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The Essence of Strategic Leadership: Managing Human and Social Capital

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A new type of strategic leadership is required to help firms successfully navigate the dynamic and uncertain environment in which they compete today. The strategic leadership needed in 21st century firms is involved with building company resources and capabilities with an emphasis on intangible human capital and social capital. Human capital is the firm's repository of valuable knowledge and skills; social capital provides access to critical resources. Both are significant contributors to achievement of a competitive advantage. Leaders must effectively manage these important resources for the firm. Management of these resources involves evaluating current resource stocks and making changes such as adding (e.g., developing or acquiring externally) and deleting (e.g., layoffs) human resources and external relationships. To create value, the resources must be configured to develop capabilities that can be leveraged in ways to create competitive advantages. The dimension of strategic leadership we describe here is called effectuation. This new type of approach to leadership has important implications for management scholars and practitioners.

> ***We now stand on the threshold of a new age—the age of revolution…it is going to be an age of upheaval, of tumult, of fortunes made and unmade at head-snapping speed. For change has changed. No longer is it additive. No longer does it move in a straight line. In the twenty-first century, change is discontinuous, abrupt, seditious*** (Hamel, 2000, pp. 4-5).

Navigating effectively in the 21st century's dynamic, complex and uncertain competitive environments requires astute leadership. This is true in developed countries as well as in emerging economies (Puffer & McCarthy, 2001). For their firms to successfully navigate these environments, leaders at all organizational levels must acquire, develop and effectively manage resources.

The resource-based view of the firm (RBV), a dominant theoretical approach in the strategic management field, highlights the link between resources and competitive success. Central to RBV arguments is the position that firms with the most valuable and unique resources gain a competitive advantage. If those valuable and rare resources are also difficult to imitate and non-substitutable, the competitive advantage achieved can be sustained for a period of time (Barney, 1991; Kuratko, Ireland & Hornsby, 2001). Having these resources is a necessary but insufficient condition to achieve and sustain a competitive advantage. In fact, Barney and Arikan (2001) argued that there is a need for a better understanding of how resources create value. Thus, an understanding of how these resources are managed to achieve the advantage is critical (Sirmon & Hitt, 2003). We argue that the essence of strategic leadership is managing resources and that these managerial activities are a vital part of what is often a demanding work load for executives (Kotter, 1982).

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STRATEGIC LEADERSHIP: A LINK TO DIFFERENTIAL FIRM PERFORMANCE

A central issue in strategic management is why some firms perform better than others (Barnett, Greve & Park, 1994; Miller, 2002). Ireland and Hitt (1999) argued that one answer to this question is the extent to which strategic leadership is exercised in the firm. According to these authors, strategic leadership is "a person's ability to anticipate, envision, maintain flexibility, think strategically, and work with others to initiate changes that will create a viable future for the organization" (p. 43). Leaders at all levels of the organization should develop this ability, indicating the fact that strategic leadership can be exercised by first-, middle- and top-level managers. However, of these three managerial classifications, there is no latitude for top-level managers. Stakeholders that monitor top-level managers' performance (e.g., the Board of Directors and institutional investors) clearly hold them responsible for the firm's current performance as well as for shaping conditions that will guarantee the firm's survival while it prepares for continuous performance improvements across time.

Strategic leadership is a complex, multifaceted competency that has many nuances and subtleties, making it difficult to easily codify (Sorcher & Brant, 2002). In part of their description and analysis of this important construct, Ireland and Hitt (1999) elaborated on the means of exercising strategic leadership. While they did not refer specifically to managing a firm's resources, many of the actions they described entail managing resources that are within the control or reach of the strategic leader. Specifically, they emphasized the need to develop and mobilize human capital. They also described the importance of building great teams (called great groups by Bennis, 1997) and community in the organization. Human capital is a critical firm resource, perhaps the most important one. Using teams to accomplish tasks and building community in the organization represents internal social capital, another critical resource to organizations (Hitt, Keats & Yucel, 2003). Social capital also has an external dimension. In fact, strategic leaders gain access to resources for the firm by forming alliances with partner firms and building social capital (Ireland, Hitt & Vaidyanath, 2002).

