Organizational Leadership – The Strategic Role of the Chief Exec

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The owner of a company will want to directly or through the medium of professional executive management to control the operation of that company. Placing a distinct and separate authority at the top of the organization, is not leadership as commonly understood by many. Rather, it is a command that gives legitimate expression to the role of management over the function of leadership. The focus of this paper is on the strategic role performed by the chief executive in providing the embodiment of vision, executive management, and control toward organizational leadership.

INTRODUCTION

One of the basic principles of modern business is the separation of ownership and management. In other words, those who have a financial stake in the firm (i.e. owners, including private owners and public shareholders) may not have a management role (Hitt & Ireland, 2008). Instead, the management role is filled by a staff of professionally trained managers who manage the firm in accordance with the interests of the firm (Hitt & Ireland, 2008). The Chief Executive Officer (CEO) is the highest-ranked of these professional managers, and is tasked with general strategic direction, management, and control of the firm (Carver & Carver, 2011). In many organizations the CEO also plays a role in corporate governance, with a seat on the board. (Carver & Carver, 2011).

In many United States public corporations (corporations required to report quarterly by the U.S. Securities and Exchange Commission as public corporations), the CEO may also have the title Chairperson of the Board of Trustees. When the CEO also serves as Chairperson of the Board, the CEO has the extra powers inherent in presiding over the board meetings even though he or she has only one vote on the Board. This dual role as CEO and Chairperson of the Board is causing increasing controversy in the USA as some shareholders and many academics believe that the different interests of stockholders and those of managers would make it more useful for the Chairperson to be an outside member of the board who is not a paid member of management. This is common in many other countries such as in the United Kingdom where the CEO often has the title of Managing Director but the Chairperson of the Board is an outside member of the Board who does not work full time for the corporation. In non-profit organizations in the USA, the CEO often has the title of President or Executive Director of the organization. In such non-profit organizations, the Chairperson of the Board is ordinarily someone who is a volunteer for the organization and is not paid any salary for his or her work with the organization. (Lublin, 2009). (Grunewald, 1991).

Regardless of title, the CEO plays a substantial role in the creation of a coherent group (the organization), the identification of a vision and goals, direction of the group through executive management, and creation of systems of controls and accountability to help achievement of these goals.

ANALYSIS

The roles and processes of the CEO follow from the separation of ownership and management in the modern firm and the need for organization of the group of people associated with the corporation. The specific roles that are identified include creation of a vision for the organization, direction of the organization in order to achieve these goals through executive management and transformational leadership, and creation of systems of control and accountability in order to ensure that the corporation can reach its goals.

This analysis first begins with deconstruction of the separation of ownership and management interests and the need for organization of the group. It then follows with discussion of each of the three roles of the CEO (strategic vision, management, and control) and how these roles serve to organize the group and direct it. These discussion areas also critique the ideas presented, particularly presenting the potential issues that can occur in these areas and specific cases where the theoretical position is not shown. These cases show where more attention needs to be placed on the theoretical development of the role of the CEO as well as potential gaps in CEO skills and training.

THEOLOGICAL FOUNDATIONS OF THE CEO'S ROLE

The role of the chief executive is based on two distinct theoretical concepts that influence group organization and direction. The first of these concepts is separation of ownership and management interests, while the second is the role of leadership in the organization of the group. The theoretical foundations of these roles are discussed in order to show how the CEO influences the organization.

SEPARATION OF OWNERSHIP AND CONTROL

The separation of ownership and control is a long-standing principle of Western management of non-family firms. This concept simply refers to the idea that, in the large firm, economic ownership of the firm is not associated with the management of the firm (Clarke, 2007). This is due to the dispersed ownership through shares or multiple investors, which means that there is no clear candidate for the firm to select for management and leadership. Furthermore, none of the majority shareholders in the firm may have the technical skills or desire to manage the firm, being engaged in other business. Instead, the firm as a corporate body selects a professional group of managers to control the business in the interests of the shareholders (Clarke, 2007). This focuses the management interest in a single individual, rather than using a group management model. This model is obviously not followed in small business, entrepreneurial businesses that have not yet been listed on the market, and family firms, but it does hold for public corporations (Clarke, 2007).

