

# PROPOSED MODEL OF THE IMPACT OF STRATEGIC LEADERSHIP ON OPERATIONAL STRATEGY AND ORGANISATIONAL PERFORMANCE OF BUSINESS ORGANISATIONS IN SOUTH AFRICA

JJ Serfontein, J Hough\*

## Abstract

Since the mid-1980's a growing body of leadership research has focused on strategic leadership, in contrast to managerial and visionary leadership. It focused on how top leadership makes decisions in the short term that guarantees the long-term viability of the organisation. The best performing organisations are consciously strategic in their leadership planning. These top leaders also have the ability to align human resources in an effective way directly to the business strategy. This article proposes a model towards the effective implementation of strategic leadership processes which can help business and organisational leaders with the successful implementation of high performance strategic leadership practices. This research also pinpointed theoretical and substantively meaningful endogenous organisational capabilities that mediated this relationship and exogenous organisational factors that moderated this relationship.

**Keywords:** Strategic Leadership, Performance, South Africa

\**Department of Business Management, University of Stellenbosch*

## Introduction

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

Great leaders are judged as much by what they leave behind as by what they achieve during their tenure. A vibrant, vital organisation that is fiercely competitive and driven to excel is, of course, an important legacy for a leader (Boal & Hooijberg, 2001). This means having in place a high-performing leadership team, a thinking organisation and managers and employees at all levels passionately committed to getting things done. In this context, this study identifies the direct and indirect pathways to strategic leadership practices from the literature, and empirical

survey the top 200 listed South African organisations of 2008 in order to ascertain how these antecedents influence the success of these organisations.

In the new economy which is full of challenges and opportunities, it is very important for business and organisational leaders to consider a model towards the implementation of high performance strategic leadership practices. The problem for many leaders is that they want to be effective in their strategic leadership approach, but they do not have a model and process to follow which will help them to avoid non performance and poor results. This article will confirm that there is a direct and indirect correlation between strategic leadership and organisational performance, which will encourage business and organisational leaders to consider implementing the proposed model discussed in this article.

## Literature review/Background

Few leaders allow themselves to think about strategy and the future. Leaders should give direction to every part of the organisation – from the corporate office to the loading dock. Strategic leadership is therefore the ability of the leaders to create and re-create reasons for the organisation's continued existence. The leader must have the ability to keep one eye on how the organisation is currently adding value and the other eye on changes, both inside and outside the

organisation, that either threaten its position or present some new opportunity for adding value (Montgomery, 2008).

### Operational strategy and the impact of strategic leadership on the strategy of an organisation

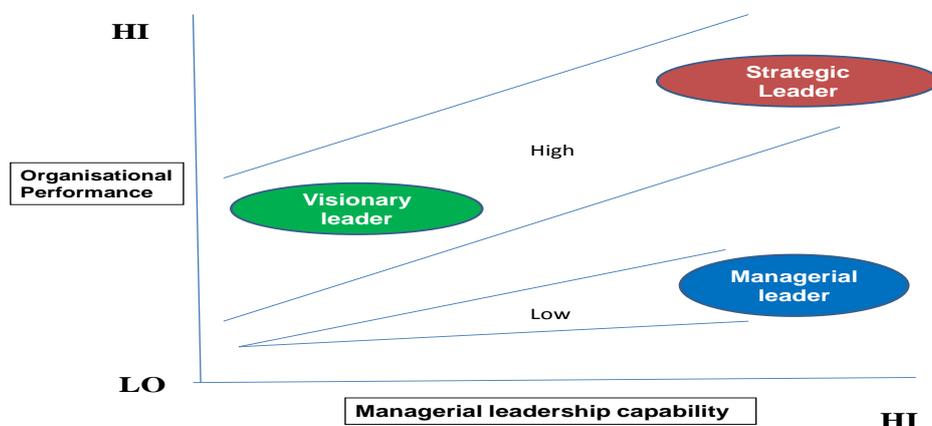
The primary task of high performance leaders is to provide strategic direction to the organisation, various departments and divisions within the organisation, and to the people who ultimately implement strategic leadership. People at 'the top' of the organisation, normally in executive leadership positions,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

To compete, survive and perform in a highly competitive environment, an organisation's strategy must be aligned with that of its environment and at the same time the organisation must have the capabilities that fit its strategy. This is to say that 'fit'

(see Beer, Voelpel, Leibold & Tekie, 2005) must be achieved within the organisation as well as with the business environment. To accomplish this alignment, leaders have to be open to learning about how their decisions and behaviours fit the environment, strategy and organisation. This suggests that effective leaders enable their organisations to confront the tensions that prevent alignment and, through a collaborative process, reshape alignment at several levels: between environment and strategy, strategy and organisation, organisation and the leadership team, and between key people (Porter, 2008).

