

# STRATEGIC LEADERSHIP RESEARCH: MOVING ON

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During the last 20 years, the field of strategic leadership has undergone both a rejuvenation and a metamorphosis. We argue that the essence of strategic leadership involves the capacity to learn, the capacity to change, and managerial wisdom. Against this backdrop, we first review issues related to under what conditions, when, and how strategic leadership matters. Next, we selectively review three streams of theory and research. The first is strategic leadership theory and its antecedent, Upper Echelon theory. The second stream of theory and research focuses on what Bryman has labeled the "new" leadership theories. These include charismatic, transformational, and visionary theories of leadership. The last stream of research we classify as the "emergent" theories of leadership. Among these are theories that explore behavioral and cognitive complexity as well as social intelligence. Finally, we attempt to suggest how the "new" and "emergent" theories can be integrated within what we claim is the essence of strategic leadership.

Since 1980, the study of leadership has undergone both rejuvenation and metamorphosis. Rejuvenation in that the study of leadership seemed like an old friend in which the field of management had lost interest. At the end of the 1970s and beginning of the 1980s, leadership as a field of study had reached an impasse: little new theory was being developed, and serious scholars were asking not where the field should go next but whether leadership even matters. Notable exceptions included the early work by House (1977) on charismatic leadership and Lord (1977) on implicit theories of leadership. By the mid 1980s, however, a metamorphosis

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away from the study of "supervisory" leadership (House & Aditya, 1997) toward the study of strategic leadership had begun. With this change in emphasis came a newfound sense of excitement initially centering on Upper Echelon theory (Hambrick & Mason, 1984) and the study of Top Management Teams (TMTs) and what Bryman (1992) has labeled the "new" leadership theories (Hunt, 1999).

Included in these new leadership theories are charismatic theories of leadership (e.g., Conger & Kanungo, 1987; House, 1977; Shamir, House, & Arthur, 1993), transformational theories of leadership (e.g., Bass, 1985); and visionary theories of leadership (e.g., Bennis & Nanus, 1985; Kouzes & Posner, 1987). In addition, emergent research focuses on the behavioral and cognitive complexity of leaders (Hunt, 1991; Quinn, 1988) coupled with flexibility and social intelligence (Hooijberg, Hunt, & Dodge, 1997; Hooijberg & Schneider, *in press*; Zaccarro, Gilbert, Thor, & Mumford, 1991). Whereas supervisory theories of leadership (e.g., path-goal, contingency, LMX) focus on task- and person-oriented behaviors of leaders as they attempt to provide guidance, support, and feedback to subordinates, strategic leadership focuses on the creation of meaning and purpose for the organization (House & Aditya, 1997).

In a sense, supervisory theories of leadership are about leadership "in" organizations. Strategic theories of leadership are concerned with leadership "of" organizations (see Hunt, 1991) and are "marked by a concern for the evolution of the organization as a whole, including its changing aims and capabilities" (Selznick, 1984, p. 5). Strategic leadership focuses on the people who have overall responsibility for the organization and includes not only the titular head of the organization but also members of what is referred to as the top management team or dominant coalition (Cyert & March, 1963). Researchers often focus on studying the characteristics of individuals at the strategic apex of the organization (Mintzberg, 1979), what they do, and how they do it (Hambrick, 1989). Researchers, however, have not paid much attention to the organizational and environmental context that surrounds the conditions, timing, and means of strategic leaders' actions. This is especially true of research focusing on the new and emergent leadership theories. Even the empirical research on TMTs and strategic leadership theory (Finkelstein & Hambrick, 1996) has only considered a narrow range of contextual and environmental variables.

Activities often associated with strategic leadership include making strategic decisions; creating and communicating a vision of the future; developing key competencies and capabilities; developing organizational structures, processes, and controls; managing multiple constituencies; selecting and developing the next generation of leaders; sustaining an effective organizational culture; and infusing ethical value systems into an organization's culture (Hickman, 1998; House & Aditya, 1997; Hunt, 1991; Ireland & Hitt, 1999; Selznick, 1984; Zaccarro, 1996a). Hambrick (1989) argues that strategic leadership occurs in an environment embedded in ambiguity, complexity, and informational overload. Since it is argued that the environment that surrounds organizations is becoming increasingly hyper-turbulent (Eisenhardt, 1989), we suggest that the essence of strategic leadership is the creation and maintenance of absorptive capacity (Cohen & Levinthal, 1990) and adaptive capacity

(Black & Boal, 1996; Hambrick, 1989) coupled with managerial wisdom (Malan & Kriger, 1998).

*Absorptive capacity* refers to the ability to learn. It involves the capacity to recognize new information, assimilate it, and apply it toward new ends. It involves processes used offensively and defensively to improve fits between the organization and its environments. It is a continuous genesis of creation and recreation where gestalts and logical structures are added or deleted from memory (Piaget, 1968). Sometimes these processes only require adjustments within an existing behavioral repertoire. Sometimes these processes require modifications of the interpretative system and development of new combinations of responses. And sometimes these processes require the restructuring of the meta-level system that selects and interprets stimuli within a *Weltanschauung* that provides the worldview in which the situation is defined (Hedberg, 1981). Since knowledge and learning are distributed throughout the organization, absorptive capacity occurs at both the individual and organizational levels.

We argue that the absorptive capacity of strategic leaders (i.e., leaders who occupy positions at the strategic apex of the organization, such as the CEO) is of particular importance because leaders in such a position have a unique ability to change or reinforce existing action patterns within organizations. We recognize, however, that not all people who occupy positions at the strategic apex of the organization evidence leadership (see Selznick, 1984).

Learning occurs through studying, through doing, and through using. These ways of learning result in changes in know-why, know-how, and know-what, respectively (Garud, 1997). Since everybody wants to learn, but nobody wants to fail, we suggest that absorptive capacity requires constant experimentation (Weick, 1965), double loop learning (Argyris & Schön, 1978), and a willingness to tolerate small failures (Sitkin, 1992). Ghoshal and Bartlett (1994) suggest that a key role of management is to create an organizational context within which learning can take place. Collective learning, they suggest, is influenced by distributed initiative and mutual cooperation, which is built upon the attributes of discipline, stretch, trust, and support. Weick, Sutcliffe, and Obstfeld (1999) suggest the importance of a context that encourages: plausible judgment, active listening, periodic information exchange, and working consensus. (For a collection of essays on organizational learning, see Cohen and Sproul, 1995.)

*Adaptive capacity* refers to the ability to change. Hitt, Keats, and DeMarie (1998) argue that in the new competitive landscape—characterized by increasing strategic discontinuities and disequilibrium conditions, hypercompetitive markets, and an increasing focus on innovation and continuous learning—organizational success depends upon strategic flexibility. They suggest that strategic flexibility allows a firm to proact or respond quickly to changing competitive conditions. In a similar vein, Sanchez, Heene, and Thomas (1996) state that strategic flexibility allows for the attainment of current performance and the options to take advantage of future opportunities. Organizational flexibility derives from the leaders at the top. The organization's ability to change requires that the leaders have cognitive and behavioral complexity and flexibility (Boal & Whitehead, 1992; Hooijberg et al., 1997;

Zacarro, 1996a) coupled with an openness to and acceptance of change (Black & Boal, 1996).

Finally, *managerial wisdom* combines properties of discernment and Kairos time (Bartunek & Necochea, 2000). Discernment lies at the heart of managerial wisdom (Malan & Kriger, 1998). It involves the ability to perceive variation in the environment (cf. Osborn, Hunt, & Jauch, 1980) and an understanding of the social actors and their relationships. When discussed in terms of understanding others, the labels "social intelligence" or "interpersonal intelligence" are often used (Gardner, 1985, 1993; Sternberg, 1985; Zaccaro, Gilbert, Thor, & Mumford (1991). Social awareness (e.g., empathy) and social skills (e.g., conflict management) are two key components underlying social intelligence (McCauley, 2000). Kairos time (Bartunek & Necochea, 2000) involves the capacity to take the right action at a critical moment. The notion of Kairos time and kairotic moments has a long tradition in both Greek philosophy and Judeo-Christian theology (Kinneavy, 1986).