The literature has long supported the increased efficiency that is found with separation of ownership and control. For example, one early study found that for large firms, there was a strong financial benefit to be gained from the professional skills of managers (Monsen et al., 1968). However, this study also found a clear disadvantage to the separated arrangement – specifically, that the financial interests of the manager and the corporation are not necessarily aligned, and thus it is difficult to force the manager to act in the interests of the firm (Monsen et al., 1968). This condition is formalized in economic theory as a principal-agent problem (Nicholson & Snyder, 2011). The classical form of the principal-agent problem holds that there is one party (the principal) that holds economic ownership of an asset, but for some reason does not want to manage the asset himself. In order to efficiently manage the asset, the principal hires a second party (the agent) and tasks him with managing the asset in line with the interests of the principal. In the firm, the owners (distributed or otherwise) are the principals, and the CEO is the agent.

The problem arises in the principal-agent problem because the economic interests of the principal and the agent are not aligned, and the agent (who is active in managing the asset) has more information than the principal. This allows for the potential that the agent may use the favorable information asymmetry for his own gain, rather than the gain of the principal (Nicholson & Snyder, 2011). The problem is further exacerbated by the problem of moral hazard, as it is the principal (the owners of the firm) rather than the agent (the CEO) bears the penalty for any errors that accrue from the principal's ownership of the firm (Nicholson & Snyder, 2011). In order to prevent the misuse of agent information by the CEO, the most common approach is to use a compensation package that aligns the interests of the CEO and the ownership of the firm (Hall, 2008). For example, executive compensation may be composed primarily of performance incentives, such as bonuses and stock grants, that tie the executive's compensation levels to the financial performance achieved by the firm (Hall, 2008).

The final question regarding the use of separation of management and control is whether or not it is actually effective in terms of financial performance. As previously noted, earlier studies have enthusiastically supported the financial benefits of this separation (Monsen et al., 1968). However, more recent studies have had more ambiguous findings. For example, one study found that firms had to employ more outside directors as the degree of separation between ownership and control became higher, which the authors attributed to increasing principal-agent effects and increasingly poor alignment of interests (He & Sommer, 2010). There have also been increasing questions about the role of separation of ownership and control in risky behavior on the part of corporate managers (Cole et al., 2011). Cole et al.'s (2011) study of risk management in various firm structures did find that there were significant differences between mutual companies (where ownership and management are blended) and stock companies (where they are separate), and that stock companies tended toward higher levels of risk than mutual companies. This lends support to the theoretical foundations that suggest a difference in risky behaviors based on alignment of interests. Furthermore, studies of separation of ownership and control and its effect on financial performance have become more nuanced. For example, a study of French firms from 2000 to 2006 found that the amount of diversification pursued by CEOs was high when there were high free cash flows and a shared CEO/Chairman role (Castañer & Kavadis, 2013). However, the study also found that these conditions did not necessarily occur at low levels of cash flow. Thus, there is not a simple relationship between separation of ownership and control and financial performance, as suggested by earlier studies. Instead, the relationship is more complex. Nonetheless, this separation still forms the basis for the role of the professional CEO.

LEADERSHIP AND GROUP ORGANIZATION

While separation of ownership and control provides a basis for the role of the CEO, it does not explain what the CEO's role actually is. The role of the CEO can be found in leadership theory. Leadership can be defined as "a process whereby an individual influences a group of individuals to achieve a common goal (Northouse, 2010, p.3)." This definition has a number of distinct implications. First, that leadership is a *process* rather than a *trait* means that it is a mutual series of influencing actions, rather than an innate capability (Northouse, 2010). Second, leadership requires a *group*, or more than one person who are devoted to achieving a particular goal (Northouse, 2010). Third, the goal of the group must be *shared*, that is the group must have at least some consensus on what the goal is (whether formal or informal) in order to allow the leader to direct the group. Finally, there is *influence* involved in leadership; that is, the leader must be able to convince members of the group to follow his or her lead toward a given goal (Northouse, 2010). This definition provides the basis for understanding what is the role of the CEO.

The question of influence is something that requires more explanation, because it is not clear where this influence may come from. One of the most commonly used frameworks for understanding the sources of power is the five forms of power framework, which was initially proposed by French and Raven (1959) (Daft, 2008). This framework suggests there are five distinct sources of power that leaders and followers use to influence each other, including:

- Legitimate power – the power of the individual within the formal organizational hierarchy;
- Coercive power – the power to force another individual to do something through the threat of formal or informal sanctions;
- Reward power – the power to convince another individual to do something with the promise of rewards (such as pay incentives or promotions);
- Referent power - the power an individual has to influence another based on personal position, such as social position or esteem; and
- Expert power – the power the individual has to influence another based on perceptions that the individual is an expert or holds specialist knowledge in a particular field (Daft, 2008).

