Transformational leadership and ambidexterity in the context of an acquisition

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A B S T R A C T

This study explores the role of transformational leadership and the values incorporated in a learning culture in promoting ambidexterity (the ability to explore new capabilities while exploiting existing ones) in teams involved in acquisition integrations. Data from a field study of an acquisition integration (N=71 work teams) support hypotheses arguing that transformational leadership behaviors and the development of a learning culture, characterized by psychological safety, openness to diverse opinions, and participation in decision making, promote ambidexterity at the team level. We also found support for the association between transformational leadership and learning cultures.

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1. Introduction

Long-term survival and success require the ability to be ambidextrous, that is, to explore new capabilities while exploiting existing ones (Tushman & O'Reilly, 1996). Achieving ambidexterity is, however, not easy. Because of its competing goals of innovation and efficiency, exploration and exploitation are often described as paradoxical (Lewis, 2000). Existing research suggests leadership behaviors and the intra-firm contexts and structures they create are important antecedents to ambidexterity (Beckman, 2006; Brown & Eisenhardt, 1997; Gibson & Birkinshaw, 2004; Smith & Tushman, 2005; Tushman & O'Reilly, 1996). Research on the role of top management team characteristics, such as paradoxical cognition (Smith & Tushman, 2005) and behavioral integration (Lubatkin, Simsek, Ling, & Veiga, 2006), on firm-level ambidexterity has only begun to emerge. The role of team leaders in supporting ambidexterity in work teams throughout the firm is even less well understood.

Studying the links between team leadership, team culture, and ambidexterity is important for two reasons. First, the complex demands of today's dynamic contexts indicate the need to push down the responsibility of integrating exploration and exploitation (Crossan, Vera, & Nanjag, 2008). Second, these same demands require us to challenge the expectation that firm-level ambidexterity can be achieved primarily by having some units focusing on exploration, others focusing on exploitation, and integration occurring only at the top of the hierarchy. An initial step in this direction is work by Birkinshaw and Gibson (2004), who study contextual ambidexterity at the business unit level. They describe ambidextrous individuals as dividing their time between exploration and exploitation activities and flourishing under leaders who encourage them to act for the greater good of the organization, promote adaptive behavior, and provide a clear vision of the overall strategy. We extend this work by addressing the influence of team-level leadership and culture on ambidexterity.

Furthermore, we focus specifically on these relationships as they exist within dynamic internal contexts, such as the one created by an acquisition integration. As a renewal strategy, acquisitions are inherently paradoxical in that they incorporate old and
new, striving to achieve consistency and cost reductions while creating a larger platform for growth and innovation (Crossan, Lane, & White, 1999; Hitt, Harrison, & Ireland, 2001; March, 1991; McNamara & Baden-Fuller, 1999). Unfortunately, while the need for ambidexterity is high, acquisitions create a context replete with barriers to learning, such as ambiguity, disrupted knowledge networks, fear, risk aversion, and cultural differences (Bijlsma-Frankema, 2001; Ernst & Vitt, 2000).

The type of leadership considered in this study is a set of behaviors and attributes known as transformational leadership (Bass, 1985, 1998). Transformational leadership is charismatic, inspirational, intellectually stimulating, and individually considerate (Bass, 1985, 1998). Transformational leadership behaviors by senior executives are more likely to be effective in dynamic environments (Waldman, Ramirez, House, & Puranam, 2001) and to promote both explorative and exploitative learning in which the status quo is challenged (Vera & Crossan, 2004).

Prior research provides only scattered evidence of the links between transformational leadership, the culture associated with these leaders, and ambidexterity in dynamic contexts, especially at lower organizational levels (Berson, Nemanich, Waldman, Galvin, & Keller, 2006). For example, research in R&D organizations indicates a positive effect of transformational leadership on exploration (e.g., Keller, 1992; Keller, 2006; Shin & Zhou, 2003; Waldman & Atwater, 1992; Waldman & Bass, 1991), although some studies using student groups offer conflicting results (e.g., Jaussi & Dionne, 2003; Kahai, Sosik, & Avolio, 2003). On the other hand, we know very little about the link between transformational leadership and exploitation and about how transformational behaviors simultaneously enable the two learning processes.

