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Leadership Style of Managers during Mergers in the Hospitality Industry

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Abstract
This qualitative study investigated leadership styles employed by hospitality managers during mergers and acquisitions. A total of ten managers drawn from Africa and USA participated in the study. The managers responded to five questions; what is the impact of mergers on organizations and their management? How does management communicate with employees during an M&A? How do leaders guide their followers through an M&A? Why do organizational culture changes affect the M&A outcome? Why are M&A a source of stress for employees and leaders? How do employees and leaders deal with change during an M&A? The ten mangers living and working on two different continents shared similar views on the issues impacting M & As. Managers behavior is characterized by stress, anxiety, cultural shock and loss of jobs during M & As. M & A benefits include access to new resources, market access and learning new techniques including management practices. The need to communicate in methodological manner was deemed important to the success of M &A transition. Positional thought and transformational leadership styles were deemed appropriate as ideal to mitigate the negative effects of M & As.
Key words: mergers and acquisitions, positional leadership, thought leadership, transformational leadership, hospitality

1. Introduction

Since 2004, maelstrom and fast changing technologically driven business environment the volume of mergers and acquisitions has been increasing reaching unprecedented levels in access of 1.774 billion Euros in 2006 (Van Dan Weil & Cole, 2004; Vasilaki & O'Regan, 2008). Mergers and acquisitions (M&A) have arguably become the most popular strategy among firms who seek to establish a competitive transaction or market access advantage over their rivals (Vasilaki & O'Regan). Other strategic reasons for entering into mergers and acquisitions include increased market access, equity/capital leverage, access to technology and skills transfer (Van Dan Weil & Cole).

Studies have indicated that since 1990, half of the mergers have eroded shareholder returns, 33% resulted in marginal returns, and only 17% contributed major value to the returns (Van Dan Weil & Cole, 2004; Bolster, 1997). Some of reasons for failure include lack of customer focus, overestimation of synergies, poor cultural fit, inability to transfer skills, lack of vision, poor communication, lack of cohesive leadership, inability to articulate direction, loss of momentum or focus, flight talent, organizational confusion and division, excessive premium and lack of speed in implementation (Hiit, Ireland, & Hoskisson, 2007; Van Dan Weil & Cole). High levels of anxiety and stress are also experienced during M & As.

Mergers and acquisitions continue to stimulate growth in the hospitality industry which is viewed as complex, dynamic, and global and very difficult to maintain competitiveness on a continuous basis (Chathoth & Olsen, 2002). The hospitality industry is accustomed to manage diversity because of a wide spectrum of customers and workforce. Over the years, individual and hotel groups have sought to expand their market reach using expansion vehicles such management contracts, mergers, acquisitions and franchising. Earlier examples of hotel expansion overseas using mergers, acquisitions and franchising models include the Caribe Hilton in San Juan, Puerto Rico, a first hotel to operate as a Hilton in the 1940s followed by Hiltons in Havana, Instabul, and Cairo and Intercontinental in 1950s (Jack & Avner, 1993). Hotel companies have had to face the similar challenges, such as organizational cultural fit and host cultures expectations, vision articulation, resistance to change, and lack of leadership cohesion in the integration processes (Testa, 2001).

Pre- and post–merger failures have been attributed to human factors and poor leadership (Covin, Kolenko, Sightler, & Tudor, 1997; Gardiner 2006). Management must design market competitive edge appropriate behavioral approach to M&A if success is the primary objective (Appelbaum, Gandell, Shapiro, Belisle, & Hoeven, 2000). Appropriate leadership style must be applied throughout the process of integration and beyond (Chawla & Kelloway, 2004; Nguyen, & Kleiner, 2003; Runge & Hames, 2004; Simpson, 2000). Covin et al.

concluded that a positive correlation relationship exists between leadership styles and employees' post-merger satisfaction and performance.

Thus this study investigated the appropriate leadership style applied in the hotel industry focusing on the application of positional versus transformational and thought leadership styles during pre-merger, transition and post periods. The study sought to answer questions at center of mergers and acquisitions:

1. What is the impact of mergers on organizations and their management?
2. How does management communicate with employees during an M&A?
3. How do leaders guide their followers through an M&A?
4. Why do organizational culture changes affect the M&An outcome?
5. Why are M&A a source of stress for employees and leaders?
6. How do employees and leaders deal with change during an M&A?

Mergers and Acquisitions

Mergers and acquisitions have been defined to be the purchase of entire companies or specific assets by another company and these include arrangements such as take-overs, tender offers, alliances, joint ventures, minority equity investments, licensing, divestitures, spin-offs, split-ups, carve-outs, leveraged buyouts, reorganizations, restructuring, and re-contracting associated with financial distress and other adjustments (Ahem & Weston, 2007). As result of mergers a new entity is formed and the neoclassical theory predicts that a new entity will be more viable than sum of its parts.