There are several reviews of the leadership field in general (e.g., House & Aditya, 1997; Yukl, 1998). In addition there are reviews of strategic leadership and upper echelon theory (Cannella & Monroe, 1997; Finkelstein & Hambrick, 1996; Priem, Lyon, & Dess, 1999), of the new leadership theories (Hunt, 1991, 1999; Hunt & Conger, 1999; Waldman & Yammarino, 1999; Yukl, 1999) and of the emergent theories (Phillips & Hunt, 1992; Zaccaro, 1996a). We include in the emergent theories category the work of Jaques and his colleagues on stratified systems theory (e.g., Jaques & Clement, 1991; Jacobs & Jaques, 1989); Quinn and his associates on competing values theory (e.g., Hooijberg & Quinn, 1992; Quinn, 1988); and work that has extended the notion of behavioral complexity to include cognitive complexity, cognitive and behavioral flexibility, and social intelligence (e.g., Boal & Whitehead, 1992; Hooijberg, Hunt, & Dodge, 1997; Hooijberg & Schneider, in press; Zaccaro et al., 1991).

Thus, in the article that follows, we do not attempt a comprehensive review of the field of strategic leadership. Rather, we focus on issues that interest us with the hope of suggesting new directions that will push the field forward by exploring how strategic leaders can increase the absorptive capacity, adaptive capacity, and managerial wisdom of their firms. We do this by first addressing the question of under what conditions, when, and how strategic leadership matters before turning to specific theories and the issues they raise about strategic leadership.

### DOES STRATEGIC LEADERSHIP MATTER?

While at one time, the question of whether leadership mattered was hotly debated (Lombardo & McCall, 1978; Meindl, Ehrlich, & Dukerich, 1985; Pfeffer, 1977), current conventional wisdom suggests that in aggregate, strategic leadership does indeed matter (e.g., Cannella & Monroe, 1997; Day & Lord, 1988; Finkelstein & Hambrick, 1996; Thomas, 1988). Hambrick (1989) cogently remarked on whether strategic leaders matter, "some do, some don't, and a lot more could" (p. 6). Thus, consistent with Hunt (1991), it seems to us, the real question is not whether strategic leadership matters, but rather under what conditions, when, how, and on what criteria.

### Conditions

Upper echelon theory (Hambrick & Mason, 1984), which suggests that organizations are reflections of top managers' cognitions and values, lead Hambrick and Finkelstein (1987) to suggest that the amount of discretion enjoyed by top managers will moderate the relationship between their strategic choices and organizational outcomes. The greater the discretion, the more impact the leader's choices will have on organizational outcomes. This is consistent with the position and arguments made by Selznick (1984), Osborn et. al. (1980), and Stewart (1982) who discussed how choices are influenced by the demands and constraints facing the leader. As Cannella and Monroe (1997) note, discretion is a summary variable that incorporates environmental constraints, organizational factors, and individual differences, as reflected by demographic and personality characteristics. As such, it is treated as an objective phenomenon as opposed to a subjective perception. To the extent that the leader possesses discretion but does not perceive it, however, the leader is likely to fail to take action. On the other hand, if leaders mistakenly believe they have discretion when they do not, then actions are likely to be met with resistance and failure. Only where objective and perceived discretion are congruent is success likely.

House and Aditya (1997) liken discretion to "weak" as opposed to "strong" psychological situations (Mischel, 1973). In strong situations, choices and behaviors would be constrained and individual differences would not be important. In weak situations wide latitude in choices and actions exists; thus individual differences play a determinant role in the course of action chosen. While much research is interpreted as supporting this contention (see Cannella & Monroe, 1997; Finkelstein & Hambrick, 1996), variables associated with discretion tend to be examined piece meal (see, for exceptions, Hunt & Osborn, 1982; Hunt, Osborn, & Martin, 1981). In a sense, we think this research suffers in the same way that the search for "substitutes for leadership" research suffers (cf. Podsakoff, MacKenzie, Ahearne, & Bommer, 1995). That is, it tends to examine one moderator variable at a time, rather than developing constellations of discretionary profiles. The mere presence of one moderator variable may be offset by the presence of another variable. Since there are in theory multiple determinants of discretion, and these determinants may be acting in countervailing ways on any given issue, a real understanding of the moderating impact of managerial discretion requires the simultaneous examination of multiple factors (Hunt & Osborn, 1982).

### When

Discretion, in a sense, increases the capacity of the leader to make a difference, but leaders must be capable of seizing the opportunity. Selznick (1984) notes that "leadership is most needed among those organizations, and in those periods of organizational life, where there is most freedom from the determination of decisions by technical goals and methods" (p. 17). In other words, timing matters. *When* a leader makes a decision or takes an action is as important as *what* decision is made or action taken (Waller, 1999). This contention is reflected in the notion of Kairos time mentioned earlier. Burgelman and Grove (1996) argue that in the life trajectory

of any organization are important strategic inflection points (SIPs). These SIPs are caused by changes in fundamental industry dynamics, technologies, and strategies that create opportunities for strategic leaders to develop new visions, create new strategies, and move their organizations in new directions as they traverse through the turbulence and uncertainty. This requires, they suggest, a capacity for strategic recognition on the part of leaders at the strategic apex. We would say it requires absorptive capacity, capacity to change, and managerial wisdom to recognize the SIP, to understand the potential it holds and how the firm might take advantage of that opportunity, and to take the right action at the critical moment.

Much of the research interpreted as supporting the importance of strategic leadership examines the impact of succession on organizational performance (Yukl, 1998). We suggest that some, but not all, succession events occur during strategic inflection points. Succession events resulting from poor organizational performance not only increase the latitude of action that can be taken but also suggest that new ways of thinking are required. In contrast, normal succession (i.e., resulting from retirement), especially when followed by an inside succession, would neither increase managerial discretion nor signal the need to change.

Life cycle models of leadership effects (Baliga & Hunt, 1988; Gabarro, 1987; Hambrick & Fukutomi, 1991) suggest that the effects of leadership behavior are not constant over time. These models, however, differ in terms of when the leader will have the greatest impact. Boal and Bullis (1991) suggested five patterns of potential leadership effects. The five patterns are: honeymoon, learning curve, constant, random, and null. To this we add the rigor mortis pattern. The honeymoon pattern best corresponds to a situation in which leaders will be afforded great latitude early in their tenure in office. This latitude, however, does not imply that a leader possesses the requisite knowledge, skills, and abilities. Several researchers emphasize the importance of matching the characteristics of the leader with the strategy of the organization to achieve effectiveness (Gupta & Govindarajan, 1984; Kimberly & Evanisko, 1981; Thomas & Ramaswamy, 1996). A mismatch between the strategy of the firm and the characteristics of the leader would not only lead to poor organizational performance but ultimately to the dismissal of the leader. Thus, while great latitude may imply that the leader's choices will reflect the leader's values and cognitions, it does not guarantee that these choices and actions will be correct or successful.

The learning curve pattern suggests that organizational performance will exhibit an initial dip before an increase in performance as the leader learns the ropes to skip and the ropes to know (Hambrick & Fukutomi, 1991). Hence, the honeymoon and learning curve models differ in how soon one should expect to observe the effects of a new leader. Note that both models are usually assumed to apply when an outsider succeeds the current leader.

External succession events are more likely to occur when the organization has been performing poorly, thus suggesting the need to change. Succession itself, however, does not imply that the new leader will enjoy either a period of discretion or learning. Sonnenfeld (1988) points out that previous leaders often leave legacies that act to constrain, if not sabotage, their successors. Furthermore, prior strategic decisions often cause path dependencies (David, 1985) causing lock-in, limiting

managerial discretion even in the face of new technological breakthroughs. The firm's history can also either enhance or limit its absorptive capacity or ability to change (Cohen & Levinthal, 1990).

Contrary to life cycle models, the constant effects model assumes no change in impact on organizational performance over the tenure of the leader. This constant effects performance assumption is different from the null effects model, which posits that leaders do not matter (Meindl, Ehrlich, & Dukerich, 1985; Pfeffer, 1977), or the random effects model that posits that, though leaders matter, their effects cannot be predicted. The classic study by Lieberman and O'Connor (1972) lagging the effects of CEO on company performance was essentially a test of the constant effects model versus the null model. Finally, the rigor mortis pattern suggests that because past behavior is self-reinforcing, leaders become fixated in their world-views and behaviors. They become "stale in the saddle" (Miller, 1991) lacking managerial wisdom and the capacity to change and eventually become a liability to the organization.

