Rethinking strategic leadership: stars, clans, teams and networks

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STRUCTURED ABSTRACT

Purpose: Most of the thousands of studies of leadership as well as strategic leadership in organizations choose as the unit of analysis the individual leader. This choice runs contrary to the often-observed fact that organizations have numerous leaders at all levels of the organization - in other words, a *network of leaders,* which permeates the formal organizational structure. This paper aims to reconceptualise strategic leadership by advancing understanding of: 1) the effects of variations in internal complexity and external turbulence and 2) the effects of choices by the strategic leadership based on those variations.

Design/methodology/approach: This paper advocates a network approach to strategic leadership where there is a set of highly dynamic role changes, based on both human and social capital. The typology and propositions in the paper emerged over a period of many years of observation of organizations (direct and indirect) as well as reflection of theories on how strategic leadership actually occurs in medium to large-size profit-oriented organizations.

Findings: This paper proposes a model of strategic leadership based upon four modes of single actor and shared leadership (*stars*, *clans*, *teams* and *leadership networks*). It sets forth propositions for the situational appropriateness of each of these four forms and identifies avenues for future research to advance the theory.

Originality/value: This paper cross-fertilizes extant research streams in leadership and strategic management to create a contingency theory of strategic leadership that is closer to what executives actually experience in the workplace.

INTRODUCTION

"Imagine all the people."   - John Lennon

The world of the twenty-first century is by all measures a turbulent and uncertain one. Extreme turbulence in financial markets, failures in corporate governance, as well as crises of credibility in the leadership of business corporations are continuing. Underneath these indicators of continued uncertainty and turbulence is a need for not just new leaders to emerge but also for new ways of conceptualizing and developing strategic leadership at all levels of scale. The aim of this paper is to engage in such a re-conceptualization of strategic leadership: in essence, imagine if all the people in an organization are potential, if not actual, leaders at the right time and under the appropriate conditions. Essentially, they are embedded in multiple, co-existing and evolving networks of leadership which constitute a valuable and difficult-to-imitate source of social capital (Barney, 1991; Barney and Hesterly, 2010).

Since the middle of the twentieth century, there have been tens of thousands of research articles and books written on leadership that have yielded an array of often-conflicting results. Despite numerous attempts to integrate this literature and create a comprehensive theory of leadership (see Barrow, 1977; Bass, 1990; Burke, 1979; Halal, 1974; Hollander and Julian, 1969; Osborn et al., 2002; Sashkin and Garland, 1979; Stogdill, 1974; Yukl, 1989; Yukl, 2013), understanding the phenomenon of effective leadership is a still-unfinished task. One of the reasons is the over-emphasis given by most leadership theorists to the single-actor or hero leader.

This limitation has led to the emergence of alternative theoretical perspectives among researchers in strategic leadership (Finkelstein and Hambrick, 1996; Hambrick et al., 2001; Hambrick, 2007). Stemming from the upper echelons theory (Hambrick and Mason, 1984), strategic leadership theory has become a distinct sub-field that focuses on strategic and symbolic activity at the top of the firm (Hambrick et al., 2001). The main argument of the upper echelons theory is that strategic actions, and thus firm outcomes, are dependent on the

values and the collective, shared cognitions of executives which, in turn, are shaped by their individual experience (Hambrick and Mason, 1984).

Finkelstein et al. (2009) proposed a comprehensive model of top management teams (TMTs) that sheds light on TMTs' interactions, characteristics and effects on the strategic decision-making process and outcomes of firms. Also, they identify the moderating effects of environmental instability on performance outcomes, i.e. highlight the contingent nature of the relationship.

The current paper aims to advance strategic leadership theory (Hambrick and Mason, 1984; Finkelstein and Hambrick, 1996; Hambrick et al., 2001; Hambrick, 2007; Wowak and Hambrick, 2010; Finkelstein et al., 2009) by recognizing that strategic leadership process goes beyond the top management team, especially when the firm is large and complex and the external environment is turbulent. Further, it operationalizes the internal and external environments through economic variables such as competitive forces and costs of internal organization, important drivers of firm performance (Porter, 1980; Williamson, 1991).

This paper engages in such an activity by extending thinking on strategic leadership that involves networks of actors, an approach that has come to be included under the terms *shared* or *distributed* leadership (Pearce and Conger, 2003; Pearce, 2004; Pearce et al., 2008a; Gronn, 2002; Day et al., 2004; Spillane, 2006; Mehra et al., 2006). Our intent here is to combine leadership and strategic management research in a model of strategic leadership that is based on economic mechanisms which apply at multiple levels of the firm and for various types of organizations.

This work also aims to extend the research on shared leadership by introducing four generic forms of strategic leadership (stars, clans, teams, and networks) which we predict to have differing performance outcomes depending upon the degree of internal complexity and the amount of external environmental turbulence. In the process, the paper attempts to

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overcome limitations of the strategic leadership-performance relationship observed in current theory.

Unlike the dominant single-leader or 'star' paradigm, the approach we take in this paper emphasizes the complementary salience of both human and social capital in leadership theory. Though social capital still remains an under-researched aspect of leadership (Brass and Krackhardt, 1999: 180), it is a key means by which firms attain and sustain superior performance, especially when both internal complexity and external turbulence are high.