The overarching business philosophy behind mergers and other arrangements is that they can be positive net present value investments especially in the current unstable business environment because mergers adapt to change more rapidly than internal organic growth. Mergers also give access to new and broader market base, new skills, technology, transaction costs advantages, and working capital leverage (Ahem & Weston, 2007). KMPG after analyzing 700 most expensive international deals from 1996 to 1998 recommended golden rules to successful integration that include: (a) directors must get out of the boardroom, (b) set new direction, (c) understand the emotional political and rational issues, (d) maximize involvement, (e) focus on communication, (f) provide role clarity, (g) focus on customers, and (h) be flexible (Covin et al, 1997).

The key to the success of an M&A lies in the interplay of two factors: (a) disparity which is the extend to which businesses are different or similar, and (b) good will which includes intellectual and social capital) across products, channel, culture and intellectual capital (Lind & Stevens, 2004.

2. Mergers and Transitioning

Leadership plays a critical role is ensuring the success of a merger or any strategic alliance as employees look up to management or leadership as facilitators to give direction, new vision, and managing the change process (Kiessling & Harvey, 2006). One size fits all leadership style will not be effective given the four different types of M&A based on disparity or good will factor. Leaders need to match their decisions and behaviors to the type of merger or also taking into cognizant of the culture fit, size of transaction and timing. The transition period is a period of anxiety hence employees need to be in know of the developments in the organization and how they impact their well being. The stress and anxiety affects perceptions and judgment, interpersonal relationships, and the dynamics of business combination (Lichtenberg & Siegel, 1987). Messenger (2006) highlighted the importance of early communication and staff involvement in dealing with anxiety during transition period.

Lind and Stevens (2004) study findings concluded that during a transition there is high need for leadership to be highly flexible, tenacity in managing multiple functions simultaneously, ability to make a mosaic of decisions, undertake job reconstruction, distinguish differences, manage ambiguity and maintain culture and relationships. Literature converged on the importance of hands-on leadership style as critical to the success of any strategic alliance because failure rate is estimated to be very high during the transition process (Appelbaum et al., 2007; Gardiner, 2006; Kwoka, 2002). Researchers posited that mergers as dynamic, ongoing phenomena that have a direct impact on the organization performance and its members (Litching, 1967). Hence the ability of leadership to manage change is very critical to ensure success and realize a net positive benefit.

3. Leadership, Mergers, and Hospitality Industry

Jack and Avner (1993) highlighted that the hospitality industry requires managers who consider the long-term impact of their decisions on the global community. Jack and Avner further postulated that current hospitality schools were not yet able to provide the necessary leadership in going global. Past research has highlighted that no single leadership style exists that can deal with issues faced during mergers but over the years transformational leadership style has emerged as a robust in dealing with 21st century organizational challenges as driven by globalization, increased diversity, and technology (Bass, 1990). Transformational leaders motivate followers to work for transcendental goals for higher-level self actualized needs, instead of working through simple relationships with their followers (Covin et al, 1997). Seltzer and Bass (1990) suggested that transformational leadership is likely to be more effective in dealing with complex issues such as change. Bass (1990) identified four dimensions of transformational leadership to include motivational, intellectual, and inspirational and consideration. Thus transformational leadership style could be best suited to deal with managing transition periods during M & A.

Thought leadership style also is fast emerging as an appropriate leadership style during transition mergers change processes (McCrimmon, 2005). The dynamic nature of mergers may require that leaders draw on numerous bases of power based on French and Raven's power base typology. Expert and referent power tend to be positively correlated with subordinate satisfaction and performance and coercive and reward power are mixed (Covin et al, 1997).

Thach and Nyman (2001) identified three phases during mergers that include: (a) pre-combination--a period marked with high confidentiality and uncertainty and ambiguity, (b) combination characterized by closing of deal and two organizations resume joint operations, and (c) a communication of new vision, strategy and goal clarity to new entity; and post combination- maintenance and continuous improvement of the new organization. Thach and Nyman recommend that each phase requires a different style because of the differences characterizing each phase. The one size fit all leadership will not bear positive results. Thach and Nyman recommended a leader should possess six skills to be effective in dealing with challenges of managing mergers:

1. Emotional acknowledgement
2. Leader's ability to handle employees reactions, work and customer focus
3. Re-negotiation of priorities and performance, communication; open two way communication, motivation and incentives
4. Reflects on the leader's ability for teaching, mentoring, and directing people to work passionately, creativity and involvement and review of general business processes not usually easy to change.
5. Directing people to work passionately, creativity
6. Involvement and review of general business processes not usually easy to change.