The above review suggests that strategic leaders need to understand where their discretion lies, what stage of the life cycle they are in, and what impact they can have on overall organizational performance. If the opportunity for having an impact exists, the question remains of how they can make that impact. We propose therefore:

**Proposition 1:** Leaders who have absorptive capacity, adaptive capacity, and managerial wisdom will be more effective than leaders who do not.

**Proposition 2:** The greater the absorptive capacity, adaptive capacity, and managerial wisdom possessed by the leader, the more likely the leader will recognize and act on strategic inflection points.

### How

The question of how strategic leaders make a difference is for us one of understanding process. In this regard two of the more popular theories—strategic leadership theory and positive agency theory—in the strategic management literature offer little guidance. Strategic leadership theory assumes that organizations are reflections of their leaders (Finkelstein & Hambrick, 1996; Hambrick & Mason, 1984). The values and beliefs of the leader frame how issues are interpreted and acted upon. The choices that leaders make then affect organizational performance.

We wonder, however, if strategic leadership theory (Finkelstein & Hambrick, 1996), despite its prominence in the literature, should even be considered a theory of leadership. Rather, as argue below, we would label it a theory of leader characteristics and group composition with their organizational correlates. Positive agency theory (Fama, 1980; Jensen & Meckling, 1976) also provides little guidance concerning the process of leadership.

Positive agency theory assumes that decisions made by leaders are based upon their self-interest. Because the interests of the leader often diverge from the interests of shareholders, positive agency theory seeks to align the interests of the leader with the shareholders through the use of incentive systems and board oversight

(Cannella & Monroe, 1997). Discussed in these terms, we view positive agency theory as a theory of corporate governance and not leadership; thus we do not discuss it in this review. We note, however, that recent advances have been made toward a stewardship theory of management (e.g., Davis, Schoorman, & Donaldson, 1997), which recognizes the claims of multiple stakeholders and the moral and legal obligations of managers toward these claimants, and thus might offer some useful advances beyond positive agency theory.

The theories that hold the most promise for understanding the process of strategic leadership as they relate to absorptive capacity, adaptive capacity, and managerial wisdom are the new and emergent theories of leadership noted earlier. Even here, however, ambiguities abound about the core processes involved. Yukl (1999) notes, for example, the core behaviors underlying charismatic leadership vary from theory to theory (e.g., Conger and Kanungo, 1988; Shamir et al., 1993). Furthermore, Yukl questions whether the source of the underlying source of charismatic influence is the process of personal identification with the leader or the internalization of objectives that are linked to core values and self identity.

We view these two processes as independent; that is, each has its own main effects on subordinate, group, and even organizational outcomes. We suggest, however, that the process of personal identification with the leader is a facilitating, but not necessary, precursor for the internalization of objectives. As Cannella and Monroe (1997) suggest, "Having a charismatic relationship with followers may make it easier for top managers to implement the strategic decisions they make" (p. 229).

We review the new and emergent leadership theories and discuss how they relate to absorptive capacity, adaptive capacity, and managerial wisdom, but first we examine the dependent variables and a critique of upper echelon and strategic leadership theory.

## Criteria

### *Dependent Variables*

#### *Upper Echelon and Strategic Leadership Theory*

If strategic leadership makes a difference (and we are in the camp that believes it does), the question still remains on which variables it does make a difference. Pawar and Eastman (1997) suggest that while the content of strategic leadership theory and transformational leadership theories are the same, they differ in both process and effects on followers. Thus, it is important to ask what the relevant dependent variables are. There seems to be no agreement on this issue. Initially, upper echelon theory (Hambrick & Mason, 1984), which evolved into strategic leadership theory (Finkelstein & Hambrick, 1996), suggested that organizational performance was the proper dependent variable. Hambrick (1989) defines performance in terms of effectiveness, efficiency, and stakeholders' needs. At the organizational level of analysis this is operationalized as ROE, ROI, ROA, Sales, etc. (Eisenhardt & Schoonhoven, 1990; Finkelstein & Hambrick, 1990; Halebian & Finkelstein, 1993).

Others, however, focus not on organizational outcomes but on such firm level behaviors as strategic re-orientation or change (Lant, Milliken, & Batre, 1992;

Wiersema & Bantel, 1992), strategic persistence (Finkelstein & Hambrick, 1990; Keck & Tushman, 1993), affective and cognitive conflict (Amason, 1996), and even corporate illegal activity (Daboub, Rasheed, Priem, & Gray, 1995). This would not be troubling if researchers working within the strategic leadership theory paradigm (Finkelstein & Hambrick, 1996) specified the relationships between demographic, psychosocial, cognitive, and behavioral individual-level variables with firm-level and ultimately organizational level variables. They do not and this is a major issue of concern.

### UPPER ECHELON THEORY AND STRATEGIC LEADERSHIP

Upper echelon theory (Hambrick & Mason, 1984) suggested that the specific knowledge, experience, values, and preferences of top managers influence their assessment of the environment and thus the strategic choices they make. The later expansion of upper echelon theory into Finkelstein and Hambrick's (1996) strategic leadership theory examines the psychological make-up of the top manager and how this influences information processing and strategic decision-making. There have been two recent reviews of this stream of research (Cannella & Monroe, 1997; Priem et al., 1999). The review by Priem and his colleagues was the more disturbing because it raised fundamental issues about the ability of upper echelon and strategic leadership theory to explain phenomena versus merely predicting them and to provide useful prescriptions to managers versus merely describing consequences. Most importantly, Priem et al. (1999) raised fundamental questions about the meaning and construct validity of the use of demographic variables in strategic leadership theory. These arguments are what led us to question whether, in its current form, strategic leadership theory should even be considered a theory of strategic leadership.

Hunt (1999), following Reichers and Schneider (1990), suggests that the study of leadership, relative to other topics in management, is relatively mature. As a mature field, leadership research should be concerned with nomological validity (Cronbach & Meehl, 1955). Cronbach and Meehl argue that to provide evidence of construct validity, one has to develop a nomological network for one's measures. This network would include the theoretical framework of what is being measured, an empirical framework for how one is going to measure constructs, and the specification of the linkages among and between these constructs. By these criteria strategic leadership theory (Finkelstein & Hambrick, 1996) is nomologically invalid.

### Toward Achieving Nomological Validity

We suggest that strategic leadership theory researchers should do four things. First, call a moratorium on the use of demographic variables as surrogates for psychosocial constructs. Priem et al. (1999) argue that measures of demographic heterogeneity are used as surrogate measures of cognitive heterogeneity, without any evidence of what aspect of cognitive heterogeneity is being measured (e.g., perceptions, judgments, problem-solving strategies) or which demographic variable impacts on cognitive variety. Research by Pitcher, Chreim, and Kisfalvi (2000) on CEO succession clearly points out the fallacy of equating demographic with psycho-

social variables. Further, as Priem and his colleagues note, early excuses for using demographic variables as surrogates for underlying psychological variables and processes are no longer valid. Ease of data collection is not a substitute for a proper test of the theory. As Lawrence (1997) argued, the use of demographic variables as surrogates for intervening processes does not negate the need to study the intervening processes and thereby test the link between the independent variable, an intervening process, and the dependent variable.

Second, still problematic is the understanding how group composition affects internal processes (e.g., conflict, communication, and decision making) or group psychosocial traits (e.g., norms, shared mental models) and how these processes and traits relate to higher order outcomes. Katzenbach and Smith (1993) identified fragmentation and the lack of "teamness" as an obstacle to top management team effectiveness. In a study that compared the predictive power of team demographic variables with process variables, Smith, Smith, Olian, Sims, O'Bannon, and Scully (1994) found that group process variables were a better predictor of both ROI and sales growth than demographic variables.

