THE IMPORTANCE OF EFFECTIVE STRATEGIC LEADERSHIP IN ORGANISATIONS

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OPSOMMING

DIE BELANGRIKHEID VAN DOELTREFFENDE STRATEGIESE LEIERSKAP IN ORGANISASIES.

Effektiewe strategiese leierskap is belangrik vir organisasies om te oorleef in die vinnig veranderde besigheidsomgewing as gevolg van politieke en ekonomiese veranderinge. Die veranderde omgewing skep uitdagings vir bestuurders wat nog nooit voorheen ervaar is nie en hier speel strategiese leierskap 'n belangrike rol om die organisasie suksesvol te bestuur binne hierdie veranderde omgewing.

Die voortdurende veranderinge en die tempo van die groeiende ekonomie het 'n direkte impak op die rigtinggewende aksies, kern vaardighede, menslikehulpbronne, etiek en beheer van die organisasie. Alle organisasie bestaan binne 'n veranderde omgewing en moet die vermoë hê om te kan aanpas. Verandering is 'n gevolg van die funksionering in 'n dinamiese omgewing en strategiese bestuurders moet bewus wees dat organisatoriese ontwikkelings tegnieke wat gebruik kan word om die korporatiewe kultuur te verander om die nuwe strategie te pas. Hierin speel leierskap 'n belangrike rol. Dus is dit nodig om effektiewe strategiese leierskap te bevorder en te ontwikkel.

Die belangrike aspekte van effektiewe strategiese leierskap word beklemtoon in die studie en dit bestaan uit die volgende aspekte:

- Strategiese rigtinggewing;
- Opbou en behoud van kernvaardighede;
- Ontwikkeling van menslike kapitaal;
- Onderhou 'n effektiewe organisaiekultuur;
- Beklemtoning van gesonde etiese praktyke; en
- Die daarstelling van gebalanseerde organisatoriese beheer.

Bogenoemde aspekte word ondersoek en bespreek deur middel van 'n literatuurstudie en poog om die belangrikheid van effektiewe strategiese leierskap te beklemtoon in organisasies. Sonder effektiewe strategiese leierskap kan organisasies geleidelik uit pas raak met die omgewing wat beteken dat strategiese mededingendheid en bo-gemiddelde inkomste sal verminder.

Die belangrikheid van strategiese leierskap en die verantwoordelikheid wat daarmee gepaard gaan word beklemtoon. Dit is duidelik dat strategiese leiers hul denkwyse moet verander om te kan pas by die vinnig veranderde ekonomiese veranderinge om strategiese mededingendheid en 'n bo-gemiddelde inkomste te kan handhaaf.

CONTENT

LIST OF FIGURES

LIST OF TABLES

CHAPTER 1

INTRODUCTION, PROBLEM STATEMENT AND OBJECTIVES OF THE STUDY

1.1 BACKGROUND

Effective strategic leadership is essential for organisations to survive in the rapid changing business environment due to political and economical changes. The changing environment presents managers with problems not previously experienced and strategic leadership plays a vital role in the changing environment of any business.

Strategic leadership consists of setting strategic direction, exploiting and maintaining of core competencies, developing human capital, sustaining an effective organisational culture, emphasizing ethical practises, and establishing balanced organisational controls. These are the key elements for success and management will have to consider this to ensure effective strategic leadership. (Hitt, *et al.*, 2001: 500).

The discontinuous changes in the rapid growing economy have a direct impact on the direction, core competencies, human capital, culture, ethics, and control of any company. Any company exists in a changing environment and must have the capacity to adapt. Change is an inevitable consequence of operating in a dynamic environment and strategic managers must recognise that organisation development techniques can be used to change the corporate culture to fit the new strategy (Harvey, 1988:240). It is therefore essential to have strategic leadership.

There must be a "strategic fit" between the organisation's goals, its strategy, and the competitive environment to be effective (Harvey, 1988:48) In order to be effective and efficient a company need strategic leadership. Each manager need to examine his own decision-making style and analyze it to become more effective. To be an effective leader the management need to use adaptive leadership styles.

It is through effective strategic leadership that a company will be able to use the strategic management process successfully. This will lead companies to improve their performance and stretch everyone in the organisation to improve their performance. These actions will culminate in strategic competitiveness and above average returns (Hitt *et al.*, 2001:487).

1.2 PROBLEM STATEMENT

People often perceive effective strategic leadership differently and every person has a different idea of what this means. This study is directed to assess and describe the elements of effective strategic leadership within an organisation.

It is however important for leaders to understand that there must be the ability to anticipate, envisions, maintain flexibility and empower others to create strategic change as necessary. It is important for leaders to change their mind-sets to cope with the rapid and complex changes occurring in the global economy (Hitt, *et al.*, 2001:489).

It is sometimes a difficult in light of internal and external conditions facing the firm and effective communication is needed as a feedback mechanism. The unwillingness to accept feedback may be a key reason for failure, highlighting the need for strategic leaders to solicit feedback consistently from those who are affected by their decisions (Hitt *et al.*, 2001:489.).

It is important that effective strategic leaders realize the importance and the influence they have on human behaviour and the ability to affect human capital (Hitt *et al.*, 2001:489.).

Often leaders think they know what is going on in an organisation but this is not always true due to the political issues within a company. This prevents employees from being honest about their true feelings and this causes a false sense of security for the leaders with organisational problems for the company in the long term.

This research is intended to describe the elements that underline and compromise strategic leadership.

Having strategic leaders with substantive expertise in the firm's core functions and businesses is important to the effectiveness of a management team. A heterogenic management team is associated positively with innovation and strategic change and may force them to "think outside of the box" (Hitt *et al.*, 2001:493).

Key elements of strategic leadership will be used to identify weaknesses and strengths within the organisation and will be explored. The type of effective strategic leadership that results in the successful implementation of strategies is exemplified by developing human capital through training to establish a strategic direction, fostering an effective culture, exploiting core competencies, using effective organisational control systems and establish ethical practices (Hitt *et al.*, 2001: 509).

1.3 PURPOSE OF THE RESEARCH

To explore the importance of strategic leader's in organisations. Effective strategic leadership is exemplified by several key actions that interact with each other to ensure a sustainable competitive advantage and above average return and will be explored.

These key actions will indicate that a strategic leader needs to deal with diverse and cognitively complex situations. Strategic leadership is an extremely complex but critical form of leadership which have a huge impact on strategic success on an organisation as a whole and hopefully this study will emphasise the importance of a strategic leader and his/her impact on organisations as a whole (Hitt *et al.*, 2001: 490).

1.4 SPECIFIC GOALS OF THIS STUDY

The objective of the research is to explore the role of effective strategic leadership to ensure organisational effectiveness. Various literature sources will be used to explore the:

- importance of strategic direction;
- the exploiting and maintaining of core competencies;
- development of human capital;
- sustainability of organisational culture;
- emphasizing ethical practises; and
- To establish balanced organisational controls.

These key actions interact with each other and by developing human capital through executive training contribute to establishing a strategic direction, fostering an effective culture, exploiting core competencies, using effective organisational control systems and establish ethical practices.

1.5 RESEARCH METHODOLOGY

The research classification of the proposed research proposal is qualitative. A classification means to gain or obtain a detail understanding of the insights of the research dilemma or problems proposed (Cooper & Schindler, 2001:770).

The reasoning is therefore inductive because conclusions are drawn from particular facts or pieces of evidence selected from research previously performed (Cooper & Schindler, 2001:764).

The research design is exploratory in nature. Exploratory research means the proposed research undertaken focused on the understanding of the research dilemma in detail by gathering background information (Cooper & Schindler, 2001:762).

This means that to be able to understand the role of strategic leadership, there must be detailed research done on background information, such as previously performed research. The research will be a qualitative descriptive study of the elements of strategic leadership including:

- Strategic direction;
- Maintaining core competencies;
- Development of human capital;
- Organisational culture;
- Ethical practises; and
- Organisational controls.

In the research the primary focus will be the focus on secondary data collection methods.

There are dozens of types of information sources, each with a special function. Cooper & Schindler, (2001:261-262) describe them as follows:

- Indexes and Bibliographies;
- Dictionaries;
- Handbooks;
- Directories;
- Journals;
- Electronic information; and
- Press articles.

For the purpose of this study, internal and external data sources will be used and most of the data analysis method would be an individual interpretation of the collected data.

1.6 RESTRICTIONS OF THE STUDY

The content of this study is limited by the lack of empirical research. All information contained in this study has been gathered from secondary resources. Any assumption that has been made is therefore based only on applicable literature, which could possibly not be applied in all circumstances within the organisational environment. However the aspects that are covered are of viral importance to the survival of organisations in the 21st century and can be used for in-depth studies.

1.7 CHAPTER OUTLINE

In Chapter 2 the importance of strategic leadership in organisations is emphasised by the strategic management process and how this approach helps the strategic leader to respond effectively to the challenges of the 21st century. Emphasis will be on the elements of strategic management, the strategic management process, the resource based theory competitive advantage, the requirements for successful strategies, and aspects of strategic leadership that is important for an organisation to function effectively.

Chapter 3 focuses on the importance of strategic direction and the exploiting and maintaining of core competencies as key actions for a strategic leader.

In chapter 4 the importance of human capital and organisational culture in an organisation is described as part of the functions of a strategic leader.

Chapter 5 focuses on ethical practises and organisational controls to ensure effectiveness in an organisation and the importance of these for a strategic leader.

Finally, chapter 6 will provide a summary of this study. This chapter is concluded with recommendations for future research in this field.

CHAPTER 2

THE CONCEPT EFFECTIVE STRATEGIC LEADERSHIP

2.1 INTRODUCTION

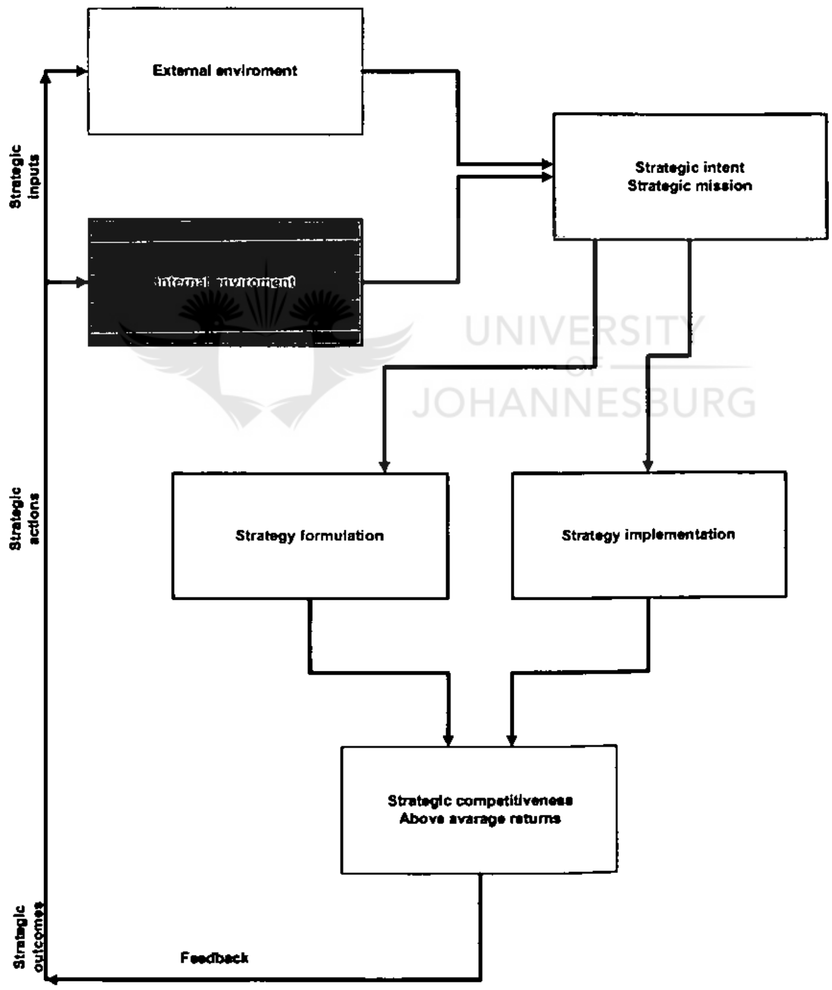
There is a widespread sense across the world that there are not enough really effective strategic leaders, at least not in the number required. A strategic leader is essentially the leader of an organisation.

Everybody gets excited about effective strategic leadership and would like to know what makes a great effective strategic leader. But what is strategic leadership? According to Hitt *et al.* (2001:489) strategic leadership is the ability to anticipate, envision, maintain flexibility and empowers others to create strategic change as necessary. Adair (2001:1) define a strategic leader as one who delivers the goods in terms of what an organisation naturally expects from its leadership in times of change. Bateman & Snell (1999:409) define strategic leadership as behaviour that gives purpose and meaning to organisations. Strategic leadership according to Hill & Jones (1998:14) refers to the ability to articulate a strategic vision for a company or a part of the company and to motivate others to buy into that vision.

Strategic management involves managers from all parts of the organisation in the formulation and implementation of strategic goals and strategies. The essence of strategic thinking (Hickman & Silva, 1986:46) is locating, attracting and holding customers.

Competitiveness is the heart of strategic management and the choices made in designing and using the strategic management process. The effective use of the interdependent parts of the strategic management process results in selecting the direction the firm will pursue and the means it utilizes to achieve the desired outcomes of strategic competitiveness and above-average returns (Hilt, *et al.*, 2001:39).

Figure 1 The Strategic Management Process

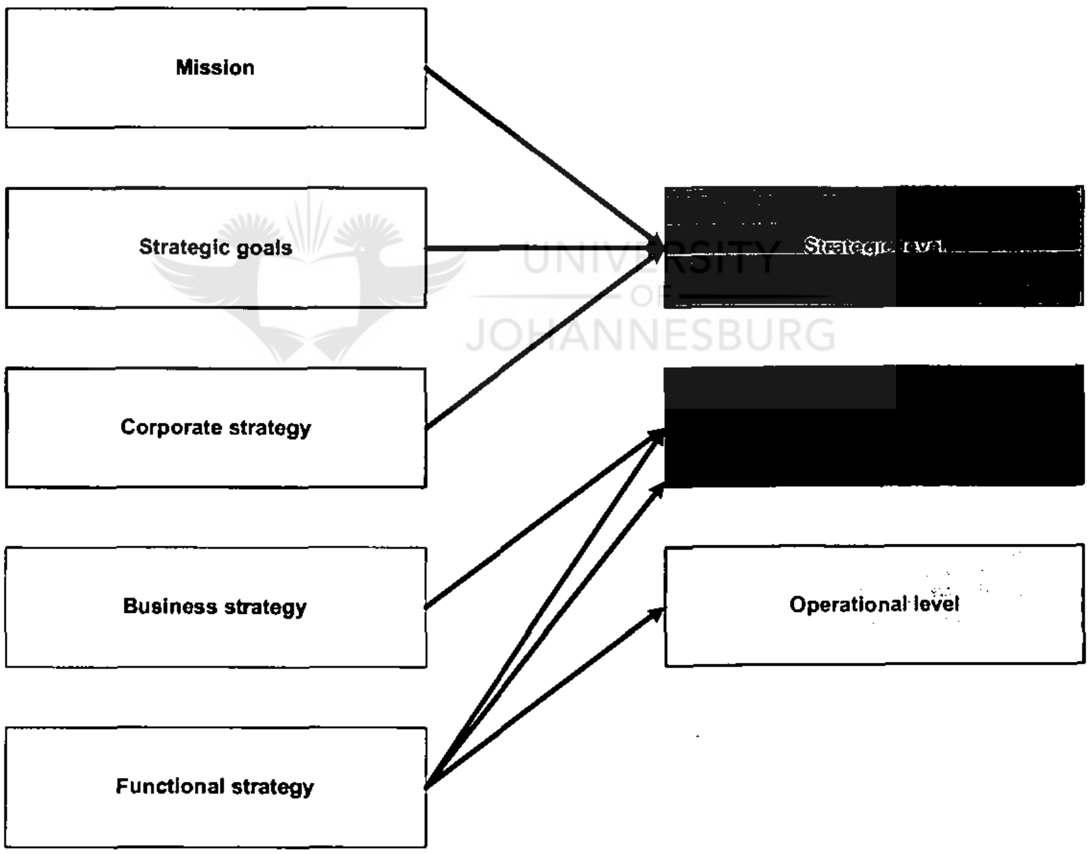


Source: Hitt *et al.*, (2001:6).

The strategic management process is intended to be a rational approach to help a strategic leader to respond effectively to the challenges of the 21st century competitive landscape.

Weeks & Lessing (1988:2-16) define organisational strategy as the determination of basic long-term goals and the adoption of courses of action and allocation of resources for reaching these goals.

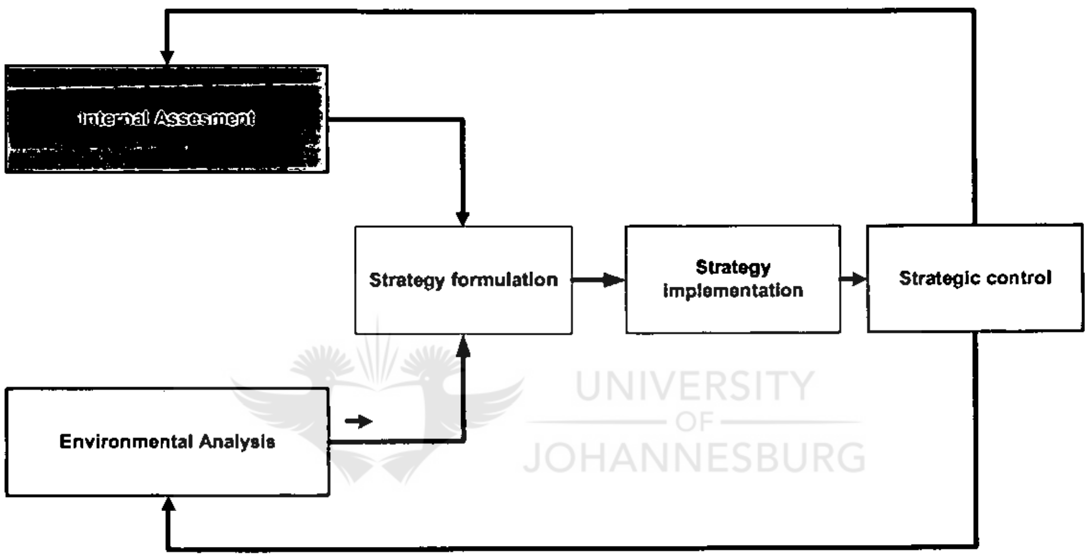
Figure 2 Elements of strategic management



Source: Bateman & Zeithaml (1993:147).

Strategic management is the ongoing activity in which all managers are encouraged to think about long term tactical and operational issues. This activity involves both internal assessments and environmental analysis. Strategic management is about accomplishing the organisations goals in future.

Figure 3 The strategic management process

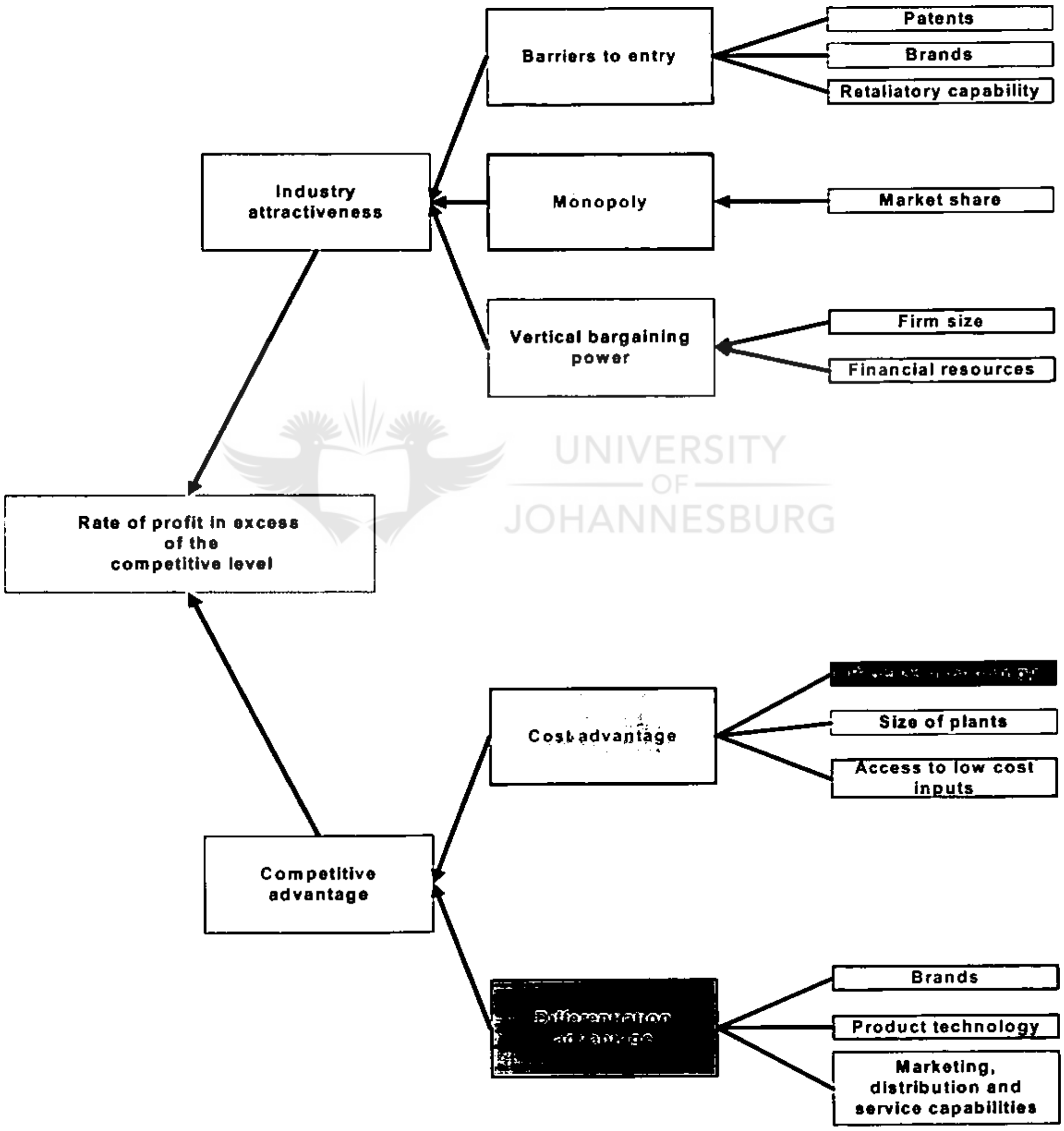


Source: Bateman & Zeithaml (1993:146).

