

# A transformational leadership model for managing change and transformation linked to diversification investments

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## ABSTRACT

Owing to its relationship with change and transformation, transformational leadership theory should be relevant to managing change and transformation linked to diversification investments. However, the question of what model of transformational leadership would be appropriate for managing change and transformation linked to diversification investments has not been addressed. The purpose of this research was to explore managers' perceptions of the links between transformational leadership and diversification strategies. Using a qualitative research method, this study provides a critical analysis of the transformational leadership theories and triangulation with the behaviours of 30 purposively sampled managers from ten firms involved in different diversification activities. The aim of this was to determine the most appropriate transformational leadership model for managing change and transformation linked to diversification investments. Besides the degree of industry predictability and certainty, the findings echoed the reasoning in the full-range transformational leadership theory that a continuum of transformational-transactional leadership behaviours enhances effective management of diversification-related changes and transformation. However, no similar transformational leadership model was found to have been adopted by prior studies or enterprises engaged in different diversification activities. The study should fill this gap by identifying a new transformational leadership theory that links the full-range transformational leadership theory to Ansoff's model for diversification and growth improvement strategies.

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## Introduction

Diversification is a corporate strategy of initiating and establishing new businesses to serve new markets or industries in which a firm does not presently operate (Ansoff 1967: 113; David & Jemison 2011: 5). Diversification is inherently associated with the need for change and transformation to enable a firm to adapt to changes associated with the relevant transition to the new system (David & Jemison 2011: 5). Transformational leadership is therefore essential for managing and diffusing the operational and human resource complexities arising from a firm's transition from a less to a more diversified system (Gerhard & Roodt 2006: 9). Transformational leadership is a strategic process of using unique admirable personality and charisma to plan, organise and motivate employees to effectively accomplish all the activities essential to the attainment of the desired change and transformational vision and mission (Fuda & Badham 2011: 145; Geib & Swenson 2013: 4).

In the initial stages of the diversification initiatives, transformational leaders provide the essential insightful vision and direction that enable a firm to identify and select the appropriate diversification venture (Benson & Ziedonis 2009: 329; Lee & Kang 2015: 349). As the implementation process unfolds, transformational leadership offers the usually required strategic leadership that minimises conflict, resistance and fear of the changes resulting from the concentric, horizontal or lateral diversification (Gholamreza, Matin & Farjami 2009: 359). This reduces the risk of the failure of the usually costly diversification investments and the challenges that often affect operational efficiency and throughput in the initial stages of diversification investments (Gholamreza et al. 2009: 359). In other words, the business values of transformational leadership transcend the conceptualisation of the diversification venture to its maturity and growth (Nwaiwu, Iwueze & Chukwudi 2014: 115; Warrick 2011: 11).

However, most of the recent studies on diversification initiatives have either focused only on elucidating the financial measures for assessing the viability of diversification investments or only on the evaluation of the essence of transformational leadership as an antecedent for managing the complexities linked to mergers and acquisitions (David & Jemison 2011: 5; Glensor 2010: 19; Luqman, Abimbola & Cattell 2013: 110). Such ontological trends have limited the debate on the transformational leadership

model suitable for managing change and transformations linked to diversification investments (Kellerman 2010: 13; Lunenburg 2012: 5).

Yet, failure to use the appropriate transformational leadership model during the implementation of diversification-related initiatives can undermine the effective management of the associated operational and human resource change and transformational complexities that often affect the effectiveness of the usually costly diversification investments (Benson & Ziedonis 2009: 329; Cui & O'Connor 2012: 24; Lee & Kang 2015: 349). This research should fill this gap by conducting a critical analysis and triangulation of the transformational leadership theories with the behaviours of 30 purposively sampled managers from ten firms involved in different diversification activities, in order to identify the appropriate transformational leadership model for managing change and transformation linked to diversification investments.

## Literature review

The argument that transformational leadership spawns the effective management of change and transformation linked to diversification investments is implicitly evident in both the transformational and diversification theories (Ansoff 1967: 113; Bass & Avolio 1997; Burns 2010: 7; Mittal 2015: 26).

## Transformational leadership

The conceptual foundation of the contemporary notion of transformational leadership is derived from Burns' (1978) theory of transformational leadership (Burns 2010: 7; Goodwin, Whittington, Murray & Nichols 2011: 409; Mittal 2015: 26).

### *Burns' (1978) theory of transformational leadership*

Burns' (1978) leadership theory states that leaders and their followers inspire each other to perform to the desired level of expectations. To achieve such a state, he emphasises the need for the transformational leaders to create the vision that carves the future organisational direction, and engage and motivate followers to deliver on the vision. In such initiatives, he emphasises the importance of the development and implementation of clear operational strategies to enhance the attainment of the desired vision. However, Burns' (1978) theory was subjected to much criticism in later studies. In one such study, House (1976) substituted the charismatic element

of Burns' (1978) transformational leadership theory with organisational charisma (Malakyan 2015:227). Organisational charisma agitates for a strong relationship based on deeply shared ideological values that subsist between the leader and follower to drive the influence and motivation that charismatic leaders exert on their followers (House 1976:2; Malakyan 2015:227).

While further exploring why transformational leaders attract enormous support to attain extraordinary results in the exceptionally critical situations, House (1997) concluded in his neo-charismatic leadership paradigm that the explanatory factors are often linked to five behaviours, namely goal articulation, role modelling, image modelling, high expectations and confidence in one's followers. Although House's (1997) concepts of charisma and vision formulation became the pillars of contemporary transformational leadership, it still attracted criticisms that its neo-charismatic leadership paradigm focused only on leader/follower interactions and ignored the motivating effects of the organisational climate (Malakyan 2015: 227). Others argued that House's (1997) theory failed to explain how transformational leaders achieve specific goals in their organisations in the way transactional leaders do. Such a criticism also emerged against Bass's (1985) theory of transformational leadership, which prompted the development of Bass and Avolio's (1997:49) full-range transformational leadership model that links transformational leadership to transactional leadership theory (Malakyan 2015:227).

#### *Bass and Avolio's (1997) full-range transformational leadership (FRTL) theory*

Bass's (1985) fundamental argument was that the effectiveness of transformational leadership is defined by the following five characteristics: attributed behaviours, behavioural charisma, inspirational motivation, intellectual stimulation and individualised consideration (Burns 2010: 7; Mittal 2015: 26). Attributed behaviours lure employees away from their individual self-interests to focus on the common organisational transformational purpose. Behavioural charisma is the leader's individual sense of mission that drives employees' ethical and moral behaviours. Inspirational motivation relates to intangible behaviour that gives employees the confidence to reach the unreachable whereas intellectual stimulation refers to the ability of transformational leaders to challenge the status quo and influence employees to do so intellectually (Bass & Avolio 1997: 49; Gholamreza et al. 2009: 359).

Individualised consideration is the tendency of transformational leaders to pay individual attention to individual employees' needs and become their mentors and coaches. Most authors recognise Bass's (1985) theory of transformational leadership

as critical in encouraging employees to recognise and strive to achieve the desired change and transformational outcomes (Gholamreza et al. 2009: 359). However, critics argue that Bass's (1985) theory not only ignores the importance of the organisational context as a determinant for leadership effectiveness, but also lacks the attributes of the transactional leadership theory that often impacts directly on the motivation of the employees to achieve the specific desired outcomes (Burns 2010: 7; Gilley, McMillan & Gilley 2009: 38; Mittal 2015: 26).