The overall structure of the paper will proceed as follows. First we examine relevant theoretical background drawing on five extant research streams: 1) single-actor leadership theory, 2) relational or dyadic leadership theory, 3) shared or distributed leadership theory, 4) upper echelons theory on top management teams, and 5) strategic management theory focusing on the external competitive environment (eg. Porter, 1980, 2008), the VRIO model (Barney 1991, 2010) and the internal environment of the firm, especially transaction cost economics (TCE – Williamson, 1975; Hennart, 1982) and the behavioral theory of the firm (Cyert and March, 1963). The paper then proceeds to describe four generic forms of strategic leadership and generate a set of propositions based on how these four forms are proposed to result in organizational performance under varying internal and external environmental conditions. The paper concludes with a set of implications for future research. See Figure 1 for an overview of the theoretical streams and resulting proposed generic types of strategic leadership.

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Insert Figure 1 about here
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THEORETICAL BACKGROUND

The need to re-conceptualize single-actor theories of leadership

There is ample evidence in the existing single-actor leadership theories of the need to re-conceptualize leadership in organizations as multi-actor in nature (Yukl, 1989; Finkelstein et al., 2009). Individual leaders are expected to manage the multiple competing values in the organization (Denison et al., 1995; Quinn et al., 1990; Quinn and Rohrbaugh, 1983; Yukl, 2013) and be able to view the world through differing paradigmatic frames (Bolman and Deal, 1984). Examples of such opposing forces are extensive and include: short-term and long-term time horizons, task and process orientations (Blake and Mouton, 1964; Hersey and Blanchard, 1969), quality and quantity (of product or services) and continual, seemingly small, but salient ethical choices (Badaracco, 2002; Malan and Kriger, 1998). If leadership is defined as the ability to successfully balance all the competing forces (Denison et al., 1995; Quinn, 1988), then research becomes restricted to studies concerning a reduced set of "superhumans." Quinn (1988) has found that the managers that successfully achieve "mastery" of the competing forces are the most effective and likely to be in the "strategist" level; however, only about 14% of managers fall into this category (Torbert, 1987).

The preceding is consistent with the early observation by Hollander and Julian (1969) who noted that an element of confusion in the study of leadership was the failure to distinguish it as a *process* from the leader as a *person* occupying a central role in the process. The failure to follow up adequately on this distinction has created an inappropriate paradigm for understanding strategic leadership processes as they actually occur in organizations. Brass (1984) is one of the earliest researchers to provide evidence that leadership is far more distributed than single-leader models would suggest. The numerous small choices distributed among a set of individuals, who are often not visible because their leadership acts are part of the everyday fabric of organizational affairs (Barnard, 1938; Kriger and Barnes, 1992) likely constitute significant variance explaining effective leadership.

A further contribution to the development of leadership as a network comes from leadership theories that focus on the relational aspect between leader and follower. Graen and associates (Graen, 1976; Graen and Cashman, 1975; Scandura et al., 1986) developed the theory of Leader-Member Exchange (LMX) based on the nature of the relationship between leaders and followers characterized by interdependent patterns of behavior, sharing mutual outcome instrumentalities and producing mutual conceptions of the environments, cause maps, and values (Scandura et al., 1986: 580).

More recently, Uhl-Bien (2006) proposed Relational Leadership Theory which views leadership as emergent in relational dynamics rather than restricted to positions and roles. The idea became further advanced in Complexity Leadership Theory (Uhl-Bien et al., 2007; Uhl-Bien and Marion, 2009) which argues that administrative, authority-based, leadership co-exists with adaptive leadership, complex interactions enabled via network dynamics. This adaptive leadership enables the modern knowledge-oriented organization to learn and to innovate. An implication here is that single-actor leadership theories constitute a small subset of the range of leadership theories needed to cover the construct - it is "multi-level, processual, contextual and interactive" (Uhl-Bien and Marion, 2009: 631).

Distributed leadership theories

In response to the limitations of the single-actor theories of leadership, the concepts of distributed leadership (Gronn, 2002; Day et al., 2004; Mehra et al., 2006; Gronn, 2010; Thorpe et al., 2011; Bolden, 2011; Cope et al., 2011; Currie and Lockett, 2011; Edwards, 2011), shared leadership (Pearce and Conger, 2003; Pearce, 2004; Ensley et al., 2006; Carson et al., 2007; Pearce et al., 2008b; Fitzsimons et al., 2011; Hmieleski et al., 2012; Nielsen and Daniels, 2012; Muethel and Hoegl, 2010, 2013) and collective leadership (Contractor et al., 2012; Cullen et al., 2012; Denis et al., 2001; Friedrich et al., 2009; Hunter et al., 2012;

Militello and Benham, 2010; Mumford et al., 2012) have received increasing attention. These frameworks explicitly recognize that multiple actors can serve as leaders in teams and groups.

More specifically, Mehra et al. (2006) distinguish traditional leader-centered, distributed and distributed-coordinated leadership structures. They argue that distributed leadership improves participation and information-sharing within teams resulting in superior performance. They found that teams that recognize both formal *and* emergent leaders perform significantly better in terms of both sales and satisfaction. Consistent with this, Ensley et al. (2006) report on shared leadership in teams and find that this positively affects team performance. They view vertical leadership as the influence of a single hero-leader on the team that is aimed at gaining commitment and focus from the other team members through her or his inspiration and vision. Shared leadership, on the other hand, is a collaborative team process that positively impacts team performance by helping to build collective strategic cognition. Research on hybrid forms of leadership in teams (Day et al., 2006) and the concept of leadership configurations (Gronn, 2009) further advance understanding of leadership as a complex multilevel phenomenon. Finally, Friedrich et al. (2009) develop a framework of collective leadership as a dynamic team process where different team members emerge as leaders when their skills and expertise are needed to solve the problem at hand.

