EFFECT OF LEADERSHIP STYLE ON THE TRANSITION FROM FOUNDERS TO

PROFESSIONAL MANAGERS: A CASE STUDY OF TWO SMALL TO MEDIUM

ENTERPRISES

by

Michael M. Denning

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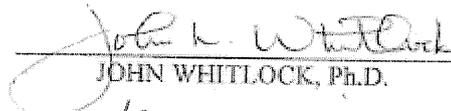Michael M. Denning

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Abstract

The leadership dynamics that occur as a company moves through its metamorphosis from a founder led business to a professionally managed enterprise are little understood (Flamholtz & Randle, 2000; Dandridge, 1979). This transition from a founder led, small business where the leader can touch everyone and do everything, to one where professional management and organizational skills are required for success is an inflection point in the life of most enterprises; and is when most enter a crisis of leadership (Fliostad, 1991). This multi-site case study explores the premise that one of the critical aspects of those who have successfully crossed this "chasm" is the ability of the founder to not only adapt his or her own style, but to also to allow the new leader to "adapt" to the changes required.

Dedication

This dissertation is dedicated to my family, Donna, Caitlin and Meghan, whose understanding, patience and faith sustained me on this journey.

Acknowledgments

There are so many people who helped me in accomplishing this goal. My special thank you, however, must go to my faculty mentor, Dr. John Whitlock, for his commitment to my pursuit, his unwavering belief in me, and his consistent support and openness when I needed it. Thanks must also go to Dr. Martin Lee for sticking with me through both comprehensives and the dissertation process as a member of my committee. His thoughtful comments provided insights which greatly improved my discussion. Thank you to Dr. Matt Fairholm for joining my committee as a visiting scholar, and providing insights from his own work that encouraged me to broaden my perspective yet focused my research.

My thank you also must go to the individuals and their companies who participated in the interviews. They provided information-rich data that formed the basis of the design and findings of this study. They were all interested and excited about participating which made the data collection experience enjoyable.

From a personal perspective, my greatest support came from my wife, Donna, and my daughters, Caitlin and Meghan, who willingly adjusted their busy lives while I was completing this dissertation. They kept a positive attitude, believed in me, and supported my effort. My thanks go also to my friends from the Chicago Colloquium cohort who endlessly encouraged, harassed, and prodded me to finish this journey.

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CHAPTER 1. INTRODUCTION

Introduction to the Problem

The leadership dynamics that occur as a company moves through its metamorphosis from a founder led business to a professionally managed enterprise are little understood (Flamholtz & Randle, 2000; Dandridge, 1979). This transition from a founder led, small business where the leader can touch everyone and do everything, to one where professional management and organizational skills are required for success is an inflection point in the life of most enterprises; and is when most enter a crisis of leadership (Fliostad, 1991). It is the premise of this study that one of the critical aspects of those who have successfully crossed this "chasm" is the ability of the founder to not only adapt his or her own style, but to also to allow the new leader to "adapt" to the changes required.

Background of the Study

While it is accepted as fact that the one constant throughout the life of an organization is that of change (Robbins, 2003), there is no greater change in the life of an organization than that which occurs when the founder steps aside and is replaced by a professional manager (Flamholtz & Randle, 2000). Many of these transitions occur as planned events in the execution of an orderly succession plan. Others occur as reactions to events both internal (e. g., failure to perform) and external (e. g., illness or death of the founder) to the organization. Whether planned or spontaneous, a change in leaders must eventually occur in all organizations. One factor impacting how the organization reacts to this change in leadership is rooted in the readiness of the organization to accept change in general (Hersey, Blanchard, & Johnson, 2001).

The inevitability of change is due to the interdependency of an organization and its environment, and given the inherent lack of certainty in parts of that environment, it is unavoidable that changes will occur; and during the transition from one state to another, a crisis may accompany the change (Scott, 2003). Michael (1982) goes further stating that "…a lack of change may endanger the survival of organizational life itself" (p.67). In accepting this assertion, it may be postulated that an organization that does not change is in danger of ceasing to exist, and given the dynamics of the business environment in today's global economy as well as the substantiated relationship between the environment and organizational structure and strategy, such a postulation would seem well founded.

Ackerman (1986) categorizes organizational change as either, developmental (improvement of what is), transitional (implementation of a known new state), or transformational (emergence of a new state, previously unknown that requires the destruction of the old state). Lundberg (1985) identifies the installation of a new management team as "internal revolution" which precipitates a crisis in organizational identity, impacting all facets of organizational life. The journey for organizations, from inception to demise, may be viewed as a life cycle and segmented into distinct stages, one of which is this phenomenon of leadership change.

The existing research on organizational life cycles focuses on the predictable transitions through which organizations travel (Churchill & Lewis, 1983; Cameron & Whetton, 1981; Miles, 1980; Kimberly, 1979). These life cycles may be given many names, but for the purpose of this study, that employed by Churchill and Lewis (1983) for their third stage of growth will be used. This stage is named by Churchill and Lewis (1983) as success – disengagement, in which

the founder has achieved economic success and begins to move apart from the daily activities of the business and looks for an opportunity to replace him or herself. During this transition, whether the leadership style of the founder and his or her replacement will impact its success is the focus of this research.

Leadership has been defined variously by a plethora of researchers and scholars, and these definitions have been somewhat synthesized by Northouse (2004) as being "…a process in whereby an individual influences a group of individuals to achieve a common goal" (p. 3). There are also almost innumerable classification systems of leadership style in the literature. In his seminal work Burns (1978) describes leaders as either being transactional or transforming in style. Transactional leaders being those in which a *quid pro quo* style is prevalent. A transforming leader is one who seeks to engage with his or her followers and improve the level of motivation and morality through that connection in both themselves and their followers (Burns, 1978). These major categorizations will form the basis of this research.

Statement of the Problem

For any size enterprise, the cost of replacing its leader represents a significant investment in resources and is accompanied with the risk of survival should the choice of replacements prove to be inappropriate, inadequate, or inept. In the Small and Medium Enterprise (SME) segment of organizations, the founder's imprint is both deep and profound. His or her successor faces not only the usual challenges of dealing with the causal factors of a change in leadership, but also additional ones associated with socialization and acceptance with the organization's first new leader. The rate of failures in such leaders who follow the founder in small and medium

enterprises is unacceptably high requiring the founder to liquidate, reenter the business, or find a

second replacement (Watson & Everett, 1996).

Purpose of the Study

This study's purpose was to explore the role played by the founder's and his or her

replacement's leadership style in the success or failure of that replacement in order to improve

the opportunity for successful transitions of authority.

Rationale and Research Question

While researchers have demonstrated that various styles of leadership, and in particular

transformational leadership, result in changes in performance in organizations (Bass, 1985), little

attention has been paid to the role of leadership style during leadership transitions. Past research

in the area of leadership transition has yielded distinct differences of opinion regarding the

expected performance of founder-managed and professionally managed firms. Support for

founder control is based partly on the founder's ability to move swiftly and act autonomously

(Dyer, 1986). When the founder is not in control, the motivations and actions of the owner(s) and

manager(s) can diverge which can lead to adverse performance (Blackburn & Lang, 1989).These

divergent actions occur, in part, because professional managers seldom maintain loyalty to any

given organization (Blackburn & Lang, 1989), unlike founders. Beam and Carey (1989) have

argued that absentee ownership in the small firm simply does not work.

A series of studies found that management-controlled firms tended to be less profitable

than owner-controlled firms (Larner, 1966, Stano, 1976). For example, Stano (1976) found that

owner-controlled firms achieved higher earnings per share than manager-controlled firms.

Krause (1988) determined that performance gains, based on market-determined performance

measures, were associated with owner, versus managerial, control. McEachern (1975) determined that owner-controlled firms achieved greater profitability than management-controlled firms. Alcorn (1982) reported that firms operating continuously under founder influence outperformed firms where founder influence had dissipated.

In contrast, Levinson (1971) presented a disparate view of performance of organizations that remain founder controlled: "In general the wisest course for any business, family or non-family, is to move to professional management as quickly as possible" (p. 98). This prescription does not represent an isolated viewpoint. As previously noted, several observers have argued that the success and survival of the firm may be contingent upon a smooth transition from entrepreneurial to professional management (Alcorn, 1982, Barnes & Hershon 1976, Dyer, 1986, Flamholtz, 1986). Nevertheless, this transition is not without costs. The loss of founder control may lead to loss of strategic vision and, perhaps more importantly, loss of control over operations (Churchill & Lewis, 1983).

Also, there is evidence that many founders are slow to react to environmental changes (Dyer, 1986), which can lead to a disastrous loss of competitive edge. Part of this failure to react may be caused by founders' general failure to utilize strategic planning techniques (Whisler, 1988). Strategic planning, the function of looking over the horizon to possible futures, may be more typical of professional managers, as Schein (1968) discussed.

Flamholtz (1986) argues that founder management, as compared to professional management, does not directly affect the financial performance of the firm. Instead, he suggests the determining factor is firm size. His general prescription was that firms with sales of $10 million or less will achieve higher levels of performance under founder control, and firms with

sales exceeding $10 million will perform better under professional management. Deviation from this prescription, Flamholtz and others argue, will negatively affect performance. In fact, firm survival may be contingent upon the successful transition from entrepreneurial to professional management (Barnes & Hershon, 1976; Dyer, 1986, Flamholtz, 1986).

Flamholtz's argument is based upon the founder-manager's ability to effectively monitor firm operations. When the firm is generating sales of $10 million or less, it is believed the entrepreneur can monitor and control firm operations. Once this threshold is passed, however, the founder can no longer maintain adequate control. The key is for the entrepreneur to recognize when the objectivity and managerial skills of professional managers become needed and beneficial (Flamholtz 1986). Obviously the revenue generated by a unit sale, the type of offering sold, the firm's participation in the creation of the offering and other mitigating factors must be taken into account.

Evidently, no consensus exists concerning performance and style of leadership or type of leader. Accordingly, the primary research question was: Does a relationship exist between the leader's type of leadership and the organization's performance during a transition?