In response, in 1997, Bass and Avolio (1997) not only proved the effectiveness of his model for initiating change and transformation in any organisational settings, but also developed the full-range leadership theory to link transformational leadership to the critical attributes of the transactional leadership theory (Burns 2010: 7; Mittal 2015: 26). In addition to the five characteristics (attributed behaviours, behavioural charisma, inspirational motivation, intellectual stimulation and individualised consideration) of transformational leadership that were articulated in his previous theory, Bass and Avolio (1997) added three attributes (i.e. contingent reward, passive management-by-exception and active management-by-exception) of transactional leadership and one non-leadership factor (i.e. *laissez-faire*) in their full-range transformational leadership theory. Bass and Avolio (1997) argue that transformational leaders who use a continuum of transformational-transactional leadership behaviours tend to be more successful in initiating and driving organisational change and transformation, compared to those leaders who use only transformational behaviours or attributes (Gholamreza et al. 2009: 359; Rubin, Oehler & Adair 2013: 19). In Bass and Avolio's (1997) theory, the attributes of exchanges and contingent rewards in the transactional leadership theory support the charismatic element of transformational leadership to subsequently enable the attainment of the desired transformational outcomes.

Bass and Avolio (1997) highlight active management-by-exception to be critical in high-risk situations where management can only intervene to make the necessary amendments in order to achieve the desired outcomes. Passive management-by-exception is suitable where management operate in an extensive organisation and supervise several employees. *Laissez-faire* is applied in cases where a leadership-related style is not required to solve the identified organisational change and transformational problem (Grant 2012: 458).

In contrast to other transformational leadership theories such as Schien's (2003) model of organisational culture and leadership (Burns 2010: 7; Mittal 2015: 26), Bass and Avolio's (1997) FRTL theory seems to provide an appropriate perspective on the behaviours that transformational leaders need to manifest in order to influence the change and transformation associated with the relevant diversification venture. Despite the void that exists in other transformational leadership theories, it is still

evident from the general transformational leadership theories and literature that transformational leadership creates the condition that edifies the effective management of change and transformation linked to different diversification initiatives.

## Diversification

The diversification direction that a firm takes depends on the overall magnitude of the negative impacts of the prevailing and foreseeable trends (Ansoff 1967: 113; Nwaiwu et al. 2014: 115). Where enormous growth opportunities exist in the same industry, diversification is often not the first option, as firms prefer the use of market concentration strategies such as market penetration, product development or market development (Ansoff 1967: 113; Luqman et al. 2013: 110; Nwaiwu et al. 2014: 115). However, after the extensive and successful application of the market concentration strategies, the risks of over-market concentration tend to appear. In a bid to spread the risk of market contraction when existing products or markets no longer provide further growth opportunities, firms either globalise or diversify into related and unrelated industries (Ansoff 1967: 113; Luqman et al. 2013: 110). Studies confirm Ansoff's (1967) proposition that the three sets of diversification strategies that a firm can apply include concentric, horizontal and lateral diversification (David & Jemison 2011: 21; Dushnitsky & Lavie 2010: 22).

### *Concentric diversification*

Concentric diversification is the process of investing in the production of products that are technologically and commercially complementary to the existing products (Ansoff 1967: 113; Dushnitsky & Lavie 2010: 22). Concentric diversification can only be applied if the addition of new or related products increases the sales of the current products, or if given the degree of industry rivalry, the growth potential in the new products' markets and the competitiveness of the pricing of the new products indicate that it would be the best strategic option (Ansoff 1967: 113; Dushnitsky & Lavie 2010: 22). Concentric diversification is often accomplished using backward or forward integration, or both (Ansoff 1967: 113; Dushnitsky & Lavie 2010: 22).

In backward integration, a firm takes over the activities that were previously provided by suppliers or other firms in the value chain. The benefits of backward integration can range from cost minimisation and quality controls to depriving the rivals of the essential sources of inputs (Ansoff 1967: 113; David & Jemison 2011: 21).

Backward integration may also be fraught with the risk of raising the exit barriers for a firm to leave a particular industry (Fang & Wang 2010; Glensor 2010: 19;

Nwaiwu et al. 2014: 115). It breeds inflexibility and rigidity, and the tendency to lag behind new innovations owing to the reluctance to source from new emerging competent suppliers. It therefore signifies that the application of the appropriate transformational leadership behaviours is critical for managing the relevant required changes and transformation, and further innovation linked to vertical or backward integration (Fang & Wang 2010; Glensor 2010: 19; Nwaiwu et al. 2014: 115). Forward integration, unlike backward integration, deals with the taking over of the functions associated with the movement and distribution of the products from the firm to the final consumers (Ansoff 1967: 113; David & Jemison 2011: 21; Hao, Dong & Zhongfeng 2011: 109). Generally, backward and forward integration may require either the establishment of new enterprises to supply or distribute products, or strategic alliance, and mergers and acquisitions of firms in such complementary businesses (Ansoff 1967: 113; Benson & Ziedonis 2009: 329; David & Jemison 2011: 21). Horizontal diversification, like concentric diversification, also influences a firm's growth potential in stable and predictable conditions (Ansoff 1967: 113; Cui & O'Connor 2012: 24).

#### *Horizontal diversification*

Horizontal diversification is a strategic management process of introducing new products that do not comprise part of the existing product line, but fall within the realm of a firm's level of know-how, experience, technology, finance and marketing (Ansoff 1967: 113; Cui & O'Connor 2012: 24; Qian, Khoury, Peng & Qian 2010: 101). Horizontal diversification strengthens a firm's market and industry position, improves the level of product differentiation and economies of scale, reduces the degree of industry rivalries or competitors' access to new markets and promotes the growth of the firm (Ansoff 1967: 113; Cui & O'Connor 2012: 24). However, conventional theories on strategic management highlight the fact that horizontal diversification is most advantageous when a firm has an established base of loyal customers to its existing products (Hao et al. 2011: 109; Benson & Ziedonis 2009: 329).

Horizontal diversification also tends to be more successful if the new products are of a suitable quality and well promoted and marketed at attractive prices. However, horizontal diversification can also easily render a firm overdependent on a particular market segment (Ng 2007: 141). This can expose a firm to the risk of sudden changes in market demands and preferences in favour of the products or services of new competitors (Wan, Hoskisson, Short & Yiu 2011: 66). Horizontal diversification is often only successful in situations where a firm competes in a growing industry and

rivals lack the essential capabilities, competencies, skills or resources that a firm applying a horizontal diversification venture already possesses (Ng 2007: 141).

If a firm does not have the necessary financial resources or perceives that the economies of scale resulting from horizontal diversification do not induce significant positive effects, horizontal diversification is not worth undertaking (Benson & Ziedonis 2009: 329; Bryce & Winter 2009: 9; Picone 2011: 54). Despite the need for increasing the capacity and improvement of technological effectiveness, the similarity in the genre of the required resources, technology and equipment still renders horizontal diversification more feasible for less-resourced firms (Ng 2007: 141; Wan et al. 2011: 66). However, it has often emerged from the pragmatic trends adopted by firms that if the firm's motive is to attain stability and insulate itself against foreseen and unforeseen contingencies, then vertical and horizontal diversification may not provide viable remedies (Ng 2007: 141). Instead, firms often consider lateral diversification (Yucel & Onal 2015: 122).

#### *Lateral diversification*

Lateral diversification entails widening the scope of investments to the industry or products unrelated to the existing industry or products (Bryce & Winter 2009: 9; Picone 2011: 54). In the event of forecasting results indicating market saturation or a stronger preponderance of new circumstances to emerge and threaten the sustainability of the existing business, conglomerate diversification has often been regarded as one of the exit strategies (Bryce & Winter 2009: 9). Firms in the maturity or declining stages of their product life-cycles also tend to pursue lateral diversification into new alternative ventures (Bryce & Winter 2009: 9). Lateral diversification is further preferred in instances where a firm's present competencies cannot be transferred to the related products or industries (Ng 2007: 141; Wan et al. 2011: 66).