CRITICAL RESOURCES

Human capital in their unit and their own social capital are two of the most important resources available to strategic leaders as they fulfill their responsibilities. Therefore, we explore the importance of both types of capital to leaders and how they can be managed to create value for the unit and the firm.

Human Capital

In today's knowledge-based economy, human capital may be the most important resource in corporations of all types. The importance holds in old economy firms (e.g., manufacturing) as well as new economy companies (e.g., Internet-based retailers). In her address to the graduating class of MIT in May of 2000, Carly Fiorina, CEO of Hewlett-Packard, highlighted this importance, stating that, "the most magical and tangible and ultimately the most important ingredient in the transformed landscape is people." Increasingly, the scope of human capital's importance is being broadened to include nations and their economies. In this context, human capital is thought to be of critical importance in contributing to higher income, life satisfaction and social cohesion within individual economies. Thus, human capital may be a determinant of economic growth for nations as well as individual firms (Field, 2001).

As a critical resource, human capital represents the knowledge, skills and capabilities of individuals (Coleman, 1988). Along with structural capital, it denotes the firm's total of intellectual capital. Human capital is usually reflected by the person's education, experience and specific identifiable skills (Hitt, Bierman, Shimizu & Kochhar, 2001a). Structural capital "...consists of everything that remains when the employees go home—that is, the infrastructure that supports the company's human capital, including the information technology and physical systems used to transmit intellectual capital" (von Krogh, Ichijo & Nonaka, 2000, 92-93).

One reason that human capital is such a significant resource in terms of forming and using competitive advantages is that it is often a firm's most unique resource. Indeed, the general argument is that human capital is a unique intangible resource that is likely to be socially complex (Black & Boal, 1994; Itami, 1987).

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Therefore, human capital affords a firm an opportunity to achieve a competitive advantage. Firms continue to invest in their human capital to increase its value-creating abilities, given its link to forming and effectively using firm-specific competitive advantages (*Business Wire*, 2002). Investments in intangible resources such as human capital are appropriate and important, in that significant increases in the firm's value over the long term can be an outcome from those investments (Pearl, 2001).

Recent research highlights the importance of investing in human capital. Hitt et al. (2001a), for example, found that firms with greater investment in and utilization of human capital experience higher levels of performance. Findings from another study showed that the five-year survival rate of companies involved with initial public offerings (IPOs) in the same year was greater for the companies that emphasized the importance of their people and appropriately and consistently rewarded all employees for their performance (Welbourne & Andrews, 1996).

The importance of knowledge, explicit and tacit, is one of the factors explaining these findings. Other evidence supports the argument (Grant, 1996) that knowledge is the most critical competitive asset a firm can hold and that it is a vital source of a firm's superior economic performance (McEvily & Chakravarthy, 2002). Thus, knowledge, which is embedded within human capital and is at least partly organized for application through social capital, is an increasingly vital source of competitive advantage for firms competing in the complex and uncertain global economy (Matusik, 2002).

Human capital's importance lies in the fact that it possesses most of the knowledge in an organization, particularly the tacit knowledge. While explicit knowledge is important for competitive parity, tacit knowledge is unique and difficult to imitate. If it is also valuable, it can contribute to a competitive advantage. To reach its full potential, however, human capital must be effectively managed (Lesser & Prusak, 2001). As we explain later, strategic leaders' social capital is vital to being able to manage the firm's human capital in ways the create competitive advantages that lead to increases in the firm's wealth. From a knowledge-based perspective, human capital's knowledge and skills denote organizational potential—potential that is realized through effective development and use of social capital (Zahra & George, 2002). Thus, in a knowledge-based company, social capital is used to find ways for the organization to serve human capital as it pursues wealth-creating activities. This differs from the historic relationship in organizations—a relationship in which human capital was expected to serve the firm's systems and structures (Drucker, 2002). Human capital is often enhanced through social capital (Lepak & Snell, 1999).

Social Capital

Social capital involves the relationships between individuals and organizations that facilitate action and create value (Adler & Kwon, 2002; Prusak & Cohen, 2001). Enabling people to act collectively (Woolcock & Narayan, 2000), social capital reflects the value of relationships (Nahapiet & Ghoshal, 1998) and is a quality existing among people and organizations. Often, social capital entails a web of relationships that includes norms, values and obligations, but also yields potential opportunities for the holders of the capital (Haley & Haley, 1999). Strategic leaders must be concerned with social capital within their units and organization as well as with social capital residing outside their firm in other settings. We refer to these concepts as internal social capital and external social capital (Hitt, Keats & Yucel, 2003b).