Significance of the Study

Succession planning and effective transitions to new management are among the most vexing of problems facing SME founders. Such observations provide evidence that the linkage between the role of the CEO and firm performance is more easily observed in smaller firms (Alcorn, 1982). Small firm managers may be less constrained in their actions, particularly in firms where the top manager (often the founder) is typically the locus of decision-making and control (Begley & Boyd, 1986; Fama & Jensen 1983). Begley and Boyd (1986) measured growth

rate, profitability, and return on investment for founder-operated firms, and found that founders have a significant and positive impact on firm performance.

Additionally, the small organization tends not to be complex and is characterized by concentrated leadership and decision-making control (Whisler, 1988). In contrast, the large organization is often quite complex, which tends to diffuse leadership effects (Fama & Jensen 1983). Fama and Jensen have noted that "concentration of specific information relevant to decisions implies that there are efficiency gains when the rights to manage and control decisions are combined in one or a few agents" (Fama & Jensen 1983, p. 307) and "separation and diffusion of decision management and decision control--in effect, the absence of a classical entrepreneurial decision maker--limit the power of individual decision agents to expropriate the interests of residual claimants" (Fama & Jensen, 1983, p.309). Thus the firm's performance is dependent upon the abilities of its leader to observe, absorb, analyze information and decide on the most appropriate course of action.

The Threshold Firm

Nowhere is the issue of CEO impact on firm performance more salient than in the threshold firm. The threshold firm is a firm that is at (or near) the point of transition from entrepreneurial to professional management (Whisler, 1988). This transition appears to be inevitable as the firm outgrows the expertise and resources of the entrepreneur-founder.

Once a firm reaches this threshold, the founder must begin to yield control of operations to other managers and subordinates (Whisler, 1988). Should the entrepreneur fail to successfully share and delegate power, the firm is likely to falter. This may result in the loss of ownership and control--or even the firm's demise. Since the transition stage is so critical, careful

attention should be paid to when a transition is necessary and the extent to which the entrepreneur must abdicate power and control to facilitate a successful transition. Typically, pressures created from firm growth dictate the onset of the transition stage (Whisler, 1988).

Flamholtz (1986), perhaps the most outspoken advocate of the need for a transition from entrepreneurial to professional management, presented a model of organizational growth that evolves in a multi-phase process. The process begins with the new entrepreneurial venture and evolves into a professionally managed, consolidated organization. While no one pattern of transition is appropriate for all organizations, Flamholtz argued that $10 million in sales marks a typical point where transition is necessary.

Founder versus professional management

The business founder's role is a central topic of interest for threshold firms. Deeks (1973), for example, has claimed the distinction between founder and professional management to be a critical variable in organizational research. Schumpeter (1934) believed the entrepreneur to be critical to economic development and, therefore, deserving of attention apart from professional managers.

This distinction is also stressed in literature that addresses the psychological and personal characteristics of the entrepreneur versus the non-entrepreneur (Brockhaus, 1982). The findings of these studies are, however, often contradictory (Begley & Boyd 1987). Brockhaus (1982) has suggested that these disparate findings may result from comparing the general population and large company managers to the entrepreneur. Some empirical support exists for distinguishing the owner from the manager (Birley & Norburn, 1987) and the founder from the non-founder (Begley & Boyd, 1987). In part, these distinctions may be important because

founders tend to have management styles that significantly differ from their successors (Dyer, 1986; Schein, 1968). The founder, as opposed to the professional manager, creates and works to sustain the culture of the firm (Schein, 1985). It also has been argued that the founding of a firm has a direct impact on its development and success, and early organizational occurrences may limit future actions available to the organization (Kimberly, 1979, Boeker, 1989).

Schein (1986) identified management as a profession with associated attitudes and values. Often these managerial values differ from organizational values. This argument clearly has significance for the small, founder-run organization. Professional managers, by virtue of their business training, often behave differently than founders; and their personal stakes in the businesses are generally not as strong.

However, this does not mean that the founder of the firm is untrained in management principles compared to the "professional" manager (Dyer, 1989). It is more likely that the founder will behave as an entrepreneur, and the non-founder will behave in ways that are typical of top managerial employees. For example, Schein (1968) noted that the professional may bring more objectivity to the decision-making process. Arguably, this objectivity may be lacking in the founder-run organization, since the founder and the firm are inseparable.

Definition of Terms

For purposes of promoting clear understanding and uniformity in the study, the following terms were selected for definitions and clarifications.

Entrepreneur. Someone who has assumed the risks and founded his or her own enterprise.

Organizational performance. Year to year comparison of profit before taxes, units sold, customers serviced and employee turnover.

SME: Small and medium sized enterprises. Utilizing the U. S. Small Business Administration's definition: An organization typically with revenue generation of less than $50 million annually and fewer than 300 employees. These organizations may be in various stages of organization life cycles.

Successful transition. The professional manager following the founder has remained in position for greater than one year and organizational performance has not declined by more than 5%.

<div align="center">Assumptions and Limitations</div>

This study has the following limitations:

1. First, inherent in most qualitative research, is the limitation that data collected is subject to the interpretation of the researcher. As in all case studies, this researcher was prone to bias due to the need to understand the issues and become immersed in the study (Yin, 2003). The researcher also brings to the study prior experience in transitioning organizations from being founder-led to that of being professionally managed. Additionally, three years prior to this research, the researcher consulted with both companies participating in this study. While the researcher took particular care to ensure as much objectivity as possible throughout all phases of this research, and was aware of the lenses brought to the research, as with most qualitative research, it is doubtful that total objectivity was possible.

2. The second limitation is that the research was dependent upon the memory and the good will of the participants. The possibility exists that participants tailored their responses to what they believe the researcher wanted to hear or attempted to influence how they might be regarded by their responses. Additionally, participants might not have been totally candid. The fact that some of the participants knew the researcher from previous work may have influenced their responses. While it is hoped that the participants did not have other agendas that colored their responses, the researcher was particularly sensitive to these potential issues throughout the research and listened carefully, employed probing questions, and rephrased questions when it appeared necessary.

3.   Next, a small sample size makes most qualitative data, including data from this research, unsuitable for generalization. This study's sample size is small. One organization whose founder was replaced by a professional manager and has proven successful and one organization whose replacement failed.

4. Document analysis represented another possible limitation in that some documents may have been inaccurately categorized or in themselves been unreliable. Additionally, not all documents may have been available from both companies, and some documents may have been written for public relations purposes. To minimize this limitation, the researcher relied on his own knowledge and professional experience in organizations when it seemed appropriate.

5. The selection of the interview participants was not based on a randomized sample. However, case studies are studied in their own right and not as samples of the population (Robson, 2002).

6. The researcher was the primary instrument of the research and therefore there was an affect of the researcher on the study.

7. Because the research was seeking the impact of participants or their leaders have on their organizations, by the very nature of the research design and questions, the findings were focused on the leadership style of the founders and professional managers and therefore may not reflect a total picture.

Theoretical/Conceptual Framework

How organizations perform when the founder is replaced depends on a variety of variables, including the size of organization, its maturity, its industry, the behavioral profile of its customers, employees and vendors, as well as the style of both the new leader and the founder he or she replaces (Schein, 1985). This study endeavors to find out how leadership style affects the success or failure of the post founder leader.

Change in the leadership of any organization is a traumatic event and understanding change is not easy as organizations are organic in nature responding to changes in its environment and simultaneously causing changes (Whisler, 1988). While the process of normal change may be evolutionary in an organization, the effects of a change in leadership and its accompanying change in style may well be revolutionary. The purpose of this study was to determine if leadership style affects the success of the leader who replaces a founder in small and medium sized enterprises.

Organization of the Remainder of the Study

Chapter 1 has stated a need for this study, a statement of the problem, a brief review of prior research into SME post founder leadership success and a brief description of the proposed

design of the study. Chapter 2 contains a more extensive review of the literature related to the

problem to be investigated. Chapter 3 will explain the research methodology and design. Chapter

4 presents the results by way of summaries of interviews and observations as well as charts,

tables, and matrices. Chapter 5 discusses the findings of the study.

CHAPTER 2. LITERATURE REVIEW

The focus of this dissertation is the transition in organizational leadership which occurs when a founder is replaced in a small or medium enterprise (SME). The researcher was seeking to explore the question of how leadership style influences the success or failure of such a transition in leadership.

In order to understand the role and influence of leadership style in SME transition outcomes, this literature review covers three subjects of relevance to the research question: (a) the seminal research in leadership theory, (b) the impact of culture and its role in the life cycles of small and medium companies and their inflection points, and (c) the success and failure rates of SMEs and some of their causal factors.

Leadership

As long as there have been groups of animals that have come together for a common purpose, there have arisen leaders; be they in the form of wielders of primordial power (alpha males) or in the form of more subtly persuasive techniques of mutual benefit (Bass, 1990). As might therefore be expected, leadership has been defined, described and characterized in many ways as one of the most studied phenomena of human experience (Stogdill, 1974). Stogdill (1974) even provides us with a folk definition of leadership as the ability to stay one pace ahead of the group in order to not be run over. However, social scientists have defined leadership more rigorously and variously in the literature as the focus of group process; as personality and its effects; as the art of inducing compliance; as the exercise of influence; as an act or behavior; as a form of persuasion; as a power relation; as an instrument of goal attainment; as an emerging effect of interaction; as a differentiated role; as the initiation of structure; and finally as a

combination of elements (Bass, 1990). In other words, there are as many definitions of leadership as there are authors who wish to define it. Bass (1990) summarizes this multiplicity of definitions of leadership as being dictated by the purposes for which the definition is to serve. From a typological and taxonomic perspective, leaders can be classified in a variety of manners, based upon their organizational type, gender, socio-psychological classification, personality type, leadership style, or their function, role or behavior.

Within the organizational leadership subcategory, there exist numerous theories of classification of leaders, the earliest of which date to the late nineteenth and early twentieth centuries. Of the many, one of best known is that of the eminent sociologist, Max Weber (1947) who speaks to three types of authority within organizations: bureaucratic leaders who receive authority through the belief in the legitimacy of normative rules and the right of those in elevated positions to rule, patrimonial leaders who rule through family relations, and charismatic leaders who have inspired subordinates and rule through the devotion of their followers and force of their personalities. Maccoby (1976) and others greatly expanded and elaborated on Weber's work defining the independent craftsman, paternalistic empire builder, and the gamesman types of leader.

