that a lack of communication and coordination is the cause of ineffective strategies. Due to a lack of communication and coordination, individuals do not understand the vision of the organization or the contribution that can be made or expected and therefore cannot work optimally.

c. *Narrow view*

Strategic leaders must have a broad view. A narrow view can lead to the failure of strategic leaders. One example of a narrow view is putting too much focus on short-term goals at the expense of long-term goals. Managers may have pressure or targets to make profits in the short term. Managers may neglect good customer relationships or fail to make sufficient investments. In the short term, this may reduce costs. However, in the long run, it may result in a loss of competitiveness for the company. Strategic leaders must be able to balance short-term needs or targets with long-term targets.

There is another reason why strategic leaders can have a narrow view. Top managers are often promoted from the bottom, i.e., from operational managers. Top managers in airlines, for example, are promoted from pilots. Operational managers tend to have a narrower perspective. When such managers are promoted to top positions, they need to broaden their perspectives to avoid being trapped in a narrow view.



Exercise

To understand the material above, please complete the following exercise!

Leadership has many styles and types, but strategic leadership is different from ordinary leadership. Explain the difference!

Key Ideas for Exercise Answer

Answers can be found in Module 8 Learning Activity 2 section on Characteristics of Strategic Leadership.



Summary

This learning activity discusses strategic leadership. Strategic leadership is leadership that aims to build a company's competitiveness. It combines managerial skills with leadership. Strategic leadership is needed because business conditions have become increasingly uncertain. Strategic leadership requires the following steps: (1) planning, (2) implementation, and (3) evaluation. In planning, strategic leadership will formulate the vision, mission, and strategies to achieve the vision. Strategic leadership implementation is both the most important and most difficult process. Resources in the organization must be mobilized to support the implementation of strategic leadership. At the evaluation stage, strategic leadership will evaluate its achievements. Failure to build effective strategic leadership can have fatal consequences, such as the destruction or bankruptcy of the company.

TERM INDEX

Core Competence	Strategic leader
Key strategic drivers	Synergy
Strategic leadership functions	Synergy
Strategic leadership	Business strategy
Mission	Leadership strategy
Added value	SWOT
Group leader	Vision
Operational leader	



Formative Test 2

Choose the correct answer!

- 1) The following characteristics are not characteristics of strategic leadership
 - A. developing vision and mission
 - B. formulating strategies
 - C. handing over (delegating) strategy implementation to operational managers
 - D. motivating subordinates to work optimally

- 2) The machine supervisor is more accurately referred to as having ... leadership.
 - A. strategic
 - B. operational
 - C. informal
 - D. organizational

- 3) The most appropriate key driver for television is
 - A. rating
 - B. number of clicks
 - C. sale per square meter
 - D. number of employees

- 4) The reason for an organization's existence is summarized in
 - A. vision
 - B. mission
 - C. strategy
 - D. tactics

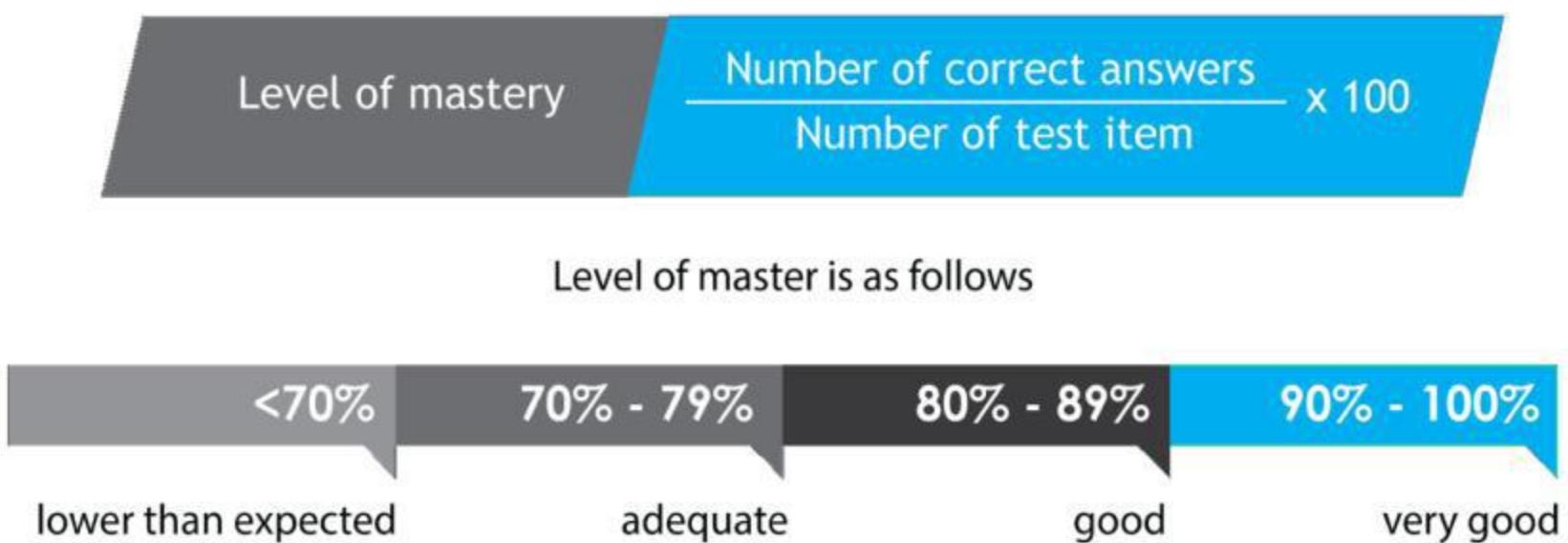
- 5) The variable that has the most impact on corporate competitiveness for an organization in a particular industry is called
 - A. key strategic results
 - B. performance indicators
 - C. synergies
 - D. key strategic drivers