Internal social capital is concerned with the relationships between strategic leaders and those whom they lead as well as relationships across all of an organization's work units. Effectively designed and integrated relationships enable members to collaborate in ways that contribute to creating and using competitive advantages (Cross, Nohria & Parker, 2002). For example, Southwest Airlines has strong internal social capital, exemplified by the large number of employees that share common values. The employees work cooperatively to accomplish Southwest's goals.

According to Warren Bennis, (1997) strategic leaders must build and utilize great groups (or teams) as a means of developing effective, collaborative relationships. Insightful leaders build great teams (groups) with diverse and rich talent that can be called on to help solve problems in a complex and dynamic competitive environment and to help develop a vision for the future. Few leaders have the capabilities to do this alone because of the significant challenges in the

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competitive landscape. Even strong and charismatic leaders such as Herb Kelleher do not build an effective organization alone. Herb had a "great top management team" composed of himself, James Parker and Colleen Barrett. Now that Kelleher is "semi-retired" as the Chairman of the Board, Parker is the CEO and Barrett is the President and COO of Southwest Airlines. Thus, they continue to use the internal social capital that has been developed in the company.

Strategic leaders must build effective relationships with those in the group and create a culture of trust among all group members including the leader. Members must be willing to reveal their own shortcomings in the process of doing so. Strategic leaders who selectively show their weaknesses may elicit additional commitment from their human capital because they show their "humanness" (Goffee & Jones, 2000).

Trust engenders several benefits such as allowing transactions to be completed more effectively, work teams to be more effective, and human capital to more readily exercise its creativity (Prusak & Cohen, 2001). To build effective relationships, strategic leaders must ensure organizational justice in process, rewards and relationships (Kim & Mauborgne, 1991). Essentially, the trust that is so vital to social capital's development and effective implementation is built on the belief that leaders will ensure fairness in all interpersonal relationships and processes (Byrne & Cropanzano, 2001).

Organizations are composed of many units with specialized responsibilities and tasks. These units must be coordinated and integrated into a community. Cooperative behavior among all units' human capital is necessary for responsibilities to be completed in an integrated, yet effective manner. Such coordination and cooperation requires that strategic leaders actively work with those leading and participating in other organizational units.

Charles Handy (1989) refers to developing organizational communities within businesses where employees are regarded as citizens of the community. These citizens work together to achieve the common goals of the firm. Thus, all members of the community are seen as having the responsibility to pursue the common good. To build a strong community, strategic leaders must gain commitment from the employees to the firm's vision and goals. A culture of trust throughout the organization increases the likelihood that employees will fully commit to working toward achieving the firm's vision and goals. Hitt et al. (2003b) refer to this as a dominant trust among the leaders and employees (community citizens). It is necessary for strategic leaders to build relationships with individuals and organizations outside the firm as well.

External social capital is concerned with the relationships between strategic leaders and those outside the organization with whom they interact to further the firm's interests. Increasing competition in the 21st century's dynamic competitive landscape has caused relationships with parties outside the organization to become important for all types of firms--large and small, new and established, and so forth (Gulati, Nohria & Zaheer, 2000).

To remain competitive and take advantage of new opportunities in the market, firms often need resources that they do not currently possess (Hitt, Ireland, Camp & Sexton, 2001b). This need causes organizations to form both formal and informal alliances with other firms to gain access to complementary and needed resources (Ireland et al., 2002). In effect, firms often participate in a network of relationships (Gulati et al., 2000), some of which may involve interactions with their competitors (Ireland et al., 2002). These relationships provide access to information, knowledge, technology, new markets and capabilities that can help a firm achieve and maintain a competitive advantage (Hitt, Ireland, Camp & Sexton, 2002a). Access to these resources may affect a firm's competitive advantage but also could contribute to its very survival over time. As a result, the firm's performance is affected by the strategic leader's ability to continuously develop and appropriately integrate external social capital with the firm's internal social capital.