While it improves our understanding of leadership in organizations by bringing in vertical and horizontal dimensions of the leadership process, the current existent research on distributed, shared, and collective leadership has three important limitations. First, it is conducted predominantly on the team-level, while extant literature on leadership recognizes that it is a multilevel phenomenon (Hernandez et al., 2011; Yukl, 2013). Thus, a model of leadership, that would be valid at different levels of analysis, without the need to increase its complexity to analytically intractable levels, is still lacking. The existing frameworks on shared leadership do not fulfill this need in a satisfactory manner. One reason is that they

focus on leadership mechanisms only at the individual and dyadic levels. The other reason is that social network analysis as the predominant analytical tool (Mehra et al., 2006; Hoppe and Reinelt, 2010) tends to limit the scope of empirical research to the team level.

Second, the research to-date on distributed, shared, and collective leadership proposes a positive relationship between dispersion of the leadership role and performance, while ignoring important contingencies such as internal complexity and the turbulence of the external environment. However, when an organizational crisis occurs, there is strong pressure for the most dominant or competent individual to "take charge." This increases the likelihood of single-actor leadership emerging. It is during these periods of re-orientation of the organization that the top executive usually assumes a much more active role (Mitroff, 2000; Tushman and Romanelli, 1985), particularly during environmental uncertainty (Waldman et al., 2001). Third, while the simultaneity of vertical and shared leadership is recognized, they are still treated as discrete phenomena. These limitations make the frameworks of marginal use for practitioners, who would like to know under what circumstances, and to what extent, strategic leadership should be distributed. The model developed in this paper aims to address these shortcomings.

Upper echelons theory (Top management teams)

Finkelstein and colleagues (2009) advance the understanding of strategic leadership in at least three critical ways. First, they emphasize the shared nature of strategic leadership in organizations which operate in complex and uncertain environments. This is the result of: 1) the existence of multiple goals, 2) the collective strategic decision-making process, 3) role differentiation, and 4) the dependence of organizational outcomes on interactions within leadership teams. However, they argue that the sharing of strategic leadership is limited to the small coalition of top executives, i.e. the top management team (TMT). Second, Finkelstein et al (2009) show that the characteristics of the TMT – its composition, structure, and process,

largely determine the strategic decision-making process and, hence, affect performance outcomes. Third, TMT characteristics and their impact on performance are affected by environment. Finkelstein et al. (2009) define environment as the number of factors that have influence on the firm, the rate of change in these factors, and their munificence.

However, strategic leadership need not be necessarily limited to the TMT. For example, consider Google, where employees have an opportunity to pursue their own initiatives. This, according to a Google executive, has resulted in projects of strategic importance such as Gmail or Google Earth (Vise and Malseed, 2005). Such firms have networks of leaders extending far beyond the upper echelons.

Further, among the countless factors affecting organizations, strategic management theories of the firm have identified a few specific internal and external forces that critically impact performance. By defining the internal and external environments in terms of these forces, we can shed light on the moderating economic mechanisms and predict the likely performance outocmes of various modes of strategic leadership.

Strategic management theories of the firm

The moderating variables in our model of strategic leadership draw on several extant research streams. These include: 1) transaction cost economics (TCE) (Williamson, 1975; Williamson, 1979; Hennart, 1982), 2) the behavioral theory of the firm (Cyert and March, 1963), and 3) the strategic positioning model (Porter, 1980; Porter, 2008). Each of these describes complementary strategic opportunities and constraints for the firm.

Transaction cost economics (Williamson (1975) is based on the idea that market exchange alone is inefficient and should be supplanted by the firm when the environmental complexity and uncertainty constrain effective decision-making or small number conditions give rise to opportunistic behavior. Specifically, Williamson argues that the conditions for market failure prevail when transactions are characterized by excessive asset specificity,

uncertainty, and frequency (Williamson, 1985; Williamson, 1979; Williamson, 2002). This implies that strategic management, in part, involves aligning transactions differing along these three characteristics, where the governance structure is then altered to minimize associated transaction costs (Williamson, 1991).

Hennart (1982) emphasizes that both the market and the firm face three types of transaction costs: *information cost*, *bargaining costs* and *enforcement costs*. Separating information collection from decision-making gives rise to *information costs* since: 1) agents have decreased incentives to collect information, 2) some of the collected information is lost and distorted in transfer, and 3) the central party has limited ability to receive, store, retrieve, process, and retransmit the information. Firms incur *enforcement costs* due to their imperfect ability to monitor the behavior of agents and measure their output and the associated costs. *Bargaining costs* become an issue for firms as employees acquire valuable firm-specific competencies and skills that are difficult to substitute. Hennart (1982) argues that all these costs increase with the size and complexity of operations. Williamson (1975) suggests that one way to reduce transaction costs, as firms grow in size and the complexity of operations increase, is to modify the organizational structure accordingly. A complementary tactic is to develop the scope and pervasiveness of leadership, especially in netrworks (Barnes and Kriger, 1986).

In their behavioral theory of the firm Cyert and March (1963) describe the decision-making process as it unfolds in firms. They view firms as consisting of coalitions of actors whose goals result from bargaining processes which are stabilized with the help of internal control systems. Failure to achieve some of the goals triggers search for solutions to satisfy them. This search process requires acquisition of further information and is subject to biases. These biases in the search process reflect the specific training and experience of the actors, the interaction of hopes and expectations, and unresolved conflict in the firm (Cyert & March,

1963: 171). Once again informal leadership processes can skillfully complement the more formal control and goal setting processes.