Earlier we suggested that strategic leadership theory was more of a theory of group composition than leadership. Reading the empirical literature, it is not always clear if we are studying strategic leaders or strategic leadership. Selznick (1984) argued, "Leadership is not equivalent to office-holding or high prestige or authority or decision-making. It is not helpful to identify leadership with whatever is done by people in high places" (p. 24). Pettigrew (1992) suggests that if progress is to be made, beyond the black box of demography, "rather than assuming titles and positions as indicators of involvement in choice and change processes, the first task for the process scholar is to identify which players are involved, and why. We still know little about why and how top teams and other groupings look the way they do, the processes by which top teams go about their tasks, how CEOs engage with their immediate subordinates, and how, why, and when the upper echelons engage in fundamental processes of problem sensing, decision making, learning, and change" (p. 178).

Third, we do not think real progress will be made on strategic leadership theory until researchers within this tradition are willing to learn from other theories and streams of research and incorporate them into their own work. One useful stream of research is the research on teams. Cohen and Bailey (1997), for example, develop a framework that depicts the interaction between environment, design factors, internal and external processes, and psychosocial traits on outcomes. Strategic decision-making (cf. Schwenk, 1995) also offers important insights. The work of Hart (1992) on strategy making styles; the research on decision making biases (Hogarth, 1980), especially on the escalation of commitment (Staw, 1981); and work on individual and organizational minds (e.g., Barr & Huff, 1997; Barr, Stimpert, & Huff, 1992; Weick, Sutcliffe, & Obstfeld, 1999) all are important in helping fill in the missing processual holes in Strategic Leadership Theory in general, and establishing clear links to absorptive capacity, capacity to change, and managerial wisdom in particular.

We also suggest that trait theory (e.g., McClelland, 1985), with its emphasis on the use of prosocial power; LMX theory (Graen & Uhl-Bien, 1995), with its distinctions

regarding in and out group members; and cognitive resources theory (Fiedler, 1995), which highlights the importance of intelligence versus experience, can make important contributions to strategic leadership theory. We especially believe that the new (Bryman, 1992) and emergent theories of cognitive and behavioral complexity (e.g., Hooijberg, Hunt, & Dodge, 1997; Zaccaro, 1996) have the potential to make important contributions. We briefly review such new and emerging leadership theories and then link them to absorptive capacity, capacity to change, and managerial wisdom.

## NEW LEADERSHIP THEORIES

The new theories focus on charismatic, transformational, and visionary leadership. In contrast to upper echelon and strategic leadership, these theories emphasize the interpersonal processes between leader and followers. Four recent articles have reviewed this literature (Conger, 1999; House & Aditya, 1997; Hunt & Conger, 1999; Yukl, 1999), all of which highlight commonalities, differences, theoretical difficulties, and empirical results. We will not attempt to summarize them. Rather, we focus on a few select issues for discussion of each perspective.

### Charisma

Theories of charismatic leadership stress the personal identification of the followers with the leader. While most theories treat charisma as a unitary construct, Boal and Bryson (1988) suggest there are two forms of charisma: visionary and crisis responsive. The first form of charisma results from the leader creating a world that is intrinsically valid for the follower, in which behaviors are linked to important core values, purposes, and meanings through the articulation of vision and goals. The second form of charisma results from a leader creating a world that is extrinsically valid, in which outcomes are linked to behaviors. Because under crisis conditions these linkages become severed, the role of the leader is to re-establish this correspondence. Further, Boal and Bryson (1985) suggest that the visionary charismatic leader starts with the creation of new interpretive schemes or theories of action (Argyris & Schön, 1978) and then moves towards actions. Crisis responsive charismatic leaders, on the other hand, start with action (to deal with the crisis) and then move towards the creation of new interpretative schemes. They also suggest that the effects of crisis responsive charisma are temporary in nature.

Recently, Hunt, Boal, and Dodge (1999) found experimental support for these two forms, though they did not investigate the hypothesized change in interpretive schemes. We think questions relating to the necessity and sufficiency of crisis in producing charisma is interesting because the role of crisis is a key ingredient that distinguishes sociological theories of charisma (e.g., Beyer, 1999; Beyer & Browning, 1999; Weber, 1947) from more psychologically oriented theories (Conger & Kanungo, 1998; Shamir et al., 1993) that treat crisis as a facilitating but not a necessary condition.

While little is known about how charisma is created, destroyed, and reconstituted over time, Gardner and Avolio (1998), building on Benford and Hunt (1992), develop

a dramaturgical model for better understanding the processes that underlie the charismatic relationship. The model posits four stages: framing, scripting, staging, and performing. The object of framing is the management of meaning and the construction of reality. The charismatic leader does this by choosing words that amplify audience values, stress their importance and efficacy, and denigrate opposition.

In scripting, the leader develops the set of directions that define the scene, and identifies the actors and their expected behaviors. While the script provides guidelines, it is flexible enough to handle unanticipated events. Scripts move frames of action closer to behavior by casting roles, composing dialogues, and directing action.

Staging requires that the charismatic leader, consistent with the script, develops and manipulates symbols, physical settings and appearances, and other artifacts. In the final stage the script is actually performed. During this performance, charismatic leaders rely upon the impression management techniques of exemplification and self-promotion to maintain their charismatic identity. Gardner and Avolio's (1998) model helps us understand how the charismatic relationship might unfold, and, more importantly, how it might be continually recreated. Awamleh and Gardner (1999) provide some initial evidence supportive of the model.

### **Transformational Leadership**

In addition to the charismatic component of leadership, transformational leadership researchers also stress such factors as intellectual stimulation, individual consideration, and inspiration (Bass, 1985). These researchers have also juxtaposed transformational with transactional leadership, and provided evidence that transformational leadership augments transactional leadership (e.g., Waldman & Yammarino, 1999).

While Bryman (1992) and House and Aditya (1997) treat charismatic, transformational and visionary theories virtually interchangeably, Yukl (1999) suggests various reasons for questioning this equivalence. We think substantial differences exist between them in terms of the level of analysis and choice of dependent variables. Charismatic theories tend to focus on individual level outcomes such as affect, loyalty, identity, commitment, motivation, and performance (e.g., Beyer, 1999; Hunt et al., 1999; Shamir et al., 1993; Shea & Howell, 1999). We note that the target of these effects need not interact with the leader: they may not, in fact, even be in contact with the leader and may be some distance, in time and space, removed from the leader (Shamir, 1995; Waldman & Yammarino, 1999). Yukl (1999) suggests that personal identification with the leader is the key variable in charismatic theories of leadership.

We further agree with Yukl's (1999) contention of a lack of correspondence between charismatic and transformational leadership. Therefore, drawing upon the work of Burns (1978), Bennis and Nanus (1985), Kouzes and Posner (1987), as well as the work on cognitions and strategic change as exemplified by Huff and her colleagues (Barr & Huff, 1997; Barr, Stimpert, & Huff, 1992; Fiol & Huff, 1992; Hunt & Ropo, 1992; Ropo & Hunt, 2000), we believe that transformational and visionary theories suggest that changes in cognitive and causal maps, values, and strategies themselves ought to be the focus of analysis. Because of their identification

with charismatic leaders, we suggest that followers are more open to shifts in their world view (Boal & Bryson, 1985), which in turn is a precursor to actual change. As Yukl (1999) suggests, however, charisma is not a necessary condition for such change. Neither visionary theories nor the emergent theories that focus on cognitive and behavioral complexity (Hooijberg, Hunt, & Dodge, 1997; Hunt, 1991; Quinn, 1988; Zaccaro, Gilbert, Thor, & Mumford, 1991) require charisma on the part of the leader.

### Vision

All organizations possess an identity that describes what is central, distinctive, and enduring about the organization (Albert & Whetten, 1993). These identities have a temporal orientation of past (who we used to be), present (who we are), and future (who we want to become) (Fox-Wolfgramm, Boal, & Hunt, 1998). It is in the vision of the leader and the articulation for change that the past, present, and future come together (Gioia & Thomas, 1996).