Establishing external social capital first requires leaders to identify and develop a relationship with partners (Hitt, Dacin, Levitas, Arregle & Borza, 2000). Following partner selection, a mutually beneficial relationship must be developed. Unfortunately, many alliances are unsuccessful, suggesting that there is much to learn about forming and managing the relationships in alliances (Ireland et al., 2002). Establishing social capital in an alliance first and

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foremost requires that trust be developed among the partners (Hitt et al., 2003b). Trust is especially important for tacit resources to be transferred between partners. To build trust requires that leaders develop a relational competence—the ability to form and manage effective relationships with other parties (Hitt et al., 2003b). For an alliance to be successful, both partners must benefit from the relationship and meet their goals. A firm, then, should be sensitive to its partner's needs and its legitimate expectation of benefiting from participation in the alliance. Sensitivity to partners is another dimension of a strategic leader's relational competence (Hitt et al., 2000). To create value from human capital and social capital, strategic leaders must effectively manage the resources that are part of them, the next topic we examine.

LEADERSHIP AS MANAGING RESOURCES

Prior research on the resource-based view of the firm seemed to assume that firms having valuable, rare and inimitable resources used them effectively (Barney & Arikan, 2001). Yet, the RBV has been criticized for oversimplifying a complex process of acquiring and applying resources to gain a competitive advantage (i.e., Priem & Butler, 2001). Using a sports analogy, there are examples of teams with strong talent (high levels of resources) who do not win all of their games and may lose to teams with less talent, suggesting that there are important differences between these teams in addition to their talent. We argue that the missing element is leadership in the management of the team's resources. Consider the Los Angeles Lakers professional basketball team in recent years. With Kobe Bryant and Shaquille O'Neal, the Lakers were a very good basketball team. However, with Phil Jackson as their coach, the Lakers quickly won two consecutive NBA titles and were attempting to win their third in a row as the NBA playoffs began in May of 2002. The positive change in performance is attributed to Jackson's leadership and effective use of the talent (resources) on the team.

Hitt, Ireland and Hoskisson (2003a) explain how resources are integrated to create capabilities that are then used to exploit opportunities that the firm has identified through analysis of its external environment. Adroit management finds some of these capabilities becoming core competencies that contribute to the attainment of a sustainable competitive advantage. Thus, it is critical to strategically manage resources in order to maximize their value to the firm and the value they can in turn create for the firm (Hitt, Clifford, Nixon & Coyne, 1999). Maximum value is created when the firm is managed in ways allowing effective exploitation or use of today's competitive advantages and simultaneous pursuit of or exploration for tomorrow's competitive advantages.

But, how can resources be managed to create value, both for today and for tomorrow? Makadok (2001) presented several stages in managing firm resources. Sirmon and Hitt (2003) expanded Makadok's work to develop a model of how resources could be managed to create value. They suggested that there are several stages to the management of resources. We use their model to examine four stages strategic leaders can use to manage the firm's resources. The stages involve evaluating, changing, configuring and leveraging resources.

Evaluating Resource Stocks

Evaluating the firm's current stocks or inventory of resources is the first stage in managing resources in ways that creates value. This stage is important to identify resource strengths as well as any deficiencies.

Most companies have performance appraisal systems that are used to evaluate outcomes achieved by the work of its resources. However, many of these systems focus on past performance. While assessing previously achieved outcomes in terms of efficiency and effectiveness is important, the potential indicated by the firm's resource stock (as reflected by skills and capabilities, for example) should be the primary target of performance appraisals. Therefore, to evaluate human capital, leaders need information on individuals' capabilities. Although performance appraisal is an art, evaluating intangible capabilities, some of them tacit, is a challenging task. Evaluating intangible capabilities based on tacit knowledge requires careful observation by the strategic leader. Effective strategic leaders often have an intimate knowledge of the people with whom they work—people who as they work are trying to both help the firm find ways to exploit its current competitive advantages in the

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marketplace while simultaneously helping to identify and develop the competitive advantages the firm will need to successfully compete in the future. This intimate knowledge is useful for evaluating the firm's intangible capabilities (Miller & Shamsie, 1996; Sirmon & Hitt, 2003).

