Introduction to Strategic Leadership and Strategic Management

Some companies create amazing successes. Others fail. Still others just muddle through, providing mediocre experiences for customers, mediocre jobs for those who work there, and mediocre returns to investors.

What causes these differences? That is the fundamental question in our Strategic Management class.

The first words of many Strategic Management texts raise exactly this question and promise to answer it. However, Strategic Management cases, biographies of entrepreneurs, and studies of firms suggest the answers in the texts (including the text we will use in our course) are incomplete. This introduction seeks to give a more complete summary of common elements of strategic success and create a foundation for comprehensive strategic thinking.

What is Strategic Management?
The words “Strategic Management” should be easy to define, because many people have used words like “strategic” and “strategy” for thousands of years. But today the words carry many meanings.

They are derived from ancient Greece, where the strategos of a city-state was the person who led the community in war and peace. “Strategos” was also the term for the art that the leader had to practice. Chinese and other old languages have similar concepts. Probably the only adequate way to understand “strategy” and “strategic” is to recognize that all their meanings derive from the historic idea that there are arts that the top person has to practice. “Strategic Management” is about the work that the top person has to perform and how others contribute to it.

The Nature of Strategic Success
Professors have often found it difficult to teach the Strategic Management arts. They are hard to summarize systematically. For the first 90 years of business schools, professors didn’t pretend to have comprehensive principles of strategy. To understand the art of being the top person, students just read cases about successful and unsuccessful leaders and companies and discussed them. Professors thought this would give them a feel for business judgment.

Business school professors started teaching principles of strategic management in the 1970s, deriving them largely from economics. Today our texts contain principles about rationally maximizing profits through analysis. But strategic management cases have always shown that rationally maximizing profits rarely captures the core of what a good strategic leader does. When we analyze leaders at companies that have created the most value in the stock market – Starbucks, Tesla, Apple, SouthWest Airlines, Disney, Netflix, etc. –
we often find that although their leaders follow the economics-based principles in strategy texts, the rational principles do not seem to be the core drivers of their successes. The cases frequently describe people who succeeded not so much by systematically hunting for high profits as by finding and pursuing something they believed worth doing and that they cared deeply about.

Thus, the principles of strategy in the textbooks do not thoroughly summarize where strategic success comes from. The complex nature of successes we see in cases suggests that to understand how strategic leaders succeed and how others support them, we need to answer two distinct sets of questions.

The first set includes: What should the person at the top be trying to accomplish overall? What is a truly successful organization really like, and how do leaders and those who work for them bring that kind of organization into existence? These questions are crucial.

On the other hand, answering questions in this group won’t tell us how to do business day-to-day. They fail to cover many central top management issues. We have to ask a second, equally important, set of questions centered on: What principles should the people at the top follow year-to-year and month-to-month in creating strategies to maximize profitability? Strategic management texts answer these questions much better than they answer questions in the first set. Addressing these questions requires us to use the principles from economics. And no leader of a highly successful organization ignores them.

Thus, to understand strategic management you cannot neglect either the first set of questions or the second.

Central Characteristics of Highly Successful Firms
The first set of questions is fascinating. It’s surprising that people create some of the most valuable organizations without focusing on the maximization of profit. But considering what we know of human motivation, it makes sense. Humans (and other smart animals such as chimpanzees) certainly pursue self-interest, as economists say. But much research shows they also have social motives. They form groups, show loyalty to them, and often care deeply about their goals. Successful strategic leaders have to appeal to both the self-interest of the people they work with and to these social interests.

Consider what is probably the greatest challenge in building truly successful businesses: creating unusual “competences.” Competences (as we’ll soon discuss in detail in the course) are bundles of abilities that do important things for customers. Competences are highly valuable when they are not only useful to customers but also difficult for other companies to imitate. Each of the firms mentioned above succeeded to a large extent because it developed such bundles of abilities - ways of doing things that customers wanted and that no other firm could match.

Creating such valuable competences commonly calls for a vision that involves doing something for others as well as the wise pursuit of self-interest. People work most effectively on doing something great when they are motivated by both the
sense that they are doing something important and the promise of good, fairly distributed financial rewards.

Therefore, a partial answer to the first set of questions above (about what the person at the top should be trying to accomplish) is that the builder of a company should seek to build around a vision that both inspires people to care and at the same time offers opportunity for participants to earn excellent incomes. And whatever the vision, the leader has to measure success or failure aggressively and make changes when the vision is not being achieved.

Note, however, that people’s social motives do not mean that they will always be nice. And they do not mean that actions that are good for society will always contribute to the success of a company. The vision of the leader who can build a high-performing company is usually unique. Usually it causes companies to do things that differ from what many others would like to see the company do.

Steve Jobs was an excellent example of a leader with profound social motives. He had the kind of vision that engaged followers and customers and built corporate value. But he could be cruel and was known for occasionally becoming so enraged that an individual getting on an elevator with him could be fired before the elevator reached the top floor. People’s visions differ widely.

The vision is not just a way to make money, however. It almost always involves a larger mission that can inspire others.

**The Role of Principles of Strategy**

If we know that highly successful business builders have and genuinely pursue visions that involve doing something they consider important for others, do we even need the principles of profit maximization that appear in our texts? Absolutely! Companies operate in a competitive world. Competitors will not leave the market open for the founders of firms like Starbucks or Tesla just because Starbucks and Tesla have a genuine vision of a contribution to humanity. Principles of profit maximization provide understanding essential to creating the strategies by which the company will run day to day. The principles are crucial to making a vision work and – equally important – for managing a company or part of a company created around someone else’s vision.

Following the economics-based principles is rarely simple. For instance, there is often a conflict between pursuing long-term profit (by creating a new or improved product that will take time to develop) vs. short-term profitability. Current profitability is easy to measure. Many stakeholders push for immediate results. Strategic actions to benefit the company in the long-term may be far more important, however.

We will spend a good deal of time studying principles of strategy from a text. The principles provide partial answers to the second set of questions above. They give guidance for managers’ actions year in year out.

But unless you can think in terms of dual motives and understand the worth of larger visions, you’re unlikely to accomplish as much in business life as you could.
Understanding Strategic Managers and Their Tasks in Strategic Management

Thus, in this course we want to understand both the nature of truly successful companies and how to create and execute excellent strategies based on solid profit-maximization principles. We will think about chief executives and all those who regularly get involved in making plans or decisions about how the company will pursue its goals. As Chapter 1 of the text notes (pp. 5-7 of the 3rd edition), a considerable range of people in a company of any size perform these tasks. Those who play this role are called “strategic managers.” Many students will play these roles very soon after graduation. Some people in our class are almost certainly already performing them today.

We will discuss the overall task of strategic managers in the first two sessions of the course. Then the text reading will focus primarily on principles of the pursuit of profitability over the next ten weeks or so, though we will continue to deal with the larger question of how to approach competitive advantage comprehensively.

In the last weeks of the course we will discuss leadership, and you will present a consulting analysis of a company. These will be chances for us to put everything together – to think broadly about strategic success and failure and what causes them.

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