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Stephen Stumpf
Villanova University

James Klingler
Villanova University

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LEADING THE VIRTUAL ORGANIZATION: SUCCESS STRATEGIES, MANAGEMENT PRACTICES, AND SKILLS

Stephen Stumpf, Villanova University
James Klingler, Villanova University

Virtual organizations have inherent strengths and weaknesses relative to traditional organizational forms. Their success depends heavily on the leaders of the organization leveraging these strengths, and not letting the weaknesses threaten the organization's survival. We explore the character of virtual organizations and propose a value proposition as to why individuals seek employment in such organizations. We then examine several business strategies and management practices that have helped virtual organizations to succeed. Six leadership skills are discussed that the leaders of virtual organizations indicate are critical to their business success

INTRODUCTION

Virtual Organizations - What Are They?

People think of organizations as places where they work or go to provide a service – such places have buildings, factories, offices, equipment, desks, chairs, supplies, phones, and computers. There is a sense of permanence. Yet, the definition of organization -- “the act or process of organizing” and “the state or manner of being organized” -- includes none of these physical elements, nor is there the requirement for anything long lasting. Organize is defined as “to arrange or constitute into a coherent unity in which each part has a special function or relation” and “to arrange by systematic planning and coordination of individual effort” (Webster’s Third New International Dictionary, 1986, p. 1590). Nothing in the definition of an organization requires the existence of physical assets or structures. The phrase “virtual organization” makes this explicit as virtual is to “possess a power of acting without the agency of matter” (p. 2556).

For our purposes, virtual organizations are comprised of individuals that coordinate their activities to accomplish specific goals. While some physical assets may exist in support of the enterprise, a virtual organization can exist without an office, plant or equipment; with no full-time personnel; and with minimal support or reporting functions **internal** to the organization -- such as IT, accounting, human resources, marketing, legal, facilities, public relations, or purchasing. In their simplest form, virtual organizations are the thoughts and actions of people, coordinating and working among themselves and with others, few of whom are employees, to accomplish goals of interest and value to all members. The lack of significant

organizational structures, policies, and procedures may well reduce the concept of an ‘organizational career’ to whatever each individual defines as his or her career.

Companies in our research that fit this definition of a virtual organization tend to be small in size (few members, affiliates, partners, or associates), have a small financial asset base, have few physical assets, and have annual revenues below \$100 million. Most are incorporated to limit the financial liability of those contributing their time and efforts on behalf of the company. Many function as consultancies, entrepreneurial ventures, family run businesses, and/or home-based operations. When we asked virtual organizational leaders about their careers, a common response was that ‘I am my career’ - careers are not commonly viewed as something that exist outside of these leaders.

Career Proposition for Leaders of Virtual Organizations

Leading a virtual organization is often an act of creation. Joining a virtual organization means being one of the creators, or working closely with them in a peer-like role. It involves knowing how to focus on the most essential elements of the business while continually taking inventory of the situation. One must promote the organization - focusing on its programs and advantages relative to competitors. Maintaining a clear direction amidst many alternative choices is key.

What does the virtual organization leader get out of doing such work? Our research with 23 leaders of virtual organizations, as well as the work of Stumpf (1993), suggests the following benefits. The work...

- itself is what matters - creating something that is of value

- can yield great personal rewards - rewards that are distributed among those that contribute the most
- is often conducted in make-shift environments, with little protocol, formality, or imposed structure
- demands that one lead and learn every day
- may, or may not, lead to market success - it is sufficiently satisfying to be a player even if one does not win the game
- is often varied, interesting and challenging, but can be repetitive, administrative, and clerical
- provides great personal freedoms, but requires one to impose their own structure and discipline to get things done
- is more than a simple integration of known disciplines and theories - it involves many unique elements learned within the context of the venture

For virtual organization leaders, their work is their career - a career that may go through many transitions as the virtual organization evolves, but which is not 'in' the organization. The absence of formal structures raises questions as to how the leadership can effectively develop and communicate strategy, how important management practices can be learned and applied, and how the necessary leadership skills can be developed. We explore these issues below and conclude with suggestions for future research.