In addition to the current levels of human capital, leaders must also evaluate the "absorptive capacity of the individuals" (Cohen & Levinthal, 1990)—the ability of the people to learn and develop new capabilities (Lei, Hitt & Bettis, 1996). Just as importantly, strategic leaders need to identify deficits in human capital that require immediate attention to facilitate exploitation of current competitive advantages. In addition, human capital's capabilities should be improved to build the competitive advantages necessary to outperform the firm's rivals in the future. Sometimes deficits in the firm's human capital may be overcome by accessing the needed capabilities from alliance partners. Thus, the most effective strategic leaders evaluate the firm's stocks of human capital and social capital taking actions to improve these resources when needed.

When focusing on social capital, leaders must first evaluate their partner's resource stocks and the extent to which they have access to the resources the organization needs to facilitate development of competitive advantages. Such evaluation may be difficult unless the leader has full knowledge of the partner's stock of resources, particularly tacit resources. Unless there is a trusting relationship between the partners, information asymmetries are likely to exist, making this evaluation difficult. In addition, strategic leaders should assess the degree to which the partner's resources are complementary. Harrison, Hitt, Hoskisson and Ireland (2001) argue that complementary resources are necessary to maximize the value from alliances. The next step is to evaluate the quality of the relationship and assess the probability of continuing access to the partner's resources. Barney and Hanson (1994) argue that there are different levels of trust; semi-strong form or strong-form trust is needed for a stable and lasting relationship to exist and for resources to be shared. When there is a strong bond between alliance partners, a firm has access to the resources of an extended network—all of the partner's alliance partners' resources (Hite & Hesterly, 2001).

Changing Resource Stocks

Changing resources in the firm's stock of resources involves adding and deleting resources. With regard to human capital, leaders must decide what new or different capabilities are needed and take actions to obtain them. In some cases, the actions may entail recruiting, selecting and hiring new employees. However, because the focus is on capabilities, leaders may take actions to develop the capabilities of existing employees. Improving employees' capabilities results in enhancements to the firm's human capital. Some argue that it is better to develop the human capital internally than to hire it from the external labor market. This is because firms will normally have to pay the market value (or perhaps even a premium over the market value) to obtain the human capital and thus, it is more difficult for the acquired resources to create value. External resources can be obtained below market value only when the firm or the strategic leader possesses private and unique knowledge about the resource's value-creating ability (Barney, 1986). However, such situations are rare.

Research suggests that firms frequently enjoy productivity gains when they develop their human capital (Hitt, Keats & DeMarie, 1998). Most company development programs entail classroom training in which explicit knowledge is developed. Jack Welch (2001) explains how he used the management development program headquartered in Crotonville, New York as a focal point for remaking GE. These programs can be quite meaningful for a company trying to change its resource stocks so they'll be able to create additional value.

Tacit knowledge, which is often more valuable is learned by doing (Polanyi, 1967). Many firms assign less experienced employees to work with more experienced ones with the desire for them to acquire the tacit knowledge from the more experienced one. For example, it is common in professional service firms to assign several younger associates to work on projects that are being led by experienced partners. The role of the partner is to lead the group and try to help the associates learn tacit knowledge as they work on the project. In law firms, such work even involves developing contacts with clients through the partner's network and relationships with the clients (Hitt et al., 2001a).

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While acquiring and developing new capabilities can require significant effort, more challenging is the decision to eliminate some human capital. Makadok (2001) refers to this process as shedding resources. Related to employees, it is often called layoffs or downsizing (if substantial numbers are involved). Collins (2001b) refers to this process as getting the wrong people off the bus so you can get the right people on the bus and in the right seats. Welch (2001) explains the process used at GE to identify classes of employees (A, B and C) based on their job performance. Welch argued that Class A employees, the top performers, should receive three times the rewards of Class B performers. Furthermore, GE practiced the philosophy of laying off Class C performers, arguing that it was in their best interests as well as being best for GE. Thus, GE had a formal process of shedding human capital that didn't meet the firm's performance standards. Most companies do not have such an explicit policy of "shedding" human capital. Effective strategic leaders must decide whom to layoff and when to do. Certainly care must be taken not to allow human capital to become a "core rigidity" (Leonard-Barton, 1992). Furthermore, Mosakowski (2002) argues that human capital can become path dependent and "stale." If firms do not change their human capital, over time they'll suffer from reduced experimentation and their capabilities may become more transparent to competitors. In slightly different words, failure to invigorate human capital (through training of current employees and selective additions of new employees) often finds the firm retaining its ability to exploit current competitive advantages, but losing its ability to explore for new advantages.