Porter (1980) established the strategic positioning model in which firms' performance is found to be inversely related to the bargaining power of suppliers and customers, the threat of entry and substitutes, and the intensity of rivalry among the industry incumbents. According to this model, strategic management is essentially the search for a position where the five forces are minimized in their effect on the firm. This search may involve targeting a particular segment within the industry, identifying promising strategic positions as the industry changes, or reshaping the industry structure (Porter, 2008).

Jointly, these three strategic management theories of the firm outlined above imply that firm performance hinges on the ability to organize the decision-making process efficiently with respect to transaction cost minimization and effectively in the sense of having the ability to favorably position the firm in the industry. What these seminal theories do not explicitly recognize is the role of strategic leadership in this process (see Figure 1 for an overview of the theoretical background outlined in the preceding).

We will address the above gas by introducing four generic forms of strategic leadership that differ in their ability to: 1) efficiently facilitate strategic management processes within firms and 2) effectively address the challenges posed by the competitive environment (see Figure 1). The four forms to be discussed are *stars*, *clans*, *teams*, and *networks*.

FOUR GENERIC FORMS OF STRATEGIC LEADERSHIP

Stars

Despite the broad acknowledgement of the role of the top management team in strategy established by the upper echelons theory (Hambrick, 2007), much strategic leadership research identifies the CEO as the unit of analysis (Finkelstein and Hambrick, 1996) . The

underlying assumption that still predominates is that the CEO is the sole or main locus of strategic leadership in the firm (Hernandez et al., 2011), what we term *stars* (see Figure 2).

Stars tend to be autocratic in making strategic decisions, but can also be consultative and highly participative, depending on the circumstance and their willingness to share power and control with others beneath them. Nonetheless, influence on subordinates takes on various forms from: 1) transformational (Burns, 1978; Bass, 1985; Bass, 1990; Avolio et al., 1999); and 2) charismatic leaders who share the vision and inspire others (House and Shamir, 1993); to 3) transactional leaders, who set the goals, monitor behavior and performance, provide the feedback, and set rewards (Bass, 1985; Avolio et al., 1999). Ford Motor Company starting with Henry Ford up until the 1990s is an example of a firm with a strong utilization of single-actor strategic leadership that goes back to the founder. We can expect to find stars being most effective in small or medium-sized firms when internal complexity is low and in external environments that are relatively placid. Since stars tend to command high control, as the environment becomes more complex internally and turbulent externally more distributed forms of leadership become increasingly necessary to bring in additional skill sets, competencies and areas of knowledge.

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Leadership Networks

Organizations for some time now have been conceptualized as cooperative systems where leadership acts as an often unseen integrative mechanism (Barnard, 1938). Each division, group, and subgroup has its own leaders. In order to be effective in their respective tasks, these leaders exert influence both upward to their supervisors (which could be the Board of Directors) as well as downward into the memberships of their respective groups or sub-units. In addition, there is lateral interdependence among leaders for resources and

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services, as well as cooperative relationships with external leaders for information and favors (Yukl, 2013). Thus, strategic leadership can extend in three dimensions: upward-downward, laterally, and externally.

In this view, strategic leadership functions more through a network or group of individuals than via any particular individual in the network. The person who acts as the influencer of behavior in one moment often becomes influenced by another person in the next. Moreover, each individual in this network can be *both* a leader and a follower at different times depending on the issue or situation (Hunt, 2004).

Perceiving leadership as a network process does not necessarily imply "participative management" or group decision making (Hackman, 1986; Hunt, 1999; Lawler, 1986). For example, Harold Geneen, the iconic former CEO and Chairman of ITT, was generally perceived and portrayed as an autocratic, controlling, and highly individualistic chief executive. However, despite the high central prominence and dominance of Geneen as an individual, leadership in ITT during the "Geneen Years" involved scores of division general managers and corporate executives who formed a complex network of leadership for the organization. Many of these individuals subsequently were hired by other organizations to enter into and to develop further leadership networks in those organizations (Geneen, 1984). Iacocca (1984) provides similar evidence for the existence of "leadership networks", even in the presence of a highly visible and dominant chief executive (see especially Chapter XV, "Building the Team"). The iconic hero-leader Steve Jobs similarly developed teams of leaders at Apple, Inc. (Isaacson, 2011) who along with Tim Cook, the current CEO of Apple, have emerged as a much greater network-based form of strategic leadership. Whether this post-Jobs leadership at Apple is effective strategically remains to be seen.

We define such a dynamic set of leader-follower relationships where the individual actors influence and coordinate the tasks, objectives, and visions of the organization and its

sub-groups as a *leadership network*. Following the early work of Mitchell (1969), we conceptualize a network as having a finite number of nodes (e.g., individuals); however, there may be several links in either direction between the persons in the network. These links will usually have different shared qualities, valences and values attached to them. The qualities of these links are constantly and dynamically changing depending upon the situation. An example of this is the leadership in long-term strategic decision processes reported by several researchers (Mintzberg et al., 1976; Mintzberg, 1978; Kriger and Barnes, 1988; 1992). These authors describe networks of leaders who were involved in the design, development, manufacturing, marketing, and promotion of new products and services in a range of industries including airlines, steel and newspapers.

Clans and Teams

Stars and leadership networks are two opposite ends of the spectrum of various forms of strategic leadership. Instead of being either centralized in an individual or distributed throughout the firm, strategic leadership is more often shared in varying degrees at different levels of the hierarchy. Keeping this continuum in mind, we now focus on two generic intermediate forms, which increase analytical tractability and practical usefulness, while also preserving key features of the strategic leadership process. These two intermediate generic forms of strategic leadership we call *clans* and *teams*.