Leaders and Leadership

The study of leaders, as distinct from that of managers, is a rather recent research discipline, one of the most popular studies in the mid-twentieth century being that of Blake and Moulton (1964). They posited that managers could be classified by their orientation to either tasks or people. The derivative of their studies was the "Blake's Grid", a nine by nine matrix, through which managers' orientation could be plotted as 9,1 (production oriented); 1,9 (country

club – people above all); 1,1 (abdicator); 5,5 (compromiser) or 9,9 (the ideal manager). This work has been expanded upon by several researchers, developing even more classifications (Reddin, 1977).

Classifications aside, the understanding of the various theories and models of leadership is instructive in understanding organizational structure and performance. Bass (1990) lists a variety derived from his extensive review of the literature. In the category of personal and situational theories, the Great-Man theory espouses the virtue of transformational leaders, the hero. This gives rise to the belief that if the traits of great leaders can be identified and categorized then new leaders can be identified and groomed. This so called trait theory fell somewhat out of favor due the lack of inclusion of situational considerations. The converse of the trait theorist was the situationalist who believed that in any situation of requirement, a leader will arise. A compromise was attempted between these two schools as argued by Bass (1960), but failed primarily due to the emergence of behavioral theories.

Behaviorists fell into multiple schools, the psychoanalytic, political theorists, and the humanistic. Eventually, these schools also metamorphosed into the interaction and social learning theories, the most notable of which is Fiedler's contingency theory treatment. Fiedler believed that the leader needs to be placed into the situation for which he or she is best suited (Fiedler, (1967). "The logic behind the contingency model is that when the situation is very unfavorable, the leader needs to provide strong task orientation and direction to get the group moving toward its goal. Conversely, when the situation is favorable, a task-oriented leader can easily provide the task direction for the co-operative group to complete the task as workers follow willingly. When the situation is only moderately favorable, a supportive, relationship-

oriented leader helps smooth relations with group members or provides support as the group tries to cope with an unstructured task" (Harker & Sharma, 2000, pg. 38). The behaviorists gave way to the interactive theorists who attempted to explain more fully the leader-follower interactions, and developed a number of hybrid models to assist in this effort. From this research, there was developed the transformational leadership model favored by most researchers in the field today.

One such author characterizes leadership as being one of two styles: either as the action of one person to take the initiative in creating an exchange of valued things with others or as the engagement of one party with another in a manner that raises both to a higher level of motivation and morality (Burns, 1978). Burns labels these characterizations as transactional and transforming leadership styles respectively. For Burns, leadership cannot be separated from the "…followers' needs and wants. The essence of the leader-follower relation is the interaction of persons with different levels of motivations and of power potential, including skill, in pursuit of a common or at least joint purpose. That interaction, however, takes two fundamentally different forms (p.19)." By viewing leadership through these two distinct lenses, Burns stimulated a plethora of subsequent research on the effectiveness of each style in organizations, albeit the majority in the transforming style of leadership. The current nomenclature is that of transformational leadership which was popularized through the writings of Bass (1985) who developed seven factors of leadership that he labeled charisma, inspirational, intellectual stimulation, individualized consideration, contingent reward, management-by-exception, and laissez-faire. Through subsequent empirical research, charisma and inspirational leadership were combined as they were not distinguishable resulting in six factors (Avolio, Bass, & Jung, 1999). These factors of leadership are defined as Charisma/Inspirational which provides an energizing

sense of purpose for followers; serves as a role model for ethical behavior; and provides identification with leader's vision. Intellectual Stimulation which encourages questioning the organization's status quo. The factor of Individualized Consideration takes into account the needs of followers and helps them perform to their full capabilities. The factor of Contingent Rewards defines and communicates expectations and outcome performance rewards. Active Management-by Exception observes work and takes corrective action when appropriate to maintain performance. Passive-Avoidant Leadership reacts only to serious problems; it often avoids decision-making (includes laissez-faire characteristics) (Avolio, Bass, & Jung, 1999). In their 1999 research, Avolio, Bass and Jung (1999) showed that these six factors are subcategories of three higher order factors as follows: Transformational Leadership consisting of Charisma/Inspirational and Intellectual Stimulation factors; Transactional Leadership consisting of Individualized Consideration and Contingent Reward factors; and Corrective Avoidant consisting of Active Management-by Exception and Passive-Avoidant factors or laissez faire Leadership. It is important to recognize that while differing from Burns'(1978) definition, both transformational and transactional leadership are constructive forms of leadership and that they are both typically used by leaders in differing degrees.

Transactional Leadership

The transactional lens views leadership as the exchange of items of value whether economic, political or psychological in nature. This style could be exemplified in a work context by the follower agreeing to perform tasks (work) in exchange for money (wages) from the leader. As long as the follower performed his or her duty satisfactorily, the leader would not intervene

(Burns, 1978; Bass, 1960). There is nothing beyond the mutual benefits derived from the exchange which binds the parties together.

Transactional models of leadership predate Burns and are based on the social exchange perspective promulgated by scholars such as Hollander (1964) and Homans (1961). The social exchange perspective states that followers have the ability to perceive and influence their leader in a bi-lateral relationship. Yukl (1993) notes that the Leader Member Exchange model (LMX) developed by Dansereau, Graen, and Haga (1975) is yet another form of transactional leadership in which the distance between the leader and follower determines the nature of the exchange which occurs. The principles of management by exception are but a different slant on the transactional leadership model in which the leader feels no obligation to intervene in their subordinates' work unless there occurs an exception or a deviation from expected results (Bass & Avolio, 1993).

Bennis (1989) simplifies the fundamental differences between these two distinct forms of leadership in an organizational context by describing transactional leadership as doing things right and transformational leadership as doing the right thing.

Transformational Leadership

Transformational leadership acts as a catalyst to meld the separate purposes of the leader and follower into a single creed. Often, transformational relationships begin as transactional and then rise to a higher plane (Bass, 1990). Burns (1978) emphasizes the moral aspects of transforming leadership and uses Gandhi as an example of such leadership. This form of leadership finds its power basis in the leader's ability to change the motivations of the followers through gratification of their motives for following (Burns, 1978).

The leader's effectiveness correlates more highly with transformational leadership factors in the opinions of their subordinates (Colvin, 1997; Hater & Bass, 1988). The transformational leader builds people and teams, and spends his or her time in praising achievements rather than punishing failure. Eggers and Leahy (1995) examined a survey sponsored by the Kaufman Foundation for Entrepreneurship of more than 200 chief executives of small businesses in the United States to determine the critical skills of the successful leaders and how these skills relate to company development. They identified five leadership skills critical to successful sustainability and growth: 1. The ability to obtain and manage financial resources, 2. Communication skills, 3. The ability to motivate and inspire, 4. Having a clear and committed vision, and 5. A relentless self-motivation. These results further substantiate the need for transformational leadership in entrepreneurial and small enterprises.

Yukl (2002) agrees noting that the differences between transactional and transformational leaders accordingly are in the "…component behaviors used to influence followers and the effects of the leader on the followers" (p.253). Transformational leaders obtain more than average results from average employees by coaching them to understand more than their parochial interests, inspiring them to transcend their own limitations, and stimulating their higher order needs for self-actualization.

While many researchers have validated the efficacy of transformational leadership styles in a variety of situations, the most prevalent time that a transformational leader emerges is in time of organizational stress (Yukl, 2002). Stress may be caused by uncertainty in the environment, competition, or internal pressures. Bass (1959, 1985) repeatedly has stated in his work that charisma, the leader's ability to inspire, to identify what is important, and to articulate a

vision, is necessary in transformational leadership, but in and of itself is insufficient to accomplish the transformational process. Transformational leadership has been considered to be important at the entrepreneurial stage or the start of an organization and also after excessive formalization and control takes place in an organization; at the mature stage in the organizational life cycle when organizations need revitalization (Harker & Bishnu, 2000, pg. 38).

More recently, Greenleaf (1996, 1977) has defined the roles of the servant-leader as the model for the needs of today's society in general and organizations in particular. In this model of leadership, one must become a servant first, possessing a desire to serve, and then conscious choice brings one to aspire to lead. For servant-leaders, their priority is assuring that the other persons' priority needs are met. This work has given rise to another entire genre of works centered on the "humble" leader, clearly at odds with the charismatic leader model, but completely congruent with transformational leadership.

Furthermore, Luthans and Avolio (2003) have developed an ideal leadership concept they termed the authentic leader who has all the characteristics of the transformational leader but leads on moral and ethical grounds. The authentic leader is transparent as "…intentions link espoused values, actions and behaviors. These leaders possess great self-awareness, integrity, confidence and self-control; are positive and optimistic; are resilient and are future oriented. They inspire, transform, mentor and develop their followers. This form of leadership occurs within a context in which leaders are able to empathize with subordinates and to reflect cultural, moral and ethical standards in their approach to management (Clegg, Korenberger, & Pitsis, 2005, p.256)."

Impact on organizational structure and performance

If form follows function, then organizational structure may well follow the functions established by leaders in an organization. It is furthermore logical to assume that the style of leadership displayed by those leaders will impact their decisions to functionally delegate as well as the performance of those to whom tasks are so delegated. One of the leading organizational theorists, W. Richard Scott, postulates how organizations morph in adapting to not only their environments, but also in their approaches to boundary setting and spanning as well as their technical core, which he defines as their internal structure (Scott, 2003). Scott (2003) further discusses how the distribution of control and power within an organization shapes its structure and its ability to predict changes in the environment and act appropriately. It would seem to follow then that the style of the leader of organizations would have a great deal of impact upon the degree to which the actors in an organization have autonomy to act, and the degree to which they are motivated to act appropriately in the best interests of the organization. Schein (1992) goes further by positing that the purpose of leadership is to establish culture and the culture of the organization determines its organization.