Although organisations use different terms or emphasise different parts of the process, these concepts and components of successful strategies are found in every organisation.

It is important to know that strategic management models, including Porter's, traditionally defined the firm's strategy in terms of its product/market positioning – the products it makes and the markets it serve. A new perspective, the resource-based view, however, prescribes that a firm position themselves strategically based on their resources and capabilities rather than on the products and services derived from those capabilities.

Figure 4 The Resource-Based theory of Competitive Advantage



Source: Zack (1997:7).

It is important in the management process that strategic leaders are aware of new developments to be successful.

Table 1 Requirements for successful strategies

Requirements for successful strategies	
Strategy components	Action to be taken
Customers	Satisfy customers needs Recognise that different customers have different needs
Competitors	Gain competitive advantage with products or services offered Keep differentiation in mind
Company	Capitalize on strengths Develop, products, services, distribution and culture for success

Source: Hickman & Silva (1989:48).

2.2. EFFECTIVE STRATEGIC LEADERSHIP

While strategic management is focused on the determination of the future part of the organisation, strategic leadership is about influencing others to accomplish the organisation's goals in the future. These goals can be to gain strategic competitiveness and above average returns but the main aspect is to be an effective strategic leader (Van der Colff, 2003:110).

To ensure global competitiveness for any company, it needs to assess the leadership necessary for such a task. In the past 75 years empirical investigations of leadership have been conducted without establishing an unequivocal statement of what distinguishes leaders from non-leaders. In the current environment in which organisations exist which is characterised by turbulence and change, increasing complexity of problems faced and growing external and internal competition, new models of leadership are emerging which are less concerned with understanding how to manage order and predictability, and more concerned with predicting who can best ensure survival in a constantly changing environment (Van der Colff, 2003:110).

The coming decade is one of diversity with the evolution of management moving into the phase of the leader. A framework is needed with regards to effective strategic leadership for companies, not only for the South African market, but also for entry into new, global markets (Van der Colff, 2003:110).

2.3 A FRAMEWORK FOR STRATEGIC LEADERSHIP

Effective leadership for both now and in the future requires qualities and skills that empower others and demonstrate to employees in practical ways, the importance of commitment, integrity, vision and diversity within an organisational culture. It is important for any strategic leader to analyse and use the following aspects to improve the effectiveness of an organisation.

2.3.1 Leadership vs. Management

It is important to make a distinction between management and leadership. Managers are people who do things right and leaders are people who do the right things. According to Darling (1999:316) the primary factor, which prevents many multinational business firms from success, is that, they tend to be over-managed and under-led. Managers may excel in the ability to handle the daily routine, yet never question whether the routine should be done at all.

Leadership is of the spirit, compounded of personality, vision and training. Its practice is an art. Management is a science of the mind. Managers are necessary; leaders are indispensable (Katz, 1990:4).

Table 2 The differences between leadership and management.

Criteria	Leadership	Management
Change	Provide a vision and initiate change	Implement changes as suggested by the leader
People	Inspire and develop	Control
Power derived from	Ability to influence others	Authority
Task	Do the right things	Do things right
Commitment to goal	Passionate	Impersonal

Source: Nel *et al.*, (2001:350).

It is therefore clear that in the pursuit of excellence, organisations need both leaders and managers.

2.3.2 Personal conviction

Strategic leaders should have personal commitment to the value of the organisation, not only individually and consistently behaving according to these set values, but also model the behaviour of others as to what is expected. In this way, employees can become empowered by being managed through leader's personal skills. All employees must know what the organisations beliefs and values are. The only way in which leaders can model the way is if they are clear on their own leadership philosophy (Van der Colff, 2000:112).

2.3.3 Teamwork and team development

Strategic leader's most important skill in terms of teamwork and team development is recognising the contributions made by each team member (Bateman & Snell, 1999:479-480).

2.3.4 Individual development

Strategic leaders must seek individual challenges and must be thirsty for self-knowledge. The only way a leader can develop a innovative culture is to rethink old ways of doing things and look for ways to innovate. There should always be place for growth, development, change, transformation and moving to a next level. Life is an open system (Hattingh, 2000:247).

2.3.5 Change and innovation

An organisation needs to anticipate change by developing a culture of continual re-invention. This can only be done by building an organisational culture in which people are listened to, as every idea can lead to new ways of doing things better. If this happens in an organisation, it has truly created the spirit of innovation.

According to Nel *et al.*, (2001:402) there are three strategies for managing change in an organisation:

- communication: provide accurate and timely information about the change to prevent fears and rumours;
- participation: this helps employees to become involved in the change process and this will establish a feeling of ownership; and
- empathy and support: this is critical to the change process. Emotional support and encouragement is important to be able to adjust.

Leaders must also develop the capacity to see the work environment as a dynamic and complex system that is ever-evolving (Van der Colff, 2003:112).

2.3.6 Participative decision making

An effective strategic should invest in a participative decision making style to ensure greater commitment from all employees. The more operational information is shared with employees through participative decision-making, the greater the ability of staff to make decisions that are in the best interest of both individuals and the organisation. In this way, greater knowledge is brought to bear as diverse employees bring with them a set of untapped skills (Van der Colff, 2003:112).

According to Bower (2003:2) fact finding decision making is important and every decision maker should try and get the facts. Obvious though it may seem, the key importance of fact founded approach to decision making as an element in an organisations philosophy cannot be overstressed. Sadly too many strategic leaders, even successful ones, come to value their opinions and judgements so highly that they ignore or underestimate facts. Without fact finding and participative decision making the quality of leader's decisions will decline and the business will gradually get out of touch with its environment.

The fact founded approach is a management instrument of great power and it produces the following values to strategic leaders:

- Better decisions. When facts are overlooked, ignored or undervalued, they have a way of inexorably reasserting themselves. By keeping minds open and alert, a factual atmosphere stimulates better thinking and thus causes a cumulative build-up in better decision making.
- Greater flexibility. When the fact-founded approach has been established, plans and decisions change with new facts. This provides automatic justification for the executive who must change his prior decision, in truth; he is acting consistently because, in both decisions, he is simply being guided by the facts. In such an atmosphere, readjustment to reality is continuous and this is certainly an essential ingredient of successful management.
- Higher morale. Inevitably, company-wide respect for facts and their objective evaluation lowers the barriers between levels of authority.

When everyone feels that there is participative decision making the upward flow of facts is stimulated and subordinates are encouraged to speak up. *Espirit de corps* is quickly evident in a company where the fact –founded approach is fully practised (Bower, 2003:2).

2.3.7 Empowerment and enabling others to act

Empowerment is the process of sharing power with employees, thereby enhancing their confidence in their ability to perform their jobs and their belief that they are influential contributors to the organisation (Bateman et al., 1999:66).

Leaders are only as powerful as the ideas that they can communicate. The leader must empower employees through participation in all processes and enable them to act by valuing differences so that the management of diversity is seen as an organisational imperative in creating competitive advantage and above average returns for the firm. It is therefore imperative for leaders to translate the organisation's vision and strategic direction of the future into employee's action. This will enable the workforce (Van der Colff, 2003:112).

The only way in which leaders can enable others to act is thorough communication. In diverse organisational situations, the miles of intercultural communication are important. Leaders must understand that the creation of meaning would have certain cultural variables that play an important role in the way in which leaders shape and convey meaning (Van der Colff, 2003:112).

2.3.8 Managing organisation culture

One of the strategic leader's main responsibilities is to create an environment and organisational culture that enables the organisation to deal with issues of diversity. It is important that the organisation develops an inclusive culture that is representative of all its employee's values. Each employee must be valued as having his or her own strengths, and weaknesses. Leaders must therefore shape an organisation's culture by inculcating specific values and beliefs (Van der Colff, 2003:113).

The increased need to work across cultural boundaries, whether this is due to globalisation, is often a driver for strategic leaders to look at values. Values are the key in providing cohesion. If people in an organisation are operating on the same basic principles, it makes for much more harmonious and effective working (Thornbury, 2003:1)

The only way in which the organisation can expose the values of innovation and entrepreneurship is if these values are resident in the organisation's culture. Leaders must therefore ensure the encouragement of these values through their own actions (Van der Colff, 2003:113).

Leaders need to understand that part of developing an empowered inclusive organisational culture is the function of headers to understand that employees can only be empowered through an acute awareness of the organisation's vision and strategic direction (Van der Colff, 2003:113).

High performance organisations exhibit a high degree of future orientation in strategy development. The only way in which the organisation will be able to reach its goals is through developing a culture of entrepreneurship and innovation and by seeing culture as essential in achieving corporate strategies and objectives (Van der Colff, 2003:113).

According to Thornbury (2003:2) a strong culture is vital in attracting and motivating talented people. Current generations of employees seek not only adequate rewards, but also meaning and inspiration in their work.

It is recommended that leaders ensure that corporate objectives are translated down to functional objectives. In this way, the management of organisational culture should be seen by all leaders as essential in achieving corporate objectives. The only way in which employees can become empowered is through the creation of an inclusive organisational culture that communicates the organisations vision and strategic direction in appropriate language, content and terms. (Van der Colff, 2003:113).

It is important that leaders create a climate that facilitates creativity. This provides a stimulating environment for idea generation and encourages the actions required for implementing these ideas while it demonstrates acceptance and recognition by the leader of the individual's creative efforts. This provides a positive organisational culture for the employees

(Couger, 1995:345).

It is important for strategic leaders to understand how culture influences both how they are perceived as well as how others behave. Despite the differences in culture there are five core values that most people embrace: compassion, fairness, honesty, responsibility and respect for each other (Bateman *et al.*, 1999:227).

2.3.9. Vision

A part of the role of leaders within an organisation is to create a common, attainable future vision of the organisation. Not only should leaders incorporate the set vision of the organisation into the organisation's culture, but it should also be reinforced through participative decision-making. In this way, the vision will grow out of the needs of the entire organisation. Only when the vision is truly inclusive will leaders achieve commitment of all employees to organisational achievement (Van der Colff, 2003:112).

Vision will also have to include the issues of values that hold the key to move from merely managing diversity to recognising its potential as strategic asset (Lategan, 1999:8).

A strategic leader must present the organisation's vision in clear terms as the most attractive and attainable alternative to the status grow – thereby creating a strong identification with future goals and a desire to be directed to them (Van der Colff, 2003:112).

According to Senge (1999:205) a shared vision for an organisation has the following benefits:

- shared vision provides focus and is energy for team learning;
- shared vision breeds true commitment as it encapsulates personal visions;
- it uplifts people and provides employees something to aspire to; and
- shared vision provides the spark to lift the organisation out of the mundane by breeding courage: fostering risk taking and encouraging experimentation.

This shared vision has the power to foster genuine commitment and enrolment rather than compliance (Senge, 1999:171-172).

2.3.10 People development

Organisations must ensure that development processes are implemented for all staff whereby a range of competencies could be developed.

It is important for leaders to coach or mentor employees, as it would help them identify their strengths and weaknesses and tie these to personal career development. Through empowerment, leaders will be able to delegate to employees who take on autonomy and responsibility of their own world experience (Van der Colff, 2003:112).

Leaders should aspire to being able to manage diversity successfully in training and development. This will invariably lead to greater productivity as a result of increased employee job satisfaction. Empowerment will also positively impact on staff's skill and confidence, as well as tapping into a range of skills, which the organisation has not utilised before (Van der Colff, 2003:113).

According to Suutari (2003:1) the industry becomes more and more global and organisations are under increasing pressure to move in the same direction. But being global is about more than just operating around the world in a geographic sense. A Strategic leader has to develop people to ensure:

- integration - act as a co-ordinated network;
- flow - have resources that flow through the business;
- leverage - in order to eradicate unnecessary duplication;
- optimisation - balance local responsiveness with global responsibility.

Therefore, it is necessary to determine the competencies specific to developing an effective global leader. These are:

- possess a global mindset (depth of field);
- work as an equal with persons from a diverse background;
- manage skilfully the foreign deployment cycle;
- lead and participate effectively in multicultural teams;
- demonstrate knowledge and respect for other countries;
- be culturally adventurous;
- embrace duality between global integration and local responsiveness; and

- possess global and business savvy (Suutari, 2003:1).

2.3.11 Diversity

South African businesses can only deal with the issue of diversity and the problems of an alienating corporate culture, the lack of global competitiveness and discriminatory employment practices through a paradigm shift to a more inclusive organisational culture (Van der Colff, 2003:113).

The most important values can be traced through Ubuntu. Ubuntu can be seen as the key to all values and involves collective personhood and collective morality, values that are deeply embedded in African communities. Ubuntu are formed by leadership legitimacy, communal enterprise and value sharing. A Leader's legitimacy rests on the imperative of whether they are able to facilitate empowerment at all levels of the organisation. (Van der Colff, 2003:113).

According to Nel et al., (2001:398) diversity must be acknowledged and capitalised upon. Cultural diversity needs to be managed by strategic leaders and the advantages for the organisation will be:

- stimulation, participation and creativity;
- increased flow of ideas;
- attract and maintain the best skills;
- improve the employer-employee relationship;
- increase the morale of the workforce;
- reduce tension confusion and counter productivity in the workforce; and

- lead strategic leaders to view differences as valuable assets rather than unwanted liabilities.

Leaders must develop and improve workplace diversity as this will improve general problem solving within the organisation. Leaders should also manage diversity to enable the work force to be more innovative. The expansion of workplace diversity will increase workplace cohesiveness and communication. (Van der Colff, 2003:113).

According to Brancato (2001:1) the value of diversity is being seen as its potential to enhance shareholder value, the strategic leader's primary mission. The economic argument rings particularly true given the increasing recognition of the importance to the bottom line of such issues as workplace practices and customer satisfaction. Added to director's core competencies, the additional experience and knowledge bases brought about by diversity can contribute to profit generation.

Diversity as a concept is seen as going beyond questions of gender and race, goals including cultural diversity to reflect and aid understanding of an increasingly international market, and representation of different consumer groups, diversity in skills to meet operational priorities and aid decision-making and diversity in age and experience to bring different perspectives (Brancato, 2001:1).

"There is no argument for diversity in its own sake. The argument is a business one, the value of diversity being seen as its potential to enhance shareholder value - the strategic leader's primary mission." Brancato (2001:2).

According to Newell (2002:174) the job will influence the extent to which diversity increases the group's pool of skills, information and perspectives. The job-relatedness dimension of diversity is therefore more important in relation to stimulating creativity and innovation.

2.3.12 Soft power for a strategic leader in a hardened world

"Leadership is a way of being, not doing" Joseph, (2003:46).

It is important for a strategic leader to know that the 21st century has been characterised by a new form of conflict, which demands a new form of leadership. One of moral assertiveness, integrity, recognition and respect for others, rather than political, economic and military power (Joseph, 2003: 46-49).

This is a difficult and dangerous time in the history of our world. We wake up each moming to new challenges and crises. Yet the conversation about leadership is all too often about yesterday's theories and practices. Leadership is not as much as a way of behaving, but as a way of being. One world might be fundamentally different if we paid more attention to selecting and elevating leaders who see leadership in this way. To think of leadership, as a way of being is to think of the potential of soft power in a world dominated by hard power (Joseph, 2003: 46-49).

Soft power is the ability to attract and influence through the appeal of cultural, social and moral messages, respect for the tradition of other and acts of compassion on behalf of a distant neighbour. Hand power is the ability to influence or control by means of military might or economic muscle. Hand power is the ability to get others to do what we want, while soft power is the ability to get others to want the same thing we do (Joseph, 2003: 46-49).

The impact of soft power was used by Nelson Mandela whilst he was in power. He represented a paradigm of leadership where influence came from something deeper and more enduring than hard power. His influence came from the power of his ideals, the strength of his spirit, the elegance of his humanity and the ability to capture the hearts and minds of all colours and comes from the globe (Joseph, 2003: 46-49).

In the 20th century, international conflict was modern, ideological and often totalitarian; however, conflict in the 21st century is post modern, non-ideological and often tied to no one definable place or people. Those strategic leaders who seek to engage the world from behind the shield of hand power rather than by engaging it in a collegial manner may soon find their global influence significantly eroded (Joseph, 2003: 46-49).

"To think of leadership as a way of being, rather than a way of doing, is to think of the potential of soft power" Joseph, (2003:48).

According to Joseph (2003:46-49) businesses desperately need strategic leaders who see themselves as custodians of values as well as resources. Those who see strategic leadership as a way of being must expand the conversation about ethics to include the macro-ethics of large systems and corporate institutions.

The time has come for strategic leaders at all levels that if they provide hope, people are empowered in a new way. As a result, they are more likely to accept and support strategies that attract rather than coerce, thus promoting and developing enduring goodwill rather than illusions of influence (Joseph, 2003: 46-49).

2.4 KEY ACTIONS TO BE AN EFFECTIVE STRATEGIC LEADER

To be an effective strategic leader consists of the following key actions as in figure 5. These key actions interact with each other and will be discussed in the following chapters.

Figure 5 Effective strategic leadership

Source: Hitt, *et al.*, (2001:500).

2.5 SUMMARY

It is clear that strategic leadership is essential for any organisation in the 21st century because of constant changes as the order of the day. The strategic management process indicates clearly that a strategic leader needs to be on top of every process to ensure strategic competitiveness and above average returns for an organisation. In this process it is important that the strategic leader encourages long term tactical and operational issues.

In the current environment in which organisations exist which is characterised by turbulence and change, increasing complexity and growing internal and external competition, new models of leadership are emerging. The soft power of leadership is discussed to indicate to those leaders who seek to engage the world from behind a shield of hard power rather than by engaging it in a collegial manner may soon find their global influence significantly eroded.

Several key actions of a strategic leadership will be discussed in the following chapters to indicate the importance of these actions for a strategic leader to be effective in an organisation.

CHAPTER 3

STRATEGIC DIRECTION AND CORE COMPETENCIES

3.1 INTRODUCTION

This chapter involves the exploring of effective strategic leadership in the context of determining strategic direction and exploitation and maintaining of the core competencies in a company. For a strategic leader to be effective it is necessary to determine strategic direction and maintain core competencies.

The determining of strategic direction of a company involves developing a long-term vision of the company's strategic intent. Strategic intent is internally focused and it is the leveraging of the company's internal resources, capabilities and core competencies to accomplish the firm's goals in the competitive environment. The strategic mission flows from the strategic intent and it is externally focused. This is a statement of the company's unique purpose and the scope of its operations in products and market terms. An effective strategic mission establishes a company's individuality. Together the strategic intent and strategic mission yields the insights required to formulate and implement a companies strategies. An effective strategic leader base decision on the company's strategic intent and mission which gives strategic direction (Hitt, *et al.*, 2001:497).

The exploiting and maintaining of core competencies are important for an effective strategic leader because the core competencies are the resources and capabilities that serve as a source of competitive advantage for an organisation over its rivals (Hitt *et al.*, 2001:501).

3.2 DETERMINING STRATEGIC DIRECTION

Strategic direction involves tactics, vision, purpose, goals and organisational culture. These aspects will be explored to ensure a better understanding of strategic leadership.

3.2.1 Strategy & Tactics

Most managers have been trained to be logical, analytical, data based and objectives driven. Most of them have spent their careers in just one or two functions. This makes them more comfortable dealing with tactics and technical agendas than strategy. It does not always help them deal with complex change. (Anon, 2003a:2)

Without dependable evidence, deductive reasoning is less reliable. Major change, especially transformational change, is about what kind of future we can anticipate. For that there is no hard data, and the issues transcend functional boundaries. Strategy is essentially a set of judgements and assumptions about how we think the future will be; there is limited evidence for that, and the conclusions we draw from those judgements will influence the success or even the survival of the organisation (Anon, 2003a:2).

Those strategic judgements are cross-functional. Only the most senior in the organisation can make them - though they need to make sure they are informed by the best minds and the most relevant experience available. Once the strategic assumptions are made, all change activity must be based on those same assumptions (Anon, 2003a:2).

Those strategic judgements are not easy. They are as much about what the organisation is going to stop doing as what it intends to start doing. And they are about where resources are to be allocated, and where they should be taken from. They require intuition and a clear sense of what is to be (Anon, 2003a:2).