Clans are characterized by distributed strategic leadership at the top of the firm and its centralization down the hierarchy. Clans are functionally, and often geographically, separated units of the firm whose members have a sense of kinship based on common background, functions, jargon, norms, values, and/or culture. There is a hierarchy or a chain of command within each clan with the clan leader at the top acting similar to stars. At the top of such firms, however, the strategic leadership is shared among the leaders of the clans, which jointly form the top management team of the firm. Philips Electronics in the post-WWII period is an

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example of a firm that has utilized a clan form of strategic leadership, where subsidiaries were highly autonomous for long periods of time. Generally, we can expect to find clans in firms with strong foreign subsidiaries having complex internal operations but relatively low centralized control and leadership from headquarters.

Teams are characterized by the horizontal distribution of strategic leadership functions below the top of the hierarchy across different functional and/or geographic units. Leader-follower roles in teams will shift dynamically as the problems to be solved change and team members possessing the most relevant information and expertise emerge as leaders. This treatment of teams is consistent with what Friedrich et al. (2009) call collective leadership. Nucor Corporation in the Ken Iverson years (1970s – 1990s) is a good example of a firm with strong leadership teams, where the CEO, perceived by many as a 'star' encouraged strong team leadership through a complex group reward system operating at several levels of the company (Kriger and Barnes, 1988; Preston, 1991). The result was long term collective efforts across divisions resulting in local leaders promoting organizational learning and experimentation to take place, at the same time as the achievement of very high return on assets as a common realized objective (Collins, 2001).

CONCEPTUAL MODEL AND PROPOSITIONS

Having defined stars, clans, teams and networks, we will next investigate their differing impact on firm performance. Williamson (1991) suggests that firm performance hinges in part on the ability to organize transactions so that the associated costs are minimal. If we consider the firm as an internal market for human and social capital, then stars, clans, teams and networks become alternative means to transact these resources. In the processes of creating, mobilizing and utilizing the available human and social capital of the firm they are predicted to encounter transaction costs of differing magnitudes, depending on the degree of internal complexity and the amount of external environmental turbulence.

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Information, bargaining and enforcement costs of strategic leadership

Consistent with TCE theorists (Williamson, 1975; Hennart, 1982) we shall assume that individuals tend to be opportunistic in the sense that they maximize their personal gains even if it is not in the best interests of the firm. Individuals are also boundedly rational since they neither possess sufficient information processing capacity nor all the information they need for decision-making. Under these assumptions the organization of economic activities within firms is inevitably subject to information, bargaining, and enforcement costs (Hennart, 1982).

Consistent with Cyert and March (1963), we argue that information is not readily available to decision-makers but usually must be searched for, and, then must be coded, transmitted, and appropriately processed (Hennart, 1982). All these activities incur opportunity costs of time and resources, as well as the cost of information losses and distortions occurring in the process. These losses result from: a) exploration for new products, services and solutions being constrained to the current solution and conditions (Cyert and March, 1963), b) the inability to collect and codify the needed information (Hennart, 1982), and c) a combination of biases reflecting training, experience, the interaction of hopes and expectations, and unresolved conflicts (Cyert and March, 1963). The output of this process is imperfect information that results in suboptimal decisions and performance.

Strategic leadership process is thus subject to bargaining costs to the extent that multiple leaders have differing goals and differential power in the firm (Cyert and March, 1963) and then often tend to shift the burden of performing an activity onto others, while still enjoying the benefits it provides, i.e. free-riding (Hennart, 1982), decreased firm performance.

Measurement of the output and monitoring of the behavior are two primary means to curb shirking on the part of firm members. Both are costly, however, and require resources to establish and maintain control systems, assign people and reward them to perform effectively.

By conducting monitoring and measuring activities the firm may unintentionally promote value-destructive behaviors such as overinvestment (Jensen, 1989) and excessive risk aversion (Hitt et al., 1996) or demotivate leaders (Heide et al., 2007). Finally, information asymmetry, causal ambiguity, and measurability issues make monitoring an imperfect tool to prevent shirking among organizational members, including leaders, thus decreasing performance.

To the extent that centralizing the strategic leadership function does not take advantage of the total cognitive capacity available and its sharing results in greater requirements for coordination and control, stars, clans, teams, and networks of strategic leaders will tend to be exposed to information and enforcement costs to differing degrees. The actual exposure will vary, however, across firms due to the differences in the internal complexity and the characteristics of the competitive environment. These will tend to determine the cognitive capacity and coordination required at different levels of the hierarchy rendering some forms of strategic leadership less effective than others.

The impact of internal complexity

We define internal complexity as the amount of information and coordination needed for strategic leadership to be effective in a given external environment. It will increase, in general, with increasing size, scope and knowledge intensity of operations (see Figure 3).

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Insert Figure 3 about here

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The advantage of single-actor leadership is that it results in incurring minimal bargaining and enforcement costs. However, at the top of an organization the complexity of issues, problems, and opportunities increase (House and Aditya, 1997). When the operations of the firm are technologically simple and narrow in scope, and the amount of information

required for decision-making is relatively modest and readily available, then the capacity of a single-actor leader is often sufficient for effective decision-making.

However, as the internal complexity of knowledge needed and the scope of business increase, information costs at the top of the firm increase dramatically making a star an ineffective mode of leadership. This occurs because effective decision-making requires a range of different competencies as well as appropriate information processing.

For example, consider the transition of the Norwegian fishing industry from conventional fishing from boats to raising fish in farms. From a relatively simple local industry it has evolved into an international business activity requiring advanced biotechnology, access to financial capital, and knowledge of numerous local markets around the world. In such circumstances single individuals will often symbolically emerge as leaders or be labelled as leaders (Conger et al., 1999; Conger and Kanungo, 1988; House et al., 1991; Hunt, 1999). However, the exercise of leadership will tend to be distributed across a network of individuals in order to cope with the increased complexity.