The transformational leader's attributes then would shape the structure of the organization to become congruent with his or her characteristics and actions. The organization would become strategic, have a vision that inspires its members, the structure would responsive to changes in its environment with permeable boundaries.   Accountability for performance would exist, but in the form of learning and adapting to new and better methodologies (Bennis, 1999). Performance has many different meanings within an organizational setting. Bass (1985) postulated that performance of an organization led in a transformational manner should improve relative to its

competitors. Colvin's (1997) research on the effect of transformational leadership in two modalities, individual-focused and culture-focused, provides empirical evidence of correctness of Bass' (1985) assertion.

Theories of Leadership

Four schools of leadership are reviewed as to their applicability to the research question.

Situational Leadership Theory. Situational leadership theory (Hersey and Blanchard, 1988) is based the previous work of Blake and Moulton (1964) and is similar to most other contingency theories in its assumption that effective leadership rests upon the ability of the leader to accurately assess situational conditions and modify his or her response appropriately. Hersey and Blanchard (1988) state that "situational leadership is based upon an interplay among (1) the amount of guidance and direction (task behavior) a leader gives, (2) the amount of socioemotional support (relationship behavior) a leader provides, and (3) the readiness level that followers exhibit in performing a specific task, function or objective" (p. 170). In this model, the "situation" is the degree to which the follower has the ability and willingness to perform. In other words, the subordinate's job maturity (ability and technical skills) and psychological maturity (self-confidence in one's abilities) reflect the capacity of independence at work.

The theory provides for four specific combinations of leader behaviors based upon the level of follower readiness (maturity), as illustrated below:
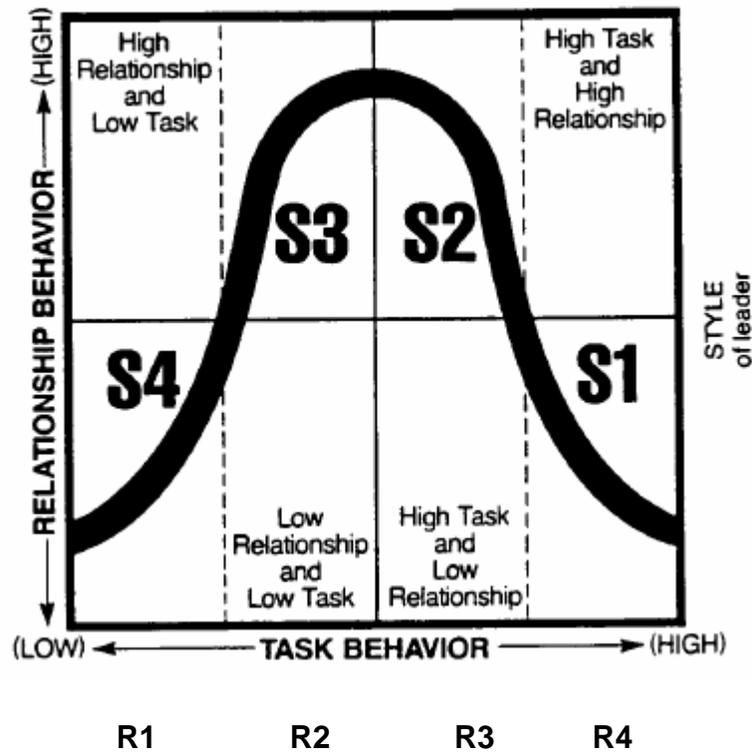
Figure 1. Relationships between leader style and level of subordinate readiness. Adapted from Hersey, P. and Blanchard, K. (1982). *Management of Organizational Behavior (4th Ed)*, p 200. Englewood Cliffs, NJ: Prentice-Hall.

Using the four leadership styles (S1-S4) and four readiness levels (R1-R4, formerly called M1-M4)), Hersey and Blanchard (1982, 1988) made several specific leadership style recommendations for leaders. The most effective leadership style-readiness level combinations are believed to be as follows: (a) high structure/low consideration (Telling) for low subordinate readiness (R1), (b) high structure/high consideration (Selling) for moderately low readiness (R2), (c) low structure/high consideration (Participating) for moderately high follower readiness (R3), and (d) low structure/low consideration (Delegating) for high follower readiness (R4).

In their 1988 work, Hersey and Blanchard expanded upon their general perspectives to state that "…situational leadership not only suggests the high probability leadership styles for

various leadership levels, but also predicts the probability of success of the other styles if the leader is unwilling or unable to use the 'desired' style" (p. 274). If subordinates are at the lowest readiness level, Telling is the best leadership style, Selling is second best, and Participating third best and Delegating is the least effective style. At the two moderate levels of readiness, there is a style designated as most effective, Selling for R2 and Participating for R3), but two styles are considered to be second best (Telling or Participating for R2, and Selling or Delegating for R3). The particular choice in each case depends upon a dynamic characteristic of the situation, i.e., whether it is improving or worsening. Hersey and Blanchard (1988) state that if the situation is improving, then Participating would be second best for R2 followers while delegating would be best for R3 followers. However, if the situation is worsening, then the second best leadership styles for be Telling for R2 and Selling for R3. Finally for the subordinates at the highest level of readiness (R4), the best to worst leadership styles would be Delegating, Participating, Selling and Telling.

In summary, this theory provides that there is no single all-purpose leadership style. What is appropriate leader behavior in each situation depends on the follower (or subordinate) and the task to be performed. The leader's behavior has two independent main components: directive behavior and supportive behavior. Directive behavior is characterized by the leader giving detailed rules and instructions and monitoring closely that they are followed. The leader decides what is to be done, how it is to be done and when. Supportive behavior is characterized by the leader listening, communicating, recognizing and encouraging. The behavior rests on mutual respect and trust, understanding and openness, and close human contact and warmth. It may be appropriate to use different styles with the same follower when she/he is performing different

tasks. This is because the follower's qualifications may be more appropriate for some tasks than others. In Hersey and Blanchard's model the follower's maturity or readiness is the basis for the choice of leadership style.

How then does this apply to the post founder leader's situation? In many situations, the founder who replaces him or herself with a professional manager will retain some interest and or presence in the organization. For the new leader to succeed, he or she may be required to recognize not only the state of readiness of their subordinates, but also of the founder. The successor may also be required to be affirmative in convincing the leader of his or her continuing high level of readiness, in order to retain full delegation of responsibility and authority without which failure is certain to occur.

Transformational Leadership Theory. .While the concept of transformational leadership is attributed to the days of classical Greece in the West (Humphreys and Einstein, 2003), the modern contrasting of ''transforming'' and transactional leadership may be traced to Burns (1978). According to Burns, transactional leaders "approach their followers with an eye to trading one thing for another: jobs for votes, subsidiaries for campaign contributions" (p. 4). In businesses we then would expect transactional leaders to engage in trading wages for production. This form of leadership includes both contingent reward and management-by-exception. Transformational leaders motivate followers to achieve performance beyond expectations by "transforming" followers' attitudes, beliefs, and values as opposed to simply gaining compliance (Bass, 1985; Yukl, 1999a, 1999b). Bass also identifies a number of sub-dimensions of transformational leadership including charisma, inspirational motivation, intellectual stimulation, and individualized consideration. I will discuss each in turn.

Charisma is posited by Bass (1985) as the most general and important component of transformational leadership. Weber (1968) states that charisma involves five components including an extraordinarily gifted person; a social crisis; a set of ideas providing a radical solution to a problem; a set of followers who are attracted to the exceptional person and believe that the leader is linked to transcendent powers; and the validation of the leader's extraordinary gifts through repeated success.

The articulation of a vision by the leader is a common theme when discussing charisma. Weber (1968) identifies vision as one of the five elements that contribute to charisma, and House (1977) states that charismatic leaders demonstrate a number of behaviors including articulating an ideology that enhances goal clarity, task focus, and value congruence. A charismatic leader engenders self-esteem in his or her followers through their relationship with the leader.

Vision is a transcendent ideal that represents shared values, and which is ideological in nature (House, 1977). McClelland (1975) goes further by suggesting that vision results in the internalization of organizational values and goals, which encourages individuals to adopt behaviors because of the attractiveness of the behavior itself as opposed to the attractiveness of a given leader. It is the leader's ability to conceive a vision of what is to come and then articulate it with passion and conviction that inspires followers to follow.

Inspirational leadership is another important sub-dimension of transformational leadership, although it has been variously defined (Barbuto, 1997). In his work, Bass (1985) proposes that charismatic leaders use inspirational appeals and emotional talks to arouse follower motivations to transcend self-interest for the good of the team. Later he posits that both charisma and inspirational motivation are displayed when a leader envisions a desirable future, articulates

how it can be reached, sets an example to be followed, and sets high standards of performance, and shows determination and confidence Bass (1990). This later description would suggest that vision and inspirational motivation may be combined into a single construct.

Inspiration is defined by Downton (1973) as the action or power of moving the intellect or emotions. Bass (1985) restricts the use of the term inspirational leadership to instances when a leader employs or adds nonintellectual, emotional qualities to the influence process. He states that inspirational leaders add affective qualities to the influence process through the use of inspirational talks and emotional appeals. Yukl (1981, p. 121) supports this position by suggesting that inspiration refers to ''the extent to which a leader stimulates enthusiasm among subordinates for the work of the group and says things to build subordinate confidence in their ability to perform assignments successfully and attain group objectives''.

Bass (1985) initially states that individualized consideration occurs when a leader has a developmental orientation towards staff and displays individualized attention to followers and responds appropriately to their personal needs. More recently, discussions of individualized consideration have focused on one component of this construct, supportive leadership. Supportive behavior by a leader is that directed towards the satisfaction of follower needs and desires, and may be demonstrated through displaying concern for the welfare of his or her subordinate and creating a work environment which is supportive rather than oppressive (House & Aditya, 1997). It does not mean that while creating a friendly environment that the leader must become a friend of every follower. Supportive behavior is behavior that permits followers to exercise their responsibilities to the leader or the organization, as well as to themselves.

However, the most underdeveloped component is intellectual stimulation which encompasses behaviors that increase followers' interest in and awareness of problems, and that develop their ability and propensity to think about problems in new ways (Bass, 1985). The effects of intellectual stimulation are seen in increases in followers' abilities to conceptualize, comprehend, and analyze problems and in the improved quality of solutions that they generate (Bass & Avolio, 1990).