Of these five forms of power, the first three can be considered to be formal (or obtained through the position in the organization), while the last two can be considered to be informal (obtained based on who or what an individual is, regardless of position within the organization) (Daft, 2008). A sixth form of power, informational power, was later added to the set of five above (Forsyth, 2010). Informational power is a third informal form of power, based on how well the individual can influence another through the effective use of information and argument (Forsyth, 2010).

The reasons for using the leadership role are various. First, the leadership role is intended to accomplish the goals of the group or organization (Northouse, 2010). By implication, in the modern firm these goals should be aligned with the interests of the owners of the firm (Hall, 2008). In other words, the leadership role is a strategic role. However, the leadership role is also directed to followers and their development in many cases (particularly modern transformational leadership) (Daft, 2008). This means that in addition to the responsibilities to the owners of the firm, the CEO's leadership role also implies responsibilities to employees and others that accept his or her leadership. In some cases, however, leadership may not be directed to the best interests of the group, but may instead be directed toward achieving the goals of the leader (Northouse, 2010). This type of leadership often falls under charismatic leadership, where it is the personal power of the leader, rather than the goals of the organization, that are achieved (Northouse, 2010). This suggests that the leadership role of the CEO cannot be taken as a wholly benign role, as it does offer opportunities for misuse. One notorious example of the misuse of leadership was that of Enron, the American energy company that collapsed due to routine misdealing that was encouraged and promoted by the firm's management team (Eichenwald, 2005). This case demonstrates that the simple use of leadership is not sufficient to ensure that the organization's CEO will be successful in the role of improving performance within the firm. This issue will be explored in more detail below.

THE BASE OF THE CEO'S ROLE

Based on the two theories above, we can state that there is a specific basis for the role of the CEO in the organization. First, the CEO is appointed based on the separation of ownership and control, and (theoretically) has compensation that aligns his or her interests with the owners of the firm. This is intended to achieve the interests of the firm's owners without inducing a group management crisis. Second, the CEO uses leadership mechanisms (directed influence) to direct the group toward achieving its goals. The discussion below examines exactly how the CEO does this, using the bases of formal and informal power described above. The three areas of CEO responsibility that are explored include creation of vision and goals for the organization, executive management in order to direct the firm toward achieving these goals, and creation of controls and accountability to ensure that goals are achieved.

DISTINGUISHING BETWEEN MANAGEMENT AND LEADERSHIP

Leadership in a corporation should be distinguished from Management. John P. Kotter, writing in an article on "What Leaders Do" in the Harvard Business Review (Kotter 2010) stated:

> “Management is about coping with complexity. Its practices and procedures are largely a response to one of the most significant developments of the twentieth century: the emergence of large organizations. Without good management, complex enterprises tend to become chaotic in ways that threaten their very existence. Good management brings a degree or order and consistency to key dimensions lie the quality and profitability of products.
>
> Leadership, by contrast, is about coping with change. Part of the reason it has become so important in recent years is that the business world has become more competitive and more volatile… The net result is that doing what was done yesterday, or doing it 5 percent better, is no longer a formula for success. Major changes are more and more necessary to survive and compete effectively in this new environment. More change always demands more leadership.”

Organizations need both strong leadership and strong management for optimal effectiveness. Leaders can challenge the status quo, create visions of the future and inspire members of the organization to want to achieve the vision and mission of the organization. Managers can formulate detailed plans, create efficient organizational structures and oversee day to day operations of the organization. (Robbins and Judge, 2013 , p. 368). The CEO of an organization may be able to function in both capacities.

CREATION OF THE VISION AND THE GOALS

“Where there is no vision, the people perish” (*Proverbs 29: 18).* The first and most important task of the CEO is to act as a visionary leader, or one that creates a vision and a set of goals for the firm to achieve (Northouse, 2010). As noted above, the shared goals of the organization are the foundation of leadership, since it is these goals that are inherent in group formation and provide the basis for leadership influence (Forsyth, 2010). Typically, the goals of the organization are based on the strategic interests of its principals (in the case of the corporation, its owners) (Furrer, 2010). The goals of the organization describe specific achievements that should be met in order to achieve the vision of the organization (Furrer, 2010). The vision of the organization is also a strategic statement, but one that focuses on the desired end state of the organization following completion of the corporate strategy (Furrer, 2010). Thus, the CEO must first determine the desired end state of the organization (the vision), then identify strategic goals that will help achieve this end state.