Visions can have both a cognitive and an affective component. The cognitive component focuses attention on outcomes and the means of achieving them. The affective component makes a direct appeal to the personal values and belief systems of the target (Boal & Bryson, 1985). The cognitive component of vision influences what information is sought and what information is used (Boal & Whitehead, 1992). This in turn affects learning by studying. The affective component of vision underlies motivation and commitment and subsequently implementation (Shamir et al., 1993). It is in the process of implementation that individuals enact their environment and thus learn by doing and using. Thus, it is the vision of the leader that undergirds the know-what, know-how, and know-why of learning. Visions, however, like identities, can be expansive or restrictive (Fox-Wolfgramm et al., 1998). Thus, like the tide in the ocean, absorptive capacity of an organization can ebb and flow on the vision of the leader. Unfortunately, little is known about what the essential properties of a vision are, or how to craft a vision that has either charismatic or transformational effects.

How should such visions be crafted? Nutt and Backoff (1997) suggest four design criteria for crafting a vision that will increase the prospect for improvements in organizational performance. They are: possibility, desirability, actionability, and articulation. To meet the possibility criteria, Nutt and Backoff suggest that visions should have innovative features that are unique, vibrant, and inspirational, and that offer a new order. Visions should be future oriented enough to reveal opportunities with potentially important consequences. Desirable visions should draw upon the organization's values and culture, and connect the possibilities to these values. Actionable visions are doable. Actionable visions point to activities that people can undertake to move toward a desirable future. They meet the reality test. To meet the final criteria of articulation, visions should use powerful imagery to crystallize what is wanted in the minds of followers. They suggest three contextual factors that will facilitate whether a vision leads to realized improvements in organizational performance. The three factors are environmental turbulence, resource availability, and the organization's susceptibility to change. Interestingly, the role of the context in which visions are created seems to be missing from much of the literature.

### The Role of Context

Many of the new theories of leadership appear context free. That is, they do not consider how environmental or organizational context influence the process. Only recently have researchers begun to examine how contextual factors influence either charisma or transformational leadership. For example, Boal and Bryson (1988) suggested pre-existing individual characteristics (e.g., locus of control, job involvement, and organizational commitment) as well as group and organizational characteristics (e.g., cohesiveness, technology and structure) will affect intrinsic and extrinsic validity. Intrinsic and extrinsic validity are the intervening psychological states, between leader behavior and leader effects, in their model of charismatic leadership.

Pawar and Eastman (1997) suggest that the adaptation orientation, dominant boundary-spanning function, structure, and mode of governance of the organization, affect the receptiveness of the organization to transformational leadership. The dramaturgical model of Gardner and Avolio (1999) suggests that the charismatic relationship occurs in an environment marked by turbulence, third-party audience effects, and organizational context, though they focus primarily on leader-follower interactions. Finally, Shamir and Howell (1999) suggest nine factors that influence the emergence and effectiveness of charismatic leadership: environmental circumstances, organizational life cycle, organizational technology and tasks, organizational structure, mode of governance, culture, leader succession, leader level, and organizational goals.

Returning to the concept of strategic inflection points (Burgelman & Grove, 1996), we suggest that SIPs create a kairotic moment in which the organization and its members are particularly receptive to charismatic, transformational, and visionary processes. It is during these kairotic moments that learning and change are possible if only the leader possesses the discernment to take notice and the wisdom to act. What is needed now is a better understanding of which leaders can take advantage of these SIPs as well as research that explores how these factors influence the charismatic and transformational relationship. Taken together, the above suggest the following two propositions.

**Proposition 3:** Visions that meets the tests of possibility, desirability, actionability, and articulation will have both charismatic and transformational effects.

**Proposition 4:** Context affects the emergence of, receptivity for, and salience of charismatic behaviors on individual, group, or organizational level outcomes.

**Proposition 5:** Context moderates the relationship between the charismatic and transformational behaviors of leaders and their effects on subordinate attitudes and behaviors.

Not everyone will necessarily agree that the notions of charisma and transformational leadership add value. For example, while Finkelstein and Hambrick (1996)

argue for the importance of understanding the psychological constructs that influence how top managers perceive, process, and distort information in reaching strategic decisions, they eschew the use of such terms as charisma or inspirational leadership. They state, "We do not rule out the interpersonal and inspirational aspects of leadership; but unlike some theorists, we do not insist on their presence to invoke the word *leadership*. . . . If not so cumbersome, we could use less value-laden words, such as *headship* or *executiveship*" (p. 5).

The rejection of theories and research on charisma is not the only case where researchers, in the tradition of upper echelon and strategic leadership theory, depart from other research traditions on relevant topics (see Priem et al., 1999). We are more hopeful that progress will be made on integrating charismatic and transformational theories. We are also hopeful about the prospects of integrating emergent work on cognitive and behavioral complexity with research on charismatic and transformational leadership. Toward those ends, we now turn to a brief look at selected theories and issues and then formulate an integrative model.

### EMERGENT LEADERSHIP THEORIES

In the past decade interesting new leadership research has been published that, while relevant for the strategic leadership literature, has received relatively little attention in that area. We believe these emerging theories hold great promise in furthering our understanding of what we have argued are the three cornerstones of strategic leadership: the capacity to learn, the capacity to change, and managerial wisdom. Here, we highlight the ideas of the competing values framework (Quinn, 1988), behavioral complexity (e.g., Hooijberg & Quinn, 1992), cognitive capacity (e.g., Jaques, 1989), and social intelligence (e.g., Zaccaro et al., 1991). Lord and Hall (1992) suggest that leadership effectiveness may hinge more on social intelligence and behavioral flexibility than other factors. Below, we briefly review the research in these four areas and then highlight how they can further strategic leadership theory and research.

#### The Competing Values Framework

The Competing Values Framework (CVF) reflects distinctly different "perceptual biases that influence how we see social action" (Quinn, 1988, p. 85). CVF highlights these differences along the dimensions of flexibility versus control and internal focus versus external focus. The internal versus external focus dimension distinguishes between social actions focused on satisfying such internal effectiveness criteria as employee satisfaction, supervisory practices, and work progress, and social actions focused on satisfying such external effectiveness criteria as market share, profitability, and ROA. The control versus flexibility dimension distinguishes between social actions focused on goal clarity and efficiency, and social actions focused on being adaptive to people and the external environment. Thus, CVF argues for multiple measures of effectiveness at multiple levels of analysis. Taken together, the two dimensions define four quadrants and eight leadership roles that address these distinct demands in the organizational arena.

In so doing, CVF recognizes that leaders often face paradoxical requirements in meeting the competing demands of stakeholders. The eight roles then highlight concrete ways in which leaders can deal with competing and paradoxical requirements. The capacity to handle competing and paradoxical requirements follows from the basic thesis of CVF, which is that "the test of a first-rate leader may be the ability to exhibit contradictory or opposing behaviors (as appropriate or necessary) while still maintaining some measure of integrity, credibility, and direction" (Denison, Hooijberg, and Quinn, 1995, p. 526).

Denison et al. (1995) report that the CVF questionnaire has discriminant, convergent, and nomological validity, and Buenger, Daft, Conlon, and Austin (1996), Hart and Quinn (1993), and Hooijberg (1996) have used CVF to explore leadership and organizational culture issues. We find the notion of competing values especially relevant for top-level executives who constantly need to balance demands from the market with demands from their managers and employees, because it highlights a leader's capacity to change. That is, leaders who have a large repertoire of leadership roles at their disposal and know when to apply these roles are more likely to create effective change than leaders who have a small repertoire of roles and who apply these roles indiscriminately. Hooijberg and Quinn (1992) refer to this notion of repertoire and selective application as behavioral complexity.

### **Behavioral Complexity**

Research supports the idea that leaders who perform multiple leadership roles score higher on leadership effectiveness than those who do not (e.g., Denison et al., 1995; Quinn, Spreitzer, & Hart, 1991). Hart and Quinn (1993) and Bullis (1992) found that behavioral repertoire impacts both leader and organizational effectiveness. Hart and Quinn (1993) studied CEOs from a large metropolitan area in the industrial Midwest and found that the high balanced CEOs (i.e., those who scored in the top third on the four leadership roles under study) had significantly more impact on firm performance than the low balanced (those who scored in the bottom third on all four roles) and unbalanced CEOs (those who scored high on some roles and low on others). Additionally, Hooijberg (1996) demonstrated that managers who have a broad repertoire of leadership roles and who perform those roles frequently are seen as more effective not only by their subordinates but also by their peers and superiors.