There also exists a strong link between transactional leadership and the subdimensions of transformational leadership, as transactional leadership encompasses contingent reward and personal recognition. Contingent reward involves rewarding followers for attaining specified performance levels. Bass (1985) suggests that praise for work well done, recommendations for pay increases and promotions, and commendations for excellent effort are all examples of contingent reward behaviors. Personal recognition occurs when a leader indicates that he or she values individuals' efforts and rewards the achievement of outcomes consistent with the vision through praise and acknowledgment of followers' efforts.

Yukl (1998) concludes that transformational leadership is influenced by a variety of processes. Kark, Shamir, and Chen (2003) propose that the most influential of those are the creation of personal identification with the leader and social identification with the work group.

In reviewing the literature on transformational leadership, it is apparent that this leadership style is associated with many positive outcomes. However, in a world that is driven by competitive pressures rather than by cooperation, achievement will continue to be the yardstick of success. Leaders must come to grips with what this achievement means. "Achievement for the sake of self-aggrandizement produces limited short-term results. …when business leaders

promote achievement, responsibility, and creativity among work colleagues as a sign of their own professional and personal success, both the organization and the individual benefit" (Sarros & Santora, 2001, p. 392.).

For the post founder leader the import of this realization can not be overstated. Results matter. For the new leader to survive and transform the organization, efforts may have to be mounted to establish attainable, agreed upon goals with the founder and regular reviews of progress established. Perhaps only then will the post founder leader have the opportunity to achieve longer term transformation.

Leader-Member Exchange Theory. Leadership has many definitions, but perhaps the best is the quality of someone who has followers. The interactions between the leader and his or her followers are the subject of a theory of leadership known as Leader-Member Exchange Theory (LMX). The most interesting aspect of current LMX theory as opposed to others we have studied is the proposition that each exchange between a leader and a follower is unique and the leader must adapt to make that interaction positive in order to be effective.

There are two applications of LMX theory that are of import. The first is that LMX theory allows for a description of leadership and the second is that it prescribes leadership (Northouse, 2002). Descriptively, LMX theory segregates employees (followers) into "in-groups" and "out-groups". For the leader to function effectively, he or she must recognize the existence of these groups and which employees belong to which group.

In the work environment, the leader working with the in-group will accomplish more, in less time and with greater efficiency. The members of this group willing do more than that which is required and look for ways to help the group achieve its goals. As a result they get more

attention from the leader. The out-group does only that which they must to be in compliance with their role. Since they are not as effective as the in-group they are treated in accordance with their roles and contribution.

Effective leaders should try to build a positive relationship with each employee regardless of the group classification according to the prescriptive use of LMX theory (Phillips & Bedeian, 1994; Northouse, 2002). If successful, the leader will then have only an in-group, a group in which all employees have the opportunity to succeed. This approach assumes the willingness of all employees to engage in high quality exchanges with the leader.

The difficulty with the LMX theory is the presumption of discrimination in the workplace. However, there are some positives to gain by studying LMX theory. The seminal one must be the importance of leader-follower communication in a one-on-one relationship.

This importance is reinforced in Heifetz and Laurie's (2001) article that advocates not only communicating with employees, but also challenging them to excel. They promote the concept of leadership as managing the process of adaptive change in an organization when the members of the organization are challenged out of their comfort zone. In a way, it is an advocacy of Thomas Kuhn's paradigm approach to scientific discovery. The fundamental culture of an organization may have to alter in order to remain competitive in a dynamic world. Again, it is the followers, not the leaders that execute the change.

In the context of the post founder leader, the relationship between the founder and his or her replacement, as well as that between the new leader and their subordinates may be highly dependent upon both the quantity and quality of the one-to-one communication throughout the organization.

While some body of research is extant on the post founder leadership quagmires, there remains a much work to be done in fully understanding the phenomenon and causal factors surrounding the success and failures of these transitions. For example, as implied above, empirically documenting how founder CEOs add value to their firms would be a significant research contribution. An examination of the potential moderating effects of industry context on the relationship between CEO founder status and firm performance might also yield findings with significant theoretical and managerial implications. The types of organization structures and corporate governance systems used by founder versus non-founder-managed firms could be examined as potential predictors of firm success. Finally, large research samples (vs. anecdotal evidence) could be used to study the performance related antecedents and consequences of the transition from founder to non-founder management. As to the impact of leadership styles on the success or failures of the post founder leader, it appears that all three theories have some applicability, but the extent of that applicability is unknown, and is demanding of further research.

Authentic leadership.   A relatively new school of research has emerged in the wake of the numerous corporate scandals of the past few years, dubbed authentic leadership (Luthans & Avolio, 2003). The authentic leader is true to themselves. Harter (2002) describes authenticity as it applies to leadership as "…owning one's personal experiences, be they thoughts, emotions, needs, wants, preferences, or beliefs, processes captured by the injunction to 'know oneself'" and "further implies that one acts in accord with the true self, expressing oneself in ways that are consistent with inner thoughts and feelings" (p. 382). Thus the key to authentic leadership is the

concept of self awareness, the knowledge that self-regulation of one's behaviors as a leader is a necessary ingredient for positive self development (Luthans & Avolio, 2003).

Among the more recent scholars writing on the subject, Shamir and Eliam (2005) posit that there are four essential characteristics of the authentic leader: 1) they are true to themselves rather than conforming to the expectations of others; 2) they are motivated by personal convictions rather than by power, status, or other personal benefits; 3) they lead from their personal perspective; and 4) their actions are based upon their personal values. While this definition does not encompass the entirety of the emerging discourse, it is a serviceable basis for the subject.

The capacity of the leader has for the positive psychological attributes of confidence, optimism, hope and resiliency serves as the springboard for the heightened self-awareness and self-regulatory behaviors of the true authentic leader (Luthans & Avolio, 2003). While many of the researchers in this field also address the need of the authentic leader to have an inherent moral and ethical basis to their value systems (Luthans & Avolio, 2003; May, Chan, Hodges & Avolio, 2003), other authors have expressed concern that the inclusion of those values will make the theory difficult to operationalize (Shamir & Eliam, 2005; Sparrowe, 2005).

The "leading by example" actions of the authentic leader may well create an atmosphere of trust and confidence within his or her organization in which the positive attitudes and values of the leader contribute to the establishment of a culture of organizational learning. This potential action has its theoretical underpinnings in social exchange theory (Kernis, 2003). These environments in which "…open access to information, resources, support and equal opportunity

for everyone to learn and develop will empower and enable leaders and followers to be effective"
(Avolio & Gardner, 2005).

Quinn & McGrath, 1985 state that "Just as individuals process information, so do groups
and units of people. In doing so they develop collective belief systems about social
arrangements. While philosophers tend to call these belief systems shared paradigms,
sociologists speak of them as social reality and anthropologists' talk of cultures" (p.325). The
great psychoanalyst, Karl Jung, originally posited the paradigm of cultural influence (Quinn &
McGrath, 1985) when he described archetypes of culture. Jung's archetypes were further
developed by subsequent researchers such as Deshpande, Farley, and Webster (1993) who
defined organizational culture as the pattern of shared values and beliefs that help individuals
understand the norms for behavior within the organization. In their research, two key dimensions
were used to classify organizational culture: the continuum from organic to mechanistic
processes and the relative emphasis on internal maintenance versus external. The resulting four
quadrants are called market-driven culture, adhocracy, clan, and hierarchy. The market driven
culture exhibits decisive leadership and is oriented towards achievement, productivity and
responsiveness to changes in its markets. An adhocracy culture centers on entrepreneurship,
creativity and adaptability where flexibility and tolerance are givens and defining new markets
and new sources of growth are important. Organizations with a clan culture value cohesiveness,
participation and teamwork, where employee commitment is achieved through participation and
cohesiveness and personal satisfaction are more important than financial goals. Lastly, the
hierarchy culture stresses order and regulations and its leadership style is administrative with
tracking and control emphasized relative to clearly stated goals (Deshpande, Farley, & Webster,

1993). The type of culture is present in an organization will affect the ease with which the organization accepts change.

These forms of culture are present in all sizes of enterprises, affecting their organizational performance and determine the way they respond to market signals (Olson & Gough, 2001). The relationship between organizational culture and performance is mediated by the way companies search for and filter the information from the marketplace and by their responsiveness to that information. Organizational routines as well as the speed of response to environmental changes at the boundaries are believed to depend on the type of culture (Deshpande, Farley & Webster, 1993). As small enterprises tend to change more often and more rapidly, the cultural impact on the efficacy of their change will be greater than in larger and more mature organizations (Stoica & Schindehutte, 1999).

<div align="center">Organizations, Culture, and Change</div>

For an organization to change, it must exhibit readiness (Hersey, Blanchard, & Johnson, 2001). Robbins (2003) notes that there are six basic sources of resistance to change within organizations: structural inertia, group inertia, threat to expertise, threat to established power relationships, and limited focus of change. To overcome these sources of resistance, organizations must adopt a culture of change. Senge (1999) postulates that a change culture accrues to those enterprises which adopt a culture of learning and become learning organizations. The more the culture of the organization is oriented towards that of learning, the greater its readiness for transformational change.

A learning organization is one in which has the capacity and will to continuously adapt to its environment, *id est*, it changes constantly; not only in response to changes, but also in

anticipation of changes in its environment. These organizations share a common vision; members of the organization are willing and eager to try new ways of performing; members think of the organization as an interrelated system; communication flows freely and openly without fear; and members are willing to subordinate personal achievement for the accomplishment of a shared vision (Senge, 1990). Transformational change involves not only the personal commitment and risk of the leader, but of all the members of the organization. Senge (1990) emphasizes in his research that transformational change is easier to accomplish in an organization with a culture of learning.