"Nothing will ever be attempted if all possible objections must first be overcome." *Samuel Johnson (2003:3).*

If those strategic judgements are not made by the strategic leaders, or if they are ambiguous, or if they are not constantly reviewed and updated, managers will not be able to pursue a consistent agenda in support of a common aim. In those circumstances, all that they can reliably do is following their functional or specialist agendas. That will put them into conflict with their colleagues and the various change efforts will be dissipated. They may separately do good work but if they cannot enable the organisation to achieve its purpose, they will all have failed (Anon, 2003a:2).

3.2.2 Strategic Direction - Vision, Purpose and Aims

It is too simple to say one is in business to make a profit. That might describe a personal motivation at a point in time, but any organisation whose sole or principal aim was its own profit would not long keep its customer base in a competitive market. A well run business should be run in a way that makes a profit but its purpose is to deliver a service that others find of value. It can deliver that service and make a profit, or not; but if it fails to deliver the service it will not make a profit for long (Anon, 2003a:3).

"No enterprise can exist for itself alone. It ministers to some great need, it performs some great service, not for itself, but for others; or failing therein, it ceases to be profitable and ceases to exist." Calvin Coolidge (2003:3).

The first priority for any effective strategic leader is, first, to clarify its purpose. What is the nature of the 'great service'? Why is it needed? Who needs it? Who are the customers and beneficiaries? What are their needs? How will we know when we have succeeded in fulfilling that purpose? Are there any other legitimate interest groups? What are their expectations? (Anon, 2003a:3).

Only if the organisation can profitably generate value in the eyes of customers and beneficiaries can there be a basis for a continuing relationship that is in both parties' interest (Anon, 2003a:4).

With a clear view of the purpose and who the customers are, it is possible to determine the aims of the enterprise. What 'outputs' or 'deliverables' will enable the purpose to be fulfilled? Who will judge the success of those outputs? What criteria will they use? How can we use those same criteria to manage the delivery of those outputs? (Anon, 2003a:4).

When the purpose and aims are clear, it is possible for the strategic leaders and staff of the company to find ways of making things happen. They can establish objectives, develop processes, utilise technology and apply skills, knowledge and talent. When it is all working, they can set up standard operating procedures to ensure things go smoothly. They can establish feedback mechanisms which enable them to observe what is happening in practice, assess its effectiveness against the agreed criteria, and make incremental improvements. Above all, they work out ways of working constructively together to enable it all to happen. This plays to their strengths which are about what happens in the production and delivery process, how customers respond, and what the operational options are (Anon, 2003a:4).

But they cannot do this with any degree of confidence or coherence, unless the strategic leader has clearly articulated the purpose, aims and success criteria. When the strategic leaders changes the Strategic Direction - as it must from time to time - all assumptions and processes have to be re-focussed to ensure the whole organisation is pulling in the same, new direction (Anon, 2003a:4).

Transformational Change cannot be delegated to middle management. It has to be led from the top. They will obviously want to engage others in the thinking processes, but the strategic leaders are accountable for making the difficult decisions about why the change is necessary and what the outcomes must be. Within this framework managers and staff can focus on how to do it (Anon, 2003a:4).

3.2.3. Strategic Direction - Values, Behaviour and Culture

"If I continue to believe as I have always believed.

I will continue to act as I have always acted.

If I continue to act as I have always acted,

I will continue to get what I have always gotten"

Marilyn Ferguson (2003:4).

It is fine to establish a Strategic Direction, with a vision of the future and clearly established aims and objectives, but how can one be sure that the hundreds or thousands of employees and contractors will work together in a way that will enable it to happen? (Anon, 2003a:5).

Put another way, how can managers be sure people will work in a new way when the managers are not around to give instructions? For the moment acknowledge that people will continue to behave in ways that they have learned are acceptable in that organisation until something influences them to change. It represents the culture of the organisation - "the way we do things around here". It is driven by a set of values which are overtly, or by implication, accepted as a basis for behaviour. If the organisation wishes to change existing behaviour it needs to examine its values very carefully (Anon, 2003a:5).

Analysing values is also a good way of looking at why some organisations appear to be dysfunctional. If we can observe behaviour that causes unnecessary conflict, or discourages managers and staff from exercising their authority, or ignores the needs of customers or other stakeholders, then we must review the values that allow such behaviour to be seen as acceptable. The values and the behaviour have to be supportive of the aims of the organisation; otherwise it will fail (Anon, 2003a:5).

If the new Strategic Direction is different from the old, strategic leaders need to review whether the old values are likely still to be appropriate for the new environment and, if not, how they can be changed (Anon, 2003a:5).

Values are deep-seated and enduring. They motivate behaviour and emotional responses. They underpin the very way people approach their work, make choices and decisions, and deal with each other. If we can establish congruence between individual values and organisational values that are likely to support the new, changed way of working, there will be a much higher probability that the changes will be successful (Anon, 2003a:5).

If the people in an organisation respect and adhere to the values, and if they understand and support the vision of the future, strategic leaders do not need to worry about whether they will concentrate on raising their capabilities and focus on satisfying the changing needs of the customers. They will simply be doing what they believe is right for the organisation and for their customers and for themselves. The strategic leader's role is to ensure that an appropriate framework of vision, values and behaviour is in place to enable them to do that (Anon, 2003a:6).

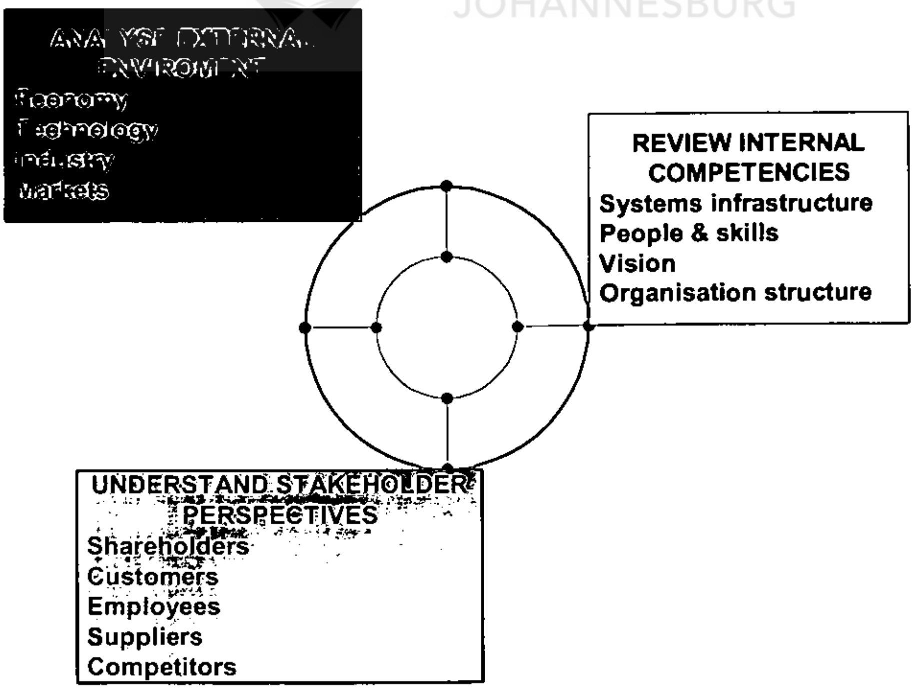
"Each member of the enterprise contributes something different, but all must contribute towards the common goal. Their efforts must all pull in the same direction and their contributions must fit together to produce a whole without gaps, without friction, without unnecessary duplication of effort"

Peter Drucker (2003:6).

3.2.4 Strategic Direction as a process

A strategic leader need to approach strategic planning as a thought process rather than a mechanical task, and further to combine the power of synthesis and analysis. With synthesis it is meant on drawing on environmental, stakeholder, technological, competitor and customer opportunities to help define a roadmap for the future (Anon, 2003b:2).

Figure 6 Roadmap for the future



Source:Anon, (2003b:2).

Once the strategic planning process is determined, the strategic leaders must motivate the employees to achieve it. A charismatic strategic leader may gain employees commitment to a new vision and strategic direction. It is however important not to lose sight of the strengths of the organisation in making changes required by a new strategic direction. The strategic leaders must structure the firm effectively to help achieve their vision. The goal of an effective strategic leader is to balance the firm's short term need to adjust to a new vision while maintaining its long-term survivability by emphasizing its current and valuable core competencies (Hitt *et al.*, 2001:500).

3.3 EXPLOITING AND MAINTAINING CORE COMPETENCIES

Core competencies are resources and capabilities that serve as a source of competitive advantage for a firm over its rivals. Such competencies may include the capability to effectively organise and govern complex and diverse operations and the capability to create and communicate a strategic direction and vision (Hitt *et al.*, 2001:26).

Competencies must also be under confusions development to keep them up to date. This requires a systematic programme for updating old skills and learning new ones. Dynamic core competencies are especially important in rapid changing environments. It is important for an effective strategic leader to exploit and maintain a company's core competencies because this is the basis for a company's competitive advantage, its strategic competitiveness and its ability to earn above-average returns (Hitt *et al.*, 2001:26).

Core competencies are the activities that the company performs especially well compared to competitors and through which the firm adds unique value to its goods or services over a period of time. It is important for a strategic leader to understand and exploit these assets that have competitive value and the potential to serve as a source of competitive advantage. (Hitt *et al.*, 2001:130).

It is important for an effective strategic leader to realize that core competencies become more valuable through additional use. A key reason for this is that they are largely knowledge based. Sharing knowledge across people, jobs and organisational functions often result in expansion of that knowledge in a competitively relevant ways. The value of the core competencies as a source of competitive advantage should never be taken for granted by the strategic leader (Hitt *et al.*, 2001:130).

Core competencies have the potential to be core rigidities. Strategic myopia and inflexibility by the strategic leaders results in core competencies being emphasized to the point that strategic inertia strangles a company's ability to grow and to adapt to environmental changes (Hitt *et al.*, 2001:130).

3.3.1 Organising around core competencies

An effective strategic leader needs to understand that a company compete not only just with their products but also on the basis of their core strengths and expertise.

A leader who wants to strengthen a company's competitiveness via core competencies need to focus on several related issues:

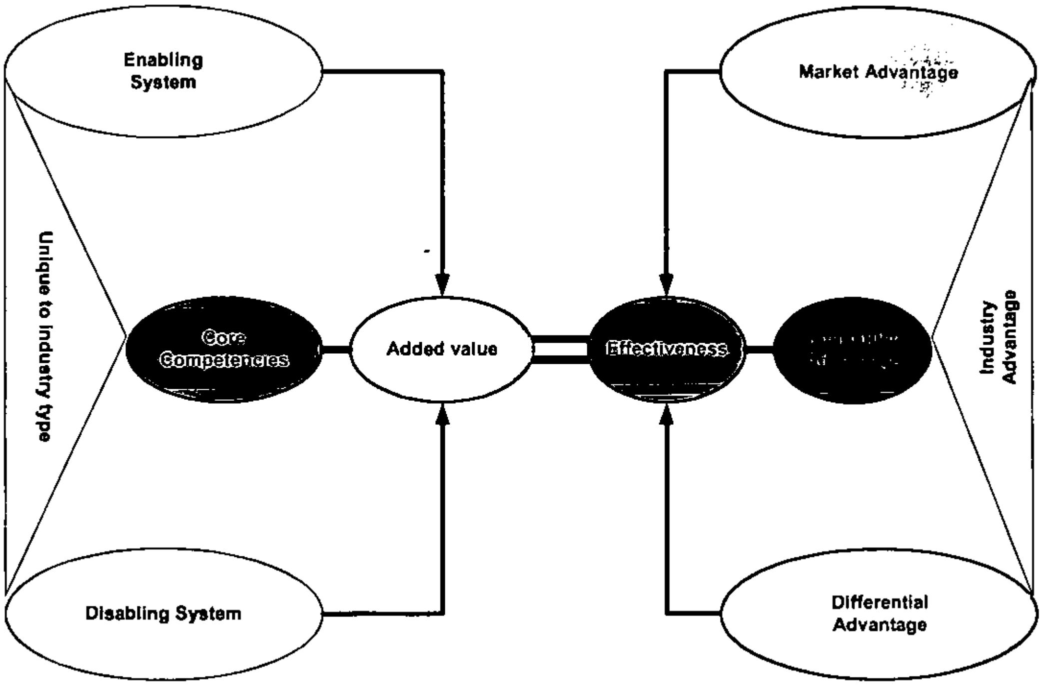
- identify existing core competencies;
- acquire or build core competencies that will be important for the future;
- to keep on investing in competencies so that a company can remain world-class and better than competitors; and
- extend competencies to find new applications and opportunities for the markets of tomorrow (Bateman & Snell, 1999:322).

3.3.2 A model for core competence management

The enabling core competence lens can be of help for a strategic leader to build and enhance the core competence of a company through looking at these fundamental systems:

- an enabling system;
- a disabling system; and
- a core competence system.

Figure 7 The enabling core competence lens



Source:Gilgeous & Parveen (2001:7).

The enabling system enables a company to achieve its desired position in markets and industries. This system comprises soft and hard enablers. The soft enablers are teams and learning. The hard enablers are information systems and financial accounting systems (Gilgeous & Parveen, 2001:7).

The disabling systems also constitute hard and soft disablers. The disablers impede the company in its attempts to reach its desired position. The soft disablers are poor communication, poor quality of working life and the company's history and baggage. Hard disablers are poor information, financial accounting systems and restricting regulations and policies. The dual systems of enablers and disablers then provide nourishment that feeds into the core competence system to achieve effectiveness. This results in three advantages:

- the company has a competitive advantage;
- a differentiating advantage; and
- market leadership and industry advantages, which can lead to economies of scale of building and enhancing new core competencies (Gilgeous & Parveen, 2001:7).

3.3.3 A framework of core competence maintenance

It is important for an effective strategic leader to obtain a framework for core competence maintenance. This framework consists of five elements:

Table 3 A framework for core competence maintenance

Review	Eliminate redundant/obsolete processes, products, core competencies
Assessing	Identifying new opportunities/innovating existing core competencies
Activate	Dormant and useful processes
Building vision	Build a united corporate vision
Identify and innovate	New opportunities and industry frontiers

Source:Gilgeous & Parveen (2001:7).

This framework is a powerful tool for an effective strategic leader and function as a mechanism for core competence maintenance. The framework can be used by strategic leaders to identify new opportunities for unique competitive advantage through the identification of new products, services and core competencies. It can also be used to assess and re-energise useful existing processes which have become dormant for one reason or another. Finally this framework can assist strategic leaders in building on united corporate visions, which is continually communicated and reiterated at regular reviews (Gilgeous & Parveen, 2001:8).

3.3.4 Knowledge as a core competency

Knowledge Management is recognised as a core competency that organizations need to develop in order to compete successfully in today's global marketplace. The following aspects are important for a strategic leader:

- use the knowledge embedded in your organization's processes and employee's skills to give you unique capabilities that will enable you to deliver more effective and efficient services;
- create a working environment that encourages knowledge sharing;
- develop an information technology strategy that supports knowledge management;
- gain and sustain the support of everyone in your organization - including top management;
- measure knowledge management;

- design and implement the right knowledge management strategy for your organization;
- get an expert understanding of knowledge management as an organisational core competency; and
- track how world-leading organizations are implementing knowledge management initiatives and identify key strategies that are contributing to their success (Anon, 2003c:1).

As strategic leaders organised themselves into larger organisations and complex organisations, the neglect of knowledge based on people and ideas has undoubtedly reduces the corporate market's place's capability for true innovation and sustainable competitiveness. It is therefore undisputedly true that if a strategic leader is not managing his "people and ideas" assets, he will neglects in managing the core of the business. (Gamble & Blackwell, 2001:13).

For strategic leaders it is about managing knowledge and about extending the view of a process looking at the components of embodied knowledge, that which the knower intrinsically knows. It refers to the undocumented information, the intuition, empathy and experience that enable us to make the right decisions- at least most of the time (Gamble & Blackwell, 2001:13).

According to Steward (2001:77) there is a four step process for a leader to manage intellectual capital:

- identify and evaluate the role of knowledge in your business, as input, process and output;
- match the revenues just found with the knowledge assets that produced them. These are the expertise, capabilities, brands, intellectual properties, processes and other intellectual capital that create value;
- develop a strategy for investing in and exploiting intellectual assets; and
- improve the efficiency of knowledge work and knowledge workers.

To remain competitive- maybe even to survive- businesses will have to convert themselves into organisations of knowledgeable specialists.

Peter Drucker (2001:71).

The centrepiece of the Japanese approach to knowledge is the recognition that creating new knowledge is not simply a matter of "processing" objective information. Rather, it depends on tapping the tacit and often highly subjective insights, intuitions and hunches of individual employees and making those insights available for testing and use by the company as a whole. The key to this process is personal commitment, the employee's sense of identity with the enterprise and its mission (Nonkana, 1998:24).

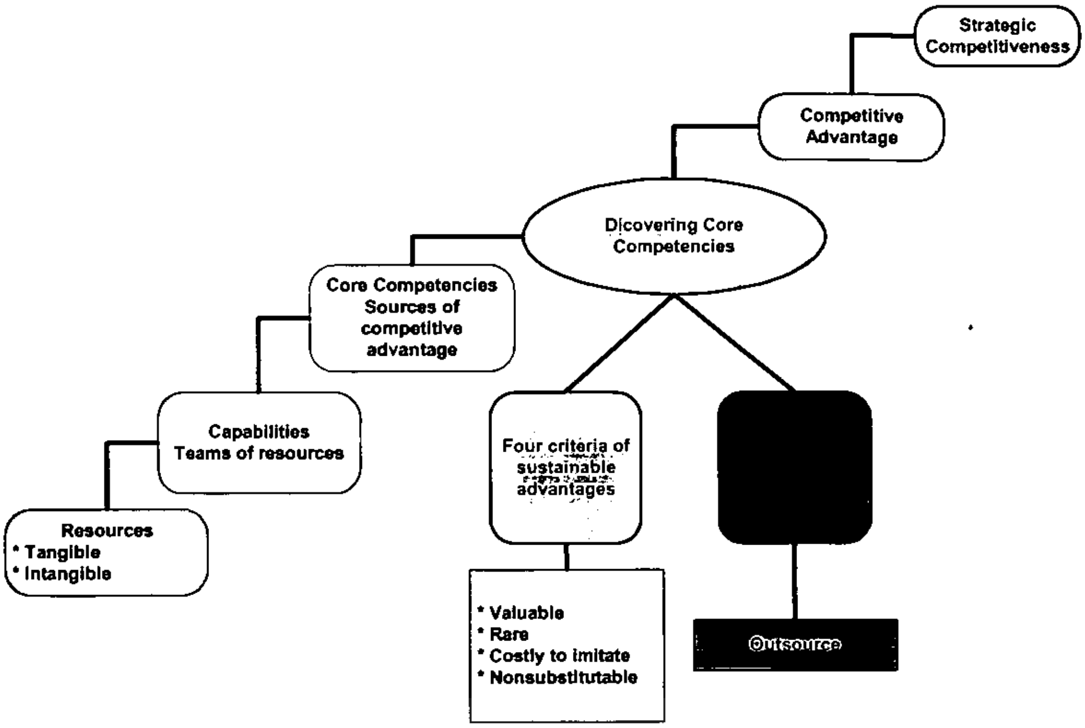
A more holistic approach to knowledge is that an organisation is not a machine but a living organism. Much like an individual, it can have a collective sense of identity and fundamental purpose. This is the organisational equivalent of self-knowledge – a shared understanding of what the organisation stands for, where it is going, what kind of world it wants to live in and most important, how to make that world a reality. In this respect it is important for a strategic leader to realise that the knowledge – creating organisation is as much about ideals as it is about ideas (Nonkana, 1998:24).

3.3.5 Discovery of core competencies

Hill *et al.*, (2001:102) specify two tools that help identify and build core competencies. These are:

- internal Analysis and especially four criteria which contribute to this; and
- value chain analysis.

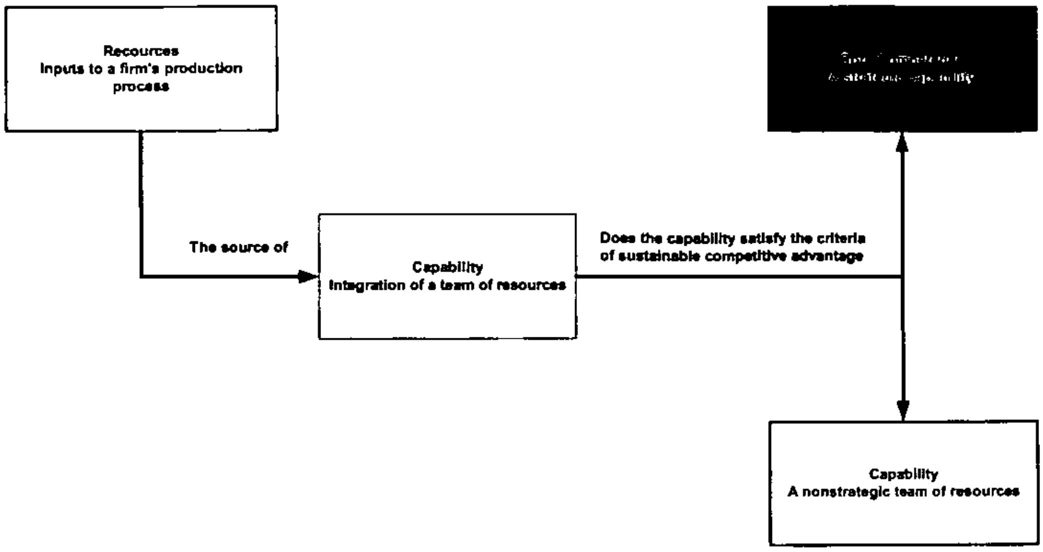
Figure 8 Illustrates the core competencies process.