Likewise, strategic leaders must be careful not to lose too much human capital. The first resources cut in poor economic times are often employees. Some firms engage in massive layoffs of human capital (Hoskisson & Hitt, 1994). However, in so doing, they likely lose a large amount of valuable, competitively relevant tacit knowledge that was used by these employees to make decisions.. Research shows that firms hiring during poor economic times, when many other firms are downsizing, experience higher levels of performance than other firms when the economy rebounds (Greer & Ireland, 1992). Effective strategic leaders carefully select the human capital to shed and such shedding is normally a small amount.

Changing social capital in a logical and planned way is more complex and takes more time (Coutu, 2002) than major downsizing. Because effective social capital involves trust-based relationships, such capital develops only after investment of the strategic leader's time and effort, commonly causing change to occur slowly. Trust evolves from past experiences and current interactions (Young-Ybarra & Wiersema, 1999). Certainly, leaders can dissolve existing alliances and develop new ones. But, unless new alliances are with partners from previous collaborations, social capital does not naturally result. Furthermore, in general, alliances that are dissolved are ones where social capital did not exist or where it was underdeveloped or improperly used. To increase social capital, strategic leaders can expand their network of relationships and initiate actions to develop trust over time. They can also continue working to build social capital in existing relationships. Promoting open communications among partners is an effective means of building social capital (Hutt, Stafford & Walker, 2000).

Configuring and Leveraging Resources

Strategic leaders play a critical role in configuring and leveraging human and social capital. Effective leaders know well the people who work with them in terms of their capabilities and weaknesses. In assigning tasks, they match the task requirements to each employee's skills and capabilities. Most tasks cannot be accomplished alone but require interaction and coordination with other work to be completed. Thus, assignment of individuals to tasks also entails integrating human capital to complete the jobs assigned. Effective strategic leaders understand that when assigning tasks that must be coordinated, they should try to bring individuals together with complementary capabilities.

Likewise, when leaders assign individuals to project teams, they should try to match complementary skills and capabilities and allow people to flexibly use their skills across different teams (Ancona, Bresman & Kaeufer, 2002). If the leaders are interested in stimulating innovation, they may wish to assign people to the innovation team with unrelated skills. Assignments of this type can facilitate the emergence of bisociation,

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which is a process whereby two previously unrelated skills or matrices of thought are integrated. In other words, the people find a creative means of integrating these unrelated sets of skills (Smith & Di Gregario, 2002). Integrating the human capital through coordinating tasks or project teams also uses the leader's and the group's social capital. Therefore, human capital and social capital are at least partially interdependent (Hitt et al., 2003b).

After task and project assignments are made, the process of leveraging the capital begins. Leaders are especially important in the leveraging process. The following statements by Carly Fiorina in an address to MIT graduates describe the leadership leveraging process: "Leadership is not about controlling decision making...It's about enablement and empowerment...Leadership is not about hierarchy or status; it is about having influence and mastering change...It is about challenging minds and capturing hearts...Leadership is about empowering others to reach their full potential." Therefore, leaders should not attempt to control group members' activities, but rather should facilitate them. Effective strategic leaders rarely have to exercise authority; instead, they influence directions by challenging group members to think and act independently and creatively and then empowering them to do so. Effective strategic leaders concentrate on promoting the ability to change throughout the firm's human capital rather than focusing on making certain that a particular change is made at a point time. Thus, the most critical dimension of successful and sought-after strategic leadership is providing the direction, influence, facilitation and empowerment such that group members realize their potential. When they do so, it creates value for the firm. To do this, leaders create great teams, as described earlier (Bennis, 1997). They utilize the full talents of the team, which causes value to be created through the synergy that is a product of group members' interdependent decisions and activities.