Thought leadership is based on the power of ideas to change the way we think among peers and superiors across ranks, create and develop new products or services (McCrimmon, 2005). Thought leadership is departure from the neoclassical management concern for short-term goals based on financial performance and results (Kauffman & Howcroft, 2003). Thought leadership focuses on the creation of customer value and competitive edge and characterized by logical argument, factual presentation, or an emotional appeal when appropriate. In a way thought leadership creates an enabling environment for the sharing of ideas thus help build cohesive teams.

Thought leadership is characterized by: (a) promotion of new ideas, (b) showing non managerial employees through initiate, (c) can be directed upwards, (d) non positional, (e) organic from exchanges during meetings or brain storming, and (f) depends on technical ability of an individual and it can also come from outside the organization. Unlike positional leadership, thought leadership creates more transcend boundaries, reduce bureaucracy, stimulates and encourages innovation. During mergers, which are typically marked by anxiety, new direction and different cultures, it is important that team members share ideas thought leadership may enhance the leadership effectiveness in handling multiple challenges that a merger faces pre and post phases.

The literature has shown that managing transition period during mergers and acquisitions is a mammoth task that requires leadership to be visionary, flexible, adaptable, people focused, and giving high importance to two way communication (Applebaum et al, 2000; Bert, MacDonald & Hert, 2003; Jack & Avner, 2001; Kauffman & Howcroft, 2003; Lind & Stevens, 2004. Transformational and thought leadership styles have recommended as robust enough styles to deal with some of the challenges of dealing with transitions issues such as new direction/strategy, nurturing new cohesive leadership and organizational cultures in order to ensure positive net benefit.

Methodologies and Findings

In a 2004-2005 mini-study conducted by Brigette's Technology Consulting and Research Firm, 5 male managers responded to how managers are affected by the transition of mergers. Some managers are excited, while others are intimidated. Managers who tend to have a fear of the uncertainty of not knowing what will happen to their careers derive from rumors of layoffs, in the executive positions. Although most managers are replaced with managers of the primary company, compensations are increased in some management positions. New management is hired and current management was kept to train the new management to avoid long-term training.

In a similar study conducted in Zimbabwe investigating how five managers in the hospitality industry were affected by transition in mergers. The respondents indicated that change was always viewed with suspicion because of the gap between perceived and actual goals and also marked by resistance to change. An all top management and middle management involvement was key to the successful integration process in M&A. The merging parties should develop a joint communication shading light on new benefits, processes, member role clarity and goals. Stress factors during M & A include unshared values and visions, cultural shock, internal or external dysfunctional competition and new goals that require joint strategy.

Continuous communication through staff bulletins, internal memos, intranet and general staff address by management and use of questionnaires, feedback sessions or suggestion boxes was deemed as effective in getting progress up dates to all stakeholders. Joint management brainstorming sessions were also deemed as effective platforms for stimulating ideas and smooth integration. Such meetings would review implementation processes, set goals, role clarity. Synergy harmonization and time lines. Findings also revealed that junior employees feel very vulnerable and stressed during mergers for fear of losing jobs and new management with new approach to working environment. Managers remarked that M & A gave an opportunity to learn new skills through the integration of two different cultures. During the change process leaders employ change management strategies that include transformational and strategic sessions, team building and training. Other findings also highlighted that M & A gave their organizations access to wider markets or customer base and resources.

4. Conclusion and Recommendations

The general finding from this study is that managers do experience mixed feelings during managers. Managers are characterized by stress, anxiety, cultural shock and loss of jobs. M & A benefits include access to new resources, market access and learning new techniques including management practices. The need for a robust communication strategy is key for the success of an M & A. Managers who participated in research favored though leadership and transformational leadership as appropriate leadership styles. The ability to critically understand the new work environment is key in a M & A process.

It can thus be recommended that managers during M & A processes must be made aware of the potential negative effects of integration associated with M & A. It also suggested that the best form of managing these potential problems is to have a robust communication program, joint sessions as team, Managers must use appropriate leadership styles – thought leadership and transformational leadership were viewed as most ideal during integration process. The two styles are ideal in that they both embrace change and promote innovation and creativity. According to Chalhoub (2010) thought leadership is 1) fast shifting, ephemeral and egalitarian; 2) can be directed up as well as down; 3) it can be shown by non-managerial employees. Bass (1990) four dimensions of transformational leadership that include motivational, intellectual, and inspirational and consideration styles are also ideal to deal with complexity of M & A.

5. Summary

Thought and transformational leadership styles from the study findings are ideal during M & A. Managers must nevertheless be aware of the potential problems that are synonymous with M & A. It is prudent that managers develop mitigating strategies in order to enhance the success of the merging process. M & A also bring in positive benefits to the new establishment. This study also recommends the need for more research in this area because of the complexity nature of M & A.

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