There are innumerable definitions of organizational culture; however, they each refer to culture as a learned body of tradition that governs what one needs to know, to think, and to feel in order to meet the standards of membership of a group. Schein (1992) defines it formally as "…a pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems" (p.12). Researchers such as Van Mannen and Barley (1985) suggest that the term organizational culture is a metaphor for a multitude of subcultures within an organizational context and that these subcultures are organic and live only as long as they are useful. Furthermore, Van Mannen and Barley's (1985) posit the concept in this discussion is that subcultures may often be at odds with the leader's idealized culture for the organization and thus result in lower levels of performance.

In the organizational arena, there are a multiplicity of components commonly held to be cultural, such as symbols, language, behavior, dress codes, attitudes, values, and beliefs. One

model for making sense of the multifaceted nature of the concept of culture is that offered by Schein (1992), who divides its structure into three layers. Schein (1992) accommodates culture's complexity by breaking it down into the objective and visible artifacts found at the surface of the organization and into the subjective elements such as values, beliefs, and basic assumptions, which are hidden at deeper levels of the organization's consciousness. At the surface, dramatic cultural differences may be observed between organizations; however, at deeper layers, Schein's (1992) research suggests that commonalities may exist.

Bititci, Mendibil, Nudurupati, Turner and Garengo (2004) have shown that the organization's culture can significantly moderate the impact of transactional and transformational leadership on individual and group effort as well as organizational performance. According to Clegg, Kornberger and Pitsis (2005) some scholars define culture as a system of values, norms and artifacts designed to affect a desired set of actions. Values refer to a concept of desirability, designed to help the individual decide upon the most desirable of the available courses of action, and norms constitute a set of expectations one has while undertaking a chosen action. Artifacts refer to the symbolic elements created by organizations, such as topics, facilities, rituals, and communication styles.

Hatch (1993) amplifying the seminal work of Schein (1983) on organizational culture proposes that cultural elements in organizations are arranged in a dynamic interaction by means of clarification, visualization, symbolization, and interpretative process. Researchers such as Van Mannen and Barley (1985) suggest that the term organizational culture is a metaphor for a multitude of subcultures within an organizational context and that these subcultures are organic and live only as long as they are useful. In an era of increasing globalization, diverse cultures in

the same organization are becoming the norm. Considerable research has been performed on the roles of cross-cultural impact in organizational strength and performance (Bass, 1990). In the seminal study of cultural differences, Hofstede (1980) showed that individuals in different cultures hold different work related values and exhibit different levels of resistance to change.

Stoica and Schindehutte (1999) analyzed the links of small business change to culture and performance. They found that companies whose cultures were open, possessed shared values, and focused on gathering, analyzing and responding to environmental information adapted to change more readily. Therefore, it is important to understand the relationships between SME culture and the various dimensions of environmental information processing.

<center>Organizational Culture and Shared Values</center>

In recent times, as the concept of organizational culture and shared values has become established firmly on the management studies agenda, several major trends can be identified. First, the high level of managerial attention focused on shared values exhibits a bias toward large organizations (Humble and Jackson 1994; Peters and Waterman 1982). Second, research focuses attention on the characteristics of specific types of cultures, such as a marketing culture (Kotler, 1985) or a learning culture (Senge, 1990). Third, research attempts to relate organizational culture to specific outcomes, such as performance (McDonald & Gandz, 1992). Finally, positivist studies predominate over qualitative studies (Koley & Meredith, 1997; Hofstede, 1980). Although these are valuable contributions, a significant gap of interpretivist studies of organizational culture and shared values in the smaller firm exists in the literature. Haugh and McKee (2004) posit the shared values of independence, survival, control, pragmatism, and financial prudence as defining the cultural paradigm of the smaller firm.

A value is defined by one of the seminal researchers in the field as "…an enduring belief that a specific mode of conduct or end state of existence is personally or socially preferable to an opposite or converse mode of conduct or end state of existence" (Rokeach, 1973, p. 5). Typically, values tend to be general and not tied to a specific object; rather they "…transcendentally guide actions and judgments across specific objects and situations, and beyond immediate goals to more ultimate end-states of existence" (Rokeach 1972, p. 160). In this way values not only guide action but also shape attitudes, comparisons, evaluations, and justifications both for the individual and toward others. McDonald and Gandz (1992) interviewed 45 senior executives and management consultants and, supported by a dictionary and a thesaurus, derived a set of 24 shared-value dimensions relevant to North American business. The values range from adaptability to social equality and include modes of behavior such as autonomy, cooperation, courtesy, economy, humor, moral integrity, and obedience. Although useful in identifying and defining values, the interviews communicate espoused rather than enacted shared values and also present a managerial perspective rather than an organizational view. The managerial perspective is not uncommon in organizational culture research and not surprisingly tends to portray a managerial vision of the ideal workplace.

Culture and Leadership

Leaders that found organizations establish culture, usually as a reflection of their own values, which if successful, become the shared values of the organization (Martin, Stitkin, & Boehm, 1985). The leader's perception of the culture of the organization as well as the casual factors which helped to create it is typically at odds with those of the employees at lower levels.

In smaller organizations, especially those which remain founder led, this disparity is *de minimus* (Louis, 1991).

For any leader to be successful in instituting culture or changing an existing culture in an organization, he or she must have the capability to perceive and understand the elements of culture that are present or will be needed to preserve and improve organizational effectiveness (Schein, 1992). While many aspects of culture remain constant in organizations of all sizes, the need for change will occur in most over time. In smaller, founder led organizations, the frequency of such need is usually more frequent and its implementation faster as the firm adapts to its environment. Change in this environment, as presented by Schein (1992) occurs in a more incremental, evolutional process which is fueled by insights gained through organizational therapy and internal promotion of hybrids. In larger, more mature firms change in culture is often accomplished by the insertion of a new leader from outside the organization and catastrophic events.

Cultural differences between large and smaller firms are likely to arise not just from size but also from the strength of the leader's personality, the strategic orientation of the firm, and the performance of managerial tasks. Some researchers believe that the larger the size of the organization, the more formalized structure and stronger culture exist (Louis, 1991). This has been attributed to the continuity and style of leadership and the stability of the workforce found in larger firms. However, the evidence is not conclusive. Sathe (1983) argues that smaller, more localized firms facilitate the growth of stronger cultures since it is easier for values and beliefs to become shared widely due to greater communication between the leaders and employees in the workplace. Bass (1990) has advocated that transformational leaders are more apt to have

significant impact on the cultures of their organizations than will leaders utilizing a transactional style. In his research, he also indicates that the transformational leader emerges when the culture is ready for the emergence to occur.

In a more idealized sense, the culture of choice in an organization is that of learning (Senge, 1990). In order for an organization to create a culture of learning, it is necessary for the leadership of the organization become learning leaders. A learning culture can only exist where the leaders assume that some degree of manageability over the environment exists, *id est*, you must the master of your own destiny to some extent (Schein, 1992).

In a learning culture the "…assumptions are that it is appropriate and desirable for humans to be problem solvers, that reality and truth must be pragmatically discovered, that human nature is basically good and in case, mutable, and that both individualism and groupism are appropriate, that both authoritarian and participative systems are appropriate provided they are based on trust that the best kind of time horizon is somewhere between far and near future, that the best kinds of units of time are medium length ones, accurate and relevant information must be capable of flowing freely in a fully connected network, that diverse but connected units are desirable, that both task and relationship orientations are desirable, and that the world is intrinsically a complex field of interconnected forces in which multiple causation and over-determination are more likely than linear or simple causes. The role of learning-oriented leadership in a turbulent world, then, is to promote these kinds of assumptions" (Schein, 1985, pp 372-373).

As a caveat, it is important to note that as the world becomes more interdependent and integrated the Western world's view of the value of certain styles of leadership and

organizational culture will be at odds with many global cultures which value order and predictability over change and charisma (Bass, 1990).

Furthermore, the body of knowledge would be enhanced with research concerning the structure of companies led by the authentic leader (Luthans & Avolio, 2003) compared to those led by transformational and transactional leaders. As the legitimacy of leaders rests with their followers, and organizations must adapt to their environments, a probative question may well be what form of leadership is most effective in the 21st century economic environment with its virtual companies and global reach.

Transition

During this transition period, the founder/leader will no doubt experience the trepidation we noted above regarding the delegation of responsibility to positions that in the past may have been occupied by individuals of lesser talent. Indeed, the typical (if there is such a person) founder/leader believes that he or she can perform most tasks in the company far better than anyone else, primarily because when the company came into existence they did so. The founder/leader "invented" most positions within the company and hired everyone initially, and thus, in his or her opinion, knows very well the weaknesses and strengths of those employees. The successful entrepreneur will at this stage be willing to "take the plunge" and delegate, albeit with a short leash. Thompson (1999) identifies the problematic structural and strategic changes required of entrepreneurs to grow their companies. The author espouses a strategic management model for entrepreneurs he calls E-V-R (environment-values-resources) in which tradeoffs can be determined by a manager to achieve growth. He expands on the E-V-R model to explain how congruency between the offerings and organization of an enterprise and its managerial behavior

form the foundation of a new model of leadership that captures the key strategic issues of risk and crisis management. The easing of this angst level lies with planning the succession and delegation.

The transition to rapid growth places strains on an organization's management system and structure. Olson and Terpstra (1992) investigated the structural changes which occur in firms as they move from the start-up stage to the growth stage of development. The focus of the study was on successful, small, rapidly growing firms and on the people who manage these firms. An arbitrary 3-stage life cycle model was selected from the tens of possible models. In this model, it was proposed that organizations are born, grow, and eventually face either a decline or realignment stage. More than 100 companies responded to the survey and the results indicate that organizations that successfully move from start-up to growth tend to undergo dramatic structural changes. "These organizations become more complex, more formalized, and less centralized. As organizations make the transition to growth, they tend to become more horizontally, vertically, and geographically complex."

There is ample research available on the various stages of company life with various definitions of each stage. For ease of understanding, the life cycle stage under study will be defined in conformance with Olsen and Terpstra (1992) and Churchill and Lewis (1983), *id est*, the rapid growth period after survival is assured and before stability is achieved. In most cases, this stage is characterized by a shift from the founder performing all management tasks and decision-making being highly centralized to the deployment of functional managers and decentralized decision-making. Angst would be an appropriate word to describe the

founder/CEO's feelings at this time; fear of letting go and yet euphoria at the prospects of being able to do so.