Effective strategic leaders learn how to appropriately integrate resources garnered from external relationships with internal resources to create greater value. Being able to do this allows the leveraging of social capital. One means of leveraging social capital is through learning new knowledge, absorbing it into the firm's human capital, diffusing it through the organization and applying it to create value (Khanna, Gulati & Nohria, 1998). To encourage and facilitate learning and knowledge transfer between partners, leaders must work to ensure cooperation with the firm's partners. Cooperative behavior is integrative and facilitates solving problems in the alliance and in the partner firms by sharing resources. Ring and Van de Ven (1994) suggest that cooperative relationships are continually shaped and structured with the partners each compromising to ensure that both parties gain value from the relationship. Effective cooperative behavior between partners positively affects performance of the alliance and of both partners (Smith, Carroll & Ashford, 1995).

Leaders use their relational skills to build relationship with partners. These partners may include suppliers, customers and other stakeholders. The strategic leaders attempt to develop a set of shared values with the alliance partner and facilitate a free flow of communication between the firm and its partners. In effect, the leader attempts to build a collaborative mindset (Ireland et al., 2002). A collaborative mindset based on trust among the parties helps to reduce the governance costs in external alliances. Thus, strong social capital reduces the need for and costs of monitoring (Karim & Mitchell, 2000). In effect, leaders must develop "meta-capabilities" to coordinate and integrate partners in a relationship between the firms (Liedtke, 2001). Venkataraman and Sarasvathy (2001) describe this process of configuring and leveraging resources as effectuation.

CONCLUSIONS

The essence of strategic leadership is the effectuation of human capital and social capital in and for the firm. Strategic leaders, thus, configure and leverage human and social capital to create value for the firm. To do so, however, they must first ensure that they have they have the appropriate human and social capital to configure and leverage. This requires that they carefully evaluate current stocks of human and social capital, adding and deleting human resources and relationships as needed. Because of the intangible nature of these resources, appropriate leader actions are difficult to identify with certainty. Yet, this type of leadership is critical for the firm's survival and success.

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The dynamic and complex competitive landscape creates considerable uncertainty for firms (Hitt et al., 1998; Ireland & Hitt, 1999). However, conditions of uncertainty also present opportunities (Hitt et al., 2001b; 2002a). To identify and exploit these opportunities, firms must be strategically flexible. Strategic flexibility is predicated on the firm's resources. While financial resources contribute to strategic flexibility, more important is a firm's knowledge and capabilities. A firm's knowledge and capabilities are based primarily on its human and social capital.

Because of its importance, strategic leaders must continuously evaluate, change, configure and leverage human capital and social capital. The leadership capabilities necessary to do so are critical to the firm's health. To be effective, strategic leaders must have astute interpersonal skills and relational competence. Beyond these capabilities, however, these leaders must be able to identify tacit knowledge required, evaluate and develop tacit capabilities in people, and build and maintain trust and cooperation within the organization. They also need to establish external relationships and extract needed resources from them. These are not simple capabilities and they go beyond the training and development provided in most leadership programs. Certainly, building relational competence and developing social capital represent capabilities that have only recently been recognized as critical to achieving an advantage over competitors.

Some describe effective leaders as human modems who are masters at developing productive relationships. With a relational competence, leaders are able to manage relationships so that all parties to the relationships benefit from their participation in them (Judge, 2000). While Jack Welch began his career as CEO of GE being referred to as "neutron Jack," he ended it with a strong emphasis on the importance of people. In fact, Welch stated that: " We came up with some management concepts that got at energizing armies of people and allowed them to dream and dare and reach and stretch and do things they never thought possible...It's about inspiring people" (Clendenning, 2001). Strategic leaders to whom Welch alludes often put people before strategy (or at least in positions that are equivalent in importance to the firm's strategies) and who simultaneously demonstrate an extreme personal humility with an intense personal will for their human capital and firm to succeed (Collins, 2001a).

We conclude this work with a call for scholars and practitioners to reexamine the leadership capabilities required for success in the 21st century's competitive landscape. Clearly, we have entered a different age—one with conditions that are creating new requirements for effective strategic leadership. Because of its central link with firm performance, we believe that additional research on a new strategic leadership paradigm and new programs to develop and maintain the leadership capabilities to create the "winners in the new business environment" (Amit, Lucier, Hitt & Nixon, 2002) is needed. Among several, a particularly interesting area of inquiry is examining the degree to which the integration of human capital and social capital positively affects the ability of a firm to effectively exploit today's competitive advantages while successfully exploring for the means to outperform its competitors in the future.

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