The Leadership Quarterly 20 (2009) 130–142

Contents lists available at ScienceDirect

The Leadership Quarterly

journal homepage: www.elsevier.com/locate/leaqua

Alternative forms of charismatic leadership in the integration of mergers and acquisitions

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ARTICLE INFO

Keywords:
Charismatic leadership
Mergers and acquisitions
Strategic management

ABSTRACT

It is becoming increasingly clear that post-merger and acquisition (M&A) performance, especially in terms of achieving the integration of merging firms, is strongly affected by organizational factors, such as leadership. This paper presents a theoretical model showing how alternative forms of charismatic leadership can be relevant to the implementation of M&As. A unique aspect of our conceptualization is that we recognize the distinction between charismatic leaders with more of a personalized versus socialized power motive, the behaviors emanating from each respective type, and likelihood of resulting effects on the post-combination organization of an M&A. We also propose that personalized charisma will result in an absorption strategy and accompanying stress, resistance to change, and turnover that vary in degree between acquiring and acquired firms. Conversely, socialized charisma will result in collaborative vision-formation and decision-making processes that will ultimately achieve transformation in both of the combining firms. We further argue that absorption strategies can result in effective integration of the target firm into the acquiring firm when the pre-merger condition of the former is unfavorable.

> "The centerpiece of Ms. Fiorina's tenure has been her controversial takeover of Compaq, which H-P continues to defend as a smart plan for improving its competitive edge with cost efficiencies. That Get-Big strategy to compete with International Business Machines hasn't been a panacea for the complex and myriad problems H-P faced — the drubbing its PC unit was taking from Dell, its faltering ability to compete with IBM in servicing big corporate clients, its lack of any big new consumer gadgets. Mr. Hewlett and many others argued at the time that H-P was diluting its printing business to double down on a chancy bet that it could beat Dell and IBM in businesses they dominated. With Ms. Fiorina at the helm of the conglomerate she created, its stock will be lucky to continue stagnating." (Eisenger, 2005, p. C1).

> "DaimlerChrysler AG chief executive Juergen Schrempp, whose 1998 takeover of Chrysler Corp. wiped out half of the company's market value, will step down. Mr. Schrempp is leaving two years earlier than expected and DaimlerChrysler shares rose as much as 12% to their highest in three years on the news" (Boston Globe, 2005, p. C2).

These are just two examples of CEOs of large corporations that are largely credited with, at best, questionable performance of high-profile mergers. But in general, mergers and acquisitions (M&As) have a less than stellar record, and a high percentage of

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1048-9843/$ – see front matter
doi:10.1016/j.leaqua.2009.01.008

M&As either fail or do not realize expectations. Indeed, the conventional wisdom is that M&A failure rates run as high as 50% with the success of M&As being assessed as no better than an even bet (Hunt, 1990). Of course, the issues of how to measure M&A success and over what time frame are important considerations and ones that are not without controversy (Stahl & Voigt, 2005). For example, while Fiorina lost her job as CEO of HP due to her failure to turn the merger with Compaq into a success, her successor has been credited with turning the company around and creating synergy out of the merger with Compaq and overtaking DELL as the largest PC supplier in the world (Businessweek.com, 2/27/07).

The measurement issues notwithstanding, the track record of M&As is not encouraging, but despite their lackluster performance, M&As are still quite popular. In an attempt to understand this disparity, Morosini (1998) noted that in the area of post-M&A performance, most research has focused on strategic and financial issues. Yet it is becoming increasingly clear that research models focusing narrowly on such issues cannot adequately address the human elements that can make or break the successful implementation of an M&A (Birkenshaw, Bresman, & Hakanson, 2000; Larsson & Finkelstein, 1999). These elements include such factors as leadership, commitment to change, and organizational and cultural integration (Bastien, 1987; Buono & Bowditch, 1989; Cartwright & Cooper, 1993).