Source: Hitt, *et al.,* (2001:102).

Figure 8 shows whether a capability becomes a core competence or whether it remains a capability and a non-strategic team of recourses. It is important for a strategic leader to be aware if a core competence is a strategic capability or non-strategic team of resource to ensure a competitive advantage.

Figure 9 Core Competence as a Strategic Capability.



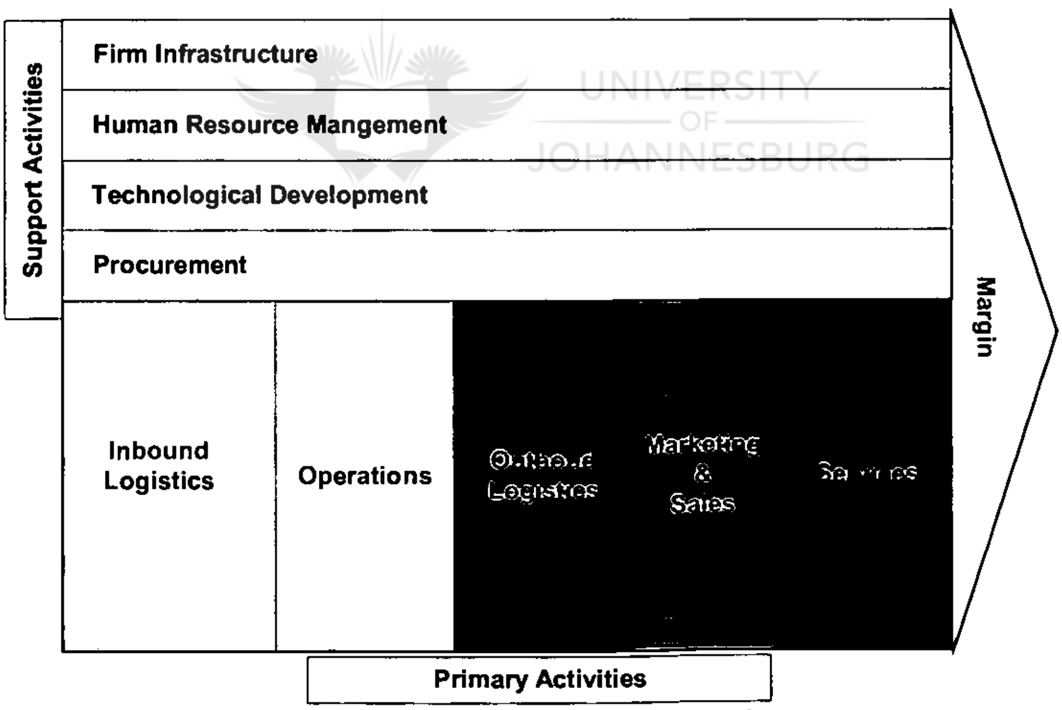
Source: Hitt, *et al.*, (2001:115).

The value chain is a template on organisation can use to understand its cost position and to identify the multiple that might be used to facilitate the implementation of its strategies. The value chain is segmented into primary and support activities. Primary activities are involved with the products physical creation, its sale and distribution to buyers and its service after the sale. Support activities provide a support necessary for the primary activities to take place (Harvey, 2003:1).

The intent of examining the activities is to determine areas where the firm has the potential to create and capture value. All the items included are to be evaluated with competitor's capabilities in mind. To be a source of competitive advantage, a resource or capability must allow a firm: to perform an activity that is superior to the way competitors perform it or to perform value creating activity that competitors cannot complete. Sometimes, this means that a firm has to reconfigure or recombine parts of the value chain in unique ways. Where a company cannot compete in an activity in the value chain, it should look at outsourcing (Harvey, 2003:1).

According to Hitt, *et al.,* (2001:129) an attractive attribute of a firm's core competencies is that, unlike physical assets, they tend to become more valuable through additional use. The value of core competencies as sources of competitive advantage should never be taken for granted.

Figure 10 The value chain analysis



Source: Hitt, *et al.,* (2001:126).

The value chain analysis is used by strategic leaders to identify and evaluate the competitive potential of resources and capabilities. This helps leaders to understand their cost structure and identify the activities through which they can create value.

3.4 SUMMARY

For a strategic leader to be effective it is necessary to determine strategic direction and maintain core competencies. The determining of strategic direction of a company involves developing a long-term vision of the company's strategic intent. Together the strategic intent and strategic mission yields the insights required to formulate and implement a companies strategies. An effective strategic leader base decisions on the company's strategic intent and mission which gives strategic direction.

The core competencies of an organisation however are the resources and capabilities that serve as a source of competitive advantage for a firm over its rivals. Such competencies may include the capability to effectively organise and govern complex and diverse operations and the capability to create and communicate a strategic direction and vision. The enabling core competence lens and framework of core competence maintenance is discussed to indicate the advantages this have for an organisation. Furthermore the importance of knowledge management for a strategic leader to make the right decisions was highlighted in this chapter.

It is important for an effective strategic leader to understand that strategic direction and core competencies, however, cannot be developed or exploited effectively without developing the capabilities of human capital and an effective organisational culture. This will be discussed in the next chapter.

CHAPTER 4

HUMAN CAPITAL AND ORGANISATIONAL CULTURE

4.1 INTRODUCTION

It is important for a strategic leader to realise that the effective development and management of the firm's human capital may be the primary determinant of an organisation's ability to formulate and implement strategies successfully. Human capital is the only truly sustainable source of competitive advantage (Hitt *et al.*, 2001:501).

According to Denton & Vloeberghs (2003:6) the staff is the most important asset of any organisation and that they hold the intellectual capital, which can place any organisation at the forefront of the market. The intellectual capital itself is the primary asset of an organisation. A focus on the value of employee's expertise, "brainwave" and competencies is likely to give an organisation the competitive edge.

In the interest of organisational survival, a move away from autocratic controlling forms of management towards team structures that encourages innovation, entrepreneurship and creativity is needed. Strategic leaders with the passion, vision and courage to guide their teams should become facilitators and create environments that will encourage and unleash the energy of staff previously trapped in top-down structures that stifle innovation and creativity. Empowerment is also achieved through a shared vision for the future which can only be implemented in an organisation where all staff affects common principles and values and there is a culture of openness, fairness, honesty and trust (Denton & Vloeberghs, 2003:6).

The organisational culture according to Adair (2002:200) is strategically important for overall success. A strategic leader must understand the organisational culture of an organisation to be able to ensure a competitive advantage. An organisational culture consists of a complex set of ideologies, symbols and core values that is shared throughout the organisation and influences the way it conducts business (Hitt, *et al.*, 2001:505).

4.2 DEVELOPING HUMAN CAPITAL

"People first, strategy second." *Jack Welch, (2001:383).*

According to Hartog (2003:1) human capital refers to the knowledge, skills, competence and other attributes embodied in individuals that are relevant to economic activity.

If a strategic leader can see an organisation as a community and not just a structure of power, it would be possible for organisations to provide fertile ground necessary for individual empowerment. Therefore continuous integrated development should be implemented in an organisation. It is imperative that a development process is implemented for all staff whereby all competencies could be developed. This will ensure the ability of all staff to integrate the skills necessary to become future leaders. A strategic leader should see all employees as an important resource that must be developed through training and skills building opportunities to ensure the full utilisation of the organisation's most important resource, namely people (Van der Colff, 2003b:4).

The only way in which strategic leaders will be able to maximize commitment to organisational goals and strategy is through people development and empowerment. Empowering employees will give them the freedom to innovate and experiment with calculated risks. Through empowerment, leaders will be able to delegate to employees who will take on autonomy and responsibility of their own world experience (Van der Colff, 2003b:4).

It is recommended that leaders develop the following skills with regard to empowerment and development:

- leaders should understand that employees will rise to the occasion when extra effort is needed;
- employees must be involved in decisions that have direct impact on them;
- employees must be given the opportunity and freedom to innovate; and
- it is the strategic leader's responsibility to build a climate of trust in the workplace (Van der Colff, 2003b:4).

4.2.1 Communities of practice

It is important for a strategic leader to realize that learning is a social activity and happens in groups. Groups that learn, communities of practice, have special characteristics and emerge from their own accord. Communities of practice are the shop floor of human capital, the place where the stuff gets made (Steward, 1999:96).

It is however important for a strategic leader to understand what community of practice is and Steward (1999:96) defines it as a group of professionals, informally bound to one another through exposure to common class problems, common pursuit of solutions and thereby themselves embodying a store of knowledge.

There are several traits that define community of practice and distinguish them from other groups:

- they have a history. It develops over time;
- a community of practice has an enterprise, but not an agenda; that is, it forms around a value – adding something – we're-all-doing; and
- the enterprise involves learning; as a result, over time communities of practice develops customs and culture (Steward, 1999:96).

A community of practice is voluntary, longer lived and has no specific "deliverable". It performs two main jobs of human capital formation: knowledge transfer and innovation. It is important for strategic leaders to help communities of practice by recognising them and their importance as well as giving them the resource they need (Steward, 1999:97).

Communities of practice add value to organisations in several important ways:

- they help drive strategy;
- they start new lines of business;
- they solve problems quickly;
- they transfer best practices;
- they develop professional skills; and
- they help companies recruit and retain talent (Wenger & Snyder, 2001:17).

"As community of practice generate knowledge, they renew themselves. They give you both the golden eggs and the goose that lays them."

Wenger & Snyder, (2001:17).

4.2.2 Human Capital and Organisational Learning

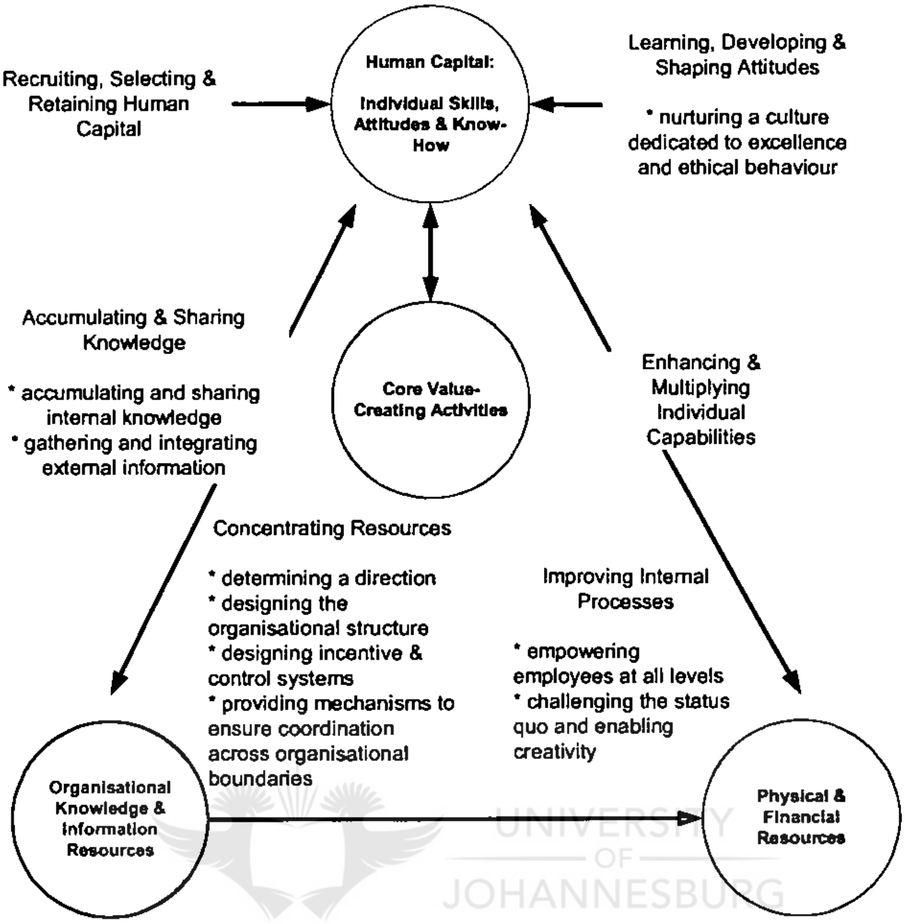
Strategically leaders can play important, often pivotal role in the development and implementation of strategies for leveraging human capital resources. By challenging the status quo and empowering employees at all levels, leaders can overcome resistance to change and engage the resources and talents of all employees in achieving organizational goals. By nurturing a culture dedicated to excellence and ethical behaviour, the leader can shape values and motivate each individual to make the fullest contribution to the accomplishment of the objectives of the company.

A culture that reinforces organizational learning and uninhibited sharing of information is pivotal to success in rapidly changing environments. Strategic leaders must play a key role in setting the tone, breaking down the barriers of inertia and resistance, and enabling the development of processes and mechanisms required to create a learning organisation.

According to Dess & Picken (1999:193) to inspire and motivate people with a mission or purpose is a necessary but not a sufficient condition for developing an organisation that can learn and adapt to the rapidly changing, complex and interconnected environment. Critical ongoing processes of learning organisations are:

- empowering employees at all levels;
- accumulating and sharing internal knowledge;
- gathering and integrating external information; and
- challenging the status quo and enabling creativity.

Figure 11 Leveraging Human Capital



Source: Dess & Picken (1999:180).

4.2.3 Human Capital Criteria

The following criteria have a strategic impact on human capital:

- *Creates Value*: People can increase value through their efforts to decrease costs or providing something unique to customers.
- *Is Rare*: People are a source of competitive advantage when their skills, knowledge and capabilities are not equally available to competitors.

- *Is Difficult to Imitate*: People are a source of competitive advantage when their capabilities and contributions cannot be copied by others.
- *Is Organised*: People are a source of competitive advantage when their talents can be combined together and rapidly deployed to work on new assignments at a moment's notice. Teamwork and cooperation are pervasive methods for ensuring an organised work force.

Employees' skills, knowledge and capabilities are among the most distinctive and renewable resources upon which a company can draw and their strategic management is more important than ever. Increasingly organisations are recognizing that the success depends on what people know, that is, their knowledge and skills. Human capital is used to describe the strategic value off employee's skills and knowledge (Bateman & Snell, 1999:334).

4.2.4 The Bottom Line

According to Carnevale (1983:51) people are the master economic resource. They are the master resource because they use their required skills and abilities as the agents that combine tangible elements and intangible ideas to make machinery and usable goods and services. In spite of that fact there is a great temptation for employers to ignore the long-term value of human investment.

The challenge for strategic leaders should be to invest in ongoing intellectual capital, where employees add value through ongoing learning, changing, challenging and reinvesting in both themselves and their organisations (Nel *et al.*, 2001:618).

It is clear to see that the strategic leader must play a role in the development of human capital. Respect and dignity can only be created by a strategic leader's personal value commitment to the development of all employees (Van der Colff, 2003:4).

Human capital is an important part of an organisations ability to develop and sustain an effective organisational culture.

4.3 SUSTAINING AN EFFECTIVE ORGANISATIONAL CULTURE

Organisational culture consists of a complex set of ideologies, symbols and core values that is shared throughout the firm and influences the way it conducts business (Hitt *et al.*, 2001:505). According to Pearce & Robinson (1997:356) organisational culture is the set of important assumptions that members of an organisation share in common. Organisational culture according to Hill & Jones (1998:396) is the specific collection of values and norms that are shared by people and groups in an organisation and that control the way they interact with each other and with stakeholders outside the organisation.

Until recently, most strategic leaders ignored the role of organisational culture even though people like Peter Drucker trumpeted its importance. Leaders are currently looking at this "soft" technology to make full use of employee talents and to align corporate goals with individual activity (Anon, 2003c:1).

The organisational culture and structure of an organisation shape employee's behaviour and it is crucial to match organisational structure and culture to implement strategy successfully. The organisational culture is the product of strategic leadership (Hill & Jones, 1998:296).

4.3.1 Culture: The spirit of leadership

"Leadership is not an absolute, but is defined by the cultural paradigm within which it is exercised." Lovemore Mbigi, (2003:1).

Leaders and employees only see what their cultural paradigms in their organisations allow them to see. Therefore, all leaders and employees can only see what their cultural lenses allow them to see in organisations (Mbigi, 2003:1).

According to Seel (2003:4) a paradigm is a constellation of concepts, values, perceptions and practices shared by a community, which forms a particular vision of reality that is the basis of the way a community organises itself.

The African view of cultural paradigm is characterised by a deliberate emphasis on people and their dignity. The emphasis is on the collective brotherhood of mankind called *ubuntu*, which means "I am because we are; I can only by a person through others". There is deliberate emphasis on solidarity and interdependence (Mbigi, 2003:20).

The key values of leadership according to Mbigi (2003:20) are:

- respect for the dignity of others;
- group solidarity: an injury to one is an injury to all;
- teamwork: none of us is greater then all of us;
- service to others in the spirit of harmony; and
- interdependence: each one of us needs all of us.

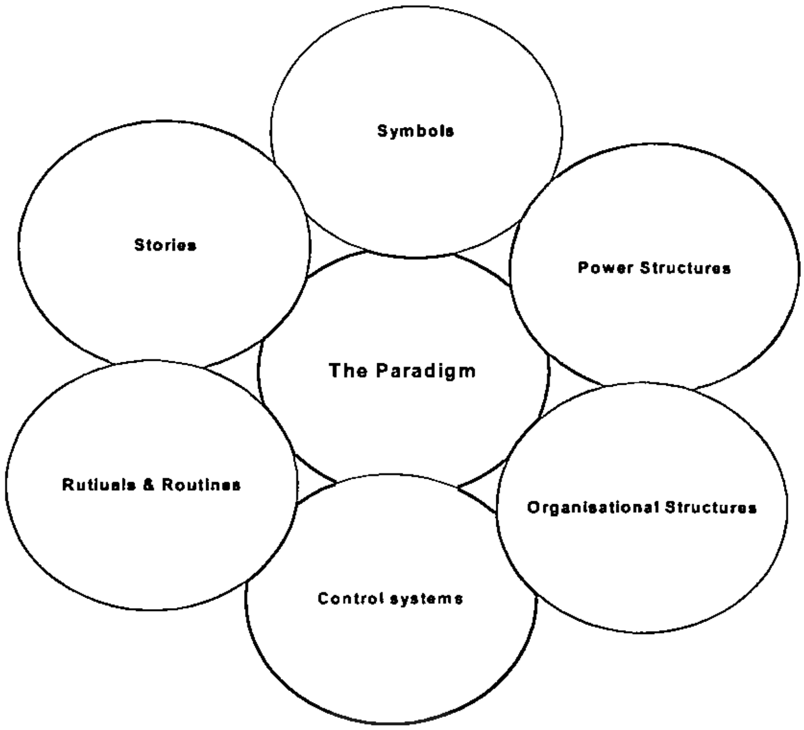
"Leadership reality is not absolute; rather, it is socially and culturally determined." Lovemore Mbigi (2003:20).

It is important for strategic leaders to realize that organisational culture affects human beings that are coming together to perform certain collective acts, encounter common problems which have to do with establishing direction, co-ordination and motivation (Mbigi, 2003:23).

4.3.2 The Cultural Web

The Paradigm is in the centre of the web which is the set of core beliefs which result from multiplicity of conversations culture. The 'petals' are the manifestations of culture which results from the influence of the paradigm. If cultural change needs to happen, the paradigm at the heart of culture, need to be changed, and otherwise there will be no lasting change (Seel, 2003:4).

Figure 12 Cultural Web



Source: Anon (2002d:4).

A paradigm acts as a filter which helps make life manageable and gives us a sense of stability in a changeable world. Paradigms emerge from a multiplicity of interactions between the individuals within the community and in an organisation. Strategic leaders need to understand the importance of organisational culture and paradigms to ensure efficiency and effectiveness (Seel, 2003:6).

Mindsets are a part of person's ability to take effective action. They reflect a unique set of beliefs and assumptions that are formed through experience. Mindsets are used to filter and interpret what we see and do. They influence our decision – making processes and patterns of behaviour. The equivalent of mindsets at the organisational level is culture – culture reflects collective mindsets. In fact, culture is the aggregate of collectively held assumptions and beliefs of individuals in an organisation. This explains the link between mindsets at the individual level and culture at the organisational level (Saint-Onge & Wallace, 2003:5).

To be successful in an organisation, it is important for a strategic leader to have a strong link between individual and organisational capabilities. This link occurs between the individual's mindsets and values and the organisation's culture in a number of ways, but the most effective link of transformation is between the mindsets of the individual and the culture of the organisation (Saint-Onge & Wallace, 2003:5).

It is important for strategic leaders to realize that culture is the most difficult element of organisational capability to enhance and move dynamically. Structures, like community of practice, play an important role in shaping organisations capabilities because they provide a context where people can apply their capabilities better perform their role (Saint-Onge & Wallace, 2003:5).