While the distribution of the leadership function at the top of the firm among a network of actors provides a means for reducing longer-term information costs, it increases the bargaining and enforcement costs. The question then becomes: why does the decrease in information costs outweigh the increase in bargaining and enforcement costs? Put simply, networks are also a mechanism by which shared meanings are created and sustained over time. Gray et al. (1985) support this in their conceptualizing of organizations as dynamic processes through which meaning is simultaneously constructed and destroyed (Gray et al., 1985: 83). Through the course of regular organizational interaction members generate coincident expectations about patterns of reciprocal behavior (Gray et al., 1985: 88). If leadership has an effect, then the social interactions are hypothesized to result in the creation and repeated reinforcement of reciprocal behaviors, shared values, and coincident meanings

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by multiple actors. The reconciliation of goals and the creation of shared values among the multiple leaders are expected to keep bargaining and enforcement costs at acceptable levels.

The effect of turbulence in the competitive environment on strategic leadership

Consistent with Porter (1980), we view environmental turbulence as creating often formidable changes in the firm's competitive forces. These include increases in the: 1) threat of new entrants, 2) power of suppliers, 3) power of buyers, 4) increased threat of substitutes, and 5) increased rivalry among existing competitors. Porter (2008) argues that increases in any of the forces lead to reduced profitability in the industry. According to Cyert and March (1963), when performance decreases below the aspiration level then new search is triggered for additional solutions. This search is directed towards finding a profitable niche in the newly evolving industry structure or looking for ways of shaping the industry structure in favor of the firm (Porter, 2008).

For example, massive losses in the core mainframe computer business, that was central for IBM prior to the early 1990s, were caused by a shift towards more distributed PC-based computing and the emergence of strong competition in a number of segments of the industry. This pushed the leadership of IBM to search for ways for IBM to re-establish itself as a leading competitor in the industry and return to profitability. As a result, the strategic leadership under the CEO, Lou Gerstner, discovered the firm to be uniquely positioned to be able to provide integration services much needed in a networked world. IBM subsequently increased its return on shareholders' equity from -35.2% in 1993 to 39.7% in 2000 (Gerstner, 2002). One question is: why was IBM's turnaround successful while so many other IT companies such as DEC and Wang failed? We argue that at least part of the answer lies in the ability of the new CEO, Lou Gerstner (an apparent 'star'), to break down dysfunctional clans and create a network of distributed strategic leadership across the firm geographically and functionally, and to build a culture to support this dynamically adaptive form of leadership.

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Gerstner recounts that he did not have the technological know-how nor did he have sufficient personal resources to bring about the dramatic turnaround without empowering numerous other leaders in IBM (Gerstner, 2002).

High external turbulence also requires firms to shift emphasis from exploitation to exploration (March, 1991). Exploration starts with searching for information about new strategic solutions. Employees below the top of the hierarchy are very often valuable, over-looked sources of such information and competence since the external changes in the industry structure affect more directly and quickly the activities they perform. Merchandisers are likely to be the first to find out that their products are being given inferior places on store shelves; engineers from the R&D department are likely to be the most informed about the potential of an emergent technology and so on. As long as hierarchical single-actor leadership is preserved, information search and transfer will be inefficient since employees are not rewarded for sharing information and generating ideas. Coding relevant information in formal reports is not sufficiently timely, the information is distorted in the process of transfer (Hennart, 1982), and time is lost in execution. This increase in information costs can be mitigated by encouraging a network of leaders to develop and operate throughout firm.

Propositions

Based on the preceding, we propose that the distribution of the strategic leadership function in the firm will result in the economizing of information costs but at the expense of increased bargaining and enforcement costs. Therefore, when the information needs of the strategy are within the bounds of the capacity of a single leader, the further distribution of the strategic leadership function will tend to decrease overall firm performance. This is most likely to be the case when internal complexity is low and the competitive environment is relatively placid. Therefore:

Proposition 1: When the competitive environment is more placid and the internal complexity of the firm is low then ***single-actor leadership*** will be associated with greater firm performance.

The greater the size, scope and knowledge-intensity of operations, then the more the information and coordination needs of the firm will increase. Beyond a certain threshold these needs are likely to overwhelm the capacity of any single leader resulting in the distribution of the strategic leadership function as a more effective solution. As a result we propose:

Proposition 2: When the competitive environment is more placid but the internal complexity of the firm is high then networks of leaders, without dynamic role shifts (***clans***), will result in greater firm performance as long as the environment remains placid.

Adverse changes in competitive forces will decrease organizational performance and trigger search for superior competitive positioning. Increased distribution of the strategic leadership below the top of the hierarchy across the organization will make this search more effective by increasing the overall information base as well as the intellectual capacity and, in the process, mitigate the impact of individual and group biases. Hence:

Proposition 3: When the competitive environment is turbulent and the internal complexity of the firm is low then distributed leadership, with teams dynamically addressing unit challenges, will result in greater firm performance.

High internal complexity combined with a turbulent competitive environment will require a more complex form of strategic leadership that encourages not only benefiting from

multiple sources of ideas but also simultaneously aligning opposite forces within the firm towards achieving common goals. Strategic leadership networks facilitate these via distribution of strategic leadership and development of the firm culture. Hence:

> **Proposition 4:** When the competitive environment is turbulent and the internal complexity is high then leadership networks, with dynamic constellations of leader-follower role sets, will result in greater firm performance.