However, the fact that in a lateral diversification initiative a firm ventures into unrelated industries, signifies that compared to vertical and horizontal diversifications, lateral diversification may become more risky (Ng 2007: 141; Wan et al. 2011: 66). Effective transformational leadership is therefore critical for enhancing the effective management of the associated changes and transformation to diffuse a firm's exposure to risks (Yucel & Onal 2015: 122). To assess whether a particular lateral diversification venture will be successful, the pragmatic approaches adopted by firms have defined certain criteria for assessing the prospects of a lateral diversification venture (Ng 2007: 141; Wan et al. 2011: 66). These criteria entail the assessment of whether the new venture will enhance the attainment of the desired level of profitability and

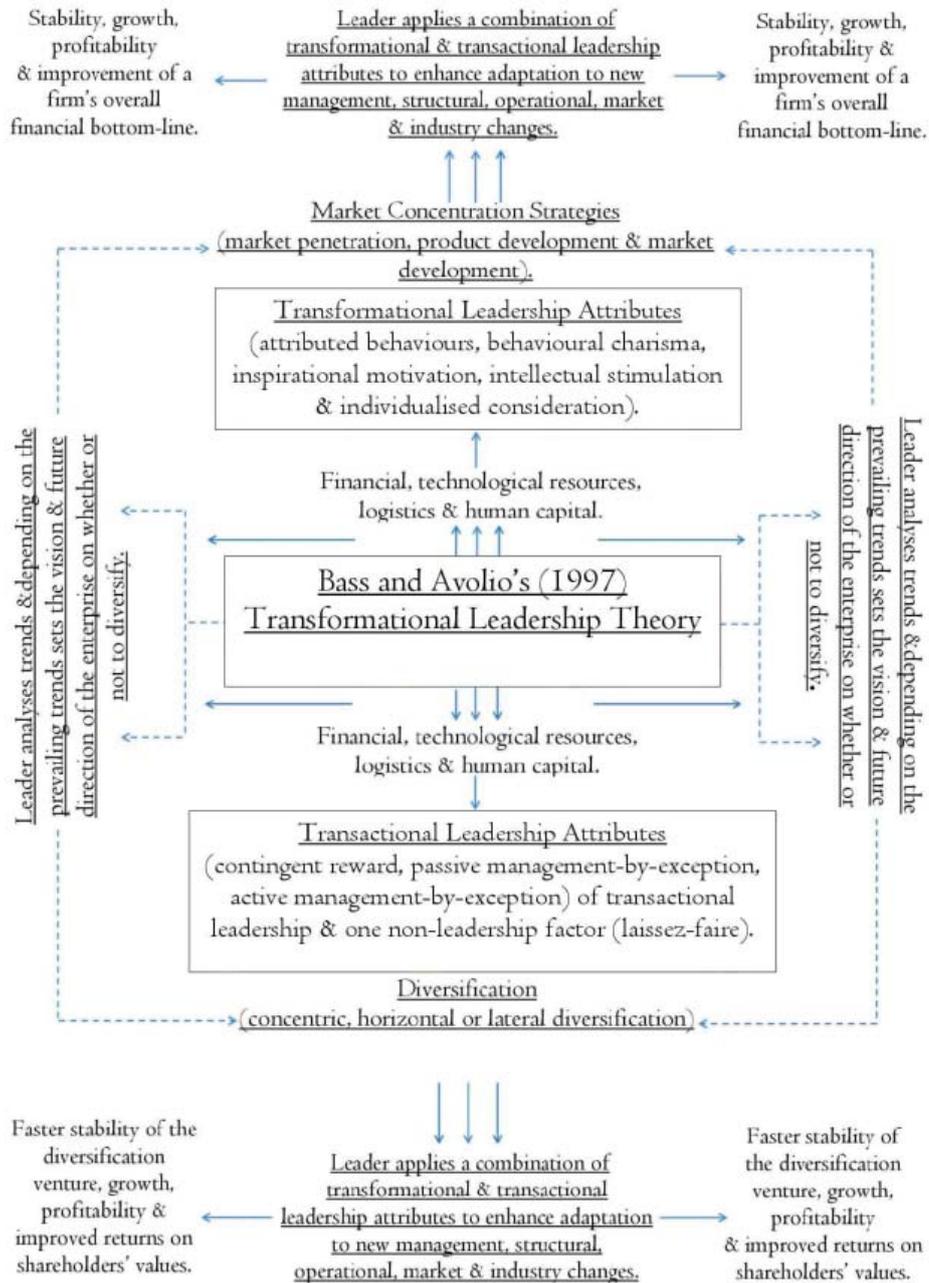
return on investments, which would require an enormous amount of capital infusion to replace fixed assets, expand funding and provide adequate working capital (Bryce & Winter 2009: 9).

In addition to the evaluation of whether the new business operates in an industry with significant growth potential, the other areas of concern entail the assessment of the government regulations and the overall industry vulnerability to recession, inflation, high interest rates and shifts in government policies (Bryce & Winter 2009: 9). If successful, lateral diversification reduces dependence on a single business to enhance the spreading of business risks across a variety of industries (Yucel & Onal 2015: 122). However, risks may arise when lateral diversification becomes amorphously broader – diseconomies of scale may set in to reduce the firm's overall focus and competitiveness (Ng 2007: 141; Wan et al. 2011: 66). Most firms usually opt for mergers and acquisitions or strategic alliances as the strategies for lateral diversification (Yucel & Onal 2015:122). In mergers and acquisitions or strategic alliances, the risks of cultural incompatibility and conflict have, however, increasingly proved threatening to the success of lateral diversification. Besides the cost of over-paying for mergers and acquisitions, R&D and the cost of entry barriers into restricted industries may also be too high (Ng 2007: 141; Wan et al. 2011: 66). This implies that the application of the appropriate transformational leadership theory is critical for managing the change and transformation linked to diversification.

### **Conceptual shortfalls: Linking transformational leadership to diversification investments**

Transformational leadership theory suggests that the use of transformational behaviours is an imperative for transforming followers (obtaining performance that exceeds expectations). By implication, it has also been argued to be critical to change in organisations. At the same time, the strategy literature posits diversification as one of the effective competitive strategies a firm can adopt. However, there has been a paucity of research exploring the possible linkages between TL and diversification strategies. What type of transformational leadership is required for the different diversification strategies that have been identified? This research explored this question through interviews with managers in businesses that had recently been involved in some form of diversification initiative. In a bid to address the conceptual gap that does not provide a transformational leadership theory for managing change and transformation linked to diversification investments, Figure 1 indicates that Bass and Avolio's (1997) FRTL theory was adopted as a theoretical framework in this research.