Success Strategies for Virtual Organizations

All companies, virtual or otherwise, compete in the marketplace for talent, customers, suppliers, and financial resources. Virtual organizations may need relatively less (or fewer) of these resources than traditional organizations due to their smaller size and virtual nature. This limits their bargaining power relative to that of their larger competitors, yet provides them with greater flexibility to adjust to changes in the environment. Leveraging the organization's flexibility is one possible strategy for success.

A virtual organization's unique strength is its low overhead - low fixed costs, few full-time employees (if any, other than the owner-operator), no or limited employee benefits, and no or limited support functions. Leveraging this lower cost-base strength into a comparative advantage is another possible strategy for success, especially when coupled with the rapid response and fluidity that characterize successful virtual organizations.

Implied in this initial discussion of virtual organizations is the likelihood that virtual organizations

must meet the challenges of any organization. According to Stumpf (1993) and Thompson & Strickland (1986), they must:

- Assess the Business Environment (e.g., understand consumer/supplier needs; assess competitors' strengths and weaknesses; and understand demographic, technological, social, psychographic, economic, and regulatory trends that could affect the business).
- Analyze the Business Situation (e.g., understand the business profit and loss dynamics; establish financial, marketing and behavioral goals; and be clear on its relative strengths, problems, opportunities, and threats).
- Design Action Programs and Monitoring Systems (e.g., establish a communications mix; design product programs; create monitoring and research systems).
- Examine Alternative Strategies (e.g., determine its competitive advantage; identify target markets and product/corporate positioning in each; make choices around products, pricing, distribution channels, and promotional activity).

Having done this analysis, their leaders must make choices and implement these choices regarding all aspects of the business, from which specific products and services to offer, via whom, to whom, to how to finance and capitalize the business. If the business is a new venture, additional choices must also be made (Timmons & Spinelli, 2004). This can be a daunting task - one that may not occur or be easy to observe in a virtual organization because few such organizations have formal planning and strategy development processes. While a business plan was probably written to satisfy a commercial lender, it is soon left behind as one handles the day-to-day running of the organization.

When we asked a convenience sample of 23 virtual organization leaders how they developed and communicate their strategy, they struggled for an answer. "We just do" was a common reaction to the question. Further probing led to a more interesting response - which in hindsight appears to parallel the process people use when completing a crossword puzzle. The responses had the following elements in common:

the use of a business **framework** (e.g., points 1 through 4 above) as the **clues** to consider so as to define the business and its key functional activities;

- attending to the clues in whatever order was easiest for them personally - **starting with what they knew**

well, then backing into areas of less knowledge or skill;

- **learning as they went along** by experiencing the effects of past choices on the current situation;
- **changing their minds** whenever a past decision seemed to be dysfunctional now, but always staying with the business core **theme**;
- treating the process as **iterative and ongoing** with many possible 'right' answers, and
- **getting help from others** who had relevant expertise whenever they felt stuck.

Each of the words above in **bold** can be used to describe how may people complete crossword puzzles. Virtual organization leaders seem to enjoy this process, not getting bogged down in its open, free flowing, and mostly unstructured nature. The same might also be consistent with how they view their careers.

We discuss below select management practices and leadership skills that have been found to be relevant to small companies, particularly those that are successful at remaining virtual - i.e., few physical assets, a small number of employees, and limited formal structures and support systems.

Successful Management Practices for Virtual Organizations

The greatest challenge of every virtual organization is to remain virtual - which often means surviving and succeeding while being under-financed and understaffed. As the organization grows, the tendency is to increase the organization's physical assets and hire people to use these assets. If growth is successful, the organization begins to be less virtual and more 'real'. Within a few years, it looks and acts like the more traditional organization. If the growth is not successful, the extension of physical assets and staff reduces the organization's flexibility and economic strength - often leading to retrenchment or bankruptcy. The key to this measured growth is to assure that each added employee or resource is necessary to the organization's distinctive competence - and to clearly communicate to each newcomer the nature of the 'individual career' on which they are embarking. If the organization internalizes any non-key functions and drifts from its narrowly defined competence, it will begin to become "real" - with the associated employee career expectations and expenses of real organizations.