IMPLICATIONS FOR RESEARCH

Research methods

Since the collection and analysis of network data is difficult and time-consuming, it is likely that research on the construct of leadership networks would begin with identifying which individuals tend to emerge as leaders over time at critical nodes in the overall structural network and then examine relevant variables including the following (Tichy et al., 1979; Tichy and Cohen, 1997; Brass and Krackhardt, 1999):

1. **Multiplexity** - the extent to which individuals are linked by multiple roles. The more roles linking one person to another, the stronger the linkage;

2. **Transactional content** between leaders (and between leaders and followers) in the network, including exchange of affect (liking and friendship), exchange of influence and power, exchange of information, and exchange of assets or services;

3. The **types of reciprocity and values** shared by individuals.

Such analysis would yield the overall structure and the set of flows operating in a leadership network. The four-dimensional social interaction approach (Hare, 1985; Mumford et al., 2000) and the three-dimensional SYMLOG field approach (Bales and Cohen, 1979) offer two possible ways to accomplish this (Polley et al., 1988). Mayo et al. (2003) suggest

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that there are important issues involving the dispersion of leadership in a network that can be measured by team decentralization (how tightly the team is organized around its most central individuals) and the dispersion of centrality. Ways of operationalizing group centralization and the variance of centrality suggest that propositions which further nuance the relationship between degree of distribution of leadership and environmental variables are likely to emerge. In addition, degrees of shared leadership can also be determined by measuring the amount of influence members attribute to one another (Antonakis et al., 2004).

If leadership is a complex, and often not directly observable phenomenon, as a number of researchers suggest (Mitroff, 1978; Mitroff, 2000; Pondy, 1978; Vaill, 1978; Weick, 1978; Yukl, 2013), then methodologies need to take this into account. In order to overcome the previous limitations in studying leadership and to avoid the limitations of any single method alone, multiple methods of measurement and research clearly should be utilized (Bryman, 2011a; Bryman, 2011b). Thus, strategic leadership researchers need to continue to enlarge their methodologies and data collection strategies to fit a wider set of research requirements (see Mayo et al. (2003) and Siebert et al. (2003).

Paradigmatic implications

The preceding, if implemented, ~~will~~ still does not get to the root of the dilemma posed by the preceding propositions on and discussion of leadership networks. Multi-method research programs will likely yield richer results, but are still inadequate. Very simply, the underlying logic in the currently dominant social science paradigm is to separate variables into those that are dependent and those that are independent.

However, if followers can become leaders and leaders become followers, depending on the situational circumstances and desired competence sets, then a different logic system is required: a logic of *possibility* (modal logic) is thus called for, rather than a logic of *probability*. When and how a follower in one moment becomes the leader in the next moment

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is difficult to predict (Badaracco, 2002). Indeed, it may even be counter-productive for the realization of an organization's full potential to attempt to control who will be in a leadership role, and at what time, because the very act of intentionally controlling the role lowers the potential of the organization or sub-unit to allow a particular follower to emerge into a leadership role as the situational needs emerge. Honda Motor Company and Nucor Corporation are graphic examples of how this fluid leadership can be orchestrated effectively (Nonaka, 1988; Preston, 1991).

Hence, what is needed is a paradigm of leadership, and social systems, that allows for the more fluid, flowing, dynamic exchanges that actually occur in ~~most~~ organizations, in both the private and public sectors. This is consistent with the call for a "third scientific discipline" by a number of organizational researchers (Hunt and Ropo, 2003; Marion, 1999; Sanders, 1998; Wheatley, 1999).

CONCLUSION

Over the last half century more than 10,000 articles and books have wrestled with the puzzle of what are the traits, behaviors, skills, competencies, styles, situational determinants and contingencies that contribute result in effective leadership. Throughout this complex web of theories, frameworks, and advice is woven a rather curious tension – most of the theories and frameworks for effective leadership have been developed within organizations in democratic societies, which espouse the attendant values of participation and empowerment of the individual. The concept of strategic leadership networks makes explicit the obvious – that without numerous leaders at all levels of organization and social order a democratic society could not continue to exist. However, especially in North American society, perhaps less in Europe and Asia, there appears to be an extant over-attribution of the importance of the ability of the hero-leader or star to get things done.

There are some exceptions, such as Badaracco (2002), Goleman et al. (2002), Manz and Sims (2001) and Finkelstein et al. (2009). In differing ways, these authors delineate ways to create networks of actors who move in and out of leadership roles through the development of competencies and skills that allow them to be role models for other potential actors in their extended organizational networks.

The single-actor theory of leadership is only one approach, analogous to a soliloquy in an on-going organizational play. All of the other actors at multiple organizational levels, from vice presidents to first line supervisors, form an internal network of potential and often actual leadership. A theory that encompasses and encourages the full cast of actual and potential leadership actors as well as the formally recognized single-actor strategic leader is much closer to the reality that is present in most organizations.

Organizational leadership, and more broadly the attendant processes of strategy implementation, rarely, if ever, rests with the CEO as a single hero-leader or even with the top management team alone, but is a complex product of situational forces and sets of leaders who are bound together in networks of evolving relationships with each other and sets of followers. Even the iconic Steve Jobs was dependent on numerous other leaders in Apple, Inc. (Isaacson, 2011). Indeed, today's follower often becomes tomorrow's leader and vice versa. Approaches to strategic leadership that intentionally recognize this will help to supplant the paradigm currently utilized that overemphasizes single-actor leaders. This overemphasis blinds researchers and practitioners to the fluid, adaptive networks of leadership existing in most organizations and binds organizational members to an oversimplified construct.