Leaders not only need a large behavioral repertoire but also the ability to select the right roles for the situation. To do so leaders need both cognitive and behavioral complexity and flexibility (Boal & Whitehead (1992). That is, a leader needs not only the "ability to perceive the needs and goals of a constituency [but also the ability] to *adjust* one's personal approach to group action accordingly" (Kenny & Zaccaro, 1983, p. 678; emphasis added). The concept of behavioral differentiation also captures the importance of variability or flexibility. The literature on influence attempts provides some interesting examples of how individuals vary their downward, lateral, and upward influence processes (e.g., Yukl & Falbe, 1990; Yukl & Tracey, 1992). Similar to the importance of choosing the right influence tactics, leaders must carefully select the appropriate leadership role for their interactions with subordinates, peers or superiors.

Cognitively, leaders may understand and see the differences in expectations between their subordinates and superiors, yet that does not mean that those leaders can act in such a behaviorally differentiated way as to satisfy the expectations of both groups. Social intelligence requires both discernment and acting appropriately at the right time. At the upper levels of the organization, leaders are not only concerned with the internal functioning of the organization but also with the larger marketplace and even the role of the organization in the community and society. Interacting with the members of the community and government may well require a different set of behaviors than those that are needed within the organization. (cf. Osborn et al., 1980).

Hooijberg et al. (1997) extended the ideas of behavioral complexity by placing them in a comprehensive framework that links behavioral complexity, cognitive complexity, and social complexity in the Leaderplex model. The Leaderplex model's main contribution is to argue that behavioral complexity is informed by the cognitive complexity and social complexity (re: social intelligence) of leaders. While cognitive and social intelligence are of great importance to first and middle-level managers, we argue, they are of even greater importance to leaders at the highest levels of organizations. Below we briefly discuss the notions of cognitive complexity and social intelligence. We then show how behavioral complexity, cognitive complexity and social intelligence relate to the concepts of absorptive capacity, adaptive capacity and managerial wisdom in strategic leadership research.

### **Cognitive Complexity/Capacity**

Work on cognitive complexity goes back more than 40 years (see Bieri, 1955), and been a steady stream of research has followed since (e.g., Harvey, Hunt & Schroder, 1961; Schroder, Driver & Streufert, 1967; Schroder & Suedfeld, 1971; Streufert & Nogami, 1989; Streufert, Pogash, & Piasecki, 1988; Streufert & Streufert, 1978; Streufert & Swezey, 1986). Much of this work has been reviewed by Stish (1997) and Streufert (1997). The underlying assumption of the cognitive complexity perspective is that cognitively complex individuals process information differently and perform certain tasks better than cognitively less complex individuals because they use more categories or dimensions to discriminate among stimuli and see more commonalities among these categories or dimensions. Cognitively complex people search for more information (Tuckman, 1964) and spend more time interpreting it (Dollinger, 1984; Sieber & Lanzetta, 1964). As such, we see cognitive capacity as a key individual difference variable underlying absorptive capacity at the individual level.

Related to this are the differences among *how* an individual thinks, a person's thinking and action *preferences*, and the content of *what* the individual thinks. Cognitive complexity reflects a concern with *how* an individual constructs meaning or organizes information, as opposed to the knowledge content or *what* of the thinking (Streufert & Nogami, 1989). This is in contrast to a cognitive style measure, such as the Myers-Briggs Type Indicator (MBTI) (Myers & McCauley, 1985), which is concerned with self descriptions of people's thinking and decision making *preferences* as opposed to *how* they actually think (Lewis & Jacobs, 1992, 125–126).

A related concept from a different stream of literature—cognitive capacity—has been developed by Elliott Jaques and his colleagues (e.g., Jacobs & Jaques, 1987; Jaques, 1989; Jaques & Cason, 1994; Jaques & Clement, 1991). It too has a lengthy history going back to the middle and late 1970s (e.g., Jaques, 1976; Jaques, Gibson, & Isaac, 1978). More recently, Hunt (1991) builds on this work to build a new “multi-level” leadership model.

For Jaques, cognitive capacity/power connotes those mental processes used to take information, pick it over, play with it, analyze it, put it together, reorganize it, judge it, reason with it, make conclusions, plans, and decisions, and take action. It is defined as the scale and complexity of the world that one is able to pattern and construe, including the amount and complexity of information that must be processed in doing so. It is the raw mental power enabling a person to sustain increasingly complex mental processes (Jaques, 1989, p. 33).

There is evidence that complex leaders use a broader variety of leadership components, are more capable of and make more use of collaborative leadership, make more use of feedback, tend to receive feedback, tend to receive more favorable follower ratings, lead more effective groups, and also tend to score higher on Fiedler's Least Preferred Co-worker (LPC) scale (e.g., Arnett, 1978; Merron, Fisher & Tolbert, 1987; Mitchell, 1971; Nydegger, 1975; Schneider, 1978; Streufert & Castore, 1971; Vecchio, 1979; and Weiss & Adler, 1981).

### Social Intelligence

Most leadership researchers agree that leaders need to have such important interpersonal skills as empathy, motivation, and communication in addition to the cognitive skills mentioned above. What has received considerably less attention than the skills, is that appropriate application of these skills requires a thorough understanding of one's social setting. This, thorough the understanding of one's social environment, has been referred to as social intelligence.

Social intelligence has been defined as the ability “to notice and make distinctions among other individuals . . . in particular, among their moods, temperaments, motivations, and intentions” (Gardner, 1985, p. 239) and as “the ability to monitor one's own and other's feelings and emotions, to discriminate among them and to use this information to guide one's thinking and actions” (Salovey & Mayer, 1990, p. 189). Sternberg (1985) adds an important addendum when he suggests that social intelligence encompasses both the ability to understand and *act* on one's understanding of others. It is action, taken at the appropriate time and in the appropriate manner, along with discernment, that defines managerial wisdom. Understanding the moods and emotions of important stakeholders helps leaders decide which strategies might work or, alternatively, how strategies should be presented and conveyed.

Social intelligence, then is a key factor underlying discernment within the interpersonal arena. It does not, however, speak to discernment on non-interpersonal matters. We think Fiedler's (1995) work on Cognitive Resource Theory, which points out the importance of experience as opposed to intelligence, provides a missing key to understanding discernment about non-interpersonal dimensions. It is knowledge of the environment, gained through experience, which allows one to take notice of variations in his or her setting.

Preliminary research indicates a difference between IQ and social intelligence. Rosnow, Skleder, Jaeger, and Rind (1994) found no substantial relationships between interpersonal acumen (i.e., social intelligence) and linguistic and logical capacities tapped in IQ, Scholastic Aptitude, and other traditional *g*-ocentric measures of intelligence. Similarly, Sternberg and his colleagues (Sternberg, 1985; Sternberg, Wagner, Williams, & Horvath, 1995) found that effective leaders are able rapidly to assimilate tacit (non-articulated) information in the work place and that this ability was not related to traditional psychometric measures of intelligence (for a discussion of measures of *g* intelligence and a counter view, see Herrnstein & Murray, 1994). This research provides support for the idea of examining social intelligence separately from cognitive abilities.