- 6) A cement company buys a bag company, the synergy between the two is
 - A. high because they produce the same goods
 - B. low because the cement company and the bag company can use the same labor force
 - C. high because cement and bags can utilize idle machine capacity
 - D. low because cement and bag companies have different distribution channels

8.38 Leadership

- 7) The most appropriate core competence for a railroad company (e.g. PT KAI) is
- A. making locomotives and train cars
 - B. providing food and drinks for the travel
 - C. making profit
 - D. moving passengers and goods from one place to another
- 8) Effective leadership fails due to
- A. appropriate strategy
 - B. focused strategy
 - C. a narrow view
 - D. clear and realistic vision and mission

Use key answers for Formative Test 2 which is located at the end of this module to determine the correctness of your answer. To make sure your mastery of the learning materials use the following formula.



When you attain level of mastery 80% or more, very good, you may continue to the next module. Otherwise you have to review the material of Learning Activity 2. Pay attention to parts which you don't master yet.

CASE

Leadership in Crisis: How did Lou Gerstner Fix IBM?

IBM (International Business Machine) is a well-known computer company. However, IBM almost disappeared from the market when the company experienced serious problems in the early 1990s. To fix IBM, Jim Burke, a former Johnson & Johnson executive who later became chairman of the search committee for a new IBM CEO, approached Gerstner to lead IBM. Gerstner was not interested at first as he was not a technical person and saw himself as unfit to lead a technology-laden company like IBM. Lou Gerstner obtained his MBA from Harvard Business School, worked as a McKinsey consultant, and later became the director of RJR Nabisco (a food company). After being told that it was a “national assignment” (IBM was too big to fail), he finally accepted the job of leading IBM. What steps did he take?

IBM (Big Blue) Background

Thomas Watson began his computing career with the punch-card accounting system used for the 1890 census in the United States. He changed the name of his company to International Business Machine in 1924. IBM grew when the need for computing began to grow. The need arose through the Social Security Act, 1935, and the Wages-Hours Act, 1937, which required companies to record hours, wages, and overtime for 26 million workers in the United States. At the same time, IBM began to develop a unique culture that would ultimately define its rise and fall. Tom Watson and his son, Tom Jr., saw business as a sacred trust and ran it like dictators. Employees were expected to be completely devoted to the company and its founder. Employees were given all sorts of perks in exchange for their pay, such as special treatment with flowers and paid vacations if their wife was ill, and in exchange, they were expected to work forever (unless they broke the rules). IBM people not only wore the company uniform of dark suits and dark ties but also became moral role models. IBM's profits and achievements increased throughout the 1950s and 1960s, as did its bureaucracy. IBM's employees had increased to 407,000 by 1986. IBM became the “elephant” with all its bureaucracy, and its arrogance built up over the years.

Some of the strategic mistakes associated with IBM's bureaucracy were made, such as giving the operating system business to Microsoft and the relational database business to Oracle. IBM did not innovate creatively enough, did not take risks, did not see opportunities, and failed to capitalize on them quickly. By early 1993, IBM began to experience difficulties. Losses reached \$20 billion, and bond ratings fell. Sales of IBM's flagship product, the mainframe, began to dwindle and gained heavy competition from small computers, such as PCs or workstations.