A case study of Lee Ji-Song, a Korean CEO who managed a major merger between two Korean public corporations, showcases the importance of visionary leadership (Hahm et al., 2013). In this case, Ji-Song was instrumental in setting the vision and goals for the newly merged corporation, which was rated as one of the most important factors in the success of his leadership (Hahm et al., 2013). The vision and goals set by Ji-Song helped in two distinct ways. First, they helped the members of the newly merged organization come to terms with the new organizational structure and identify a direction and purpose for the organization. Second, they helped knit together the new organization and create a shared culture, in effect creating a single group from what had been two groups (Hahm et al., 2013). The use of visionary leadership and the development of a new vision was significantly and positively related to perceptions of managerial capital within the firm (along with perceptions of management skill in personnel and organizational management) (Hahm et al., 2013). Thus, by employing visionary leadership and creating a shared vision and set of goals for the organization, Ji-Song improved the group’s cohesion and ability to deal with its new direction, as well as cementing his own personal position. This serves as a valuable demonstration for the power of visionary leadership as well as the importance of the CEO in setting the vision and goals of the organization.

The type of visionary leadership required may vary depending on the firm. One example of this difference is found in a study of high-technology firms (Makri & Scandura, 2010). In this study, the authors used visionary leadership as one of the components in the construction of *creative* leadership, which they found to be particularly important in spurring innovation. Creative leadership implies that the visions that need to be set by the CEO, at least for some firms, do not only extend to dry statements about financial position or market penetration. Instead, creative visionary leadership demands that the vision of the firm should include ideas about creativity, innovation, and development of ideas and people in order to be effective (Makri & Scandura, 2010). By expanding the definition of visionary leadership to integrate creativity and innovation into the firm's definition, this study shows that it is important to not just consider the financial strategic goals of the firm, but also its nonfinancial strategic goals. This position is at the heart of many leadership norms, such as transformational leadership, which focus as much on internal development of the organization and its members as they do on financial development (Daft, 2008). However, it is also important to keep in mind that innovation and creativity *are* the key to financial effectiveness for high-technology firms (Makri & Scandura, 2010). Thus, while serving internal purposes by setting creative visions, the creative leader of the high-technology firm also serves the ownership interests by promoting activities that will improve financial outcomes.

It should be noted that CEOs do not set the vision and goals of the organization in a vacuum, but instead need to take into account other factors that influence their use. For example, the CEO has to work in conjunction with the rest of the management team, and in order to be most effective should have similar assessments of goal importance to make these partnerships effective (Colbert et al., 2008). Colbert et al. (2008) studied CEOs and Vice Presidents (VPs) in order to determine how goal importance congruence, or similar assessment of goal importance, influenced the ability of the CEO to use transformational leadership to achieve goals. They found that the more consistent assessment of goal importance was between the CEO and the VPs, the more effective leadership toward achieving these goals would be (Colbert et al., 2008). A second study that was conducted in hospitals also found that there were significant influences from the hospital board on strategic goal setting by the CEO (Ford-Eickhoff et al., 2011). The hospital board's influence varied depending on the board's makeup (including insider and outsider makeup as well as level of expertise), but it was clear that there was an influence of the board on identifying and prioritizing internal and external goals for the hospital (Ford-Eickhoff et al., 2011). CEOs may also need to deal with differing opinions regarding the strategic vision and goals of the organization within the management and employee groups of the organization, and can face considerable resistance in this area (Mullins, 2007). Thus, while one of the CEO's roles is to set strategic goals, this is not something that can be done unilaterally. Ultimately, the Board of Directors is legally responsible in many countries for establishing or at least formally approving the major strategies that are to be adopted by the corporation.