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**Figure 1:** A proposed framework of the link between TL and diversification strategy

Source: Derived from linking Bass and Avolio's (1997) FRTL theory to Ansoff's (1967) growth and diversification strategies

Bass and Avolio's (1997) FRTL theory is used in Figure 1 to explain how transformational leadership would enhance the successful management of the change and transformation associated with the implementation of Ansoff's (1967) diversification strategies (concentric, horizontal and lateral diversification). Using Bass and Avolio's (1997) FRTL theory, Figure 1 indicates that through the use of a continuum of the transformational-transactional leadership behaviours, transformational leaders influence the enterprise's decision on whether or not to diversify. If the prevailing and foreseeable trends are not expected to affect the performance of the enterprise in the existing market, Figure 1 highlights the fact that instead of diversifying, transformational leaders may influence the enterprise to apply market concentration strategies such as market penetration, product development or market development. However, if the existing industry seems saturated and characterised by dwindling opportunities, transformational leaders can reinvent the enterprise by advising the executives to consider concentric, horizontal or lateral diversification investments. If the enterprise diversifies, Figure 1 indicates that the transformational leaders must apply a continuum of transformational-transactional leadership behaviours to effectively manage the emerging management, structural, operational, human resource and technological changes and complexities. Effective management of the relevant change and transformation influences the enterprise's attainment of the profitability and growth motives.

### **Problem statement**

Lack of an appropriate transformational leadership model for managing the diversification-related changes and transformation affects the effectiveness of the diversification investment adopted as a growth improvement strategy by enterprises in the increasingly discontinuous contemporary South African business environment.

### **Purpose of the research**

The purpose of this research was to conduct a critical analysis and triangulation of the transformational leadership theories with the behaviours of 30 purposively sampled managers from ten firms involved in different diversification activities in order to extract the appropriate transformational leadership model that could be suggested for managing change and transformation linked to diversification investments.

## Methodology

In an effort to identify the appropriate transformational leadership model proposed for managing change and transformation linked to diversification investments, the study adopted an interpretive research paradigm, the inductive research approach and an exploratory qualitative research design (Morse 2010: 483). The use of the interpretivist research paradigm was motivated by the need to perform an in-depth critical evaluation of the relevant transformational leadership theories and the behaviours of the managers involved in diversification activities in South Africa in order to identify the appropriate transformational leadership model that could be suggested for managing change and transformation linked to diversification investments. An inductive research approach often commences with the identification of the problem and detailed evaluation, analysis and interpretation of the secondary and primary data in order to find solutions to the identified problem that can be derived from the findings (Pathirage, Amaratunga & Haigh 2008: 4).

In contrast, the deductive research approach often starts with *a priori* theoretical postulation that guides the secondary and primary process of data collection, analysis and statistical interpretation to test the validity of the hypothesis in the *a priori* theoretical postulation (Pathirage et al. 2008: 4). With due consideration of the fact that the theories have not articulated the model for managing change and transformation linked to diversification investments, the motive of this research was therefore to use an inductive research approach and exploratory research design to explore the details of the change and transformational challenges that businesses face when undertaking diversification investments. An additional aim was to assess the extent to which the epistemological trends on transformational leaderships have been responsive to such diversification-related changes and transformations. Through such analysis, the study aimed to draw conclusions on the appropriate transformational leadership model that could be identified and suggested for managing change and transformation linked to diversification investments. The motivation or rationale for the application of the interpretivist and inductive research approach is elucidated below.

### *Motivation: Interpretivist research paradigm and inductive research approach*

There is no doubt that the FRTL theory is well developed with clear constructs (transformational and transactional leadership attributes). Likewise, the theories of diversification (concentric, horizontal and lateral) strategies are also well developed and elucidated. This could have warranted the use of the quantitative research design, specifically factor analysis, to enable the testing of how the two constructs

(the transformational and transactional leadership attributes) of the FRTL theory would enhance the successful management of the change and transformation linked to any of the three forms of diversification investments, which include concentric, horizontal and lateral diversification. However, without the application of the interpretivist-inductive-exploratory qualitative research design to understand and identify the major challenges underlying the failure of change and transformation linked to different diversification initiatives, this could easily have led to a rather blind prescription of the approach associated with the inherent risks of imposing a transformational leadership theory that does not specifically address the actual prevailing challenges.

In effect, the study utilised the inductive approach that commenced with the identification of the diversification-related change and transformation challenges that businesses face and the evaluation of the relevant diversification and transformational leadership theories that led to the conclusion in Figure 1, and the analysis of the opinions of managers involved in diversifications that led to the thematic interpretation in Figure 2. The triangulation of the interview themes in Figure 2 with the theoretical articulations in Figure 1 led to the identification of the major themes in transformational leadership that could be extracted to draw a conclusion on the appropriate transformational leadership model for managing change and transformation linked to diversification investments (see Figure 3) that could be further scientifically tested as a grounded theory in subsequent studies.

### *Sampling*

To extract the relevant key transformational behavioural concepts from the behaviours of the managers involved in diversification, the population of interest for the study was limited to the participants working in senior management positions (finance director/manager, operation manager, marketing manager or human resource manager) in firms that had been involved in some form of diversification ventures in South Africa or in off-shore investments. Purposive sampling was used to draw 30 interview participants from ten companies operating in different parts of South Africa (Palys 2008: 697). This involved the application of the following four main criteria that required each selected participant to have been: (1) working as a finance director/manager, operations manager, marketing manager or human resource manager, (2) in a locally based private-owned business venture, (3) employing about 100 people, and (4) that had been involved in the implementation of some form of diversification initiatives. The rationale for the application of such criteria was not only to gain access to the critical information on the participants'

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experience of transformational leadership challenges arising during diversification, but also to gather rich information on how they related their experience to leadership and diversification theories (Palys 2008: 697).

### *Interviews*

Interviews were conducted using a pre-designed interview guide in the period between May and October 2015. Although this entailed open-ended discussions, probing and re-probing were also permitted for as long as the discussions remained within the scope of the study. The participants were asked the following questions: (1) Indicate the industry in which you operate. (2) Indicate the managerial or the leadership position you hold in your organisation. (3) Provide a brief explanation demonstrating your understanding of what transformational leadership and diversification entail. (4) Have you ever been involved in any form of diversification? (5) Provide a brief explanation of the type of diversification you have been involved in. (6) Describe how significant the transformational leaders in your business have been in initiating and managing change and transformation linked to diversification investments in your organisation. These questions were followed by the assessment of the challenges and complexities that transformational leaders face during the implementation of diversification investments, and the remedies they have used. The interview further examined whether such challenges varied according to the type of diversification ventures (concentric, horizontal and lateral) chosen, and whether, in all instances, it was only the transformational leadership behaviours that were relevant or whether these should have been supplemented with other leadership styles.

### *Data analysis*

The collected interview data was analysed using thematic analysis (Clark 2010: 428). The main themes explaining the importance or the effects and limitations of transformational leadership on the effectiveness of diversification investments were extracted. Subsequently, the explanatory subthemes were also extracted and further reading and rereading of the interview responses were undertaken to discern the relationships and explain the facts behind the themes that had been extracted (see Figure 2). The final themes in Figure 2 were then triangulated with the views in the theoretical framework in Figure 1 to develop the transformational leadership theory that the businesses engaged in different diversification investments could adopt (see Figure 3). Besides the triangulation of the theories with the interview findings, the measures that were used to improve the rigour of the study involved a thorough review