4.3.3 Fostering organisational culture

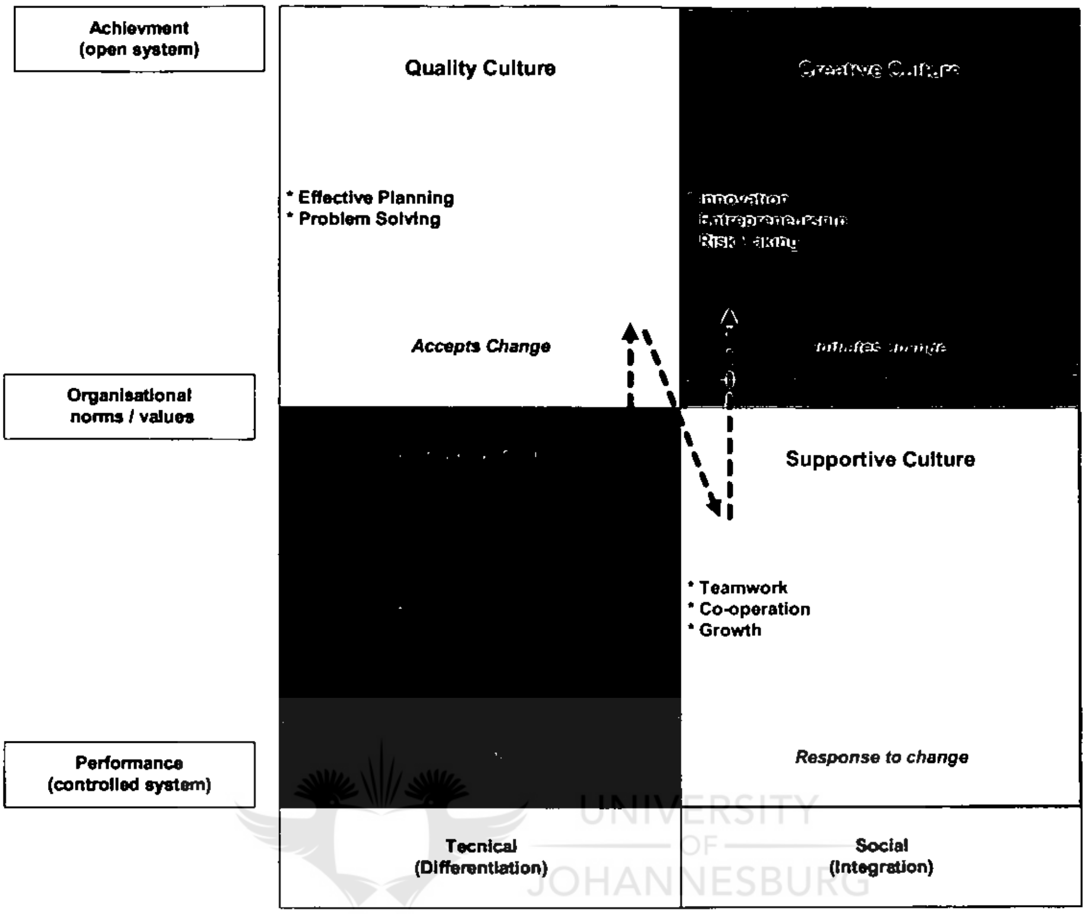
Fostering organisational culture is an ongoing process, which is strengthened by the involvement of both co-workers and managers. South African strategic leaders must be made aware of the challenges demanded by an ethnically diverse workforce (Nel *et al.*, 2001:264).

Leaders must be aware of conflicts and offer support in resolving conflicting interests. It is important that the employees understand the corporate culture. They also need to know the degree to which company values, personal goals, autonomy and privacy over group loyalty, commitment to group norms, involvement in collective activities and cohesiveness. Strategic leaders must realize that organisations operate efficiently when employees share values (Nel *et al.*, 2003:264).

4.3.4 Cultural environments within which organisations function

The various combinations or organisational values and orientations produce four types of cultural environments within which organisations function and the strategic leaders must be aware of this organisational values range from performance in a controlled system to achievement in an open system. The organisation's orientation can be technical and hence differentiated or social with high levels of integration and co-ordination (Kruger, 1999:6).

Figure 13 The organisational cultural model



Source: Rowe et al., (1998:2).

These four cultures have different characteristics which will be discussed:

- The productive culture concentrates on efficiency and consistency.
- The quality culture focuses on the growth of employees within the organisation through effective planning and problem solving. In practice, the productivity – orientated organisation tends to employ many grid procedures and rules, whereas the quality – oriented organisation is more flexible in its approaches.

- The creative culture tends to be innovative and entrepreneurial, inclined toward risk, taking. Change is most easily made in this type of culture. Most organisations would like, or think they would like, to have a creative culture. Often they go about trying to make changes as though they did have one. But they more often than not have some other type of culture and the change fails.
- The supportive culture produces an environment characterised by teamwork, co-operation and reinforcement (Kruger, 1999:6).

4.3.5 Managing organisational culture

According to Van der Colff (2003:113) one of the strategic leader's main responsibilities is to create an environment and organisational culture that enables the organisation to deal with the issue of diversity. South African business can only deal with the issue of diversity and the problems of an alienating corporate culture, the lack of global competitiveness and discriminatory employment practices through a paradigm shift to a more inclusive organisational culture.

Part of developing an empowered, inclusive organisational culture is the function of strategic leaders to understand that employees can only be empowered through an acute awareness of the organisation's vision and direction. The only way in which the organisation will be able to reach its goals is through developing a culture of entrepreneurship and innovation and by seeing culture as essential in achieving corporate strategies and objectives (Van der Colff, 2003:113).

According to Hitt, *et al.,* (2001:506) culture places a strong importance on being entrepreneurial, to challenge the norms. The key dimensions that characterise an entrepreneurial orientation are autonomy, a willingness to innovate and take risks and a tendency to be aggressive toward competitors and proactive relative to marketplace opportunities.

The management of the strategy – culture relationship consist of the following aspects:

- **Strategy and corporate culture:**
  - implementing and executing the strategic plan involves moving the whole organisational culture into alignment with strategy;
  - optimal condition – work environment is so in tune with the strategy that execution of the game plan can be truly powerful;
  - a strong culture provides a system of informal rules and peer pressures regarding how employees should behave; and
  - a strong culture turns a job into a way of life – it provides structure, standards and a value system in which to operate and it promotes strong company identification among employees (Kruger, 1999:10).
- **Shaping the corporate culture to fit the strategy through:**
  - establishing shared values;
  - setting ethical standards;
  - creating a strategy-supportive work environment and; and
  - building a spirit of high performance into the culture.

"A strong culture and a tight strategy – culture fit are powerful levers for influencing people to do their jobs better." Kruger (1999:11).

- **Creating the fit between strategy and culture. This involves:**
  - diagnosing which facets of the present culture are strategy supportive and which are not; and
  - develop concrete action steps to modify the culture and create a stronger strategy-culture fit (Kruger, 1999:11).

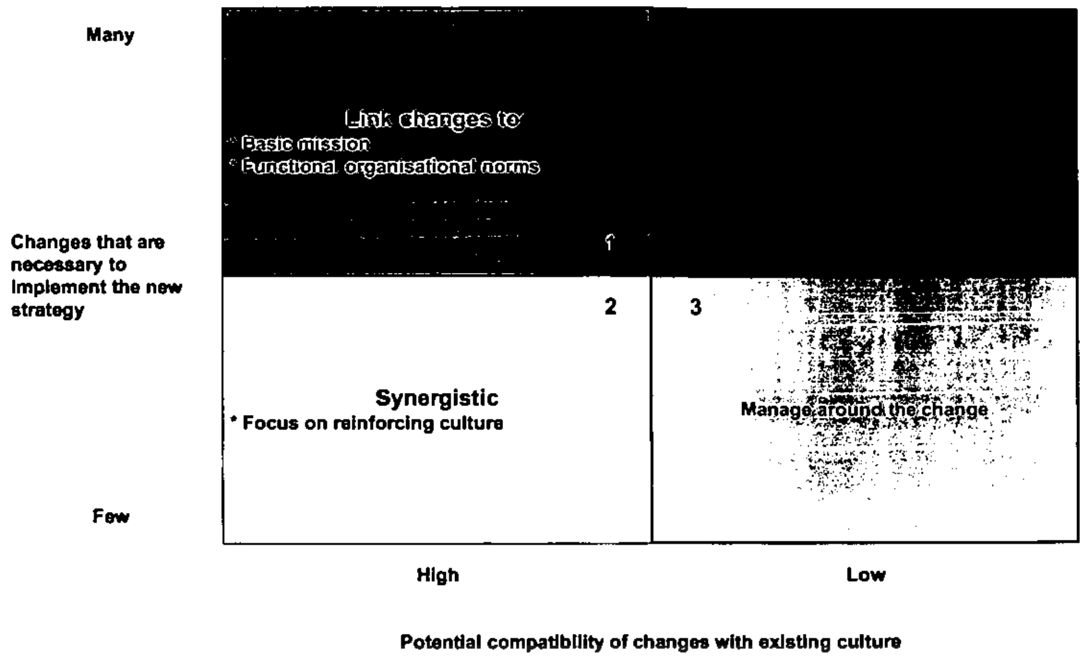
- **Establishing ethical standards and values.**

A strong organisational culture founded on ethical principles has a positive impact on a company's long-term strategic success; an unethical culture can undermine it.

- **Managing the strategy-culture relationship.**

A strategic leader needs to know the four basic situations an organisation can face in the strategy-culture relationship. These basic situations are illustrated in figure 14.

Figure 14 The strategy-culture relationship



Source: Pearce *et al.*, (1997:14)

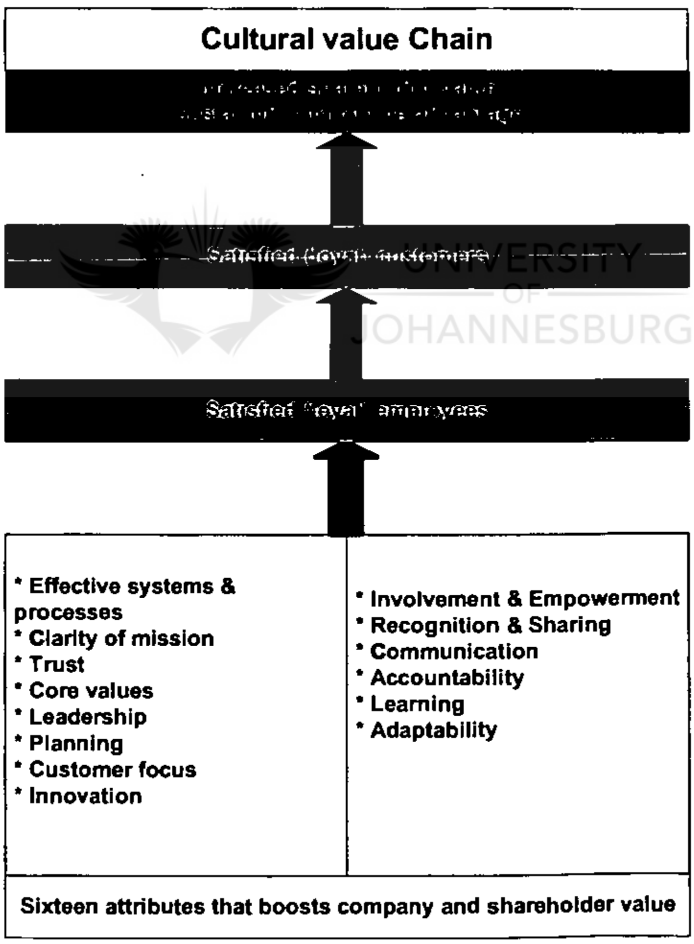
- **Building a spirit of high performance into the culture.** A strategic leader that builds a spirit of high performance into a organisation's culture consist of:
  - emphasizing achievement and excellence;
  - have a results – oriented culture; and
  - pursue policies and practices that inspire people to do their best (Kruger, 1999:15).

The desired outcome for a strategic leader is to produce extraordinary results with ordinary people.

4.3.6 The cultural value chain

The cultural value chain indicates sixteen attributes for a strategic leader that boost an organisation and shareholder value. The cultural chain defines the traits and attributes of a healthy and adaptable culture. This cultural value chain will increase shareholder value and sustain competitive advantage for a strategic leader. See figure 15.

Figure 15 The cultural value chain



Source: Adapted from Musante (2003:2).

4.3.7 Changing the organisational culture

The wicked leader is he who the people despise.

The good leader is he who the people revere.

The great leader is he who the people say:

"We did it ourselves" Lae Tsu (2003:2).

Changing an organisation's culture is more difficult than maintaining it, but effective strategic leaders recognize when change is needed. Regardless of the reasons for change, shaping and reinforcing a new culture requires effective communication and problem solving, along with the selection of the right people, effective performance appraisals and appropriate reward systems. Cultural changes succeed only when they are supported actively by the strategic leaders (Hitt *et al.*, 2001:507).

The role of management in the change process is important and necessary. Management should lead the organisation through the turbulence and insecurity of the change while keeping the loyalty and team spirit of the employees alive (Anon, 2000d:33).

Strategic leadership within a complex organisation achieve change management through three sub processes which can be described as:

- establishing direction;
- aligning people; and
- motivating and inspiring.

Managing the resistance from employees to change and getting them to commit to the intended change is one of the most difficult aspects of change leadership. If the employees are not committed to the proposed change, it will either not be implemented at all, or it will be implemented half-heartedly or only for a short period of time. Commitment is the key to successful change (Anon, 2000d:35).

Communication is important and in fact, a change process without effective and open communication between the strategic leaders and the employees is doomed from the outset (Anon, 2000d:36).

Steps that an effective strategic leader can implement to ensure effective change are:

- mobilise commitment to change through joint diagnosis of business problems. Participation and communication should start from the very beginning of the change process;
- develop a shared vision of how to organise and manage in future;
- faster consensus for the new vision, competence to implement it and enthusiasm to move it along;
- spread the change to all departments without too much pushing from the top leaders. This is part of empowering people to implement changes themselves;
- institutionalise the change through formal policies, systems and structures; and

- monitor and adjust strategies in response to problems in the change process. The purpose of change is to create an asset that did not exist before – a learning organisation capable of adapting to a changing environment. Continuous learning implies being adaptable and flexible – even if it means changing the change process (Anon, 2000d:39).

Transforming an organisation and its culture is challenging for strategic leaders. The only way in which the employees can become empowered is through the creation of an inclusive organisational culture and change management that communicates the organisation's vision and direction (Van der Colff, 2003:113).

"By creating an inclusive and value-centered culture, the organisation will be able to enhance solidarity and ensure collectivism."

Van der Colff (2003:113).

4.4 SUMMARY

Human capital may be the primary determinant of an organisation's ability to formulate and implement strategies successfully. Intellectual capital and communities of practice can place any organisation at the forefront of the market. It is therefore important for a strategic leader to invest in human capital and ensure a culture to support a learning environment.

Organisational culture is the essence of any organisation. However, often management does not focus enough attention on the influence and role culture has within the corporate environment. Culture can be a strong determinant for competitiveness and above average returns. The spirit of strategic leadership, the cultural web, fostering of an organisational culture, cultural environments, management of organisational culture and change management are present in any organisation.

To ensure survival it is important for a strategic leader that their culture is strong and adaptive to enable the organisation to adapt to the necessary changes. Culture can be managed, but management must first understand the culture and its role in the working environment.

CHAPTER 5:

ETHICAL PRACTICES AND ORGANISATIONAL CONTROL.

5.1 INTRODUCTION

"In retrospect from the vantage point of 2010, it may be only a slight exaggeration to say that ethics have come to be on a par with economics as the primary criterion for evaluating corporate performance - not because economic value has become less important, but because it is taken for granted, and ethical performance is not" (Wilson, 2000:12).

The emerging world wide view is that organisations need to adopt governance models that are more holistic in their approach, pluralistic in representing varying interests, egalitarian in the treatment of stakeholders and essentially more collaborative in their mode of operandi.

A strategic leader's views are the key to determining the ethical climate in which an organisation operates. Leaders set standards by word and deed. The support of top management is critical to the success of ethical objectives. Not only is it a matter of supporting the need to be ethical, but also it requires tangible proof of the sincerity of managers: they should provide conditions that ensure ethical behaviour by employees (Wood *et al*., 2003:4). Strategic leaders must emerge more cognitively, emotively and behaviourally reflective. Such reflectivity comes through the application of practical wisdom to facilitate organisational change. Governance provides a solution (Barratt & Korac-Kakabadse, 2003:32)

The King Report on Corporate Governance evoked unprecedented interest in corporate governance in South Africa and unlike its counterparts in other countries, went beyond the financial and regulatory aspects of corporate governance by advocating an integrated approach to good corporate governance in the interests of a wide range of stakeholders. Against a background of diminishing public and investor confidence, brought about by a series of high profile corporate scandals and failures, and because of increasing worry about the excessive concentration of power in the hands of management, the corporate governance principles were developed as protection against the three corporate sins of sloth, greed and fear. Accordingly the terms of reference of the King Committee specified that *"the committee should lay down guidelines for ethical practice in business enterprises in South Africa"* (IOD 1994:43).

The committee was specifically requested to make recommendations on *"a code of conduct setting out best business practices, including ethical practices in all business enterprises, which should include the internal relationships in enterprises so as to enhance the standards of ethics in business."* The report stipulates that the final responsibility for the ethical performance of companies lies with the boards of companies. As part of the corporate governance duties, directors should take responsibility for determining the moral climate of companies. This implies that they should lay down ethical guidelines and ensure that managers enforce it. Furthermore they should also create a culture in which unethical conduct can be exposed without fear of retribution.

This chapter will focus on -

- providing a general description of ethics in the business environment,
- the manner in which these general principles are translated into the South African business milieu by way of the King Code of Corporate Governance, and
- describe some of the controls that the strategic leader could implement into the organisation to fulfil the ethical imperatives and good governance requirements of modern day business.

5.2 ETHICS

De George (1999:20) defines ethics as: *"A systematic attempt to make sense of our individual and social moral experience, in such a way as to determine the rules that ought to govern human conduct, the values worth pursuing, and the character traits deserving development in life."* Solomon (1994:9) views ethics as: *"first of all, the quest for, and understanding of, the good life. It is largely a matter of perspective: putting every activity and goal in its place, knowing what is worth doing and what is not worth doing, knowing what is worth wanting and having and knowing what is not worth wanting and having".*

Velasquez (1998:11) defines ethics as: *"the activity of examining one's moral standards or the moral standards of a society, and asking how these* *standards apply to our lives and whether these standards are reasonable or unreasonable."*

According to Rossouw (2003a:1) ethical behaviour refers to action that is good for the actor and for those affected by it. At a minimum, ethics requires that one should not harm the interests of others. Ethical behaviour is the opposite of selfish behaviour. This does not mean it requires one not to act in self-interest. It does, however, require balancing one's own interests with the interests of those affected by one's actions.

What applies to ethical behaviour in general also holds true for companies. Companies are also expected to act in ways that do not damage the interests of those affected by their actions. Failure to do so can have detrimental effects on companies and their stakeholders. Many a company has been ruined as a result of unethical behaviour. The opposite is equally true. Companies stand to benefit substantially from ethical behaviour. In this sense, the ethical performance of companies is a genuine risk factor.

5.2.1 Ethics in business

There is a growing realisation that a company's biggest asset is its reputation. It is this that enables the company to sell its products and services and that gives it access to funding. Furthermore its reputation attracts talented employees, managers and directors and inspires people to invest in the company. The reputation of any company is constituted by the collective opinion that its stakeholders hold of the company, based on its past record. A reputation is a function of repeated interactions over time. According to Rossouw (2003a:2) there is a crucial connection between ethical behaviour and a company's reputation. When employees, customers, suppliers, shareowners and other stakeholders feel that the company treats them fairly and looks after their interests, the company gains a good reputation and inspires confidence among its stakeholders. As no organisation can achieve long-term success without guarding its reputation, this is an ethical risk factor that needs to be managed.

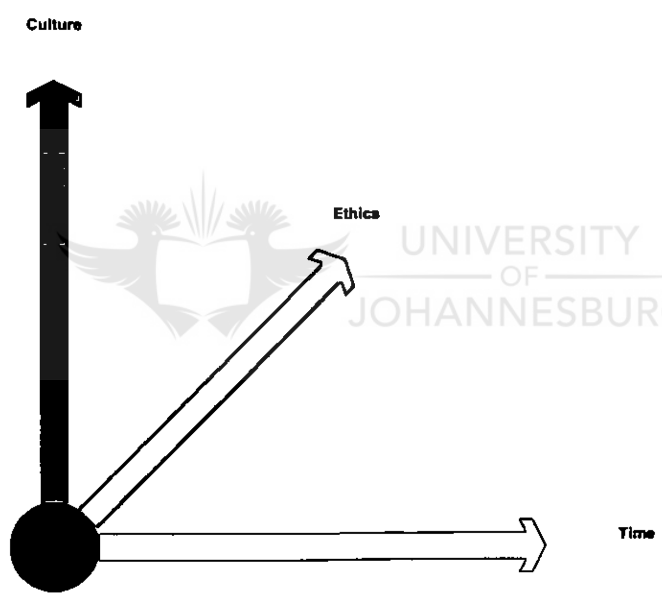
Business ethics may be seen as a function of -

- Culture, since the cultural evolution in the business environment certainly will affect what are acceptable and unacceptable business activities and management principles in the marketplace and in society. Business ethics has the potential to become a significant aspect of corporate strategy and culture and has to be considered internally and externally in the ethical audit. After all, an ethical audit is merely an extension of current legal and regulatory requirements in the business environment. Business ethics may therefore be seen as an inter-personal, intra-organisational, and inter-organisational function of culture (Svensson *et al.*, 2003:2).
- Business ethics may also be seen as a function of time, since the time-dimension in the business environment certainly will affect what are acceptable and unacceptable business activities and management principles in the marketplace and in society. In the literature, time as a

principal function of business ethics is not usually spelled out explicitly (Svensson *et al.*, 2003:2-3).