The *Economist* magazine, in a review of the track record of mergers and acquisitions, noted that: “Success will depend more than ever on the merged company's ability to create added value. And that will depend on what happens after the deal has been done. Yet many deal makers have neglected this side of the business.” (Jan. 9, 1999, reported in Tetenbaum, 1999, p. 23). A 1996 survey by Booz Allen and Hamilton reported that European and Asian managers assessed their American merger partners as effective in deal making skills but ineffective in planning and executing the firms' post-merger integration (Tetenbaum, 1999). Furthermore, a 1998 Conference Board study found that over half of the companies studied did not examine people issues until after the merger became official (Tetenbaum, 1999).

As suggested by the above examples, leadership may be a logical driver of the human elements associated with an M&A implementation, and thus, its ultimate success. Unfortunately, leadership issues have taken a back seat in scholarly efforts. The M&A literature tends to either ignore leadership or make cursory reference to it (Morosini, 1998; Sitkin & Pablo, 2005). To be sure, researchers have explored the impact of managerial actions and decisions on the success of M&As, but they have not focused on the role of leadership (Greenwood, Hinings, & Brown, 1994; Haspeslagh & Jemison, 1991; Hunt, 1990; Shrivastava, 1986). Sitkin & Pablo (2005), in their review of the M&A literature, concluded that theory and research have not systematically examined leadership variables in the M&A implementation process despite its potential importance, as illustrated by Clemente (2001, p. 35):

> Corporate mergers too often continue to disappoint by failing to meet management's strategic and financial expectations and enhance shareholder value. Scores of problems have been identified, and skilled acquirers have tried to combat them by improving all facets of the M&A process. But a key reason why the casualty list remains high is the persistent failure of CEOs to provide strong leadership while the deal is being done, especially in the critical post-merger integration phase.

The overall goal of this paper is to focus on the role of top management leadership in the success of an M&A. While there are many drivers of the success of an M&A, our focus in this paper is on the under-explored role of leadership. Before proceeding, we should note that two boundary conditions are relevant to the theoretical model presented in this paper. First, our focus is on the most common types of M&As which are called strategic M&As (Healy, Palepu, & Ruback, 1997). Such acquisitions take place based on the pre-merger expectation or hope of developing synergies between merging firms through integrating the management teams, organizational structures and cultures, systems, and processes of the two pre-merger organizations. In contrast, the less common financial M&As are not the focus of this paper. Financial M&As are based on pure transaction or the buying of a stream of revenues for the purpose of better asset management; little if any synergies or integration processes are expected.

Second, by focusing generically on leadership at the strategic level, we are not delineating specific managerial levels. Rather, our reference point is the top decision-maker accountable for the successful implementation of an M&A. In the case of the acquisition of a relatively large firm (i.e., relative to the size of the acquiring firm), the CEO will be the accountable strategic leader. In contrast, some acquisitions may be relatively small in relation to the overall size of the acquiring firm, in which case a lower-level business unit manager may be the person accountable. In other cases, the acquiring company might designate an integration manager who is responsible for the success of the post-merger integration of the two companies (Koch, 2002).

1. The importance of organizational and cultural unification in an M&A

M&As represent a strategic option for a firm to enhance its competitive position. As a result of an M&A, the firm can enhance its position through learning (Ghoshal, 1987; Haspeslagh & Jemison, 1991; Vera & Crossan, 2004) and access to new or improved resources (Barney, 1991). The learning can be generalized, in the form of cross-pollination resulting in a diverse set of skills, competencies, and resources (Morosini, Shane, & Singh 1998), or it can be specialized, focusing on the new markets that have been accessed through the acquisition. In short, the CEO and other senior executives may pursue strategic synergistic goals through increased efficiency (Walter & Barney, 1990), enhanced corporate learning (Ghoshal, 1987), or monopolistic market power (Trautwein, 1990). However, achieving such goals often requires intensive efforts aimed at integrating the two organizations.

Increasing evidence points toward organizational integration as being a key ingredient of the effective implementation of an M&A, but nevertheless, it is also a challenging goal (Haspeslagh & Jemison, 1991; Larsson & Finkelstein, 1999; Pablo, 1994). While there are many reasons for failed attempts at post merger integration (e.g., lack of a transition plan), organizational and cultural integration are generally viewed as critical success factors. For example, over time, there is an inverse relationship between cultural