

Transformational leadership in an acquisition: A field study of employees

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Abstract

This field study of employees involved in a major acquisition integration addressed the relationships that leadership and climate had with subordinate acquisition acceptance, performance, and job satisfaction in an uncertain environment. Transformational leadership was positively related to acquisition acceptance, supervisor-rated performance, and job satisfaction ($p < .01$). Transformational leaders also impacted subordinate outcomes through the perceived climate they created for goal clarity and support for creative thinking. Both goal clarity and support for creative thinking partially mediated the relationship between transformational leadership and job satisfaction ($p < .01$; $N = 447$). Goal clarity did not mediate the relationship between transformational leadership and performance, but was positively related to performance ($p < .05$; $N = 344$). Support for creative thinking fully mediated the relationship between transformational leadership and acquisition acceptance ($p < .01$; $N = 432$). Implications for future research and for managers engaged in acquisition integrations are discussed.

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1. Introduction

Successfully managing employee attitudes and performance during an acquisition integration is vital because employees can choose to: leave the firm or remain, hold onto critical operational knowledge or share it, and raise their productivity level or become distracted by disruptions (Buono & Bowditch, 1989; Marks & Mirvis, 1992; Ranft & Lord, 2000). Acquisition integrations call upon employees to accelerate their productivity to manage routine job responsibilities, plus take on the additional tasks necessary to transition from two organizations to one. Yet resistance to changes in routines and uncertainty about responsibilities can reduce job performance at a critical time. Cultural changes and degradation of status can cause social identity issues that lead to frustration and anger about the acquisition and reduced job satisfaction (Hambrick & Cannella, 1993; Hogg & Terry, 2000). Unless managed successfully, these employee-level outcomes of an acquisition can manifest themselves at the firm level as an exodus of talent, tardiness, absenteeism, lower productivity, reduced customer satisfaction, less innovation, and ultimately reduced economic benefits from the acquisition (Buono & Bowditch, 1989; Ernst & Vitt, 2000; Hambrick & Cannella, 1993; Nygaard & Dahlstrom, 2002; Schweiger & DeNisi, 1991).

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Bass (1985) set out a model of situational antecedents for transformational leadership and reiterated the importance of contextual antecedents in later work (Bass, 1998; Bass, Avolio, Jung, & Berson, 2003). In this model, transformational leadership is particularly effective in environments characterized by change, uncertainty, and distress, such as acquisition integrations (Bass, 1998; House & Aditya, 1997; Waldman, Ramirez, House, & Puranam, 2001; Yukl & Howell, 1999). Transformational leaders are essentially change agents; they visualize a future different than the status quo and inspire subordinates to work with them to achieve that new future (Vera & Crossan, 2004). In an acquisition integration, transformational leadership behaviors play a critical role in helping subordinates to accept that a bright future lies in an integration of the two organizations. By inspiring employees to work toward that future, moreover, they motivate employees to maintain their job satisfaction and performance despite the uncertainty and anxiety of the integration process. Our study makes an important empirical contribution to the transformational leadership literature because few studies have been conducted outside of stable environments to investigate the effects of transformational leaders on employees during organizational change (Bass, Avolio, Jung & Berson, 2003). The present study addresses this gap by answering this research question: In an acquisition integration, does transformational leadership have a beneficial relationship with employee acquisition acceptance, performance, and job satisfaction?

Another gap in the transformational leadership literature is that it offers few insights into the mechanisms by which these effects take place (House & Aditya, 1997; Yukl, 2002). Some recent research has focused on understanding better how transformational leaders affect subordinate outcomes by looking at mediating mechanisms (Avolio, Zhu, Koh, & Bhatia, 2004; Jung & Avolio, 2000; MacKensie, Podsakoff, & Rich, 2001; Pillai, Schriesheim, & Williams, 1999; Zhu, Chew, & Spangler, 2005). In one study, transformational leaders indirectly affected subordinate safety behaviors through the type of climate they created (Barling, Loughlin, & Kelloway, 2002). We extend this work on climate as a mediating mechanism between transformational leadership and employee outcomes by analyzing the indirect use of transformational leadership behaviors during periods of rapid change to create climates emphasizing goal clarity and support for creative thinking. These climates have the potential to further mitigate the effects of uncertainty and change during acquisition integrations. By creating a climate emphasizing goal clarity, transformational leaders can alleviate ambiguity and thereby help employees to achieve their objectives. Transformational leaders also may promote a climate of creativity, thereby opening employees' minds to new ways of thinking and enabling them to better understand the need for change. Hence, our second research question is: Does transformational leadership also have an indirect relationship with employee acquisition acceptance, performance, and job satisfaction through the mediating mechanism of creating a climate that individuals perceive as providing goal clarity and supporting creative thinking?

2. Transformational leadership in acquisition integrations

Transformational leadership is one of a class of theories known as neocharismatic leadership theories (House & Aditya, 1997). Transformational leadership is defined as a relationship between a leader and followers based on a set of leader behaviors perceived by subordinates as exhibiting idealized influence, motivational inspiration, intellectual stimulation, and individual consideration (Bass, 1985; Waldman, Javidan, & Varella, 2004). Extensive research evidence shows that transformational leadership improves subordinate satisfaction with the leader and subordinate perceptions of leader effectiveness (Howell & Shamir, 2005; Judge & Piccolo, 2004; Lowe, Kroeck, & Sivasubramaniam, 1996). A smaller body of work has studied transformational leadership and its relationship with variables such as subordinate job satisfaction, often with mixed results and smaller effect sizes (Judge & Bono, 2000; Podsakoff, MacKensie, & Bommer, 1996).

2.1. Transformational leadership in the context of organizational change

Transformational leadership theory postulates a contextual dependence with the emergence and effectiveness of transformational leadership being stronger in situations of crisis or uncertainty, such as acquisition integrations (Bass, 1990; Shamir, House, & Arthur, 1993; Yukl & Howell, 1999). Transformational leaders help subordinates to unlearn past routines, develop creative solutions to ambiguous problems, and respond appropriately to new environments (Bass, 1985; Bass et al., 2003; Vera & Crossan, 2004). There has been limited empirical transformational leadership research in an acquisition integration, or similar contexts with high uncertainty. Waldman et al. (2001) found that

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