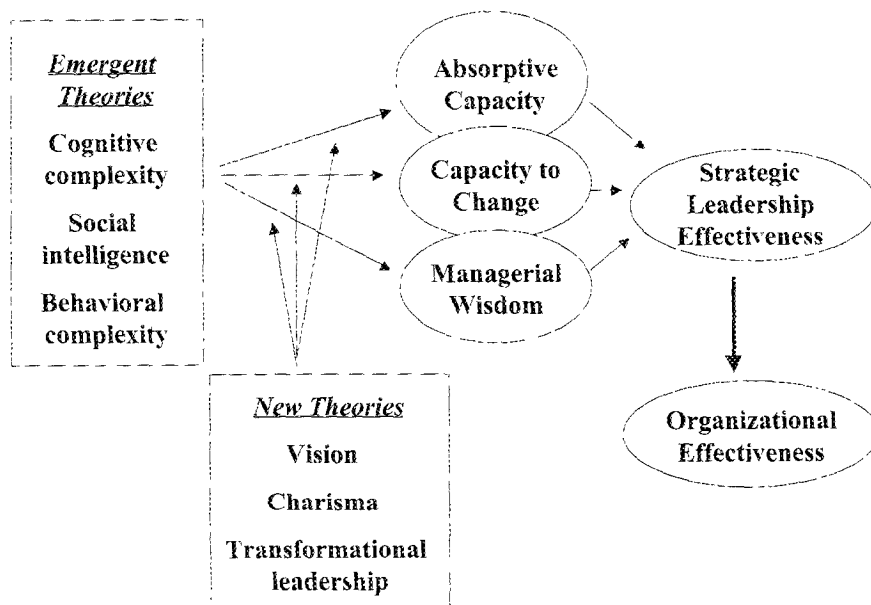
One of the key components of social intelligence is the capacity to differentiate emotions in self and others. This is a key component of effective leadership because decision-making processes, implementation of planned solutions, organizational progress, and emerging social problems are rarely emotion free. In fact, the majority of emotion experienced in life is evoked in the context of social relationships, and people can actively manipulate emotions to increase organizational effectiveness (Averill, 1982; Clark, Pataki, & Carver, 1996; de Rivera, 1984; Scherer, Wallbott & Summerfield, 1986; Schwartz & Shaver, 1987).

Social intelligence allows the leader to develop and use social capital (Brass, 1996; Coleman, 1988), manage leader-member transactional exchanges (Graen & Scandura, 1987; Scandura & Lankau, 1996) and other types of social exchanges (Blau, 1974; Hollander, 1979, 1970), uncover gaps in existing social structures (Burt, 1992), evolve strategies to fill them (Sayles, 1993; Sayles & Stewart, 1995), and display appropriate emotional expression in adult social interaction (Clark, Pataki, & Carver, 1996).

Effective social intelligence allows leaders to estimate the social capital available to them. Social capital is potential influence or increased understanding that is available to a leader solely as a function of the characteristics and structure of a social setting (Brass & Krackhardt, 1999), and it allows the leader to establish and enforce norms, achieve trust and reputation, and accomplish instrumental objectives.

Understanding how the resources of one relationship or context can be brought to bear on others to achieve operational closure on an issue or problem and grasping how social relationships created for one purpose can be appropriated for other purposes are results of leaders' accurate estimations of the social capital available within their social contexts. Effective use of idiosyncrasy credits (Hollander, 1979; Yukl, 1994) and other social exchanges, obligations, and expectations also depends on an integrated understanding of the social condition (Dienesch & Liden, 1986).

Social intelligence further contributes to appropriate emotional expression by leaders. Clark, Pataki, and Carver (1996), in a review of their research, reported on the strategic self presentation of three emotions—happiness, sadness, and anger—for the purposes of ingratiation, supplication, intimidation, and self-promotion in social settings. They found that, because there are predictable social reactions to expressions of these emotions, they can be used to achieve social ends. Knowing when others will trust a leader's expression or suppression of certain emotions and



**Figure 1. An Integrative Model of Strategic Leadership**

being able to predict likely social reactions are both parts of a socially integrated understanding of the situation. This knowledge exists in leaders' integrated social knowledge structures.

### INTEGRATING THE NEW AND EMERGENT LEADERSHIP THEORIES WITH ABSORPTIVE CAPACITY, CAPACITY TO CHANGE, AND MANAGERIAL WISDOM

The above review suggests that cognitive and behavioral complexity and social intelligence form the foundation for absorptive capacity, capacity to change, and managerial wisdom. As Zaccaro et al. (1991) put it, effective leadership requires that leaders have "encoded knowledge structures" and that the "knowledge structures, joined with . . . effective social perceptiveness, form the basis for a leader's social competence within the organization" (p. 323). Figure 1 shows how cognitive complexity, behavioral complexity, and social intelligence form the foundation for absorptive capacity, capacity to change, and managerial wisdom, and that these in turn have an impact on leadership and organizational effectiveness. Figure 1 further shows that vision, charisma, and transformational leadership function as moderating variables of the relationship between cognitive complexity, behavioral complexity, and social intelligence and absorptive capacity, capacity to change, and managerial wisdom. In the remainder of this article, we briefly explore the relationships displayed in Figure 1. Rather than discussing all possible links, we grouped the emergent theories together and the new theories together. Below we formulate three propositions for the main effects and three propositions for the moderator effects.

Leaders at the strategic apex of companies need to have a solid understanding of the environment within which their organization functions (Osborn, Hunt, & Jauch, 1980). Included in this understanding are the technological advances that are being made in the organization's own industry as well as other industries. Thus, leaders not only need to ensure that their companies' products continue to improve in quality and continue to meet customer expectations but they also need to understand how technological advances in related (and even not-so-related) areas can impact their organizations. For example, university presidents not only need to ensure that their faculty research and teach current topics, they also need to understand how the impact of the Internet and wireless technology is effecting the competitive landscape for universities, much less pedagogy, customer demand, and organizational effectiveness.

Strategic leaders further need to understand the impact of changes in social-political, economic, and technological factors. While it is said that all politics is local, strategic leaders increasingly must focus on the global, lest blind spots in their assessment of the new competitive landscape put their organization at risk. In their assessment of these larger environmental factors, however, many of the particulars will depend on which industry and organization the strategic leader is in.

For example, in their search for human capital, leaders of U.S. high tech companies increasingly recruit globally while looking for new opportunities to expand their market reach. Organizations interested in entering the Chinese market must not only be concerned with economic issues but must keep an equally close watch on what the political leaders in Beijing plan. Leaders of the major pharmaceutical companies in the United States may sometimes complain about the U.S. Food and Drug Administration (FDA). They also realize, however, that the structures they have created to deal with the requirements of the FDA for the patenting of drugs also provide an important entry barrier for anyone considering entering the pharmaceutical market, which would effect their competitive position. Thus, focusing on socio-political factors is as important as being on the leading edge of the bio-tech revolution.

As leaders better understand the system within which they and their companies operate, they will also see more opportunities to learn and to think of new directions for their companies. As they think of new directions for their companies, given their knowledge and understanding of the larger environment, they will also be more likely to develop inspirational visions for their companies. We therefore propose the following.

**Proposition 6:** Leaders who have a broad understanding of environmental and contextual relationships (i.e., who have cognitive complexity) will also have greater absorptive capacity than leaders who have a limited understanding of these relationships.

While cognitive complexity is important, leaders also need to be able to draw on a broad behavioral portfolio to convey a similar message in many different ways so that it makes sense to many different stakeholders. In conversations with Wall Street representatives, strategic leaders will probably need to emphasize return

on investments and other financial indicators. These same leaders, however, in conversations with consumer advocacy groups, will probably need to emphasize quality, price, and safety. In conversations with government representatives, however, these leaders probably need to convey the need for favorable legislation as well as regulations. Finally, in conversations with unions they probably need to emphasize productivity and cooperation.

Witness, the recent turmoil that the president of Bridgestone/Firestone has been thrown into as he has had to deal with the U.S. Congress, Ford Motor Company, customers, the legal community, the media, and the union—simultaneously. In each of these interactions, leaders will have to vary the extent to which they enact or react, collaborate or dominate, act friendly or hostile, and so on. Through the interactions with the board of directors and the conversations with the various stakeholders, strategic leaders can improve the predictability of changes in the external environment and be subject to fewer incidents of damaging moves by stakeholders (e.g., strikes, boycotts, bad press, hampering regulations) (Harrison & St. John, 1996). Harrison & St. John (1996) suggest a wide variety of partnering tactics strategic leaders can engage in that will improve organizational flexibility.

We see then that the behavioral complexity of the strategic leader of the organization tends to increase the organization's capacity to change. Behavioral complexity increases the capacity to change because the stakeholders of the organization will tend to be more willing to cooperate in change efforts. The stakeholders will be more willing to make changes because the leader has taken the time to get them involved in the change process by relating the proposed changes to their interests. Once this capacity to change has been increased, real organizational transformation can take place. Therefore, we propose the following.

**Proposition 7:** Leaders who are more behaviorally complex will also have greater capacity to change than leaders who have limited behavioral complexity.