Many organisations deploy the latest approaches to organisational efficiency in hopes of achieving fit, but too often find that they are unable to reap the full benefits from such activities (Baden-Fuller & Stopford, 1994). One of the main reasons for this is the lack of an integrated approach that changes multiple dimensions of the organisational system, particularly key organisational capabilities and leadership behaviour. By this stage all policies and procedures, as well as practices that contribute to organisational development and culture should be aligned to the shift towards good strategic leadership practices. and capabilities. Rowe (2001) identifies these capabilities in Figure 1.

Figure 1. Organisational performance and managerial, visionary and strategic leadership



Source: Rowe (2001:84)

### Organisational performance

Many organisations can appear to be high performers in the short run – by riding favourable market conditions, for example, or by being fortunate with a single product or market position – only to decline quickly when business conditions turn against them. To be a true high performer, an organisation must survive and thrive across economic and market disruptions. To measure the performance of organisations, it is important not to only use a single measurement, but to use different dimensions. Breene

and Nunes (2006) proposed that the following five dimensions (critical success factors) can be used as measurement, grading each on a curve against competitors in a carefully considered peer set:

- **Growth** - as measured by revenue expansion.
- **Profitability** - as measured by the spread between the return on assets and cost of capital.
- **Positioning for the future** – as represented by the position of share price that cannot be explained by current earnings and by the position of the industry total each organisation's future value represents.

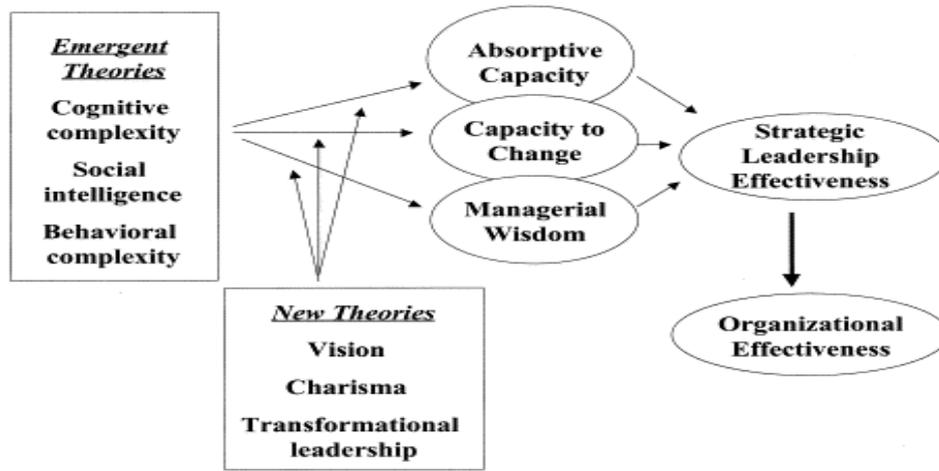
- **Longevity** - as measured by the duration of out-performance in total return to shareholders.
- **Consistency** - as measured by the number of years out of seven the peer set median in profitability, growth and positioning for the future was beaten.

took an individual competence level focus in their proposed strategic leadership model (Figure 1). They suggested that effective strategic leaders must create and maintain absorptive and adaptive capacity in addition to obtaining managerial wisdom. Absorptive capacity involves the ability to learn by recognising new information, assimilating it and applying it. Adaptive capacity involves the ability to change due to variations and conditions. Managerial wisdom consists of discernment and intuition.

### Strategic leadership models

There are numerous strategic leadership models that have been designed and discussed by academics, scholars and consultants. Boal & Hooijberg (2001)

**Figure 2.** An integrative model of strategic leadership



Source: Boal & Hooijberg (2001:539)

As displayed in Figure 2, Boal & Hooijberg (2001:539) asserted that: “Cognitive complexity, behavioural complexity, and social intelligence form the foundation for absorptive capacity, capacity to change, and managerial wisdom, and that these in turn have an impact on leadership and organisational effectiveness”. Boal & Hooijberg (2001:539) further argued that: “Vision, charisma, and transformational leadership function as moderating variables of the

relationship between cognitive complexity, behavioural complexity, and social intelligence and absorptive capacity, capacity to change, and managerial wisdom”.