The new CEO of Ford Motor Company, Alan Mulally, was recruited to transform Ford's culture and return the company to profitability after years of accelerating decline and a severe economic downturn. Mulally was brought to Ford by the Board of Directors after the then CEO, Bill Ford, who was the great grandson of Henry Ford, concluded that an insider could no longer fix Ford. Bill Ford remained as Chairperson of the Board but Mulally was brought in as the new CEO to transform the company which at the time was losing from $3,000 to $5,000 on every car it sold. Mulally's experience was at Boeing and did not include any experience in the automotive industry. Mulally has succeeded so far as leader in moving Ford's more than 300,000 employees to change their culture so as to begin making cars again with a profit on every car sold. Ford turned down aid from the Federal Government in the United States to keep its independence even though major competitors General Motors and Chrysler received such aid to help their turnarounds. The turnaround at Ford has been successful under Mulally's leadership and Ford has been operating at a profit recently. (Pearce and Robinson, 2013).

Passion is often an important virtue in a CEO today. When Steve Jobs returned to Apple as CEO after a twelve year absence, when the company was close to bankruptcy, he said, as quoted by Carmine Gallo, 2011):

> "Marketing is about values. This is a very complicated world. It's a very noisy world. We're not going to get a chance for people to remember a lot about us. No company is. So we have to be really clear about what they want them to know about us. Our customers want to know what we stand for. What we're about is not making

> boxes for people to get their jobs done. Although we do that very well. Apple is about more than that. We believe that people with passion can change the world for the better. That's what we believe."

Jobs revitalized Apple and his leadership of the company made Apple one of the most important companies in providing innovative new products in the industries Apple served during the time of his leadership.

Trait theories are sometimes used to consider personal qualities and characteristics that differentiate leaders from nonleaders. For example, Indra Nooyi is the CEO and Chairperson of PepsiCo, one of the largest food and beverage firms in the world. She is described as funloving, sociable, agreeable, conscientious, emotionally stable and open to experiences. Trait theorists would claim that her personality traits have contributed to her job performance and career success. (Robbins and Judge, 2013, p.369). Some CEOs who have certain traits and who display the right behaviors may still fail as leaders. As important as traits and behaviors are to identifying effective or ineffective CEOs as leaders, they do not guarantee success. This paper has discussed the importance of the process in achieving success as a CEO. The context may matter also. (Robbins and Judge 2013, p.372).

In summary, one of the most important roles of the CEO is to act as a visionary leader and ordinarily recommend to the Board of Directors the vision and goals of the organization. This can be an important factor in the performance of the organization. However, these goals are not set in a vacuum, and the CEO must also take into account the positions of other managers and stakeholder groups including the need for formal approval of the goals and major strategies by the Board of Directors in order to motivate the group effectively. Essentially, the CEO needs to crystallize the goals of the group in order to allow for effective direction, rather than creating new goals, which may be considered to be inappropriate by the group (Forsyth, 2010).

EXECUTIVE MANAGEMENT

While visionary leadership is highly important for the CEO, it is not sufficient to direct the organization toward its goals. The CEO must also engage in executive management or strategic management in order to obtain these goals (Mullins, 2007). Strategic management can be defined as "a process, directed by top management, to determine the fundamental aims or goals of the organization, and to ensure a range of decisions which will allow for the achievement of these aims or goals in the long term, while providing for adaptive responses in the shorter term (Cole, 2003, p.162)." This definition of strategic management encompasses the previous discussion, which we have classified under visionary leadership. In this section, the processes of executive decision-making and adaptation of goals is discussed, as it comprises the second element of decision making that the CEO (and his or her immediate reporting managers at the executive level) are accountable for (Cole, 2003). Some of the associated tasks within this category include establishing decision-making and delegation mechanisms, environmental scanning and assessment (internal and external), setting and communicating objectives associated with goals, implementing strategy through management, managing change in the organization, and revising goals, objectives, and mechanisms when required in order to obtain effective results (Cole, 2003). It is this set of processes that we will term executive management, which is the second important role of the CEO. However, as with other areas there are conflicts and ambiguities about how the CEO should engage with these processes and how important their influence is.