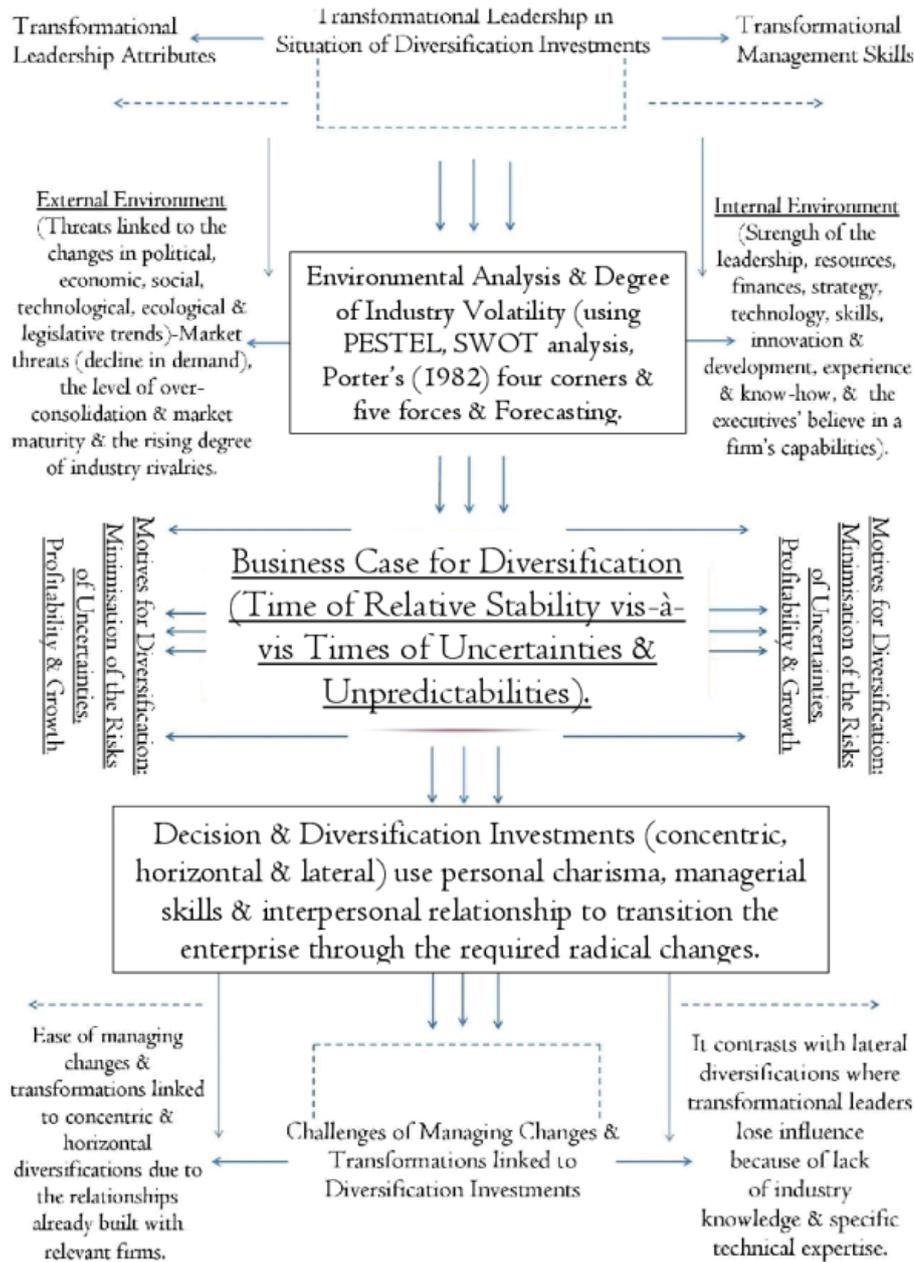
of the existing secondary literature to understand the transformational challenges that arise and the diversification initiatives undertaken by businesses in South Africa (Clark 2010: 428). This influenced the phrasing of the key diversification and transformational leadership issues that were to be examined during the interviews. It also entailed probing and re-probing, and iterative questioning to gauge the honesty of the participants, and the use of the debriefing sessions with the superiors, peer review and the researcher as an investigator, as well as checks on the qualifications and experience of the participants during the purposive sampling process (Clark 2010: 428). Reliability analysis entailed the repetitive use of the steps encompassing the segmentation of the text, codebook creation, coding, reliability assessment, codebook modification and final coding (Clark 2010: 428). The details of the findings are presented and discussed in the next section.

## Findings

This section focuses on the analysis of how transformational leadership behaviours are intertwined with diversification initiatives to enhance the effective management of change and transformation linked to the diversification investments of businesses in South Africa. As it is illustrated in the key themes and subthemes in Figure 2, the findings of the study are presented in this section according to the three main subsections: Transformational leadership and diversifications; Business case: diversification investments; and Managing the complexities and types of diversifications.

The details of the discussions are as follows:

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**Figure 2:** Key themes and subthemes resulting from the thematic analysis of the interview responses pertaining to the linkage of transformational leadership to diversification investments in South Africa

Source: Derived from the thematic analysis of the interview responses pertaining to the linkage of transformational leadership to diversification investments in South Africa.

### Transformational leadership and diversification investments

The findings of this study revealed a blend of transformational leadership with some transformational management skills as being critical for enhancing effective initiation and management of change and transformation linked to diversification investments. Based on their experiences, most of the participants seemed to echo the views of one of the managers of a company involved in the manufacturing of industrial packaging materials in Midrand, Pretoria. This company had been engaged in concentric diversification through mergers and acquisitions of another similar manufacturer of industrial packaging materials. She stated the following:

Transformational leaders do not only rely on their charisma and interpersonal skills, but also certain strategic management skills.

That signifies that a transformational leader should be not only transformational, but also a transformational manager. Such a finding contradicts the widely publicised effects of the sole application of transformational leadership in the management of diversification-related changes and transformation. Instead, the findings suggest that in practical applications, there is a significant interplay between transformational leadership and strategic leadership. In other words, such interactions display the elements of transformational-transactional leadership. Such a view was further emphasised by one of the managers of a major beverage manufacturing company in Johannesburg that was involved in various lateral diversifications. He stated the following:

Although the vision of the transformational leadership set[s] the stage for the initiation and implementation of different diversification initiatives, the entire process usually commences from the transformational leaders' utilisation of the relevant strategic leadership and strategic management skills to conduct relevant analysis and understand the prevailing changes and direction that the business must undertake.

Most of the participants agreed that the application of the relevant strategic management skills enables transformational leaders to effectively utilise strategic management techniques similar to PESTEL and SWOT analysis, Porter's (1982) four corners (the motives, strategy, assumptions and capabilities of rivals), Porter's (1986) five forces (degree of industry rivalry, threats of new entrants, threats of emerging substitutes, buyers' bargaining power and suppliers' bargaining power), and the required quantitative and qualitative forecasting techniques. It is through these strategic management techniques that transformational leaders are in a position to understand the industry trends and appreciate the degree of industry volatility vis-à-vis the internal strengths and weaknesses of the enterprise to apply major growth improvement strategies.

From the thematic analysis of the interview findings, Figure 2 highlights the fact that it is only after the transformational leaders have understood the magnitude of the prevailing trends in an enterprise's performance that a business case for diversification is developed and presented to the rest of the executives. It is at this level that transformational leaders apply their charisma and transformational skill to develop a coalition among the executives, managers and employees. Such coalitions are usually critical for the authorities to buy into the concept that diversification is worth implementing compared to market penetration, product development or market development strategies. When such a business case is being developed, the participants stated that a mixture of transformational leadership and transformational management influences effective planning and mobilisation of the necessary resources for the initiation and successful implementation of the diversification venture.

However, the managers highlighted the fact that the challenge is finding candidates talented in both transformational management and transformational leadership. It was noted that businesses identify and groom transformational leaders from among their managers, but as they progress in their careers, others were found to only become effective transformational managers, as some of them transitioned into excellent transformational leaders. Although a few manage to thrive as transformational leaders and managers, the costs of retaining them are often too astronomical for most businesses.

Strong collaboration between the talented transformational managers and transformational leaders was therefore found to be a prerequisite for the successful implementation of different diversification investments. Despite this finding, most of the managers argued that transformational leaders still play a significant role in enhancing the successful initiation of diversification, and management of change and transformation resulting from diversification investments.