Ireland, Hitt, Camp & Sexton (2001:48) made it clear that through effective strategic leadership, organisations are able to successfully use the strategic management process ( see Figure 3) to enhance the performance of the organisation.

**Figure 3.** Strategic leadership and the strategic management process



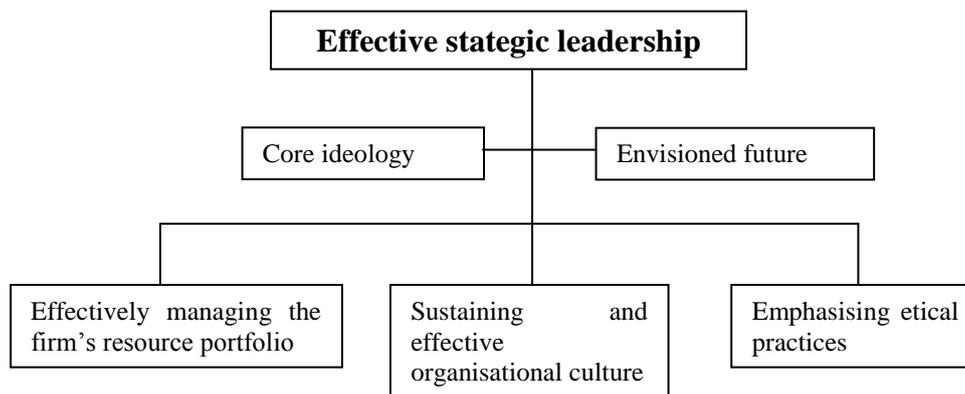
Source: Ireland, Hitt, Camp & Sexton (2001:48)

As strategic leaders, top level managers must guide the organisation in ways that result in the formulation of a strategic intent and strategic mission. This guidance may lead to goals that stretch everyone in the organisation to improve their performance. Moreover, strategic leaders must facilitate the development of appropriate strategic actions and determine how to implement them. These actions on

the part of the strategic leaders culminate in strategic competitiveness and above average returns.

In determining the strategic direction of the organisation, the strategic leaders should develop a long-term vision of the organisation's strategic intent. A philosophy with goals, this vision consists of the image and character the organisation seeks (Hitt, Keats & Yucel, 2003)

**Figure 4.** Exercise of effective strategic leadership



Source: Hitt, Keates & Yucel (2003:693)

As stated in Figure 4, the ideal long term vision has two parts: a core ideology and an envisioned future. While the core ideology motivates employees through the organisation's heritage, the envisioned future encourages employees to stretch beyond their expectations of accomplishment and requires significant change and progress in order to be realised.. The envisioned future serves as a guide to many aspects of the organisation's strategy implementation process, including motivation, leadership, employee empowerment and organisational design (Hitt, Keates & Yucel, 2003).

## Research methodology

### Hypotheses

Against the backdrop of the literature review provided, it is expected that operational strategy and organisational performance will be influenced by strategic leadership practices. Strategic leadership can, therefore, be viewed as a competency that is the capability of creating capabilities within an organisation by the acquisition, recombination and renewal of these activities and resources (Eisenhardt *et al.*, 2000; Miller, Eisenstat, & Foote, 2002). Following from the above, the following hypotheses were tested:

**H1:** Strategic leadership is directly and positively associated with operational strategy.

**H2:** Strategic leadership is directly and positively associated with organisational performance.

The purpose of this quantitative study was to determine how strategic leadership has a direct impact

on operational strategy and organisational performance in business organisations in South Africa.

### Survey and sample

A cross-sectional survey design consisting of two phases was used: a pilot study to test the measuring instrument and the administration of the telephone survey. The results of the pilot study determined the refinement of the questionnaire. A telephone survey was conducted by an independent organisation from January to March 2009. The sample selected for this study consisted of the top 200 performing organisations that were part of the Financial Mail survey of 2008(see Financial Mail, 2009). The organisations represent all major industry groups. Financial and industry performance information has been used from the 2008 Financial Mail survey. In this survey, the performance of these organisations was measured over a five year period to ensure consistency in their performance. The respondents in the survey have been the chief executive officers (CEOs) or a member of the senior executive group. Their responsibilities in their organisations give them a unique and comprehensive view of strategic leadership activities. All 200 top performing organisations in South Africa for 2008, as published in the Financial Mail survey, were part of the sample. A total of 118 valid responses were received with a response rate of 59 percent. Data was captured electronically during the interview.