As time moves on, culture evolves and as a consequence ethical standards change. In conjunction, these two parameters create a generic conceptual framework and also contribute to describe the dynamics of ethics, in the extension business ethics as shown in figure 16 below.

Figure 16 The dynamics of ethics



Source: Svensson *et al.* (2003:4).

As time has progressed and society has made material advances, that of itself has created new ideological structures in the minds of citizens. Consequently, reigning values, norms, and beliefs construct current ethics. Therefore, ethics might be seen as an on-the-spot-account that reflects society in general and business ethics reflects the marketplace in particular (Svensson *et al*, 2003:5).

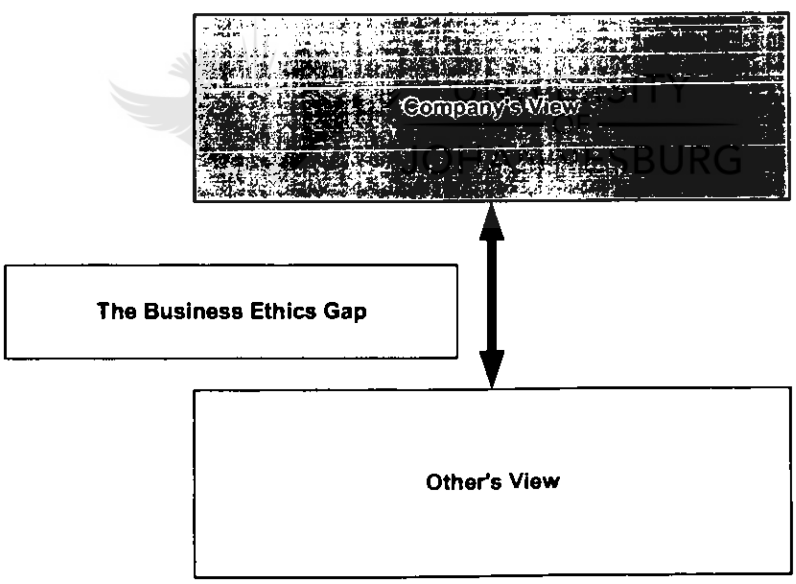
Businesses should use a holistic approach to ethics. Ethics require the implementation of three important processes: anticipatory, maintenance, and reparative. For an organisation to be fully committed to ethics, its strategic leadership must foresee what potential problems might occur and then act in a way to prevent such problems from occurring by implementing three sub-processes: organisational, job-related, and cultural. Stable structures of meaning are needed over time to find a traditional and thus legitimate base for the evolution of business ethics. Business ethics should not just be a corporate code, but implemented in the line of business as a corporate philosophy (Svensson *et al.*, 2003:4).

5.2.2 The business ethics gap

Business ethics is rooted in the concepts of the philosophical underpinnings of ethics. A company's view should at least be congruent with others' views. If there is no congruence between the company's view and the others' views dissonance occurs. This dissonance is referred to as *"the business ethics gap"*. Preferably, there should be a positive business ethics gap, i.e. the company is a step ahead of the current values, norms, and beliefs in the marketplace in particular, and/or in the society in general otherwise, an unethical situation might occur. A negative business ethics gap occurs when the company is a step behind the current values, norms, and beliefs in the marketplace and/or in society (Svensson *et al*, 2003:5).

Business ethics is a perceptual and dyadic phenomenon that changes over time and depends on existing values, norms, and beliefs held by the involved parties. Eventually, business ethics is about what is perceived as acceptable or unacceptable conduct in business, at a specific time and in a specific cultural setting. What is acceptable or unacceptable is determined by both the company's view and the others' views. This is a social construction that may differ between the parties involved in a specific context. The most troublesome ethical dilemma for a company occurs when it is a step behind current values, norms, and beliefs in the society in general and in the marketplace. In particular, this situation might have a severe impact on the company's business activities (Svensson *et al*, 2003:5).

Figure 17 The business ethics gap



Source: Svensson *et al.* (2003:5).

5.2.3 Dynamic business ethics scenarios

The social construction consisting of a company's view or others' views in the current marketplace has evolved and will continue to evolve through time and as culture changes.

Based on these two views and what is perceived as acceptable or unacceptable in these views respectively, one can create three scenarios of business ethics and strategic leaders need to be aware of this:

- A congruence scenario refers to when both parties perceive that the issue in focus is acceptable, i.e. it is ethical, or alternatively unacceptable, i.e. it is unethical;
- A positive dissonance scenario refers to when the company's view is a step ahead of the others' views, i.e. there is a positive business ethics gap; and
- A negative dissonance scenario refers to when the company's view is a step behind others' views, i.e. there is a negative business ethics gap (Svensson *et al*, 2003:5).

The latter of the two dissonances causes dilemmas in the marketplace, while the former may lead to long-term benefits in the marketplace. Based on the scenarios, in a pragmatic sense, business ethics could be seen as a dyadic perception between a company and other parties that depends on the business ethics gap between the company's view and others' views, where a no-gap scenario or a positive gap scenario is ethical and a negative gap scenario is unethical (Svensson *et al.*, 2003:5).

Figure 18 The dynamic business ethics scenarios

		Company's view	
		Acceptable	Unacceptable
Other's Views	Acceptable	Congruence	Positive Dissonance
	Unacceptable	Negative Dissonance	Congruence

Source: Svensson *et al.* (2003:5).

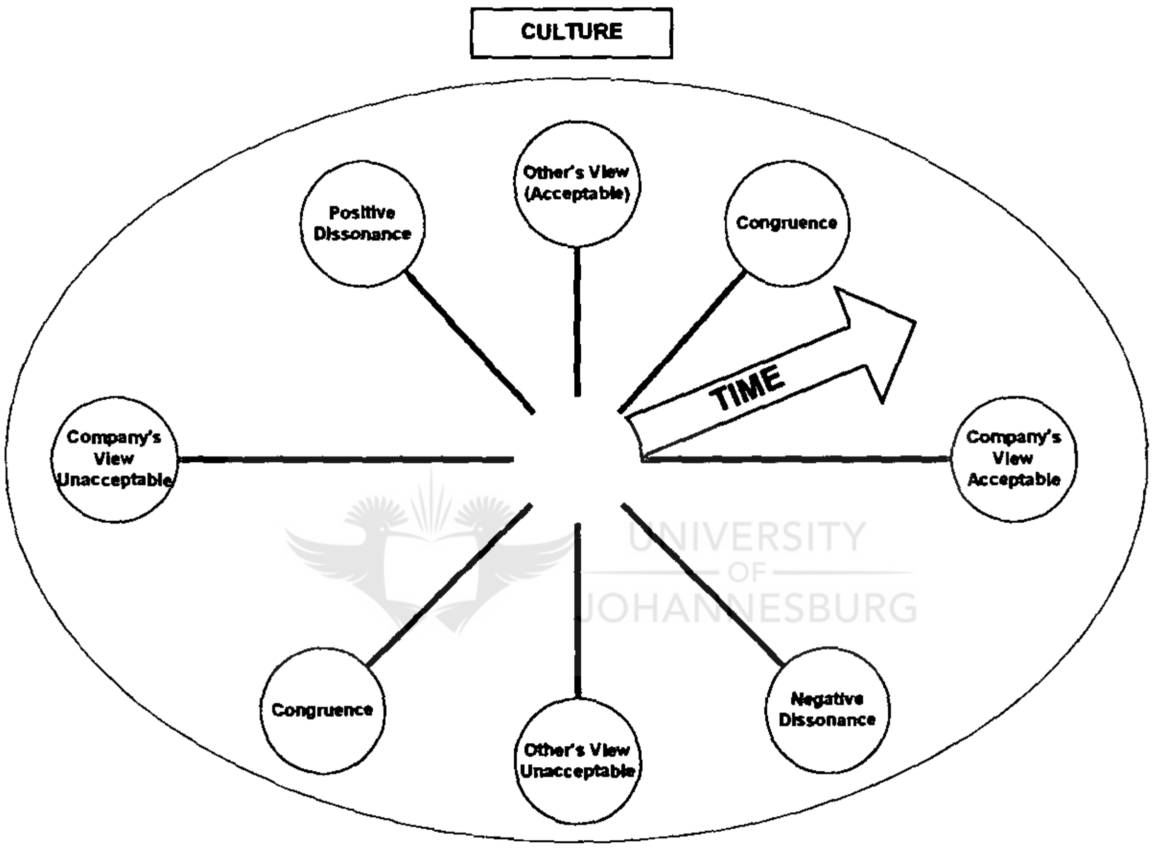
5.2.4 The dynamic business ethics model

The dynamics of business ethics is dependent on the four principal parameters that are illustrated in *"the dynamic business ethics model"* in figure 19:

- Time refers to the contention that as time evolves business ethics change in the marketplace;
- Culture refers to the contention that as culture evolves business ethics change in the marketplace;
- Company's view versus others' views refers to the contention that business ethics is a perceptual and dyadic phenomenon through time and culture; and
- Acceptable versus unacceptable refers to the contention that business ethics is a perceptual and dyadic phenomenon through time and culture. What is perceived as acceptable tends to be ethical and what is perceived as unacceptable tends to be unethical at a given time and in a given cultural context.

It is important to note that these four parameters are mutually dependent. For example, time and culture influence the other two parameters, while culture is dependent on time (Svensson *et al.*, 2003:6).

Figure 19 The dynamic business ethics model



Source: Svensson *et al.* (2003:5)

5.2.5 Two approaches to business ethics

There are essentially two schools of thought about why strategic leaders should or ought to be ethical. The first school is that being ethical is good for the bottom line. The second school argues that business should be ethical because being ethical is the right thing to do (Fisher, 2003:2).

The first view links ethics with self-interest. It has been pointed out that businesses ignore ethics at their peril. In order to survive, a business must make a profit; however, in doing so it must comply with the law and with society's moral values. The second view takes a different focus. According to this view the reason why businesses should be ethical is not to promote self-interest; rather, there is an intrinsic motivation for doing the right thing. Strategic leaders should be ethical because this is the right way for them to behave. Goodness does not guarantee winning. Unless we can teach that to people, they are always going to look for the angle. Ethics is a moral perspective that asks you to judge your conduct in terms of what's right and wrong, what's decent, what's good, what's honest, what's honourable. The reason to be ethical is simply that it's the right thing to do (Fisher, 2003:2).

Different ways in which ethical behaviour and a business's self-interest can be connected are:

- there is a straightforward coincidence between ethical behaviour and the enhancement of self-interest. Ethical decisions will coincide with decisions that are straightforwardly good for business in either the short- or the long-term;
- self-preservation motivates businesses to act ethically. On this view doing the right thing will best promote the self-interest of the business because society has engineered this coincidence. The risks to self-interest and the penalties that could be imposed outweigh any potential benefits of acting unethically. Thus, it is good business sense to do the right thing;

- it is in a business's self-interest to do the right thing, but only if it does more than simply act ethically. For example, a business could publicise its ethical actions, thereby increasing profits (assuming that without the publicity there would be either no benefit or a cost);
- doing the right thing can be augmented (or protected) so that it serves a business's self-interest; however, the business has to act in order to prevent the ethical behaviour from actually being detrimental to its self-interest; and
- ethical behaviour might be opposed to the short-term self-interest of a particular business while nevertheless enhancing the practice of business. On this view ethical behaviour can help to define good business practice. One argument for recognising business as a profession is that ethical behaviour would be regarded as benefiting the self-interest of the profession.

There are cases where the right thing for a business to do requires forgoing self-interest simply because this is what ethics requires (Fisher, 2003:2).

These six ways in which self-interest and ethics can be connected do not lead directly to ethical positions; however, they provide guidance in identifying different approaches to ethics.

There are, however, other situations in which self-interest is best promoted by acting unethically. Such situations demonstrate that promoting self-interest is neither a necessary nor a sufficient condition for ethical behaviour (Fisher, 2003:3).

The fact - sad, perhaps - is that unethical business, like crime, sometimes pays. In any system based on trust, a few deceivers will prosper. There is no guarantee that ethics is good for the bottom line. There is no guarantee that those who do wrong will get caught or feel guilty. There is no guarantee - in business or elsewhere - that the wicked will suffer and the virtuous will be rewarded (at least, not in this life). But, that said, we can nonetheless insist without apology that good ethics is good business. Where immorality is so easily identified, we can be sure that morality is the general rule, not merely an accessory or an exception. The point of doing business is to do well by providing the best service or product at a reasonable cost. Those businesses that exploit the possibility of getting away with less are merely parasitic on the overwhelming number of businesses that are doing what they are supposed to do (Fisher, 2003:3).

The strategic leader who understands what it makes to do good business sense does the right thing. Acting unethically might be considered, but with the conclusion that such an approach might lead to other legal or moral problems, which would jeopardize the self-interests of the firm. It is likely that this manager would choose to benefit as much as possible from ethical policies by advertising them in the hope of attracting more business and revenue. What is unlikely is a situation where an ethical approach takes precedence over consideration of the bottom line. Such a strategic leader would be labelled as having a surface approach to business ethics (Anon, 2003d:2).

To illustrate: an employee of an organization following the surface approach would be expected to judge whether or not an action was acceptable on the basis of what was good for the firm. The employee would probably be familiar with a set of rules or code of conduct, which defined how he went about his every day work, but he would not be expected to critically reflect on those rules or indeed use them as part of his approach to ethical behaviour outside the office. The approach to ethics here is a surface one; no attempt is made to teach staff skills on making ethical decisions after careful consideration. Instead they are told what to do and what not to, and the interests of the firm can often come before morality at the decisive moment (Anon, 2003d:2).

A business led by strategic leaders who are motivated to do the right thing only because they believe this is the best way to promote the business's self-interest will communicate their view both explicitly and implicitly throughout the organisation. It will be evident in the actions of management that policies and procedures will reward behaviour that promotes self-interest and punish behaviour that harms it, training programs will reflect a surface approach, and the organisational culture will condone the promotion of self-interest, thereby strongly influencing the behaviour of individuals within the organisation (Fisher, 2003:4).

What this approach would not do, however, is to equip employees to think through situations not explicitly covered, or covered only partially by the code. Providing a list of rules cannot take the place of ethical deliberation. No code of conduct, no matter how detailed, can remove the need for interpretation and adaptation by the employees whose behaviour it is supposed to regulate. A surface approach to ethics does nothing to develop the skills required for identifying the right thing to do in situations other than those explicitly address in the code (Fisher, 2003:5).

One common reason given to explain unethical actions is that the employees involved thought that, since they were acting in the best interests of the organisation, what they did was acceptable. This is a clear example of the self-interest of the organisation overriding other considerations. Moreover, it has been pointed out that ethical failure on the part of strategic leaders can sometimes be attributed to their willingness to sacrifice morality for self-interest. In many situations, however, the individual self-interest of people at all levels within organisations can also be conceptualised as coinciding with the interests of the organisation, thereby providing a justification for actions that would be considered unethical (Fisher, 2003:5).

The less shrewd approach to this is what has been labelled as a deep approach to business ethics, where stakeholders are considered moral and policies are ethical simply because they are the right thing to do, regardless of the bottom line. Such firms are recognizable for their reward of ethical behaviour among staff, training programs to illustrate and extend the ethical approach to making decisions on behalf of the firm, and periodic reviews of recent practice to check the firm is in line with its ethical responsibilities (Anon, 2003d:2).

One of the main features of a deep approach to business ethics is that all stakeholders are seen as being morally considerable. Four key elements that foster a deep approach have been identified. A business wanting to promote a deep approach to ethics could incorporate aspects of these elements into its ethics training programs:

- firstly, a positive emotional and motivational climate is a necessary condition for fostering a deep approach;
- secondly, employees need to be actively engaged in their ethics training. They need to be encouraged to make links between past experiences and new concepts, and be given the opportunity to critically reflect on the material;
- thirdly, interaction with others assists individuals to negotiate meaning and manipulate ideas; and
- finally, it is vital that employees' existing knowledge and experiences are brought to bear in ethics training. An organisation that incorporates these elements into its ethics training is more likely to have a positive influence on the behaviour of its employees (Fisher, 2003:6).

5.2.6 Law and the ethics of transformational leadership

A contemporary definition of ethical leadership is leadership that engages in ethical conduct that is based on right or wrong behaviour towards members of society. Therefore, a common nexus between law and ethical leadership is a concern for the well-being of members of society. Recently, several organisations faced public scrutiny and judicial action, because of conduct that was unethical and possibly illegal. When leadership fails to act, the courts often will. Currently, legislation is needed to address the unethical conduct that is resulting from poor corporate leadership. Once again, the law serves as the medium to bridge the gap created when ethical leadership is lacking (Odom *et al.*, 2003:2).

5.2.7 Resolving ethical dilemmas through transformational leadership

A common thread is the behaviour of managers and strategic leaders when faced with ethical dilemmas. Strategic leaders within an organization help create and perpetuate the ethical climate. In addition, ethical leadership helps establish a positive reputation among the public regarding the organization (Odom *et al.*, 2003:5).

When leaders fail to do the right thing, the courts are forced to intervene and either makes a wrong right, or implement laws to preclude future breaches of ethical behaviour. Most leaders have good intentions, but unethical behaviour is often the result of moral rationalisation. Despite good intentions, corporate leaders have a tendency to deny those activities and decisions that would be damaging to their self-image if examined dispassionately. Leaders have a tendency to judge their intentions "good" even when the facts are otherwise (Odom et al., 2003:5).

Assuming *arguendo* that unethical behaviour is often the result of good intentions, what can strategic leadership do to ensure good intentions lead to good behaviour? In order to ensure good intentions lead to good behaviour the organisation must first have ethical leadership. Leadership that is capable of:

- identifying ethical issues when they inevitably arise;
- utilizing an ethical decision-making process for resolving ethical disputes; and
- having the courage to make the ethical decision.

Transformational leaders, although no panacea for resolving the many ethical dilemmas leaders face, is a form of leadership that is more likely to result in an ethical resolution to ethical dilemmas. Transformational leadership is a construct of leadership that focuses on the moral development of the followers. Transformational leadership creates an organisational climate that is more conducive to ethical behaviour than transactional leadership.

Transformational leaders incorporate the factors known as the 4Is of transformational leadership:

- individualized consideration;

- intellectual stimulation;
- inspirational motivation; and
- idealised influence, to align the interest and vision of the followers with those of the organization and develop followers to their fullest potential.

They inspire their followers to share in the mutually rewarding visions of success, while enabling and empowering them to convert the visions into reality (Odom *et al.*, 2003:5-6).

Although transformational leaders are concerned with more than just the bottom-line of making profits, this emphasis does not necessarily diminish the chances of being successful. The strategic leaders in these and other organisations led by transformational leaders make decisions with the interest of the follower-stakeholder paramount. This type of strategic leader places less emphasis on contingent rewards, which could lead to moral rationalisation for purposes of achieving the bottom-line. The transformational leader, through the factors of idealised influence and inspirational motivation, seeks to be a positive role model and mentor. His focus is not just the alignment of the follower's interest with those of the organisation, but to ensure the moral development of the follower. A true transformational leader would avoid making self-centered decisions, but decisions with the mutual benefit of the organisation and follower in mind. This type of strategic leadership stresses human development, relationships of reciprocal trust, and the resolution of values/conflicts to the mutual satisfaction of the respective parties.

When leaders are truly transformational, and serve as role models of ethical behaviour, a positive culture will permeate the whole organisation. However, it is important to understand that not all leaders who aspire to be transformational leaders are in fact true transformational leaders. The true transformational leader is concerned about development of followers into ethical leaders. True transformational leaders openly bring about changes in followers' values by the merit and relevance of the leader's ideas and commitment to their followers' ultimate benefit and satisfaction (Odom *et al.*, 2003:7).

5.2.9 Advantages of high ethical standards

A business with high ethical standards has three primary advantages over competitors whose standards are lower:

- a business of high principle generates greater drive and effectiveness because people know that they can do the right thing decisively and with confidence. When there is any doubt what action to take, they can rely on the guidance of ethical principles. Inner administrative drive emanates largely from the fact that everyone feels confident that he can safely do the right thing immediately. And they also know that any action that is even slightly unprincipled will be generally condemned;
- a business of high principle attracts high-calibre people more easily, thereby gaining a basic competitive and profit edge. A high-calibre person favours the business of principle and avoids the employer whose practises are questionable. For this reason, companies that do

not adhere to high ethical standards must actually maintain a higher level of compensation to attract and hold people of ability; and

- a business of high principle develops better and more profitable relations with customers, competitors and the general public because it can be counted on to do the right thing at all times. By the consistently ethical character of its actions, it builds a favourable image (Bower, 2003:2).

Too often these ethical values tend to be taken for granted. Strategic leaders need to actively seek ways of making high principle a more explicit element in their company philosophy. No one likes to declaim about his honesty and trustworthiness, but strategic leaders of an organisation can profitably articulate, within the organisation, their determination that everyone shall adhere to high standards of ethics. That is the best foundation for a profit-making organisation philosophy and a profitable system of management (Bower, 2003:2).

The propensity to unethical or ethical behaviour within an organisation is deeply embedded within the organisational culture. It is part of the value system of the organisation. Where the ethical climate is clear and positive, the employees can act with confidence when presented with an ethical dilemma, knowing that the strategic leaders will ensure their support (Newell, 2003:216).