The rapid growth in outsourcing in the past score years has helped virtual organizations remain in their niche. Through carefully planned leases, rentals, and

contracts with providers, it is possible to remain flexible and lean. If business increases suddenly, additional outsourced services can be retained. If business decreases suddenly, the outsourced services can be cut back. The virtual organization is able to maintain its two primary competitive advantages: (1) flexibility and (2) a low cost base of operations.

Beyond the challenge of remaining virtual, there are four management practices that are our interview research suggests may be critical to the success of a virtual company. Since people do not regularly come to a meeting place (office, plant), there is limited contact among supervisors and workers. Empowering people to assess and act on issues in their area of expertise is essential (Conger, 1998). The use of rules and procedures to control behaviors is limited because much of the work is done 'unsupervised'. One's formal authority as a source of power is greatly diminished (Cohen & Bradford, 1991). Management would generally not know that a rule or procedure is violated until it is too late. Management must build a culture that serves to guide behavior based on a social network of shared relationships, including shared values, norms and beliefs (Baker, 2000). Then it must create a climate of positive connections and mutual trust with full recognition that trust will sometimes be compromised (Dutton, 2003). Finally, new ways of making decisions which require or benefit by group discussion in the likely absence of physical proximity must be defined and used. Traditional decision making groups are difficult to convene in virtual organizations - yet the buy-in and ideas of many stakeholders remains critical to long term success (Stumpf, 1993).

Empowerment is Essential. Empowerment in a virtual organization is different from that in a traditional organization. In a traditional organization an individual experiences empowerment within a framework of formalized rules and regulations as well as an organizational culture that supports empowerment. Since none of these elements are in a virtual organization, the basis for empowerment must be different. In essence, a member of a virtual organization will feel empowered to act as the agent of the organization to the extent that the shared values and goals of the virtual entity have been clearly communicated to that member and the member accepts them. This acceptance is based on a sense of mutual benefit as well as a desire to maintain mutual trust. Since each member in a virtual organization is contributing from his or her core competency, the other members are depending on that person to exercise that competency. This mutual dependence as well as the

shared goals and rewards are the basis for empowerment. They also provide the foundation for the individual's self-concept of a career.

Culture Replaces Many Formal Rules and Procedures. When one creates an organization, there are legal, governance, and membership issues to be addressed. The leadership establishes an organizational structure (rules, roles, and procedures) for how the organization and its members are intended to function. Virtual organizations have less well-defined structures - the rules, roles, and procedures are fewer in number and more likely to be treated as flexible by those whose behavior the structure is intended to influence or control. Rules are guides, not laws.

The way the leadership relates to the members, including the extent to which a formal structure is defined and enforced, contributes to what becomes the organization's culture. While organizational culture is an abstract concept, its power is concrete. It is the virtual organization's culture, more so than its structure or procedures, that leads the members to feel empowered. The culture is a set of guidelines and heuristics - ways of doing things effectively that have evolved out of successful experiences. Conforming to cultural norms facilitates getting things done. By knowing the culture, people can take actions that are consistent with the culture with less risk of criticism or resistance. Violating cultural norms often leads to problems or failures - both personally and organizationally. Consider the following pairs of "advice" statements made by two different virtual organizational leaders that reflect their respective cultures:

- "If something isn't working, let Matthais know."
- "If you see something wrong, try to fix it."
- "If you don't get along with someone, avoid them."
- "We work through our differences so that everyone benefits."

These statements reflect how people are expected to behave - they are not formal rules or procedures. Conforming to cultural norms leads to empowerment. Violating cultural norms leads management to increased levels of oversight and control. Virtual organizations cannot effectively impose such oversight and control easily due to their virtual-ness. Success is determined by crafting and supporting an appropriate culture for the type of business and business environment. Ignoring culture, or attempting to substitute rules, roles, and procedures as a primary means of directing behavior, is ill advised.