## Measurement instrument

A measurement instrument was developed to measure the impact of strategic leadership on operational strategy and organisational performance. Items of existing measurement instruments were combined, expanded, adapted or reduced as required to achieve the goals of the study, taking the prerequisites of validity and reliability into account. The measurement instrument needed to measure:

- Strategic leadership (independent variable)
  - Action AND Coherence AND Discipline
- Strategy orientation (dependent variable)
  - Strategy creation and formulation AND Strategy execution
- Operational excellence (dependent variable)
  - Cost management AND Product differentiation AND Integration
- Organisational performance (dependent variable)

- ROA AND EPS AND Self reported performance

## Results

### Descriptive analysis of the dimensions

A profile of the respondents participating in the study is shown in Table 1, using mean, standard deviation and Cronbach Alpha. The respondents answered all the questions pertaining to strategic leadership, operational strategy and organisational performance. All the questions were measured on a nine-point scale. The mean of strategic leadership (action, coherence and discipline) constructs were calculated from both the operational strategy as well as organisational performance constructs. The standard deviation shows how the observations are spread around the mean.

**Table 1.** Descriptive statistics of constructs

Dimension	N	Mean	Standard deviation	Cronbach alpha
<b>Strategic leadership</b>				
Action	118	27.07	4.14	0.77
Coherence	118	21.72	3.42	0.76
Discipline	118	35.40	5.02	0.75
<b>Operational strategy</b>				
Creation and formulation of strategy	118	19.54	3.89	0.76
Execution of strategy	118	20.42	3.11	0.66
<b>Organisational performance</b>				
Cost management	118	21.31	3.08	0.71
Product differentiation	118	28.23	4.43	0.87
Integration	118	26.74	4.11	0.72
Adaptive leadership	118	20.67	3.33	0.72
Autonomy	118	21.52	3.04	0.72
Communication	118	19.00	4.12	0.90
Process & systems	118	28.24	3.88	0.72
Values	118	22.41	3.25	0.77
Knowledge	118	21.18	2.88	0.43

## Comparative analysis

In this section of the article, the aim is to determine whether certain key variables are significantly associated, and furthermore whether certain sub-groups are significantly different. Correlations among certain variables were calculated and the p-values were used to determine whether the differences among the constructs were significant. The focus is on the following specific dimensions:

- Strategic leadership and operational strategy
- Strategic leadership and organisational performance

Figure 5 illustrates the influence of strategic leadership re-conceptualised as three interrelated constructs of action, coherence and discipline as exogenous constructs.

**Figure 5.** An illustration of the conceptual correlation model of strategic leadership, strategy orientation, operational excellence and organisational performance



Endogenous constructs of strategy orientation, operational excellence and organisational performance are also displayed. Strategy orientation is measured by the ability to create a strategy (StratCreat) as well as to execute the strategy effectively (StratExec). Operational excellence is measured by cost management (CostMgt), product differentiation (ProdDiff) and integration (Integration). Finally, organisational performance is measured by ROA, EPS and self reported measurements (SelfRep). As discussed in this study, strategic leadership literature highlights these characteristics as having an impact on the operational strategy and performance of business organisations. The empirical research done in this study supplemented the theory surrounding strategic leadership by suggesting that if leadership in organisations formulate and execute their strategies effectively, this strategic competitiveness will give them an advantage to survive in a turbulent and uncertain economy. It also suggested that if organisations manage their costs effectively and focus on product differentiation and the integration of their people, they will perform well and yield above average returns.