During this turbulent time, organizational hierarchies tend to be fluid and dynamic, responding to the changes in the marketplace as the company grows rapidly. For rapid growth we will assume the definition used by Miller and Friesen (1984) of greater than 15% per year compounded. This also the definition used by the Kaufman Foundation for Entrepreneurial Studies to designate the "gazelle" companies that interest them the most (O'Neill, H. M., Saunders, C. B., & Hoffman A. M., 1987). The founder does not quite know what will work best in this time as the organization has approached the limit of their experience, desire, or capacity to manage. This uncertainty creates stress within the organization and leads to loss in productivity, diffusion of effort and ambiguity in strategic focus.

Cultural Impact

Choueke and Armstrong (2000) discovered what they termed a "clear gap" in the study of the reasons for small and medium business growth and success: the effects of organizational culture. The groundwork for the empirical study comprised a literature review of existing perspectives on small and medium enterprise (SME) growth and development. 'Two broad perspectives on explanations of growth in SME's emerged from the early literature review. The first, an individualistic perspective, focused on agency, through the influence of the entrepreneur (or entrepreneurial group) within the business and the second, which focused on a process of development and growth through the "life-cycle" of the business. In reviewing the literature, the authors became concerned that the effects of culture on organization success in SME's was not

referenced but in one research study. They believe that both the informal as well as the formal cultures in an organization have significant impact on the performance of SME's.

Floistad (1991) argues that demands on entrepreneurial leadership go beyond traditional managerial skills and include the ability to empathize with diverse opinions and attitudes, if individuals' contributions and commitment are to be maximized. A creative entrepreneurial culture presupposes freedom with responsibility. To be able to evaluate when an individual's freedom is expressed to the detriment or at the expense of the community and when it serves the community is, perhaps, one of a leader's most difficult and important tasks. It may probably be resolved only through the participation of all. Industries like products have life cycles, and as a result, windows of opportunity open and close (Proctor, 2000).

A founder's ongoing involvement in general management activities may be decreasingly valuable or even detrimental to a company's success as the firm grows. It is well documented that founders often have difficulty handing over the reins of their company to individuals whose skills may be better suited to managing large firms (e.g., Flamholtz, 1986; Adizes, 1989). As organizations grow, the entrepreneurial challenge of establishing firm viability becomes less significant and the administrative challenge associated with managing large, complex organizational systems increases in significance (Tushman & Romanelli, 1985). Different skills are needed to effectively manage the entrepreneurial and administrative challenges, and it is a rare individual who possesses all skills needed to grow a business from its inception to a state of maturity where a complex organizational architecture is typically required (Stevenson & Jarillo, 1990).

Consistent with the preceding points, many founders whose skills well match the entrepreneurial challenge may be unable to develop the new administrative skills needed to effectively manage in a large organizational context, or these founders may not perceive that their entrepreneurial skills are any less valuable than they were when their organizations were smaller (Willard, et al., 1992). In either case, the value likely to be added by the founder will not be as great as when the firm was smaller, and the founder's continued management may, in fact, represent a hindrance to firm performance.

Change

The difficulties facing entrepreneurial founders in adapting their organizations and themselves to the realities of the changes required to capture the opportunities inherent in a replacing themselves with a new leader are many of the same ones that face an organization in any change scenario. Too often, the founder is focused on the situational aspects of the change, and not on the human dynamic involved. Austin and Currie (2003) describe this as the difference between change and transition. They developed the following figure to illustrate the range of emotions accompany change and transition in a company. (p.233)
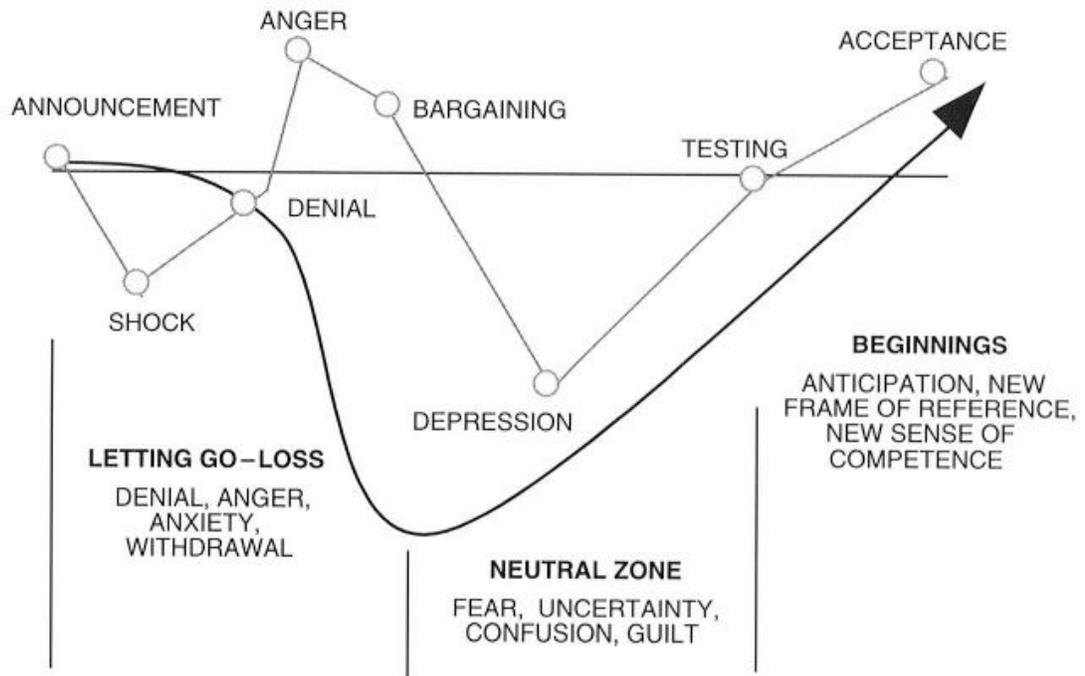
Figure 1: Emotions along the change curve

Figure 2. Emotions along the change curve. From Austin, Jeff & Currie, Beth (2003). Changing organisations for a knowledge economy: The theory and practice of change management. *Journal of Facilities Management*, 2(3), p233.

As this figure clearly illustrates, employees (possibly leaders as well) experience a roller coaster ride before accepting change. In the case of leader after founder transition, too often the founder loses patience and courage and retakes the reins of the company before the change cycle is complete. This lack of total commitment to the change process is indicative of the misunderstanding of what is required to implement truly transformational change in an organization. A change in top leadership is both a cultural and personal alteration among their relationships.

The superior performance of leaders who are perceived to be transformational by others is well documented in the literature (Litwin & Stringer, 1966; Waldman, Bass, & Einstein, 1987; Hater and Bass, 1988; Zorn, 1988; Yammarino & Bass, 1989; Clover, 1989). Should the leader after founder prove to be transformational, he or she would appear to have a better opportunity to survive the transition.

<div align="center">Prior Research on SME Performance</div>

It is accepted dogma that the majority of business failures occur in the SME segment (Laitinen, 1992). The majority of these failures may be blamed on the shortcomings of management consisting of their inexperience or their incompetence. Cooper, Woo, Dunkelberg, and Crosbie (1989) showed that a number of survival factors are under the control of the entrepreneur. This study showed that firstly, the entrepreneur should be urged to formulate a systematic plan for the venture before its inception. Secondly, as a successful start-up requires numerous skills and experience, entrepreneurs should be encouraged to educate themselves and bring experienced employees and mangers into the enterprise. Lastly, the entrepreneur needs to give priority to accumulating a larger capital base before launching the venture.

As the enterprise grows beyond its survival stage and enters what Churchill and Lewis (1983) call the crisis of autonomy and through the crisis of control, when it becomes apparent that the continued growth of the enterprise will depend upon the founder either growing into the job or delegating his or her authority to a professional manager. The seminal question would then become "how?" The creation of a succession plan has been identified as a strategic asset of almost enterprises (Cespedes & Galford, 2004). The foundation of a succession plan needs to be rooted in the needs of business, account for the founder being replaced as well as the

replacement, have a development plan for its own executives and managers, and examine whether the role of the leader and his or her assets need to change for the future (Cespedes & Galford, 2004). Zaleznik (2004) illustrates that managers and leaders have different characteristics and behaviors. The enterprise considering a replacement for its founder would be well advised to consider whether they require a manager or a leader for the future. An examination of the performance of firms under founders and their successors would thus be instructive.

<div align="center">Contrast of Founders and Professional Managers</div>

The personal proclivities of founders compel them to retain high levels of control over organizational matters. For example, Mintzberg (1984) suggested that founders are often strong-willed and centralize power to enable themselves to carry out their wishes. Tashakori (1980) suggested that the retention of power and control may reflect a lack of trust in others. On the other hand, one might expect an individual with a strong personal desire for control to be more "internal," as measured by Rotter's (1966) locus of control scale. Several studies have noted, however, that entrepreneurs do not differ from other managers in their loci of control (Brockhaus & Horwitz, 1986). An alternative interpretation of the tendency to oversee and direct organizational activities is suggested by Smith and Miner (1983). They found that organizational coordination is probably out of necessity of greater priority to managers whose organizations are in a fairly early stage of development. Although their study examined the effects of the organization's age rather than the presence or absence of a founder, they suggested that some managers might find it difficult to switch priorities as the organization matures and its needs change. Indeed, several researchers have offered evidence suggesting that major changes in

organizations do not occur gradually, but rather suddenly and dramatically, precipitated by major events such as the departure of the founding leader (Barnes & Hershon, 1976; Miller & Friesen, 1980). In short, founders may persist in using the management practices that helped their organizations get off the ground, whether or not the practices continue to be efficacious.

It is likely that entrepreneurs, small business executives, and large business executives face a common set of problems. However, it is very unlikely that these common problems are equally important and pressing for each of these groups. Indeed, one reason for the White House Conference on Small Business, the U.S. Small Business Administration, The National Federation of Independent Businesses, and, more specifically, the Journal of Small Business Management, is the belief that small businesses face different problems than large businesses; and that without such groups and mechanisms, these problems would rarely be recognized.