The above points also indicate how leaders' social understanding of their environment influences the behaviors of strategic leaders. Strategic leaders build their social intelligence through their interactions with their stakeholders. In these interactions, strategic leaders explore long-term changes in the environment of the organization. That is, strategic leaders do not merely look at interacting with stakeholders for the purpose of reducing the uncertainty currently facing the organization.

Executive leaders have reciprocal dependence relationships with such stakeholders as the board of directors, government officials, pension funds, mutual funds, public interest groups, unions, trade associations, and charitable organizations. While most of these stakeholders do not hold the same formal authority as the board of directors, they can exercise substantial influence on the actions of the strategic leadership. Unions can use their members to put pressure on the executive leadership to increase salaries, benefits, and non-financial incentives. The pension and mutual funds in turn can pressure the executive leadership not to give in to the demands of the unions, and to instead make the organization "leaner." To

deal effectively with this wide range of stakeholders and dependency relationships, strategic leaders need really to understand what their organizations can handle and what they can do.

Strategic leaders also explore the long-term agendas of public interest groups, political leaders, consumer advocacy groups, as well as the strategic plans of other organizations in their own and related industries. It is through a thorough examination of those agendas that they can develop part of their feeling for strategic inflection points (Burgelman & Grove, 1996). For example, the automobile industry closely follows the actions of environmental groups and the state legislature in California to anticipate future regulations on car emissions and fuel efficiency. The strategic leaders in the automobile industry probably also closely followed the recent international conference in Japan on global warming. While that conference does not affect car sales in the immediate future, it does provide strategic leaders insight in the thinking of international political leaders and they can start incorporating some of the outcomes of the conference in their 10–20 year plans.

Through an exploration of long-term agendas of a wide variety of stakeholders strategic leaders can build their social intelligence and their feeling for strategic inflection points. Strategic leaders high in social intelligence understand, for example, that environmental interest groups will not only pressure their organizations to improve their pollution-prevention activities, but that these groups will simultaneously pressure politicians to take a stand, urge voters to call their political representatives, and attempt to convince their distributors and buyers to go elsewhere. This understanding of the network of social relationships and the potential emotional reactions will tend to lead strategic leaders to actively seek input from community organizations regarding the creation and operation of facilities or from environmental interest groups regarding pollution issues. In that manner strategic leaders not only show sensitivity to the concerns of these groups, but they also increase the likelihood that the values of their organizations start to reflect the values of the interest groups.

Once the social intelligence of the strategic leader increases, we anticipate an increase in the leader's managerial wisdom. That is, an improved understanding of the social and emotional issues should lead to more informed and win-win strategic solutions. By exploring and improving their understanding of the social relationships among the stakeholders in their organization's environment, executive leaders enhance their opportunities for co-opting relevant stakeholders, forming more informed feeling for strategic inflection points, and improving their understanding of the larger system within which their organization operates. We propose therefore:

**Proposition 8:** Leaders high in social intelligence will also have greater managerial wisdom than leaders who have limited social intelligence.

While we have emphasized the relationship between cognitive complexity and absorptive capacity, behavioral complexity and capacity to change, and social intelligence and managerial wisdom, other possible associations also exist. The above three propositions are meant to highlight the relationships between the emerging theories and the three core characteristics of strategic leadership. We now turn to

the impact of the new theories on the propositions formulated above. Again, we provide three moderating effects propositions, while fully realizing more can validly be proposed.

### **Moderating Effects**

Our model indicates that cognitive complexity, social intelligence, and behavioral complexity will have a positive association with absorptive capacity, capacity to change, and managerial wisdom. These relationships will be strengthened to the extent that leaders have a clear vision, charisma, and transformational qualities. Thus, we believe that vision, charisma, and transformational qualities do not have a direct impact on absorptive capacity, capacity to change, and managerial wisdom, but rather moderating effects.

We proposed that strategic leaders with cognitive complexity would have higher absorptive capacity than leaders with less cognitive complexity. To the extent that these leaders also have a clear vision of where they want their organization to go, the absorptive capacity will have greater focus. That is, strategic leaders look at the changes in the environment of their organization and then examine those changes in the context of their vision. A clear vision allows them more clearly to decide how those changes affect the envisioned future of the organization. We propose therefore:

**Proposition 9:** Strategic leaders who have high cognitive complexity and a clear vision will have greater absorptive capacity than leaders who have high cognitive complexity but do not have a clear vision.

Strategic leaders who vary their behaviors depending on the person they interact with (i.e., behaviorally complex leaders) have a greater likelihood of getting people to change the way they do things than leaders who do not (P6). Strategic leaders who, in addition, also have transformational leadership qualities will be even more likely to change people's behaviors. That is, strategic leaders who can intellectually stimulate people around them, show individual consideration and inspiration (Bass, 1985), will be more likely to get people to try new things than leaders who do not. We propose therefore:

**Proposition 10:** Strategic leaders who have high behavioral complexity and transformational leadership qualities will have greater capacity to change than leaders who have high behavioral complexity but not transformational leadership qualities.

Leaders who understand the desires, motivations, and values of relevant stakeholders (social intelligence) and who possess the ability to act at Kairotic moments are more likely to act with managerial wisdom in terms of taking the right action at the right time (Kairos & SIP) (P8). Leaders who in addition to social intelligence are viewed as charismatic will be more likely to be seen as having managerial wisdom. That is, other people will be more likely to share their ideas with them,

to accept their values and ideas. The sharing and acceptance of ideas increases the knowledge these leaders have of what is the right time for change and even helps them create the right time for change. We propose therefore:

**Proposition 11:** Leaders who have high social intelligence and are seen as charismatic will display greater managerial wisdom than leaders who have high social intelligence but do not possess charisma.

### Integrative Examples

Strategic leaders in regulated industries, (e.g., public utilities, banks, etc.), high in cognitive complexity, behavioral complexity, and social intelligence, probably started to adjust their organizations for deregulation long before most leaders even considered deregulation a realistic possibility (cf. Ropo & Hunt, 2000). While preparing their organizations, they also tend to influence the implementation of the deregulation by sharing their concerns, opinions, and ideas with state and federal policy makers. These strategic leaders started to change the value structure of their organizations from one focused on monitoring energy usage and setting rates to one of customer service and cost containment.

Strategic leaders of engineering companies that had 100% of their contracts with the Department of Defense recognized long ago that the budget for defense was shrinking and that, subsequently, they had to reorient the company, they had to co-opt new stakeholders, they needed to seek out non-defense contracts, and they had to re-conceptualize the system within which their organization operated. It meant that the rules for bidding for contracts changed, that they no longer needed to comply with a wide variety of government regulations in the execution of their contracts, and that the executive leaders had to go out and find new customers.

In so doing, these strategic leaders tended to increase the absorptive capacity, capacity to change, and the wisdom of their organization. This in turn led them to formulate distinctly different visions for the future, transformed organizations, and, perhaps, made the leaders look charismatic. The transitions described above can devastate organizations. We believe that strategic leaders high in behavioral complexity, cognitive complexity, and social intelligence will have picked up on these trends before most other leaders and before they start losing contracts, and that they prepare their organizations for this transition by changing their organizations' structures.

### CONCLUSION

Researchers can gain a better understanding of the processes that lead to effective strategic leadership if they focus on the essence of strategic leadership and incorporate the new and emerging theories of leadership. Here, we have proposed that absorptive capacity, capacity to change, and managerial wisdom represent the essence of strategic leadership. We then proposed that the cognitive complexity, social intelligence, and behavioral complexity of strategic leaders positively affect the

essence of strategic leadership. We believe the new theories of leadership (i.e., vision, charisma, and transformational leadership) have a positive moderating effect on the above mentioned relationships.

By focusing on the behavioral complexity, cognitive complexity, and social intelligence of leaders, we hope to focus researchers' attention on the behaviors and personality characteristics of leaders at the strategic apex rather than on their demographic characteristics. In so doing, we hope that researchers will explore creative avenues to assess the behavioral complexity, cognitive complexity, and social intelligence of strategic leaders. These avenues might include interviews, (auto)biographies, company reports, company policies, external ratings by various interest groups, board memberships, value statements, and social involvement activities among other approaches.

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