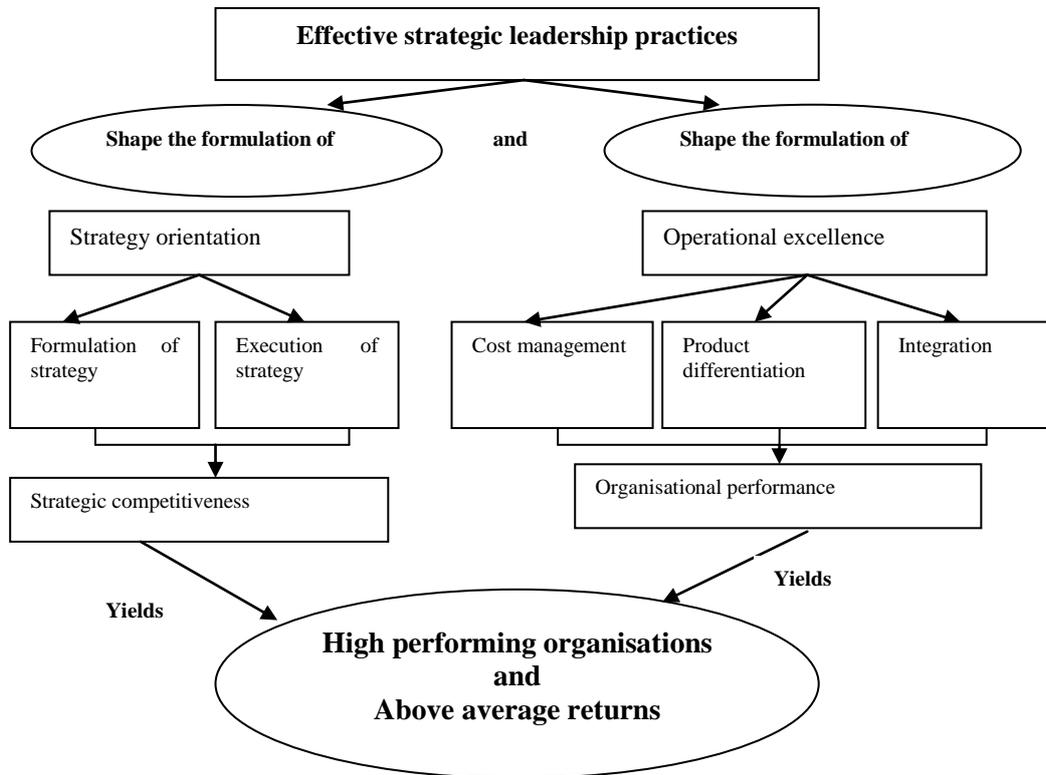
### **An integrated model of the influence of strategic leadership on organisational performance**

The literature and statistical analysis in this article showed that effective strategic leadership practices are directly and indirectly positively associated with operational strategy and organisational performance. We were guided by the following principles for this proposed model, namely that:

- 1 the future can not be predicted and that analyses must not be based on knowledge of the future, but should focus on understanding the nature and consequences of change processes in and around the business;
- 2 the desired future can be “created” and therefore strategic planning processes and models should provide the link between an insight of the current future and a participatory design of realistic ideals;
- 3 the model is grounded in the assumption that leadership drives strategy orientation and operational excellence in the business
- 4 strategic competitiveness and organisational performance are core to the sustainability of high performing companies in South Africa

Figure 6 display these principles and illustrate the above-mentioned relationships in an integrated model.

**Figure 6.** Proposed model of the impact of strategic leadership on operational strategy and organisational performance of business organisations in South Africa



This model illustrates and proposes possible solutions to the research question of how strategic leadership can influence the organisational performance of business organisations. The model suggests that effective strategic leadership practices shape and formulate a strategy orientation as well as the operational excellence of the organisation. This means that strategic leaders will have the capability to shape and formulate compelling strategies and will also have the ability and drive to create a strategic orientation in the organisation where all the employees will be informed and, focused and dedicated to make the strategy work. This will further result in the formulation of compelling strategies and will also ensure the effective control measurements to execute these strategies. This will ensure the strategic competitiveness of the organisation, especially in a turbulent and changing environment. Many organisations and leaders are normally doing well in a stable economy, but they find themselves quickly with no answers, plans and strategy in a turbulent environment where the economy is unstable and deteriorating.

Research has also suggested that organisations who have the discipline to implement and drive operational excellence have good cost management processes and a value orientation that will enable the organisation to produce its products and services at a much lower cost than its nearest competitor. In this model, operational excellence also suggests the

integration of all the employees and other resources in such a way that they have the willingness and ability to innovate and perform. People want to be involved with the future of the organisation as they want to know if the leaders have plans to secure their future in turbulent times. On the other hand, so do employees need to know that they have to be 'excellent' in everything that they do in order to support the organisation's vision for organisational excellence.