This paper develops a contingent model of strategic leadership based on this concept of dynamic leadership networks. We identify four generic forms of strategic leadership: stars, clans, teams and networks. Then we show, based on the strategic management theory's

arguments, that each of these forms can be appropriate depending on the degree of internal

organizational complexity and the turbulence of the external competitive environment.

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FIGURE 1
Theoretical Background

Leadership
Theory

I. Departure from single-
actor leadership models
(Brass ,1984; Yukl,1989;
Quinn et al.,1990; etc.)

II.Distributed/shared/collecti
ve leadership models (Graen,
1976; Pearce & Conger,
2003; Uhl-Bien, 2006, 2009)

III. Upper Echelons (TMTs)
(Hambrick and Mason,
1984; Hambrick, 2007;
Finkelstein et al., 2009; etc.)

CLANS   NETWORKS

STARS   TEAMS

IV. External Environment
(Porter, 1980, 2008; etc.)

V. Internal Environment
(Cyert and March, 1962;
Williamson, 1975; Hennart,
1992;etc)

Strategy
Theory

FIGURE 2
Forms of Strategic Leadership : Stars, Teams, Clans and Networks

HIGH	**Clans: Networks of Leaders (without leader roles dynamically shifting)** Ford Motor Company – 1960s and early 1970s (before oil shocks)	**Leadership Networks: Dynamic Constellations of Leadership-Followership Role Sets** Ford Motor Company – Alan Mulally years Honda Motors (late 1980s – present) Nucor Corp. - the later Iverson years (late 1980s and 1990s) Apple Inc. (2007-present)
Internal Complexity		
LOW	**Star** Ford Motor Company – Henry Ford years Honda Motor Co. – Soichiro Honda years Apple Computer (1976-1985)	**Teams with Distributed Leadership** **(Teams dynamically address unit challenges, with or without hero leaders within teams)** Nucor Corp. – early Iverson years (1970s and mid-1980s) Apple Computer (1985-2001)

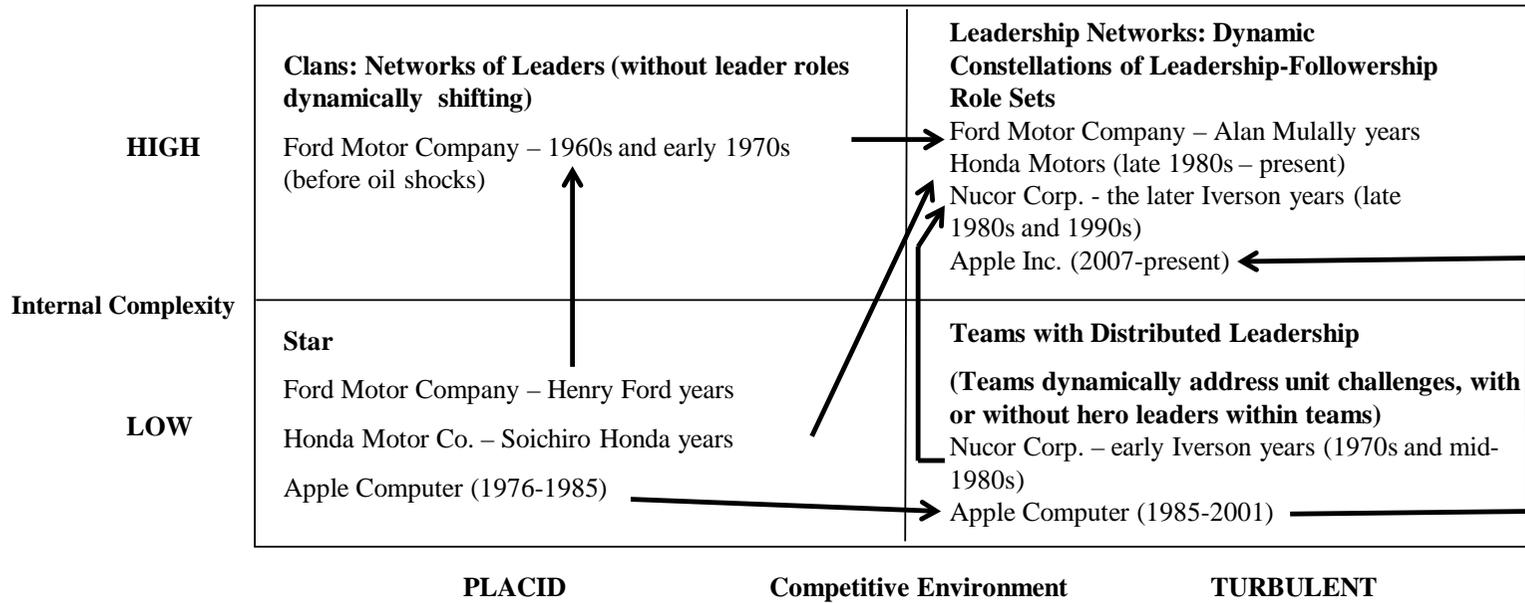**PLACID** **Competitive Environment** **TURBULENT**

FIGURE 3

Strategic Leadership Form, Internal Complexity, Environmental Turbulence and Firm Performance

Internal Complexity:

1. Size of Firm
2. Scope of Operations
3. Knowledge Intensity of Business

Form of Strategic Leadership:

1. Stars
2. Clans
3. Teams
4. Networks

Firm Performance

Environmental Turbulence (Adverse Changes in):

1. Bargaining Power of Buyers
2. Bargaining Power of Suppliers
3. Threat of New Entrants
4. Threat of Substitutes
5. Rivalry