### **Business case: Diversification investments**

The findings indicated that the ability of the transformational leaders to identify opportunities and motivate the executives to consider diversification investments depended on two conditions, that is, periods of uncertainty and unpredictability, and periods of relative stability and certainty.

#### *Times of uncertainty and unpredictability*

In such times, transformational leaders were reported as finding it easy to convince shareholders and the entire enterprise to consider diversification investments. This finding was endorsed by one of the managers of a company in the mining sector

in Rustenburg that had been involved in lateral diversification by moving into the importation of cotton and fabric from Germany for the manufacturing of baby sanitariums and cloths. He stated the following:

When a proposal for diversification into the importation and manufacturing of baby sanitariums and cloths was initiated in 2007 when the market in South Africa was almost still virgin, the board meeting that I attended had almost everyone disagreeing, and saying that we were headed for risks. By that time, the mining sector was still calm and doing very well, but when strikes rocked the mining sector and business subsided, the shareholders became worried, and that is how they ended up diverting most of the funds into the manufacturing of baby sanitariums and cloths.

In such cases, the findings revealed a stronger preponderance among almost all the respondents for alternative strategies to be adopted to mitigate the vulnerability of the enterprise to the prevailing turbulence and uncertainty. Transformational leaders were therefore found to act on such widely held beliefs by pointing out the actual statistical and financial facts of why diversification would be the suitable alternative growth improvement strategy. However, the findings revealed that it is not always the case that the transformational leaders have been able to successfully use the prevailing uncertainty to provide motivation for a business case for diversification investments.

Despite the uncertainty, some of the participants reiterated that considering the risks attached to diversification, most of the transformational leaders still face conflict and robust debates at executive level about the rationale for diversification. Of all four growth strategies that encompass market penetration, product development, market development and diversification, most of the participants indicated that executives and shareholders tend to adopt a careful approach when making diversification decisions. Owing to such executives' strong concerns about the risks of diversification investments, it was found that in the absence of a convincing business case, the charisma and interpersonal relationship skills of the transformational leaders tend to be ineffective in convincing and motivating the executives and shareholders to consider diversification instead of market concentration strategies.

#### *Times of relative stability and certainty*

Although the decision on whether or not to diversify is relatively easier in situations of unpredictability, it emerged from the findings that transformational leaders tend to face the most difficult times when business propositions for diversification are put forward in the midst of relative stability and certainty. Most of the managers agreed with the view of one of the participants from a chemical manufacturing company in Newcastle in KwaZulu-Natal province, who posed the following question:

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Why consider diversifying when you are still making fortunes in your present industry? In my opinion, I always feel that no matter the amount of resources accumulated as a result of the profits gained from the present industry, diversification must be the last option. We have been in that circumstance before; where we tried to unsuccessfully diversify from the manufacturing of the actual industrial chemical products to the manufacturing of carpets. We did not understand that industry, the market and the required quality. In the end, the companies we found there outsmarted us.

During periods of relative stability and certainty, most executives and shareholders are often largely concerned with the enterprise's present performance. Executives tend to be more relaxed in identifying growth opportunities and formulating relevant strategies to enhance the maximisation of such opportunities. It is often therefore the insight and vision of the transformational leaders that provide them with the instinct that no matter how impressive the present performance and the relative industry certainty and stability, it is time for the enterprise to tackle diversification as a radical growth improvement strategy. In such instances, transformational leaders often initiate a business case for diversification by highlighting the existing enormous unutilised excess funds at a firm's disposal. In the event of the emergence of new lucrative markets in related or unrelated industries, transformational leaders may also argue that on the strength of the available excess funds, it would be unreasonable not to diversify and take advantage of such opportunities. However, most of the participants indicated that irrespective of the charisma and the interpersonal relationship skills that a transformational leader displays, a business case for diversification often fails. Even if the executives decide to diversify, it was evident in the findings that most of the transformational leaders still face the challenge of ensuring that all the diversification-related complexities are effectively managed.

### Managing complexities and types of diversification ventures

In a bid to ensure that all the complexities associated with diversification ventures are effectively managed, the findings highlighted the fact that transformational leaders tend to use a combination of charisma, management skills and interpersonal relationships to transition the enterprise through the required radical change and transformation. However, it was noted that the effectiveness of the transformational leadership tends to vary according to the type of diversification investments implemented. Compared to horizontal and lateral diversifications, transformational leaders tend to thrive and effectively influence change and transformation in instances where concentric diversification is undertaken.

### *Concentric diversification*

Whether backward or forward concentric diversification investments, the findings indicated that most of the transformational leaders did not face the challenges of managing the required relevant change and transformations. It was evident from the views of most of the managers that they implicitly supported the succinct opinion of one of the managers of a major insurance firm in Johannesburg that had been involved in concentric diversification. The manager had the following to say in this regard:

I don't think my CEO had a problem with managing the required change and transformation when we introduced a subsidiary dealing with financial services like lending, and also when we moved into advertisements and motor vehicle retail. But still to ensure that the venture was successful, the new subsidiaries had almost autonomous key figures who were in charge of planning and implementing different activities as if those subsidiaries were independent businesses from the parent company.

In concentric diversification, a firm often implements diversification investments in the industry in which it currently operates. In such circumstances, it emerged that talented transformational chief executive officers tend to take precautionary measures by developing relationships and strategic partnerships prior to undertaking mergers and acquisitions as part of the strategies for diversification investments. As such relationships unfold, it emerged that firms tend to seamlessly synchronise their activities with the candidate firms' activities, and create foundations that minimise conflict and rivalry that usually influence the effectiveness of diversification investments. It is these foundations that transformational leaders use to further influence the required change and transformation. However, in instances where backward or forward concentric diversification is implemented by simply shopping around for a candidate firm, the participants indicated that most transformational leaders face the challenges of managing the required change and transformation. In such instances, the two firms would not have had the chance to test the degree of the compatibility of their activities and in-depth level of strategic partnership that usually smooths the way for either backward or forward vertical integrations. Similar difficulties were also evident in horizontal diversification investments.

### *Horizontal diversification*

The managers who had been involved in horizontal diversification indicated that most of the transformational leaders were often able to manage the required change and transformation more effectively. Although some of the horizontal diversifications involved the introduction of new products or businesses, the participants stated that

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the destabilising effects on the established processes, methods, practices and culture had often only been minimal. The reasons for this were linked to the similarities between and compatibility of the required skills, technology and methods. However, to improve the efficient fusion of the two merged systems, in certain instances, such similarities were found to require changes associated with retrenchment, staff rationalisation and downsizing. This view was substantiated by one of the managers from a company involved in footwear manufacturing in Midrand, Pretoria, who revealed the following:

This is what we are facing now. Our company acquired another footwear manufacturing company, except that as we specialise in the manufacturing of ladies' shoes, the rival company focuses on men's shoes. On taking over, all seemed normal, but as time went on and we started introducing new changes, anxiety and mistrust from the acquired company set in as they were afraid. They knew that the company wasn't doing well, due to the influx of shoes from Asia and Brazil. So from day one, they knew that now that the company is sold, they would also lose their jobs. This kept them a bit sceptical and suspicious, but the CEO was also aware of such anxiety. Hence, the strategy was not to undertake staff rationalisation, but instead to try to integrate and consolidate them as part of our workforce. However, such a strategy still did not work, as the staff were demoralised to the extent that even when the new CEO introduced the bonus scheme and proposals to bursaries for those who were willing to further their studies, it still did not work to stimulate employee morale. There is usually something that the employees of the acquired company are missing from the previous company, may be personal attachment. It is difficult to easily understand and turn it around even if you are a transformational leader.