The last section in the model is very important. The design of the strategies and implementation need to be very competitive in order to stay ahead of the organisations that are in competition for the same clients and resources. This also confirms that if effective strategic leadership practices are followed by the leadership in organisations, it will result to a high performing, new economy organisation that will yield above average returns.

In essence the proposed model suggests the following:

- Effective strategic leadership practices will shape the formulation of a compelling strategy orientation as well as a dedicated discipline and focus on operational excellence.
- This will result in the formulation and execution of a relevant and focused strategy that will have the capability to take the organisation into the new economy.

- Operational effectiveness will also ensure a driven to a competitive cost management process, a well planned product differentiation strategy as well as full and comprehensive integration that will involve all personnel and resources at all levels.

This will, inevitably, result to strategic competitiveness in the market as well as truly deserved organisational performance.

The yield to strategic competitiveness and high performing organisations is a logic end result and should therefore be conceded by all organisations who are serious about the future and their survival in an turbulent environment.

### **Discussion of results. The relationship between strategic leadership and organisational performance as a result of the proper implementation of the proposed model.**

The **creation and formulation of a compelling strategy** is extremely important for any business organisation as it determines the future direction of the organisation as well as exploits the core competencies of the employees. In this study it was also confirmed that organisations need to develop their human capital in order to perform according to the new goals and direction. The respondents in the study also confirmed the importance of establishing effective strategic controls and to sustain a corporate culture that emphasises ethical practices.

Strategic controls are very important to make sure that the strategy is effectively executed. There also needs to be a corporate culture that all the employees understand the strategy and also know what their role is to make the strategy work. This study confirmed the relationship between strategic leadership and **operational excellence** organisations as the results of the correlation analysis showed strong positive relationships between strategic leadership and cost management as well as strategic leadership and integration (**hypothesis 1**). The study did, however, reveal a weak positive relationship between strategic leadership and **product differentiation**. The price leader position seems to be a danger as it can quickly become a commodity seller position, which leads to a lower ROA. This is consistent with Porter's (1996) contention that operational effectiveness is not strategy. Therefore operational excellence is best seen as a basis, and perhaps a prerequisite, for the growth orientated strategies of product leadership and integration of the functional areas of the organisation.

**Cost management** has always been one of the major challenges in business organisations and it has a direct and indirect impact on the operational effectiveness of the organisation. Even if the organisation has an acceptable or high turnover and it does not have the ability to manage and control the

costs, the organisation will find it very difficult to survive. This is even more applicable in the current turbulent environment where the global economy is heading towards a recession. The strong positive relationship between strategic leadership and cost management was confirmed in this study. Finally, it was confirmed in this study that leadership must have the discipline to create a culture and environment where all people and departments in the organisation have the ability to **integrate** their competencies, initiatives and skills.

### **The relationship between strategic leadership and organisational performance**

**Adaptive leadership** showed a strong, positive relationship with strategic leadership, which confirms the importance of leaders engaging in adaptive work by providing direction and protects the employees by managing the rate of change. The respondents also confirmed the importance of the leaders' ability to orient people to their new roles and responsibilities. The leader should also help the people in the organisation to maintain those norms.

The data from this study confirmed the statistically significant and strong relationship between strategic leadership and effective **processes and systems** in the organisation. The literature in this study suggested that the business is a complex, adaptive system populated by purposeful, interdependent people. The leadership, therefore, needs to understand the whole system in the organisation as one system concept in an organisation contains the others. The study suggested that it is therefore no longer just the products that are important, it is the *process* that is important.

### **Summary and conclusion**

The main contribution of this article was to propose an integrated model that can be used by executive, managers, business owners and heads of organisations to effectively implement high performance strategic leadership practices. The assessment that strategic leadership is directly and positively associated with the performance in organisations is suggested by this model. The managerial implications of the proposed model constructed in the study are that leadership and executives in business organisations are able to implement high performing strategic leadership practices to enhance the strategy orientation and operational excellence in their organisations.

This study also supplemented the theory surrounding strategic leadership by suggesting that if organisations formulate and execute their strategies effectively, this strategic competitiveness will give them an advantage to survive in an turbulent and uncertain new economy. It also suggested that if organisations manage their costs effectively and focus

on a product differentiation and the integration of their people, they will perform well and yield above average returns.

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