Positive Connections and Mutual Trust Sustain the Organization. Creating and operating a virtual organization places special demands on the entrepreneurial skills of networking and communicating a coherent vision (Allen, 2003). While leaders often maintain control over the activities that constitute its core competency, they generally seek other individuals and organizations to which they will outsource select functions (i.e., accounting, IT, payroll.), or which will directly aid in the delivery of its product or service (e.g., product installation and testing). This requires a substantial network of contacts that the leader must trust with the most basic aspects of the business. Strategic alliances formed in this way have each partner performing in its area of core competency, and provide maximal capability at the lowest cost, in addition to the required flexibility.

Trust between the various partners in a virtual organization is the glue that makes it possible, and building these relationships depends on sharing a coherent vision as to the quality practices and standards of the virtual corporation. At the heart of such cooperation is a willingness of the leader to give up control and trust his/her partners, as well as sharing in the financial rewards. As Allen (2003) points out, the key to maintaining this group of collaborators is the mutual benefit to be gained and shared by all. Seeing that this happens and continues is the main challenge for the leader of a virtual organization.

An example can bring this practice to light. Ralph runs a successful Human Resources consulting business from his home. Ralph has years of experience in the field and is skilled at listening to clients and designing solutions, whether they relate to payroll, training, or benefits administration - the entire range of HR issues. He delivers these services through his company, The Solutions Network, from a widely spread network of independent professionals who understand the vision of The Solutions Network and can be the embodiment of the company as they work in the client's company. The effort needed to develop and maintain the network of specialists is the critical factor in the success of his business.

Allen (2003) recommends that there be face-to-face meetings as often as practical, but at least every three to six months to keep virtual partners linked and empowered. This need to meet has led to a new virtual organization. Sonya started a home-based business that provides women who are running their own businesses, many virtual, with face-to-face opportunities to network and develop the contacts needed to provide better services and products. Her target is professional women

who started a home-based business so that they could remain at home to raise their children. Her goal is to link such women in a geographic area together so that they can support each other with goods and services as a virtual organization of consultants and specific service providers.

Alternative Decision Making Processes are Needed. Bringing people together to interact, discuss issues, and express views -- something typical done in most organizations -- is less common in virtual organizations. The absence of a shared work space and office environment makes such 'meetings' difficult to arrange. The leadership of a virtual organization must find alternatives to this traditional approach to group involvement and decision making.

While the research on such group processes does not directly address issues within virtual organizations, it does identify some alternatives to the traditional interacting group processes for involving and empowering others. Nominal groups, Delphi groups, and diagonal-slice groups are examples of ways in which people can be involved in a group process within virtual organizations (Stumpf, Zand, & Freedman, 1979).

Nominal groups are groups 'in name only'. It is useful to bring the group members physically together, but this is not critical. Conference calls or other electronically assisted 'group' methods are possible. The group process involves each individual sharing their views or ideas on an issue, listening (reading) the views of others, then evaluating the ideas generated by all members of the group. The evaluations across all nominal group members are then summarized and presented to the back to the group. Additional ideas can be shared.

Delphi groups do not require any personal interactions, or the coordination of a group meeting. All communications can take place via electronic means, through an administrator or focal person. Questions are generated, sent to all participants in the Delphi group, answered by them, then returned to the administrator - who then summarizes them (sometimes statistically). This summary information is then sent to the Delphi group members along with additional questions stimulated by the previous round of responses. This iterative process continues until a modal response to the questions emerges and the leadership of the virtual organizations is ready to make and share a decision.

Leading a Virtual Organization

The personal style and management competencies of the leaders of virtual organizations must not only match the skills of their counterparts in traditional organizations, they must hold the organization and its members together in the absence of the accoutrements and formal processes, structures, and career paths present in such organizations.

For nearly two decades we have been examining which skills managers' view as critical to their success (Stumpf & Mullen, 1992; Stumpf, 1996). Based on the reports of 367 people in management positions, we found that those leading virtual organizations assessed the following six skills as more important to their success than did managers in traditional organizations. Table 1 summarizes the results. Individuals were asked to rate specific items within each skill dimension on a scale of "1" -- little importance, "3" -- moderate importance, and "5" -- great importance. All results reported are significant at the $p \leq .01$ level. Each skill is described below.