A particularly important element of strategic management for the CEO is managing change (Choi et al., 2011). Choi et al. (2011) studied a major merger of two Swedish hospitals in order to demonstrate the role of the top management including the CEO in change management. However, their findings were not necessarily supportive of a traditional viewpoint on change within the organization. Traditional organizational change models typically assume that change management is top-down and directed, and that CEOs and other change agents can control the outcomes of change through rigorous assessment of organizational needs and other approaches (Leban & Stone, 2008). This traditional model gives the CEO a substantial amount of responsibility for change, including setting the change agenda, ensuring that it is executed, and correcting issues when they occur (Leban & Stone, 2008). However, Choi et al. (2011) did not find that the role of the CEO and top management was that extensive. Instead, they found that there were two key roles for the CEO, including initiating the change process (including setting goals) and "to take the role of scapegoat due to inherent factors in the change process (Choi et al., 2011, p.11)." This study suggests that while the CEO does play an important role in the change process, it is not as extensive as previously thought, and particularly the CEO may have limited influence during the operational phase of change.

As with setting strategic goals, strategic decision making and executive management is dependent on external factors. One of these external factors is the need for strategic risk management, or control of the extent and impact of potential unexpected negative outcomes on the firm's operations (Fraser et al., 2009). Strategic risks are those that impact on the firm's ability to meet its strategic goals, as well as those that are associated with the strategic goals themselves. As an example, Fraser et al. (2009) note that many of the firms listed on NYSE suffered from the economic crisis in 2007-2008 because of inadequate risk management in risky strategies. Thus, when undertaking the strategic decision making process associated with the firm's goals, the CEO of the firm needs to take into account the potential risks involved in these strategic goals. These also need to be accounted for when forecasting the firm's strategic outcomes in order to prevent inappropriate projection of results (Fraser et al., 2009). While the CEO is not directly responsible for all of this risk analysis (at least when there is an appropriate decision making framework in place that delegates responsibility to parties with appropriate skills and experience (Cole, 2003)), it is a factor that needs to be taken into account when undertaking executive management tasks.

Executive management is not just directed to the external performance indicators of the firm. Instead, there are also internal concerns, like innovation and employee development, that need to be taken into account in order to achieve organizational goals (Furrer, 2010). One example is the direction of transformational leadership toward employees (Daft, 2008). Transformational leadership is directed in a dyadic relationship between leaders and followers, and involves the development of intellectual stimulation, individualized consideration, inspirational motivation, and idealized influence (Bass & Riggio, 2012). Transformational leadership is directed to achieving organizational goals through long-term development of people within the firm, as well as relationships between leaders and followers (Bass & Riggio, 2012). This is also consistent with the importance of employee development in the model of creative leadership, and with the development of innovation in high-technology firms (Makri & Scandura, 2010). Thus, the development of internal conditions, including culture and human resources, is also an important aspect of executive management in the firm for the CEO.

Finally, executive management is key to the success of the firm because executive managers – particularly, but not only, the CEO – are tasked with control of management and ultimate decision making for large-scale decisions (England & Stewart, 2007). This means that the CEO and other top managers have a direct role in determining what policies and practices are adapted within the firm and what priorities are implemented. One example is the adoption of IT innovation in health services firms, which is directly based on the prioritization of these innovations in the top management of the firm (England & Stewart, 2007). Given that adoption of IT innovations are directly connected to the market effectiveness of the firm (England & Stewart, 2007), it is clear that the CEO will have an influence on the effectiveness of goal implementation of the firm.

In summary, the second role of the CEO is executive management, or identifying strategic objectives and finding ways to execute them. This includes developing a strategic decision making strategy and priorities and the development of prioritization practices as well as management of change. Use of transformational leadership and focus on internal concerns like employee development is also part of this practice. However, in this case as in others, there is some ambiguity about the extent of the CEO's role and how effective he or she can be in maintaining full control of the change process.

MANAGEMENT CONTROL AND ACCOUNTABILITY

The third key role of the CEO is establishing systems of management control and accountability in order to ensure that the firm's goals and strategic objectives are accomplished. Management control is defined in a number of ways, but a loose definition is that it refers to the establishment and use of systems that can monitor the performance of the firm in terms of key objectives and adjust operations in order to better achieve these objectives (Macintosh & Quattrone, 2010). There are a number of different types of management controls that may be used in the organization. For example, the firm almost certainly uses accounting controls, or systems that determine what expenses are justified, how they are accounted for, and so on (Macintosh & Quattrone, 2010). Another form of management control that most firms use is performance management, or practices designed to control the performance of individuals, teams, and other units in order to achieve the maximum possible outcomes (Macintosh & Quattrone, 2010). Management control systems (MCS) may be used in order to assist managers with setting, tracking, and communicating the performance of the firm in terms of defined goals (Macintosh & Quattrone, 2010). However, while an IT system may be used to track and communicate management controls, the CEO still bears the ultimate responsibility for establishing control systems and monitoring performance of these goals.