A generally accepted view argues that the characteristics of a firm's or a team's culture are taught by its leadership and eventually adopted by its followers. However, more than a decade has passed since Schein's (1997) description of what an internal culture that favors learning would look like, and, surprisingly, this concept remains largely empirically untested. Addressing these gaps in our knowledge, the research question that guides our study is: What are the effects of transformational leadership and learning cultures on ambidexterity in acquisition integrations?

We contribute to the leadership and organizational learning literatures by taking a comprehensive look at how team-level transformational leadership and learning culture support ambidexterity during an acquisition integration. In doing this, we challenge conventional wisdom associating transformational leadership only with exploration by showing that, in the changing context of an acquisition, transformational leadership behaviors and the learning cultures associated with these leaders are linked with ambidexterity, that is, exploration and exploitation. We begin with a brief review of the concept of ambidexterity. Next, our conceptual model is presented. We then discuss the methods used to test our model in a field study of an acquisition integration. Finally, the results and implications of the study are described.

2. Ambidexterity and acquisition integrations

Exploration is captured by terms such as search, risk-taking, experimentation, and innovation”; exploitation, on the other hand, is associated with refinement, efficiency, selection, and execution (March, 1991). March (1991) describes the relationship between the two processes as conflicting and argues that balancing them is not easy because they have contradictory goals, require different organizational contexts, and compete for scarce resources. In this theoretical perspective, exploration and exploitation are viewed as opposite ends of a continuum that compete for scarce resources. An alternative view holds that exploration and exploitation are orthogonal constructs that can coexist within teams or organizations (c.f. Baum, Li, & Usher, 2000; Beckman, Haunschild, & Phillips, 2004; Gilson, Mathieu, Shalley, & Ruddy, 2005). The emergence of this perspective is associated with the development of the concept of ambidexterity, which is defined as the simultaneous pursuit of both radical and incremental learning (Tushman & O'Reilly, 1996).

We share the views of Gupta, Smith, and Shalley (2006) who argue that exploration and exploitation may be mutually exclusive for an individual (a single domain), but within a team or a firm (complex domains), the two processes are generally orthogonal. Resource constraints may sometimes inhibit engagement in both processes, such as when incremental R&D projects compete for scarce funding with more radical projects (March, 1991; Tushman & O'Reilly, 1996), but in a broad sense the ability to learn from existing practices (exploitation) while developing new ideas (exploration) can be viewed as unlimited (Baum et al., 2000; Beckman et al., 2004; Gupta et al., 2006). Evidence of the coexistence of exploration and exploitation comes from manufacturing firm innovation (He & Wong, 2004), customer service teams using both standardized and creative processes (Gilson et al., 2005), concurrent feedback and feed-forward learning in mutual fund firms (Bontis, Crossan, & Hulland, 2002), and explorative and exploitative innovation in financial services units (Jansen, Van den Bausch, & Volberda, 2006).

In developing our definitions, we build on the 4I framework of organizational learning (Crossan et al., 1999). This framework associates exploration with a feed-forward learning process supporting novelty: Individuals develop new ideas through intuition and interpretation, integrate their ideas into the knowledge resources of their teams, and then institutionalize the knowledge into the firm. Exploitation is associated with a feedback learning process supporting continuity: Firm knowledge resources (captured in procedures and best practices) are transferred to individuals and teams (Crossan et al., 1999). We apply this framework to the experience of work teams in acquisitions. Exploration is the active search by team members for ideas that are new to the combined organization; these ideas are shared and institutionalized into their teams and the newly formed organization. Exploitation is the use by team members of knowledge available within the integrated organization on an “as is” basis or with incremental revision, through methods such as the adoption of best practices and standard procedures.

Successful acquisition integrations require the ability to be ambidextrous. Unfortunately, in such contexts of change, exploitation has a tendency to drive out exploration because people resist risky experimentation (Benner & Tushman, 2003; Levinthal & March, 1993). Indeed, acquisitions have been shown to reduce both the quantity and quality of individual inventive
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