Table 1: Comparison of Importance Ratings of Leadership Skills for Virtual Organizations and Traditional Organizations

Skill Dimension	Virtual Organization Leaders (N=162)	Traditional Organization Leaders (N=205)
Know the Business and Markets (average of 5 items)	4.7	4.2
Manage Rivalries (average of 3 items)	4.8	3.6
Find and Overcome Threats (average of 3 items)	4.8	4.3
Stay on Strategy (average of 3 items)	4.5	3.3
Act as an Entrepreneurial Force (average of 3 items)	4.9	3.6
Accommodate Adversity (average of 3 items)	4.8	4.2

Knowing the Business and Markets. For much of the 20th century, managerial emphasis was on the division of labor into tasks and functions, along with finding ways to integrate the 'parts' back into a whole so that the whole was greater than the sum of the parts. The nature of virtual organizations yields many such scientific management practices as inefficient and costly. Knowing

just a part of a virtual business is often not enough as connecting with others who know 'just their part' is less frequent and more difficult than in traditional organizations. Physical contact is infrequent. E-mails and other written communications are seldom read thoroughly, and even less often understood thoroughly. Virtual organization leaders are like the general managers

that Kotter describes (1982): people responsible for an entire line of business in an enterprise.

They must know their business and markets - including customer needs and wants. This means that they are able to identify and interpret trends that could affect the business. The trends might be social, such as the increasing number of two-career couples on the demand for convenience products, or economical, political, technological, or demographic. They are able to articulate a conceptual understanding of the business's past actions and do so to anchor others in a meaningful culture. They are able to ask thought-provoking questions of others that relate to the business's future actions - whether these people are peers, subordinates, or others within the social network.

Managing Rivalries. Coordination - getting two disparate parts of the organization to work efficiently and effectively together without dysfunctional conflict - has been largely accomplished through creating policies and procedures for all to follow. These policies and procedures, along with performance measures, monitoring devices, controls, and rewards or punishments for compliance, frequently result in the desired coordination.

Virtual organizations are less able to rely on coordination as an integration mechanism because people are in less frequent contact with each other and are less inclined to follow the policies and procedures. Differences in perspectives, including rivalry among members, are common. Managing rivalry requires leaders to find ways to obtain the most benefit for the organization even when members have competing or incompatible goals. Leaders must create positive connections among members, increasing the social capital they have in the system, and creating an atmosphere of mutual trust. Rivalry becomes the indicator that the virtual organization has vitality - managing this rivalry so as to be productive becomes a key leadership skill.

Finding and Overcoming Threats. The greater size and physical assets of many traditional organizations gives them some protection against threats. They have some time to react, and often have staff positions responsible for doing so (e.g., a public relations officer). Virtual organizations must be able to foresee threats and act to minimize or eliminate them in advance. Finding and overcoming threats precedes problem solving - it is more diagnostic than analytic in its nature. As such, a leader's intuition often provides an early indicator of an impending threat. Successful virtual organization leaders are able to assess the threats associated with their

intended actions. They remain open to new ideas even while they are taking actions. They monitor key information regularly, using it to alter or refine their diagnosis and prognosis of the situation - much the way medical doctors do.

Staying on Strategy. In the past ten years, the concept of strategic flexibility has gained in popularity. Given the rapid rate of change in market conditions, competitive activity, and technology, it seems wise to have a flexible approach to the way the business functions (Saias & Tabatoni, 2003). While the need for flexibility may be a great for a bureaucratic organization, virtual organizations by their nature are highly flexible. There are few physical assets to alter, fewer rules and policies to change, and few formal structures to resist change.

Staying on strategy takes on greater importance in virtual organizations. It requires that a strategy be clearly defined and agreed to by the key members and significant stakeholders. People must understand how the strategy capitalizes on the organization's strengths, how the strategy is supportive of the competitive advantage they regularly work to sustain and enhance, and which specific target markets they are to focus upon with which products and services. The tactics supporting the strategy may need to be flexible so as to respond to the market, competitors, and customers - but the strategy itself needs to be sticky. Communicating a change in strategy is difficult in a bureaucratic organization - doing so in a virtual organization is even more difficult. The worst of all worlds is to have people confused about how what they are doing contributes to the organization.