There are various categories of influence of management control established within the academic literature that are helpful in outlining the role of the CEO in this area (Berry et al., 2009). One of the main points that are found in theoretical discussions and empirical studies is that control systems within the firm should be *strategic* in nature; that is, they should focus on the long-term strategic goals and vision of the firm (Berry et al., 2009). This means that the CEO's role in establishing management control is dependent on the other two areas of responsibility that are identified (setting vision and goals and using management techniques to obtain them). Another implication of the literature is that management control is largely about risk and performance. Specifically, management control is focused on performance (of people, systems, and groups), as well as control of risk (avoidance of excessive loss through internal actions) (Berry et al., 2009). Of course, not all risk can be eliminated since some risk is systematic, or endemic to the market the firm is operating in (Clarke, 2007). A further consideration is that management controls have implication for the organization's culture, or set or norms and practices that are accepted within the firm (Berry et al., 2009). This implies that the implementation of management controls is not just a process-based set of tools, but is part of the establishment of group norms and culture that the firm must deal with (Berry et al., 2009).

The consequences of failing to establish appropriate management controls can be devastating for the firm. For example, some of the highly publicized corporate scandals of the early 2000s, such as Enron and WorldCom, were partly attributable to the failure to establish and enforce appropriate systems of management control around accounting and performance (Raelin, 2011). However, it is not just the failure to establish controls at all that could be problematic in the firm's performance – inappropriate controls could also be implicated in performance failures. For example, Enron's human resources management controls were designed so that those employees falling into the lowest-performing band of employees were dismissed each year following performance reviews (Eichenwald, 2005). This provided a negative incentive that encouraged the use of inappropriate selling tactics in order to improve performance in the short term (Eichenwald, 2005). This is an example of the type of inappropriate economic incentives provided by the principal-agent problem discussed above, but on a smaller scale (with the employee acting as the agent and the firm as the principal). Thus, it is the CEO's responsibility not just to implement *some* management controls, but instead to implement management controls that provide appropriate incentives for the desired behavior.

Ultimately, the implementation of management controls reflects on the CEO's accountability for the performance of the firm. This has been intimated earlier, in studies of the CEO role in change management (Choi et al., 2011). However, it is also a direct consequence of the structure of corporate governance that is used in public corporations, where the CEO is ultimately the manager with the most formal power within the firm and with authority to set goals and direct operations to achieve them

(Clarke, 2007). The CEO is often assigned both management and ownership interests through the use of compensation that emphasizes both areas of control (Hall, 2008). This means that there is a need for the CEO to appropriately take control of the firm and to direct it in order to achieve the group's goals.

In summary, the establishment and enforcement of management controls within the firm is the final responsibility of the CEO, and the one that is most directly reflective of the CEO's accountability for the actions of the firm. Management controls allow the CEO and other top managers to monitor and direct the firm toward its goals, as well as ensure appropriate actions are taken within the firm. Thus, this final responsibility of the CEO is perhaps the most important.

CONCLUSION

This analysis has shown that the CEO has a specific function in leading and organizing the group. This role begins with identifying the appropriate vision and mission for the organization, although sometimes this is set directly by the Board of Directors usually but not always with the participation of the CEO. It then extends to the executive management role, which involves managing and developing the organization in response to the vision and mission that has been set. Finally, the CEO has a vital role in control of the firm, directing it toward the appropriate direction. These tasks are not based on the personal interests of the CEO, but are instead based on the interests of the firm's ownership. This holds whether the ownership of the firm is private or public. It is based on the principle of separation of economic ownership and management, and is intended to provide direction for what would otherwise be a self-directed and self-interested group. Of course, the CEO's role does not always conform to the theoretical position, and there have been many cases where the CEO's role in the firm has been self-interested rather than ownership-interested. It is also the case that the vision of the CEO does not always effectively motivate, organize, direct, and control the firm's operations, which can lead to organizational tensions and even business failure. However, this does not mean that the theoretical role is not of interest. Instead, it merely suggests that the organizing and directing role of the CEO may not always be effective. This means that there is a strong argument for the use of stronger development of CEO skills training and more focus on the executive management role within the firm. The CEO function is likely to continue to be important as long as the current corporate structure is popular in corporate management.

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