In such circumstances, the participants revealed horizontal diversification investments to induce employee resistance, sabotage and low morale that render it difficult for transformational leaders to effectively rally all the employees around a common purpose. Instead of retrenchments, if strategies such as job-sharing and shift work systems are applied to utilise all the available staff, the findings revealed that transformational leaders thrive and influence the necessary change and transformation. If the transformational leaders do not interfere with the human resource aspects of the two firms, they obtain the requisite support to effectively implement the required change and transformation. Despite such challenges, it still emerged from the findings that the magnitude of the complexities that arise in concentric and horizontal diversification investments are often not comparable to the ones associated with lateral diversification investments.

### *Lateral diversification*

Most of the participants who had stayed closer to the chief executive officers who were involved in lateral diversification investments stated that as the firm goes into the industry requiring new sets of competencies, skills, technology and a marketing

approach, the influence of transformational leaders tends to become eroded. In effect, transformational leaders who were transformational in the previous businesses may become non-transformational in lateral diversification initiatives. This finding was substantiated by one of the managers from a gas manufacturing company in Ilanganat in Johannesburg who had been involved in multiple lateral diversification initiatives. She stated the following:

From my experience of the acquisition of a gas manufacturing company that we did in Mozambique, some of the big companies tend to become intertwined with the political systems of the state. In such cases, the employees tend to become very powerful and even call the intervention of the political leadership of the country if they are not satisfied with your leadership. So you need to be tactical by having the internal and external networks. Having the right experts at the top facilitates the improvement of technical and local understanding and influence over the new industry. The internal networks will require creating specialised divisions headed by specialists and retaining the existing division heads. It is such key personnel that can provide the soft landing ground for you. Otherwise, the middle managers and leaders themselves can sabotage you.

In other words, the findings implied that years of experience, networks, technical knowledge and expertise built up over time in the previous industry were said to evoke the significant respect and influence that transformational leaders exerted, not only in the enterprises they worked for, but also across the industry. Except for the extraordinary transformational leaders, it emerged that on entering a new industry, such transformational power diminishes because of the newly required experience and technical skills that transformational leaders are expected to exhibit in addition to their charisma. In such cases, some of the skillful transformational leaders tend to rely on the personnel who may understand the industry well. However, differences in business, management and leadership philosophies were found to cause conflict and undermine the ability of the transformational leaders to influence change and drive the enterprise to attain the desired strategic goals and objectives.

In an effort to deal with such situations, some of the transformational leaders were said to unknowingly turn from being transformational to transactional as a prerequisite for obtaining quick results to reinforce the lateral diversification investment. As transformational leaders become transactional, some of them avoid using their charisma and start promising rewards and benefits to senior managers, heads of departments, supervisors and ordinary employees if the desired performance targets are reached. However, it was found that such an approach does not usually have the desired long-term positive effects, unless it is accompanied by the continuous application of the relevant change and transformational techniques such as maintaining open and transparent dialogue with all the stakeholders, identifying new challenges that need to be overcome and heeding competitors' reactions in the market.

## Discussion

In all diversification situations, transformational leadership plays a critical role in initiating the need to diversify and manage all the changes and transformations required for the success of diversification investments (Berendt, Christofi, Kasibhatla, Malindretos & Maruffi 2012: 227; Braun, Peus, Weisweiler & Frey 2012: 19; Correia de Lacerda 2010: 69). Transformational leadership facilitates the effective analysis of the unfolding trends and the visualisation and initiation of the need for diversification investments. It therefore not only entails the application of the transformational-transactional leadership approach, but also the integration of the interplay between strategic management and strategic leadership competencies (Berendt et al. 2012: 227; Braun et al. 2012: 19; Correia de Lacerda 2010:6 9). Because strategic management and leadership competencies are used to identify the need to change and respond to the unfolding trends, transformational leadership through idealised behaviours and attributes plays a critical role in convincing key individuals of the need to change.

The argument that idealised behaviours and attributes enhance the creation of a coalition for change echoes the articulations in the theoretical framework in Figure 1, in which it is postulated that the use of a continuum of the transformational-transactional leadership attributes in Bass and Avolio's (1997) FRTL theory enhances the effective management of change and transformations created by the diversification investments a firm implements. In the same way as transformational leadership influences the effective initiation and management of change and transformation linked to diversification investments, limitations may also arise from situations of relative stability and certainty.

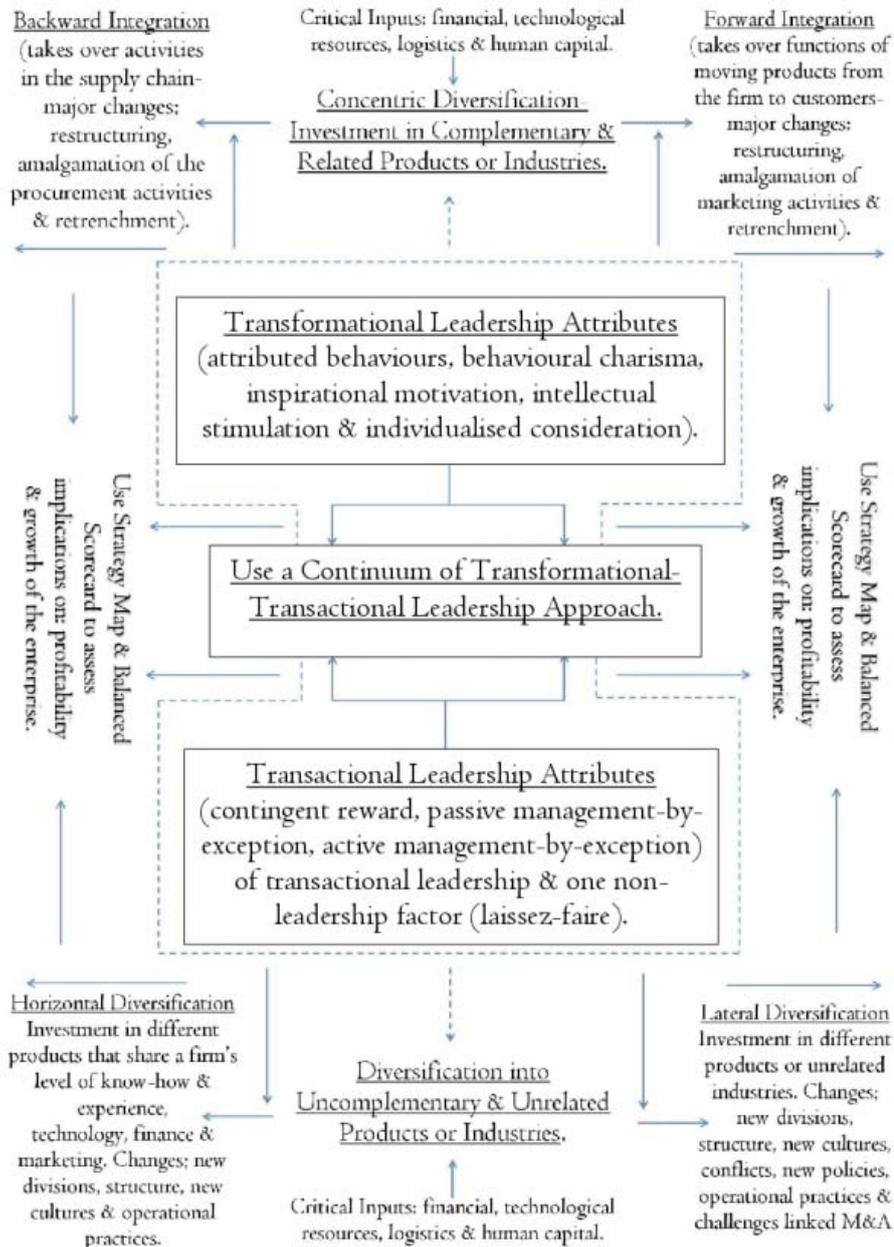
In situations of relative stability and certainty, even if the transformational leaders exert the necessary influence using their idealised behaviours and attributes, the prevailing circumstances tend to provide the shareholders and key employees with the confidence to resist the transformation leader's attempts to initiate change through diversification. Although the issue of employee resistance often does not arise in situations of unpredictability and uncertainty, the hurdles in effectively managing change and transformation linked to diversification may also apply to lateral diversification compared to concentric and horizontal diversification. In the same way as transformational leaders thrive in concentric or horizontal diversification, in lateral diversification, transformational leaders may lose their influence as a result of a lack of in-depth industry knowledge and experience, and the required technical knowledge, networks and experience to drive the improvement of a firm's performance in the new industry.