Acting as an Entrepreneurial Force. The need for entrepreneurship in organizations today is as strong as ever, and the challenges facing the entrepreneur are far greater than a few decades ago. While hardly unique to virtual organizations, there is a growing need for organizational members to have an entrepreneurial spirit and mindset. The leaders of virtual organizations must be able to create a vision of what the company can be and articulate that vision so that others are able to understand it, share in it, and become excited about it. The vision becomes a positive connection among members. The leader must be able to champion innovative ideas, even when faced with skepticism, risk, and resistance. Through their positive energy, they are able to influence and excite others to take desired actions (DeLuca, 2003).

Accommodating Adversity. While the public likes to read about business successes, they seem to buy even more papers when the headlines cry failure. And failures are commonplace when changes are being made, new

products are introduced, and the business environment shifts quickly in ways that are difficult to predict. With a failure comes blame - and someone has to take responsibility for the failure. Being able to take the risks, fail some times, and handle the adversity is an essential leadership skill in virtual organizations. Leaders need to be able to accommodate difficulties; ignoring, denying, or making futile attempts to avoid adversity wastes time, diverts energy, and reduces the leader's power and influence over others. Leaders can accommodate adversity by being flexible, altering their approaches, or redefining their situations. They must be comfortable and tolerant when dealing with ambiguous situations - often not pressing for an answer or closure. When setbacks materialize, they must be resilient - take the setback in stride, learn from it, and move on. By shifting the energy to the future, and exercising the previous five skills, the organization regains its energy and positive feel.

Research Implications

One avenue for future research would be to focus on the career value proposition for virtual organization leaders. It would seem that the intrinsic rewards available in these careers are critical aspects of their value to the individuals. Important questions include the extent to which newcomers are considering the intrinsic rewards potentially available in their career choice, how this is affecting the choice, and subsequent satisfaction with that choice. Research is also needed on the degree to which each type of intrinsic reward suggested in our interview research above is being experienced over time. In addition, how different work activities affect the experience of intrinsic rewards is an important area for investigation. The relationships between the experience of intrinsic rewards and retention, commitment, job satisfaction, job stress, and performance are all important areas for research.

In addition to these research implications for those seeking careers in virtual organizations, research is needed on the four practices described above - empowerment, the importance of culture, creating positive connections and mutual trust, and using alternative decision making processes. Do virtual organizations that use these practices create value for both the organizational and individual success beyond what might be observed in traditional organizations?

A third area for research would focus on the six leadership skills - knowing the business and markets, managing rivalries, finding and overcoming threats, staying on strategy, being an entrepreneurial force, and

accommodating adversity. For example, in successful virtual organizations, how well developed are these skills in the leadership compared to new hires as perceived by (1) senior staff and principals, (2) seasoned associates, (3) other recent hires, and (4) customers or clients. Are these perceptions consistent across these groups? Are there other skills that are needed, and are such skills different than those needed by the leaders of traditional organizations?

A fourth area for research relates to if and when training dollars need to be invested in order to develop skills, how the training should be structured, and the most useful subject matter and timing of the training. Are the leaders of virtual organizations adequately communicating their expectations in terms of skill development? Do assignments adequately reinforce the training and skill development expectations from the perspective of recent hires? Efficacy and skill level can be researched in part by assessing perceptions of others involved in (or with) the virtual organization concerning the leader's behaviors. Skill level should also be researched in relation to performance indicators.

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Stephen Stumpf is professor of management and Fred J. Springer chair in business leadership at Villanova University. He received his Ph.D. in organizational behavior and industrial psychology from New York University. His research interests include leadership, ethical decision making, multi-source feedback, and team building. He has published in *Academy of Management Journal*, *Career Development International*, and *Organizational Dynamics*.

James Klingler is an assistant professor of management at Villanova University. He received his Ph.D. in organizational behavior and industrial relations from Temple University. His research interests are organizational culture, entrepreneurship and ethics. He has published in *Journal of Organizational Culture, Communications and Conflict*, *Journal of Entrepreneurship Education*, and *Journal of Management Case Studies*.