When strategic leaders and employees do not engage in an ethical culture, problems are likely to occur. These problems are exemplified in the strategic focus on ethically questionable practices. Formal organisational controls may then be needed to prevent further problems (Hitt *et al.*, 2001:511).

5.3 CORPORATE GOVERNANCE

There is a close link between good corporate governance and ethics (Rossouw, 2003:1). Corporate governance is based on four cardinal values: fairness, accountability, responsibility and transparency.

The King Report (IoD, 2002:10-11) describes these values as follows:

- Fairness – the systems that exist within the company must be balanced in taking into account all those that have an interest in the company and its future. The rights of various groups have to be acknowledged and respected.
- Accountability – individuals or groups in companies, who make decisions and take actions on specific issues, need to be accountable for the decisions and actions. Mechanisms must exist and be effective to allow for accountability.
- Responsibility –responsibility pertains to behaviour that allows for corrective action and for penalising mismanagement. Responsible management would, when necessary, put in place what it would take to set the company on the right path. While the board is accountable to the company, it must act responsively to and with responsibility towards all stakeholders of the company.

- Transparency – transparency is the ease with which an outsider is able to make meaningful analysis of the company's actions, its economic fundamentals and the non-financial aspects pertinent to that business.

All four of these values are ethical in nature. The companies that inspire confidence are those that convince investors that the board will treat them fairly and where the company is willing and able to account to them for their decisions and actions (Rossouw, 2003:2).

The importance of good corporate governance to investors was clearly illustrated in the 2002 McKinsey Investor Opinion Survey. More than 200 institutional investors, who manage more than US$2 trillion in assets, were included in the survey. These investors stated that they took corporate governance into account when making investment decisions, and that they would be willing to pay more for the shares of a well-governed company. The key findings of the survey were:

- 85% of investors stated that board practices were at least as important to them as financial importance when they considered an investment.
- 73% of investors were willing to pay more for the shares of a well-governed company than for those of a poorly governed company with comparable financial performance.
- The actual premium that investors were willing to pay for shares of well-governed companies – that is, over and above what these shares are worth – differed from country to country. In Africa that premium was as high as 30% (IoD, 2002:12).

The strategy that strategic leaders selects for managing ethical risk will depend on whether the leaders merely want to protect the organisation from ethical failures or whether they wish to benefit from good ethical performance by the company (Rossouw, 2003a:4).

Three broad strategies for managing ethical risk can be distinguished:

- the reactive: The reactive strategy is a defensive approach to managing ethical risk. When companies sense that they may alienate stakeholders through unethical behaviour, they often adopt a reactive strategy.
- compliance: The compliance strategy for managing ethics is a substantial move away from the reactive strategy. It aims to prevent unethical behaviour by the business and
- integrity strategies: The integrity strategy is a value-based approach to managing ethics. Its purpose is to raise the level of ethical performance of the company. Instead of merely trying to minimise incidents of unethical behaviour, it tries to promote ethical behaviour (Rossouw, 2003a:7).

Once strategic leaders have identified the risk factors facing the company and an appropriate strategy for governing them, the process of managing ethical risk can start. When it knows what risks it faces and what its stakeholders expect, the company needs to adopt (or revise) its code of ethics. This code identifies the standards of ethical behaviour that all employees need to adhere to in their decisions, actions and interactions with the stakeholders of the company. It is the pivotal point of the company's ethics management intervention, because it provides the standard against which the company has to measure its own performance.

Depending on the strategy the company has decided on, the code of ethics can assume one of two formats: directional or aspirational.

- Directional codes are specific in prescribing as clearly as possible what behaviours will not be tolerated by the company and what behaviours are expected from all employees. Companies with reactive or compliance strategies for managing ethics would typically have directional codes, as their intention is to prevent unethical conduct by the company.
- In companies with an integrity strategy for managing ethics, the code most likely will have a more aspirational format. Aspirational codes identify the ethical values, norms and principles that should guide employees in their decisions and actions. Rather than being specific they provide employees with broad guidelines which they are then expected to apply with discretion in their jobs (Rossouw, 2003a:8).

The following section will examine typical controls that strategic leaders can implement to provide tangible reinforcement to the values and behaviours described in the code of ethics.

5.4 ESTABLISHING BALANCED ORGANISATIONAL CONTROLS

Over time organisational strategies can influence the ethical behaviour of employees, with respect to such areas as code of ethics, ethical policy statements, leadership, ethical ombudsperson, ethics committees, realistic performance and reward plans, and an ethical culture. A growing number of organisations are devoting time to business ethics and the organisational controls required to foster and maintain an ethical culture (Svensson *et al.*, 2003:4).

Controls are also necessary to help ensure that firms achieve their desired outcomes of strategic competitiveness and above average returns. It helps strategic leaders to build credibility, demonstrate the value of strategies and promote and support strategic change. Most critically, controls provide the parameters within which strategies are to be implemented, as well as corrective actions to be taken, when implementation-related adjustments are required (Hitt *et al.*, 2001:511).

The effective use of strategic control by strategic leaders is integrated with appropriate autonomy for various subunits so that they can gain a competitive advantage in their respective markets. Strategic control can be used to promote the sharing of both tangible and intangible resources among interdependent businesses within a firm's portfolio. In addition, the autonomy provided allows the flexibility necessary to take advantage of specific marketplace opportunities. As a result, strategic leadership promotes the simultaneous use of strategic control and autonomy. (Hitt *et al.*, 2001:512).

Organisational controls establish an integrated set of analyses and actions that reinforce one another. Through the effective use of strategic controls, strategic leaders increase the probability that their firms will gain the benefits of carefully formulated strategies. Effective organisational controls provide an underlying logic for strategic leadership, focus attention on critical strategic issues, support a competitive but ethical culture and provide a forum that builds commitment to the firm's strategic intent (Hitt *et al.*, 2001:512-513).

The following section will describe the areas within the organisation where control could be applied by the strategic leader:

- Level of worker autonomy and managerial control;
- Organisational structure;
- Performance management; and
- Risk management.

5.4.1 Level of worker autonomy and managerial control

Workers with high levels of autonomy are given much responsibility - enabling them to make decisions regarding the "what", "when" and "how" of their work. Individual autonomy should be distinguished from group autonomy. Where there is a high level of worker autonomy there is a correspondingly low level of managerial control (see Table 4) (Crawford, 2003:8).

Table 4 Levels of Managerial Control & Worker Autonomy

High managerial control / Low worker autonomy	High worker autonomy / Low managerial control
Managers decide what workers should do, how and when it should be done	Workers decide what should be done, when and how it should be done
Managers provide workers with much direction and close supervision	Workers allowed using their initiative to produce results.
Managers are concerned with worker input, e.g. number of hours worked	Managers are concerned with worker output, e.g. productivity

Source: Crawford (2003:8).

Co-ordinating is the harmonising of the organisation's activities in an effort to achieve desired results. Mintzberg (1991) has proposed five bases by which organisational activities might be co-ordinated:

- Mutual adjustment - with informal communication;
- Direct supervision;
- Standardisation of work process;
- Standardisation of input - skills, knowledge and attitudes; and
- Standardisation of output.

The strategic leader has to seek, maintain and constantly adjust the appropriate balance between worker autonomy and the level of managerial control that will sustain not only competitive advantage but also maintain the ethical background against which the organisation's business activities take place.

5.4.2 Organisational structure

Much of the control that managers exercise is a product of the perceptions that they have of their subordinates, and therefore their leadership styles. Implicit in their ascribed styles, are the behaviours that they exhibit, incorporating their treatment of their subordinates. Because of these preferences, managers implement the type of structure that will be supportive of their leadership (Crawford, 2003:8).

Organisational structure, by design, features differing degrees of managerial control, incorporating varying levels of:

- worker autonomy: decisions regarding how, when, what to do, and by whom;
- communication dissemination: this relates to the extent to which managers are willing and confident to divulge information crucial to organisational functioning to their lower level workers. While managers in the functional and divisional structures are more inclined to restrict the downward flow of information, their counterparts in the matrix structure tend to facilitate its free flow. These behaviours are in line with the manager's leadership style;

- role specificity: somewhat related to autonomy but specifically addresses the degree to which individuals' roles are specified - from a contractual viewpoint. Matrix structures tend to have a low level of role specification, compared to their functional and divisional counterparts, which have a high degree of role specificity; and
- decision-making involvement: involvement ranges from full participation, to occasional consultation. It is important to understand that consultation does not mean that workers are able to influence the functioning of the organisation. In fact, there are several occasions when managers and team leaders disregard the information that they obtain through this process. However, the consultees might not even realise that they are only being kept busy. This situation is similar to that which persists in a number of participative systems such as the matrix structure, where workers are heavily involved in participation in decision-making at a low level and have lost track of the recommendations that they make, which, in most cases, are not brought forward for implementation. This is what is regarded as pseudo-participation. While the matrix structure prides itself on its high degree of worker participation in decision-making, the functional and divisional structures are more inclined to facilitate some degree of consultation (Crawford, 2003:8).

Strategic leadership requires that ongoing adjustment is made to each of the abovementioned areas, often involving trade-offs but never compromising the organisation's competitive position or business ethics.

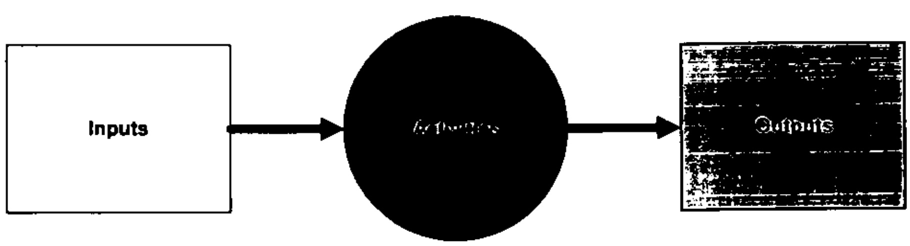
5.4.3 Performance Management

To ensure control as a strategic leader it is necessary to measure performance. Performance measurement is the comparison of results against expectations with the implied objective of learning to do better. A macro-micro framework of performance measurement will be discussed in four steps.

Step 1: The basic process core elements

While a performance area can encompass an industry or entire organization, the focus is initially on the processes within an organization value chain sequence. Each process can be viewed as a collection of activities consuming inputs to produce outputs. Each activity is a unit of work, or task, with a specific goal. This micro view is shown in figure 20 (Rouce *et al.*, 2003:7).

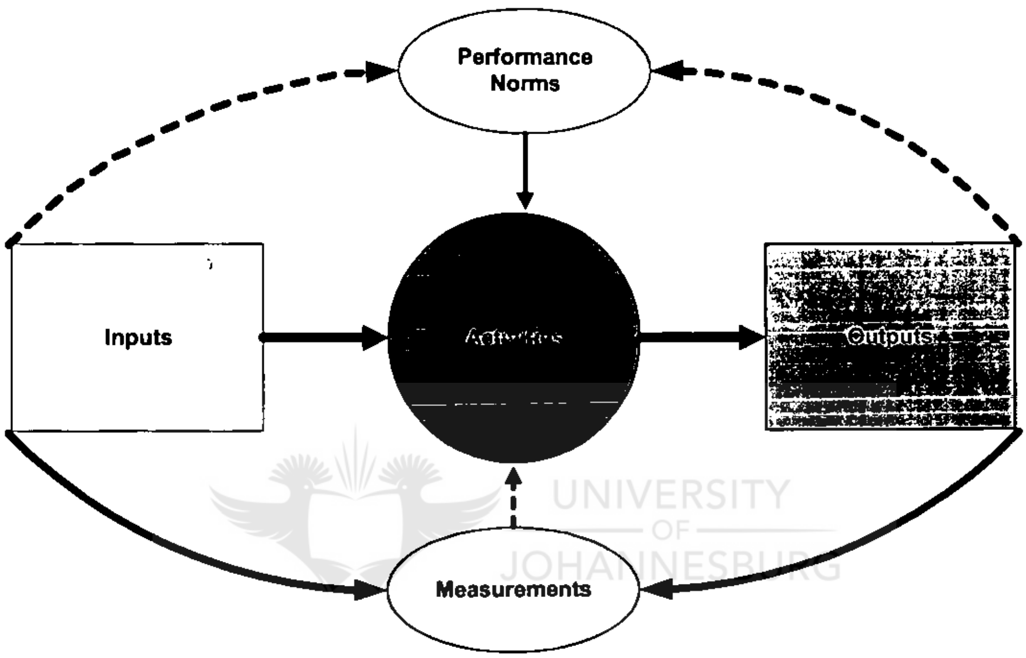
Figure 20 A micro-view of the basic process core elements



Source: Rouce *et al.* (2003:14).

Figure 21 introduces the basic notion of a control measuring process that compares activities against performance standards or norms. Control is exercised in (or nearly in) real-time and impacts directly upon the process and activities (Rouce *et al.*, 2003:7). The directional arrows are symbols of control over input and the process, with subsequent information on output entering into measurement and performance expectations. Not shown at this stage is the *"capability of taking action"* (Rouce *et al.*, 2003:7).

Figure 21 The basic process core elements



Source: Rouce *et al.*, (2003:14).

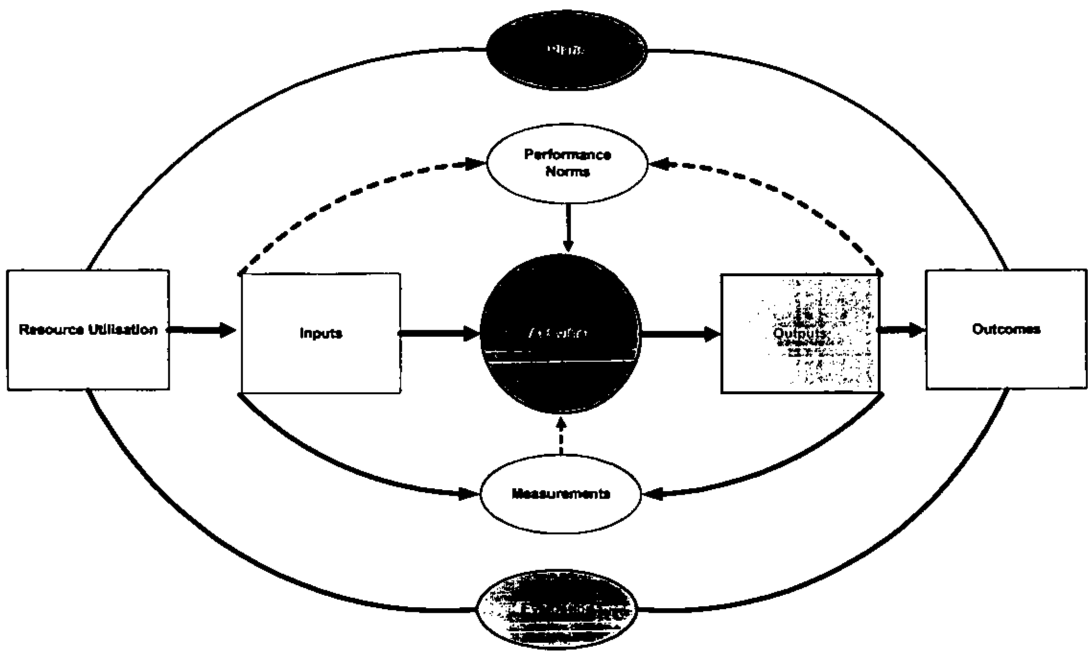
Step 2: planning-evaluation and resource-achievement dimensions

This control model shown in figure 22 is part of a broader system. Two views are depicted: the resource-achievement (horizontal view) and the planning-evaluation (vertical view) (Rouce *et al.*, 2003:7).

Looking first at planning-evaluation, we see performance norms generated from, or in the course of, process planning. Measurement in contrast is depicted as an essential prerequisite of the latter evaluation process, requiring not just information about the process but also contextual information. The latter includes the setting and environmental factors external to the process that has been identified as affecting performance. This control loop can include both feedback and feed forward information flows for corrective action This contextual information also encompasses resources used and achievements in the form of outcomes. Outputs are not usually valued in themselves but more for the outcomes they provide, e.g. *"what the customer values as the result of the activity"* (Rouce *et al*, 2003:7).

Distinguishing between outputs and outcomes is not always easy for a strategic leader. A helpful guideline is provided by the correspondence between states and flows. Outcomes can be viewed as states at particular points in time whereas outputs (and inputs) can be perceived as flows occurring between points in time. Outputs are provided in order to obtain and/or effect changes in outcomes or states of the system. The evaluation phase introduces behavioural connotations including relationships between an evaluator, sub-ordinates and super-ordinates. Resource utilization and information on outcomes can be used to generate appraisal measures of effectiveness, efficiency and economy. Moving from left to right, resource utilization when combined with input defines the conventional economic measures; the relationship between input and output measures efficiency, and effectiveness can be gauged by the relationship between outputs and outcomes (Rouce *et al.*, 2003:7-8).

Figure 22 Planning-evaluation and resource-achievement dimensions



Source Rouce *et al.*, (2003:14).

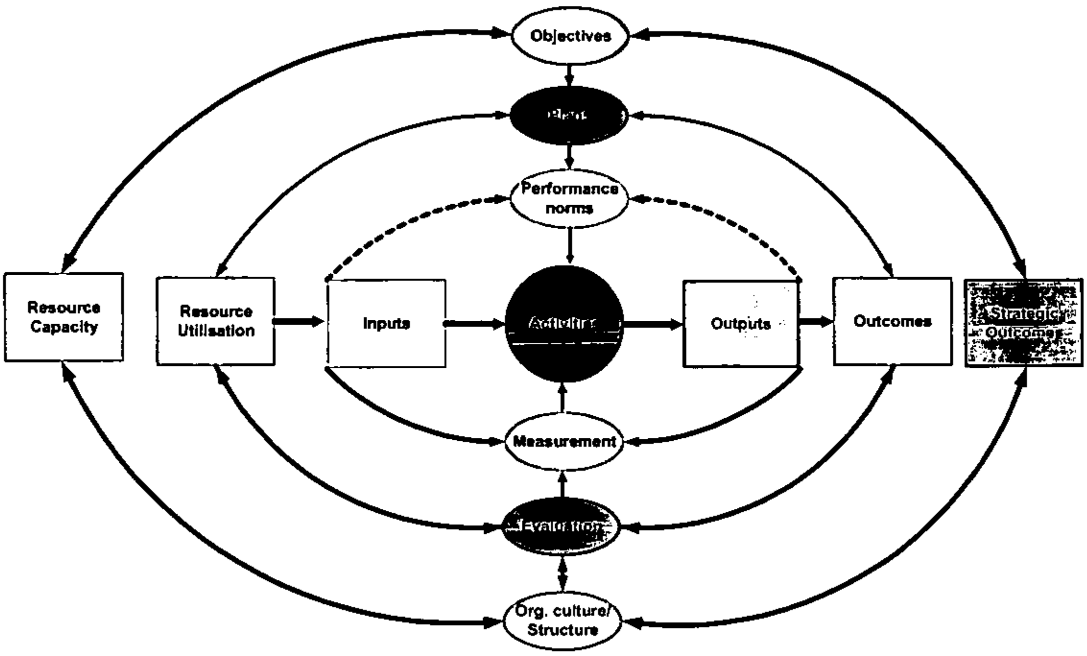
Discussion of performance is patently incomplete without consideration of the organizational structure and prevailing strategic imperatives. Figure 23 extends the previous performance dimensions to incorporate an organisation-wide context (Rouce *et al.*, 2003:8).

Step 3: organizational context

In any classic strategic process, objectives form the basis for plans that cascade down to performance norms. Part of the evaluation task is to appraise the "goodness of fit" of this aspect of the system. In order to pursue these objectives, an organization must have appropriate productive capacity in place, as well as the capability to manage an enterprise. Capacity and capability are interpreted here in the broadest sense encompassing the conventional plant and machinery bottlenecks, activity driver levels, core competencies and capabilities (Rouce *et al.*, 2003:8).

The "people" link to capacity corresponds to the manner in which the organization is structured and the dominant culture. Agreement on core competencies will be determined by the culture of a particular organization. The structure and culture of an organization will also affect the evaluation process as well as which outcomes are recognized as strategic. Strategic outcomes represent the "official view", and are a subset of the total outcomes shown in the previous level. Thus, an organization with a dominant profit-oriented culture has strategic objectives and a structure conducive to that culture with an emphasis on profit related outcomes. In contrast, an organization with a dominant technical or professional culture may have different objectives, structure and emphasis on technical outcomes (Rouce *et al.*, 2003:8).