Lou Gerstner's moves¹

Gerstner finally accepted the offer to lead IBM. The first decision he had to make was whether to break up IBM (to reduce bureaucracy) or not. He decided not to break up IBM. Then, to fix IBM, he inevitably had to change the company's culture. "Culture is everything; if the culture is not right, then everything will not work. Culture can bring benefits under stable conditions, yet it can become a burden if conditions change." Then he must create a sense of crisis that will drive change. Without a sense of crisis, people will not change. He must also supervise them so they do what they are supposed to do. People don't do what other people expect; they do what is supervised. A sense of mission (developing a vision) must also be developed; fortunately, the internet came along, and Gerstner was able to create a vision around the internet. IBM focuses on internet-focused hardware, software, and services. On personal commitment, he says, "Leaders have to have passion; they have to take risks; they have to be part of what they lead."

In detail, here are the steps he took to save IBM.²

1. Getting the right information. IBM's culture was to keep the boss happy, not to admit mistakes. For example, when a supplier would return a \$20,000 overpayment, IBM people would not accept it because accepting it meant they were admitting the mistake and someone had to take responsibility for it. Gerstner always emphasized that he wanted to receive the real information. He no longer wanted to hear The Yes-Man's opinions. One way to emphasize and train his managers to disclose real information was to have them explain problems without using presentation tools. Previously, IBM managers always used presentation tools to display figures, graphs, and such. Gerstner forced his managers to write and explain short essays to answer the questions of "What is our business? Who are our buyers? What is our market? What are our weaknesses and strengths?" without using an overhead projector. "If you can't explain it in plain words to me, then you don't know the problem," was how Gerstner emphasized it. He then eliminated unnecessary meetings as well. The old IBM had frequent meetings and task forces that did not add much value. According to Gerstner, there are "too many reviews and task forces that add work but not value." Meetings were often ritualized; those who were invited had status even if they had nothing to contribute. There are often too many people in meetings, making them ineffective.
2. Not breaking up IBM. IBM was a very large business organization that had become very bureaucratic. Being so large, the first task when Gerstner came to IBM was to decide whether to break it into smaller parts. In a meeting with 200 of IBM's largest customers in Chantilly, Virginia, Gerstner asked them, "What kind of IBM do you want?" The answer was clear: one that provided one-stop shopping and provided hardware, software, and services. In the end, Gerstner decided not to break IBM into pieces as previously planned. The next challenge

1 <http://www.washingtonmonthly.com/features/1999/9909.worth.ibm.html>.

2 <http://www.eweb.com/article2/0,4149,1156540,00.asp>.

was how to bring a large organization together into a harmonious whole. Gerstner started with the payroll system. He made 40% of an employee's bonus dependent on overall company performance rather than business unit performance. Bonuses were also linked to performance evaluation through team assessments, i.e., how much they could move IBM forward. He rewarded employees who performed their duties properly in company meetings, practically making the employees into heroes of sorts. He popularized the mantra "Customers are number one, IBM is number two, and business units are number three." He also forced IBM scientists to get out of the lab and meet customers face-to-face. To get one division to "talk" to another, Gerstner forced them to talk to customers. He also tried to formulate a vision that could inspire and unite the company. In 1995, he began positioning IBM to lead the "networkcentric" wave. He thought the internet would become the center of business and work activities, not just for browsing or surfing.

3. A new evaluation system. In the old IBM, dismissals of employees were rare, even though the organization grew to a size of about 400,000 employees. John Akers, the previous CEO of IBM, tried to reduce the workforce by giving severance pay to those who voluntarily quit IBM. Unfortunately, this method had the disadvantage that outstanding employees would tend to accept the offer because they felt they would be accepted elsewhere. Non-performing employees would seek safety by staying at IBM. In the end, the organization was filled with non-performers. Gerstner created a new evaluation system. In the old system, employees were evaluated by their colleagues "generously." Under the new evaluation system, employees would be evaluated by half a dozen other employees chosen by the employee to be evaluated, in secret. Annual performance is judged by ranking within a division. The new evaluation system became a powerful weapon to fire non-performers. The new slogan was "Happily here, but ready to go."
4. More active recruitment. Gerstner was more active in recruiting than IBM in the past. The old IBM just waited for applicants to come. IBM's image was improved through promotions that portrayed IBM as a leader in internet technology. Hiring the best workers is the key to an organization's success.

Discussion Questions

1. Describe the moves made by Gerstner to improve IBM!
2. IBM is often portrayed as a large, bureaucratic organization that is slow. Government officials are often portrayed as bureaucrats, so IBM's problems are to some degree similar to government problems. Identifying the problems of government (apparatus), explain how Gerstner's moves can be used to improve government organizations.

Answer Key to Formative Test

Formative Test 1

- 1) D
- 2) B
- 3) C
- 4) D
- 5) A
- 6) B
- 7) D

Formative Test 2

- 1) C
- 2) B
- 3) A
- 4) B
- 5) D
- 6) D
- 7) D
- 8) C

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