Although transformational leaders are often able to deal with the challenge of employee resistance and lack of cooperation from managers by creating the necessary partnerships and collaborations with the critical key industry experts, in mergers and acquisitions, competition and conflict between the employees and senior managers from the acquired firm and the acquiring firm may still create competing centres of power that erode the influence of the transformational leadership. In the event of intense conflict and lack of cooperation, the effectiveness of the transformational leadership may therefore depend on their ability to use personal competencies and charisma to successfully manage each aspect of change and transformation associated with diversification (Gerhard & Roodt 2006: 9; Nieuwenhuizen 2009: 5). Even though it is evident that transformational leadership underscores the effectiveness of managing change and transformation linked to diversification, the suitability of the model that can be used still appears to be somewhat of a challenge. In response, this research concluded on the basis of the transformational theory in Figure 3, that this issue could be further scientifically tested as a grounded theory in subsequent studies.

### **Managerial implications**

Despite the fact that transformational leadership is critical for initiating change and transformation linked to diversification investments, the findings imply that the process often reaches a stage where most of its attributes do not influence the attainment of the desired specific outcomes. Elements of transactional leadership that often emphasise the use of exchanges and contingent rewards were therefore found to be essential in promoting the effectiveness of transformational leadership. In effect, the managerial implications in Figure 3 suggest that during the initiation and management of the change and transformation linked to diversification investments, transformational leaders should consider the following:

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**Figure 3:** A framework for using a continuum of transformational-transactional leadership attributes to drive change and transformation linked to diversification ventures

Source: Derived from the interpretation and triangulation of the interview findings in Figure 2 with Bass and Avolio's (1997) FRTL theory as an antecedent for the successful implementation of Ansoff's (1967) growth and diversification strategies in Figure 1

### *Using a continuum of transformational-transactional leadership attributes*

While drawing from Bass and Avolio's (1997) FRTL theory, it is argued in Figure 3 that the executives who aim to effectively manage change and transformation linked to diversification as a growth improvement strategy, should consider using a continuum of the transformational-transactional leadership attributes to drive the effective undertaking of whatever the diversification venture would be. In the initial stages of assessing whether the firm should diversify, transformational leadership attributes are critical for providing the enterprise with the insight and direction that it needs to take. Transformational leadership also provides the necessary charisma to rally the executives, senior managers and employees in favour of a common purpose. In the context of the illustration in Figure 3, the effectiveness of transformational leadership often impacts on the firm's decision to implement concentric, horizontal or lateral diversification.

### *Change and transformation related to concentric diversification*

In concentric diversification, the enterprise will be required to invest in the complementary and related products or industries. This may involve backward or forward integration. Backward integration requires the firm to take over activities in the supply chain. In such ventures, major changes often entail restructuring, amalgamation of the procurement activities and retrenchment. Forward integration involves taking over all or some of the functions of moving products from the firm to customers. The associated major changes usually involve restructuring, amalgamation of marketing activities and retrenchment. Firms applying horizontal diversification need to consider investment in different products, which although not complementary, do share a firm's level of know-how and experience, technology, finance and marketing. Anticipated changes arising from horizontal diversification usually include the introduction of new divisions, structure, new cultures and operational practices.

### *Change and transformation related to lateral diversification*

Lateral diversification entails investment in different products or unrelated industries that do not share a firm's level of know-how and experience, technology, finance and marketing. Lateral diversification is often associated with changes linked to the establishment of new divisions, structure, new cultures, conflict, new policies, operational practices and challenges linked to mergers and acquisitions. Once a firm has completed any of these forms of diversification, this is when the essence of effective use of a continuum of transformational-transactional leadership attributes

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comes into play, to influence not only effective change and transformation, but also the accomplishment of activities to enhance the attainment of certain specific outcomes. The transformational leadership attributes can be applied to inspire employees in the two new firms to buy into the purpose of the new larger enterprise.

### *Managing the complexities associated with concentric and lateral diversification*

Restructuring is possible, but executives should avoid retrenchment for at least five years. Such a strategy provides the initial stability which is essential for the new diversification venture to take off. It also contributes towards the reduction of resistance and possibilities of lack of cooperation and conflict among the employees from the acquired firm and the acquiring firm. Instead, the executives can apply other measures for staff rationalisation that involve the use of the excess employees in other areas of shortages. The other transformational leadership attributes can be applied to engage the intellectual inputs of the employees and managers in the new firm on the changes and improvements that can be made. Such an approach will help to change the perception of the employees in the new enterprise on the management and leadership. It may also help to improve the empowerment of managers and employees at the lower levels of the organisational structures. Although it will help to improve the motivation and commitment of the managers and employees to drive change and transformation, it will not influence the attainment of certain specific short-term objectives. To achieve such short-term specific objectives and reinforce the view that change and transformation are worth the risk, transformational leaders should apply the elements of transactional leadership that involve the use of exchanges and rewards to stimulate employee motivation and their efforts to achieve specific short-term goals. The rationale for such an approach is based on the motivational theories that indicate that in as much as employees and lower-level managers are inspired and motivated by the charisma of their leaders and the relationship that they have with their managers and leaders, the use of some form of rewards and exchanges is essential. In this regard, the rewards or exchanges that the transformational leaders can use may include bonus schemes for outstanding performance, promotional opportunities and retention in case of retrenchment.

### *Measuring the implications of transformational leadership on the growth and profitability of the diversification venture*

As the continuum of transformational-transactional leadership attributes is being applied, it is critical for executives to use Kaplan and Norton's (1992) strategy map and the balanced scorecard to conduct annual assessments of the implications of the

leadership strategies adopted regarding the overall profitability and growth of the diversification venture and the entire enterprise.

### Suggestions for future research

The findings of this study echo the theoretical findings in Bass and Avolio's (1997) FRTL theory that unless transformational leadership is combined with the elements of transactional leadership attributes such as exchanges and rewards, its overall positive effects may only be minimal. Despite the theoretical existence of such a framework, no single transformational leadership model has been found to have been adopted by the enterprises in South Africa for managing change and transformation linked to diversification investments as a growth improvement strategy. The study should fill this gap by linking Bass and Avolio's (1997) FRTL theory to Ansoff's (1967) model for growth and diversification strategies to emphasise the use of a continuum of transformational-transactional leadership attributes as a critical driver of diversification-related changes and transformation. Future studies could statistically evaluate the scientific nexus between the use of a continuum of transformational-transactional leadership during diversification and the attainment of the desired level of growth and profitability by the contemporary growth-conscious businesses.

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