Figure 23 Broader organisational context

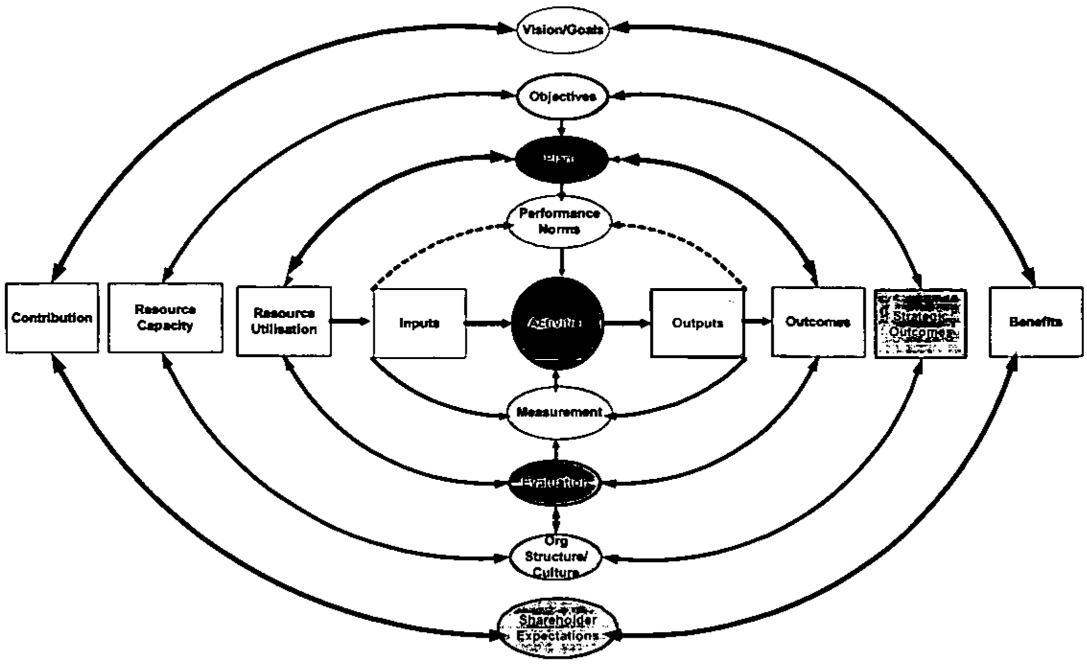


Source: Rouce *et al.* (2003:14).

Step 4: the overall framework

Figure 24 completes the framework where first, the outermost circle depicts the interface between the organisation and stakeholders and second, the shading represents the pervasive influence of the organisation's environment throughout all levels. Stakeholders include owners, employees, partners (just-in-time suppliers and customers), and the community. Their requirements and expectations define the environment and general constraints that the organisation must recognise in its operations. Organization goals embody the vision or mission, which are expressions of its response to stakeholder expectations and requirements (Rouce *et al.*, 2003:8).

Figure 24 A macro-micro framework of performance measurement



Source: Rouce *et al.*, (2003:14).

Figure 24 is a comprehensive schematic synthesized from the performance measurement frameworks. It combines stakeholder evaluation and strategy with service delivery and process alignment.

The framework provides the following contribution to organisational control:

- a sense of balance is conveyed between macro and micro views of the organisation and their interactions;
- planning and evaluation control processes are combined with resource and achievement management considerations; and
- performance is viewed in a holistic organisational sense that facilitates an open system interpretation, while allowing for dynamic flows

between the various levels as well as for the entire system. This framework stimulates the comprehension of the complex reality of performance evaluation particularly if viewed as a vortex moving through time, shifting and twisting in response to changes in its environment, i.e. a self-adaptive system (Rouce *et al.*, 2003:9).

The framework provides both macro and micro views of the organisation for strategic leaders and captures the salient notions of performance measures. This provides a framework for strategic leaders to ensure above average returns and strategic competitiveness.

5.4.4 Risk management

The King report makes it clear that the strategic leaders is responsible for the total process of risk management, as well as for forming his own opinion on the effectiveness of the process. Management is accountable to the board for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities of the company.

Strategic leaders should set -the risk strategy policies in liaison with the executive directors and senior management. These policies should be clearly communicated to all employees to ensure that the risk strategy is incorporated into the language and culture of the company.

The board, of which the strategic leader forms a part, must decide the company's appetite or tolerance for risk - those risks it will take and those it will not take in the pursuit of its goals and objectives. The board has the responsibility to ensure that the company has implemented an effective ongoing process to identify risk, to measure its potential impact against a broad set of assumptions, and then to activate what is necessary to proactively manage these risks. The board should make use of generally recognised risk management and internal control models and frameworks in order to maintain a sound system of risk management and internal control to provide reasonable assurance regarding the achievement of organisational objectives with respect to:

- effectiveness and efficiency of operations;
- safeguarding of the company's assets (including information);
- compliance with applicable laws, regulations and supervisory requirements;
- supporting business sustainability under normal as well as adverse operating conditions;
- reliability of reporting; and
- behaving responsibly towards all stakeholders (IoD, 2002:30).

The board is responsible for ensuring that a systematic, documented assessment of the processes and outcomes surrounding key risks is undertaken, at least annually, for the purpose of making its public statement on risk management.

This risk assessment should address the company's exposure to at least the following:

- legal risk
- ethical risk
- human resource risks; and
- technology risks.

5.4.4.1 Legal Risk

Legal risk refers generally to the risk that the company, its officers or any of its employees may lose legal rights, incur liabilities or become entangled in a legal dispute on account of anything that was done or not done in the course of the company's business. In effect, it is the risk of becoming a party to legal proceedings, for instance being forced to sue to enforce one's rights or being sued, prosecuted, disciplined or otherwise subjected to a judgment or a similar finding. Legal risk is closely associated with other risks that must be managed by the company (De Koker, 2003:1).

It is sensible to distinguish between legal and other related risks because it enables the company to appreciate its exposure to legal risk and to develop appropriate policies and mechanisms to control the risk (De Koker, 2003:1).

According to De Koker (2003:3) legal risks can be classified into the following broad categories:

- contractual risks: Contractual risks are the legal risks that are linked to contracts concluded by the company;

- delictual risks: These risks are associated with delicts committed by or against the company. A delict is committed whenever a person does something or fails to do something that causes another person to suffer damages, if the act or omission was intentional or negligent and is one that is frowned upon by society (wrongful): and
- criminal liability and regulatory risks: Criminal and regulatory risks (often called "compliance risks") refer in general to the risk of being prosecuted for an offence or being penalised by a regulatory or supervisory body.

Legal risk is a real risk that all companies face. Professional management of this risk could have prevented many of the spectacular corporate failures of the past years. However, it is a specialised risk that ideally requires a combination of skills and expertise such as legal knowledge, risk management skills and an intimate understanding of the business, its operations and its environment.

5.4.4.2 Ethical Risk

The King II Report on corporate governance states that "non-financial issues have significant financial implications for an organisation". This also applies to ethical issues. Unethical behaviour by companies can harm their interests in a variety of ways (Rossouw, 2003c:1).

A multilateral approach is regarded as best practice when it comes to ethical risk identification. The King II Report also recommends a multilateral approach in which various stakeholders, both internal and external, are actively engaged in the process of risk identification. The perceptions that stakeholders have of the ethical reputation of the organisation can then be gauged (Rossouw, 2003c:5).

5.4.4.3 Human Resource Risk

One area of risk that many organisations have difficulty with is the inherent risk in not using or not managing people optimally. In other words, human resources (HR) risk.

Walt Disney once said that, "*you can create, design and build the most wonderful place in the world, but it requires people to make that dream a reality.*" Over time, it is human capital that creates financial capital, not the reserve. It is the human resources of the organisation that are most likely to be the primary source of sustained competitive advantage and successful long-term financial performance. Though many organisations describe people as their most important asset, it is rare to find the credo in operation. Unfortunately, many senior managers fail to appreciate the impact that the thinking, attitudes and actions of people at all levels can have on profits, growth, efficiency and relationships (Van Vuuren, 2003:1).

At the core of any intangible assets such as those referred to in the King II Report (accumulated knowledge, intellectual property, operational process efficiency and others) are the extent and quality of its human capital: its people.

If people are not used and managed properly in organisations, it is unlikely that organisations will reach their full potential. Inadequate management practices may lead to widespread job dissatisfaction. Dissatisfied people may engage in psychological or physical withdrawal or even overt acts of aggression and retaliation for presumed wrongs.

Besides the direct effect on performance, the most prevalent outcomes of dissatisfaction that organisations are concerned about controlling are employee turnover, absenteeism, tardiness, theft, violence and poor organisational citizenship. Apathy, sabotage, fraud and corruption can probably be added to this list. Dissatisfaction may of course also severely inhibit creativity, which is a vital ingredient of innovation.

If human capital is perceived to be an asset, and is perceived to be an organisations competitive edge, which cannot easily be imitated, it warrants investment, nurturing and development (Van Vuuren, 2003:2).

5.4.4.4 Technology Risk

According to (Von Solms, 2003:1) IT governance is the responsibility of the board of directors and executive management. It is an integral part of corporate governance and consists of:

- Leadership;
- Organisational structures;
- Policies and processes;
- Management of risk; and

- Compliance enforcement and reporting mechanisms.

To discharge their IT governance responsibilities, management must have some type of standardised IT risk reporting mechanism. This mechanism must be non-technical, giving top management a good understanding of the overall risk situation without requiring detailed technical knowledge. It should indicate the risk-taking and risk-avoidance policies of the enterprise related to the use of IT. The generic steps usually found in any risk analysis and risk management approach are to:

- identify the risks to which the organisation is exposed;
- analyse the risks to determine the impact on the organisation. This includes evaluating the risks and prioritising them depending on the organisations general tolerance for risk;
- plan actions to be taken to address the identified risk;
- implement the actions;
- monitor the actions; and
- control the whole process by adapting to the environment as new risks arise or existing ones change.

Von Solms (2003:3) recommends that what management needs for proper IT governance and IT risk management is an internationally accepted and standardised framework of generally accepted IT control practices to use as reference and benchmark.

IT governance or IT risk management can be approached by a number of essential components and they are:

- an internationally accepted framework to achieve standardisation; • Some type of risk profile clearly indicating the organisations risk appetite or risk tolerance;
- some type of measurement facility, driven by the importance of the relevant IT process, to operationally indicate compliance to the relevant risk profile; and
- some way of reporting, in as non-technical way as possible, to provide compliance information to all levels of management

All this is based on the well-known pillar of any type of management: *"You can only manage that which you can measure"* (Solms, 2003:11).

Ultimately the King Report recommends that risk is managed and mitigated by way of a comprehensive system of control in which management, and in particular the strategic leader should set the tone of the organisation and which should cover ethical values and management's philosophy (IoD, 2002:32).

5.4 SUMMARY

The development of business ethics, just like ethics, is a function of time and culture. As time passes, cultures evolve and individuals in these cultures develop different perspectives on behaviours, values and moral positions. People question established mores and wonder if what has been acceptable is perhaps now not quite so acceptable and that which was unacceptable may not be as it was. Re-examinations of events are a feature of all societies as people seek truth and understanding for the events that they have witnessed around them. The unacceptable can become acceptable and the acceptable unacceptable.

The King II Report on corporate governance makes it clear that managing ethical risk in the manner described above makes good business sense. By identifying, managing and disclosing its ethics performance the company stands to benefit in various ways. It can expect to improve the confidence of stakeholders in the company. It stands to gain through higher market valuation. And its improvement in reputation can attract more consumers as well as more talented employees.

However, despite the attention being paid to business ethics, it seems that the behaviour of people within organisations has not markedly improved. A deep approach to business ethics requires a belief that there is an intrinsic motivation for businesses to be ethical. A commitment by business leaders to this view can form the foundation for a deep approach to business ethics. However, it is the way that the ethics program is developed and implemented that will determine whether it will have an influence on the behaviour of individuals.

A surface approach to business ethics identifies the promotion of self-interest as the primary motivation for doing the right thing. This approach by business leaders fails to promote ethical behaviour for two reasons. First, self-interest and doing the right thing are not always commensurable, so a business that is primarily concerned with promoting self-interest would be likely to give priority to behaviour that improves the bottom line in situations where profit and ethics are in conflict. Second, the surface approach is not concerned with developing employees' ability to make ethical choices; rather, it takes a narrow focus aimed at prescribing behaviour in particular identified situations with the goal of protecting or promoting self-interest. A surface approach to business ethics does not aim at significant behavioural change.

The difference between the rhetoric concerning ethics and business practice suggests that most business leaders either intentionally or unintentionally promote a surface approach to ethics. If there is to be a significant change in the behaviour of individuals within organisations, a deep approach to ethics is needed.

Transformational leadership occurs when one or more persons engage with others in such a way that leaders and followers raise one another to higher levels of motivation and morality transforming leadership ultimately becomes moral in that it raises the level of human conduct and ethical aspirations of both leader and led and thus has a transforming effect on both.

Because of the emphasis on the moral development of the follower, transformational leadership seems to lead to more ethical decision making. However, one must also recognize that such leadership is not a panacea for resolving all the ethical challenges leaders face within an organization. Although transformational leadership espouses the alignment of individual and organisational interests for the common good, there may be times when this is not possible. Moreover, there may be times when the leader is unable to use the 4Is of transformational leadership to develop the follower to a higher level of ethical maturity. In light of these facts, true transformational leadership, utilising the components of idealized influence, intellectual stimulation, inspiration motivation, and individual consideration, facilitates resolving employer-employee issues in a manner consistent with the highest ethical standards. Consequently, the need for judicial or legislative intervention to ensure leaders do the right thing would be greatly minimized.

Organisational control is important in the general functioning of an organisation. Controls are necessary to help ensure that an organisation achieve their desired outcomes of strategic competitiveness and above-average-returns. The effective use of strategic control by strategic leaders is frequently integrated with appropriate autonomy.

Effective organisational controls provide an underlying logic for strategic leadership, focus attention on critical issues, support a competitive culture and provide a forum that builds commitment to the firm's strategic intent.

CHAPTER 6

SUMMARY, CONCLUSION AND RECOMMENDATION

6.1 INTRODUCTION

Effective strategic leadership is essential for organisations to survive in the rapid changing business environment due to political and economical changes. The changing environment presents managers with problems not previously experienced and strategic leadership plays a vital role in the changing environment of any business.

Strategic leadership consists of setting strategic direction, exploiting and maintaining of core competencies, developing human capital, sustaining an effective organisational culture, emphasizing ethical practises, and establishing balanced organisational controls. These are the key elements for success and management will have to consider this to ensure effective strategic leadership.

It is through effective strategic leadership that a company will be able to use the strategic management process successfully. This will lead companies to improve their performance and stretch everyone in the organisation to improve their performance. These actions will culminate in strategic competitiveness and above average returns

6.2 SUMMARY OF LITERATURE STUDY

The elements of strategic leadership can be used to identify weaknesses and strengths within the organisation and will be explored. The type of effective strategic leadership that results in the successful implementation of strategies is exemplified by developing human capital through training to establish a strategic direction, fostering an effective culture, exploiting core competencies, using effective organisational control systems and establish ethical practices.

Strategic leadership is essential for any organisation in the 21st century because of constant changes as the order of the day. The strategic management process indicates clearly that a strategic leader needs to be on top of every process to ensure strategic competitiveness and above average returns for an organisation. In this process it is important that the strategic leader encourages long term tactical and operational issues.

In the current environment in which organisations exist which is characterised by turbulence and change, increasing complexity and growing internal and external competition, new models of leadership are emerging. The soft power of leadership is discussed to indicate to those leaders who seek to engage the world from behind a shield of hard power rather than by engaging it in a collegial manner may soon find their global influence significantly eroded.

Several key actions of a strategic leadership will be discussed in the following chapters to indicate the importance of these actions for a strategic leader to be effective in an organisation.

For a strategic leader to be effective it is necessary to determine strategic direction and maintain core competencies. The determining of strategic direction of a company involves developing a long-term vision of the company's strategic intent. Together the strategic intent and strategic mission yields the insights required to formulate and implement a companies strategies. An effective strategic leader base decisions on the company's strategic intent and mission which gives strategic direction.

The core competencies of an organisation however are the resources and capabilities that serve as a source of competitive advantage for a firm over its rivals. Such competencies may include the capability to effectively organise and govern complex and diverse operations and the capability to create and communicate a strategic direction and vision. The enabling core competence lens and framework of core competence maintenance is discussed to indicate the advantages this have for an organisation. Furthermore the importance of knowledge management for a strategic leader to make the right decisions was highlighted in this chapter.

It is important for an effective strategic leader to understand that strategic direction and core competencies cannot be developed or exploited effectively without developing the capabilities of human capital and an effective organisational culture.

Human capital may be the primary determinant of an organisation's ability to formulate and implement strategies successfully. Intellectual capital and communities of practice can place any organisation at the forefront of the market. It is therefore important for a strategic leader to invest in human capital and ensure a culture to support a learning environment.

The organisational culture is the essence of any organisation. However, often management does not focus enough attention on the influence and role culture has within the corporate environment. Culture can be a strong determinant for competitiveness and above average returns. The spirit of strategic leadership, the cultural web, fostering of an organisational culture, cultural environments, management of organisational culture and change management are present in any organisation.

To ensure survival it is important for a strategic leader that their culture is strong and adaptive to enable the organisation to adapt to the necessary changes. Culture can be managed, but management must first understand the culture and its role in the working environment.

The development of business ethics, just like ethics, is a function of time and culture. As time passes, cultures evolve and individuals in these cultures develop different perspectives on behaviours, values and moral positions.

People question established mores and wonder if what has been acceptable is perhaps now not quite so acceptable and that which was unacceptable may not be as it was. Re-examinations of events are a feature of all societies as people seek truth and understanding for the events that they have witnessed around them. The unacceptable can become acceptable and the acceptable unacceptable.

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The difference between the rhetoric concerning ethics and business practice suggests that most business leaders either intentionally or unintentionally promote a surface approach to ethics. If there is to be a significant change in the behaviour of individuals within organisations, a deep approach to ethics is needed.

Transformational leadership occurs when one or more persons engage with others in such a way that leaders and followers raise one another to higher levels of motivation and morality transforming leadership ultimately becomes moral in that it raises the level of human conduct and ethical aspirations of both leader and led and thus has a transforming effect on both.

Because of the emphasis on the moral development of the follower, transformational leadership seems to lead to more ethical decision making. However, one must also recognize that such leadership is not a panacea for resolving all the ethical challenges leaders face within an organization. Although transformational leadership espouses the alignment of individual and organisational interests for the common good, there may be times when this is not possible. Moreover, there may be times when the leader is unable to use the 4Is of transformational leadership to develop the follower to a higher level of ethical maturity. In light of these facts, true transformational leadership, utilising the components of idealized influence, intellectual stimulation, inspiration motivation, and individual consideration, facilitates resolving employer-employee issues in a manner consistent with the highest ethical standards. Consequently, the need for judicial or legislative intervention to ensure leaders do the right thing would be greatly minimized.

Organisational control is important in the general functioning of an organisation. Controls are therefore necessary to help ensure that an organisation achieve their desired outcomes of strategic competitiveness and above-average-returns. The effective use of strategic control by strategic leaders is frequently integrated with appropriate autonomy.

Effective organisational controls provide an underlying logic for strategic leadership, focus attention on critical issues, support a competitive culture and provide a forum that builds commitment to the firm's strategic intent.

6.3 RECOMMENDATIONS

The objective of this study was to emphasis the importance of effective strategic leadership in an organisation. It was found that leaders today cannot disregard the vital role they have to play in the survival of business to ensure strategic competitiveness and above-average -returns.

To conclude this study, taking cognisance of the literature research, the following recommendations can be made:

- strategic leaders must understand that they determine the success of an organisation, at present and in the future. Leaders must therefore know that the 21^{st} century has been characterised by a new form of conflict, which demands a new form of leadership. One of moral assertiveness, integrity, recognition and respect for others, rather than political, economic and military power;

- strategic leaders should consider the value of knowledge management and intellectual capital and make a strong effort to create an environment that supports and nurtures learning;
- human capital might be the only single factor that will determine the difference between the organisation and its competitors ensuring competitive advantages for an organisation. Strategic leaders should value their personnel and their inputs;
- strategic leader's behaviour creates and /or support the culture of the organisation. It is important to keep in mind that it is impossible to change an organisation's culture, without the commitment of the strategic leaders. In order to manage the transformation process the strategic leader's must ensure that an adaptive culture is build on trusting relationships, open communication and strong values. In this regard it is crucial to remember that the culture of an organisation will ultimately lead to the success or failure of any change effort;
- the success of any organisation is to do what they do best, namely using their core competencies to be competitive;
- strategic leader's business ethics should be congruent between the organisation's view and other's views. They must realise that they influence the behaviour of individuals within an organisation; and

- the effective use of strategic control by strategic leaders needs to be integrated with appropriate autonomy. The autonomy will provide the flexibility necessary to take advantage of specific marketplace opportunities and growth for the employees.

During the period of research a few areas for future research were identified, as briefly summarised next:

6.4 AREAS FOR FUTURE RESEARCH

Effective strategic leadership is a topic of discussion for many authors. However Hitt *et al.*, (2001:500) recognised key elements for strategic leadership that needed further research. These elements were explored but each of these elements can be explored through quantitative studies in the practical environment of an organisation.

Each key element for strategic leadership that needs further research is:

- determining strategic direction;
- exploiting and maintaining core competencies;
- development of human capital
- sustaining an effective organisational culture;
- emphasising ethical practises especially with the King two report in mind in respect of corporate governance; and
- the establishment of balanced organisational controls

6.5 CONCLUSION

Why is strategic leadership important in organisations? A question that have been asked and answered often during the past decade. But why do some business fail and others survive with strategic leadership. The answer most likely lies in the fact that those organisations that survive have effective strategic leadership. They do not wait for the environment to dictate their next move, but anticipate the change and move before it happens. Effective strategic leadership is an integrated approach, where strategic direction, maintenance of core competencies, development of human capital, effective organisational culture, ethical practises and the establishment of organisational controls are necessary to be an effective strategic leader.

The South African challenge therefore lies in the strategic leader's ability to incorporate these factors into a force, working proactively for the organisation.

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