It is certainly reasonable to believe that some problems cause greater difficulties for a small business than they do for a Fortune 500 firm. For example, the limited resources of these firms compared to those of large organizations make them more susceptible to changes in the external environment (Carland, Hoy, Boulton, & Carland, 1984). Because a large business is less threatened by many of these changes it should spend less time scanning the environment in an attempt to anticipate and adjust to this turbulence (Daft &Weick, 1984). This means that environmental events that represent serious threats to a small firm may be considered unimportant to a large one. Thus, the relevance of events in the external environment should depend somewhat on the size of the firm (Kimberly & Miles, 1980).

Entrepreneurs also are likely to face problems that are different both in terms of number and importance from those faced by small and large businesses. Forums such as the annual

Babson Entrepreneurship Research Conference and publications such as Entrepreneurship

Theory and Practice are indicative of this. Similarly, Drucker (1985) contends that

entrepreneurial work and managerial work are not the same. Moreover, there is some support in

the literature for Drucker's argument that not everyone is attracted equally to entrepreneurial and

managerial work. Bird (1988), for example, suggests that personality characteristics such as the

need for achievement and the need for control, as well as abilities such as promoting ideas, are

believed to predispose individuals to entrepreneurial intentions. These kinds of attitudinal traits

not only increase the attraction of entrepreneurial work, but they also act as filters that color the

way individuals perceive events around them (Hambrick & Mason, 1984). Consequently, people

with different values tend to see the same objective phenomena in very different ways. For

example, successful entrepreneurs generally are believed to see opportunities where others do

not (Kao, 1989). Thus, because of their unique traits and characteristics, environmental attributes

that entrepreneurs consider important are likely to be different from those small business

executives and large business executives consider important.

These arguments are not meant to suggest that entrepreneurs have completely unique

personalities relative to those who perform managerial work. Indeed, the literature would not

support such a sweeping statement (Bellu, 1988; Brockhaus, 1980; Smith, Gannon, Grimm, &

Mitchell, 1988). But entrepreneurs have been found to score higher than managers on risk taking

propensity, need for achievement, and tolerance for ambiguity (Begley & Boyd, 1987).

<div align="center">Summary</div>

The above review of literature serves to establish that while small and medium

enterprises have been studied, the research of the particular issues of leadership transition in such

enterprises is scant. Additionally, while the nature of leadership styles is well documented, the impact of leadership styles on the success of transition in leadership has been largely ignored by scholars. In is the gap in the literature that this study is situated.

CHAPTER 3. METHODOLOGY

Introduction

Within each individual discipline of study there tends to be a research paradigm of
choice, one which most comfortable for that discipline's scholars to use. As a result, to some
research is only statistical regression, and for others it is only case studies. However, the study of
leadership is also an applied field, and a disparate, singular approach may well prevent
researchers from achieving all they otherwise could. The rationale for this premise lies with the
observation that within many traditional academic disciplines, problem selection and the decision
of which methodology to utilize for research are dictated by that discipline's paradigm (Kuhn,
1966). In contrast, applied fields involve real-world, immediate problems of concern to policy-
makers or organizations, and in solving these problems the most useful results and clearest
understanding are achieved when the problem itself drives the choice of methodology (Whitlock
& Ecker, 2004).

This qualitative research design was a case study of how leadership style influences the
outcome of a transition in leadership in an organization from founder to successor. The
theoretical basis of this research was a constructivist paradigm of inquiry with particular focus on
the specific reality of the small and medium enterprise (SME). The research was conducted using
a hermeneutic methodology which was based in observation and analysis of documentation in
the hope of providing results situated within a transactional as well as transitional process.

Data collection and data analysis served as the most important building blocks for
understanding and answering the research question. Methodologically, data collection was not
separated from data analysis in this study. Data analysis was conducted simultaneously with data

collection, data interpretation and write-up as it was necessary to regularly review the data carefully in order to move on to the next level of collection and analysis. This methodological process was both integrative and reflective.

Research Questions

This exploratory study utilized qualitative research methods to uncover to what extent leadership style influences the success or failure of a transition in leadership in small and medium enterprises (SMEs) from that of a founder to that of a professional manager. The unit of analysis is the tenure of the replacement leader.

1. Does the leadership style of the replacement leader influence his or her success in remaining in position for more than one year?

2. Does the leadership style of the founder influence the outcome of the transition from his or her leadership to that of a professional manager?

3. Does the degree of separation of the founder from the business moderate the outcome of the transition?

Research Design

Flexible designs view the world as a social construct. Qualitative findings grow out of three kinds of data collection: interviews, observations, and document analysis (Patton, 2002; Robson, 2002). The purpose of this research shaped the measurement and analysis as the researcher looked for thematic content. Qualitative research approaches vary widely in the requirement for sampling, and as theory may well be being developed, a single case study having a sample size of one may suffice, whereas an ethnographic approach could require thousands of observations over an extended period of time. The seminal criterion for sampling in flexible

approaches is saturation (Robson, 2002). The choices made by the researcher in determining the

scope of the study, the nature of the topic, the quality of the data, the design of the study, and the

research methodology determined the range of observations required. Qualitative approaches

will often use non-probability sampling.

Two independently owned and managed businesses were studied, using a comparative

case study approach, one business whose founder successfully transitioned his business to a

professional manager and one whose transition failed. Each of the businesses is unique and in a

different industry, but each has some similarity with the other. The comparative case study

approach is appropriate for this study because the evidence comes from multiple sources

including documentation, archival records, interviews and observations. This design is

appropriate also because it can help refine theory and suggest complexities for further

investigation as well as helping to establish the limits of generalizability (Stake, 1994; Yin,

1998).

Research Methodology

Quantitative studies look at data from a statistical analysis perspective while qualitative

approaches perform content analysis, and typically, qualitative measures are either scales or non-

numeric. Data in flexible studies may come from a variety of sources, such as interviews. To be

considered for qualitative research, interviews must consist of open ended questions that yield in-

depth responses about people's experiences, perceptions, opinions, feelings and knowledge. Data

in this study will consist of verbatim quotations with sufficient context to be interpretable. The

researcher may also use direct observations gathered from fieldwork descriptions of behaviors,

activities, actions, conversations, interpersonal interactions, organizational or community

processes, or any aspect of observable human experience. Data consisted of field notes -- rich detailed descriptions -- including the context within which the observations were made.

Another source of qualitative data came from documents that were collected and analyzed from organizational, business, or program records; memoranda and correspondence; publications and reports; personal diaries, letters, photographs, and memorabilia; and written responses top open ended surveys. Yin (2003) states that the benefits of a review of documents include that they have a broad coverage and can provide insight over a long period of time. Additionally, Yin says documents are stable and as such they can be reviewed as needed. Data consisted of excerpts from documents captured in a way that recorded and preserved context through careful annotations regarding the document's intent and its primary ideas (Creswell, 2003). Creswell (2004) also cautions the researcher to note whether the document is a primary source written by the study participants or secondary material which is written about either a situation or the participants. Research questions or problems may emerge that shape future observations (Adler & Adler, 2005).

<div align="center">Applicability to leadership research in SMEs</div>

To apply any research methodology in researching leadership in small and medium sized enterprises (SMEs), there are several obstacles which must be overcome. The very size of the enterprise dictates that accessibility to its leaders and data will be somewhat restricted due to resource constraints. The quality of historical records may be questionable as formal controls and procedures may be lacking, and as most such enterprises are privately held there may be a reluctance to share what information is available. Additionally, the volatility of SMEs and the dynamic nature of their markets make for a short attention span and restrict any sort of

longitudinal study. However, as these businesses fuel the economy and job creation in the Western world, understanding the nature of the leaders who engage in such enterprises that are successful, especially the entrepreneurs, is highly desirable and potentially quite useful.

Topic, theory and methodology are usually closely interrelated in qualitative research which is conducted through an intense and/or prolonged contact with a field or life situation. These situations are typically banal or normal, reflective of the everyday life of individuals, groups, societies, and organizations (Miles & Huberman, 1994). In some sense, all data are qualitative; they refer to issues relating to people, objects, and situations (Miles & Huberman, 1994).

A feature of qualitative data is their richness and holism, with strong potential for revealing complexity. Such data provide rich descriptions that are vivid, nested in a real life context, and are grounded through observation (Patton, 2002). The inherent flexibility of qualitative studies (data collection times and methods can be varied as a study proceeds) gives further emphasis to its applicability in SME based research. Qualitative data, with their emphasis on people's lived experience, are fundamentally well suited for locating the meanings people place on the events, processes and structures of their lives and for connecting these meanings to the social world around them. There are three other claims for the power of qualitative data. They have often been advocated as the best strategy for discovery, exploring a new area, and developing hypotheses. Further, qualitative data are useful when one needs to supplement, validate, explain, illuminate, or reinterpret quantitative data gathered from the same setting which would occur often in smaller organizations.

Richards and Richards (1994) outline four major perceived constraints which have traditionally militated against the use of qualitative approaches in practice despite the excitement about their potential in theory. These are (a) volume of data; (b) complexity of analysis; (c) details of classification record; and (d) flexibility and momentum of analysis. The impact of such constraints in researching SME leadership may well be mitigated by the richness of the data obtained through techniques such as case studies.

Case Study

This research assumed the research question would dictate a qualitative study of a multi-site case study design which examines the impact of leadership style after a major organizational transition involving a change in leaders. Prior researchers have tended to utilize the statistical methodologies of quantitative research which may have obscured or lost the unique human characteristics of the individuals involved. Qualitative research, by focusing on the individual, organizational and social aspects of the leadership transition offers the opportunity to reach dimensions that quantitative research cannot. Some aspects of quantitative research were useful as this study unfolded. A good case study includes elements of triangulation (Denzin & Lincoln, 2005). To rely on only one form of information for the presentation and analysis of a case study may not allow for the development of a complete and accurate answer to the research question under study.

The case method was chosen for this research because of the complexity of the research question.

"Case study is defined by interest in individual cases, not by the methods of inquiry used…A case study draws attention to the question of what specially can be learned from

the single case…A case study is both a process of inquiry about the case and the product

of that inquiry (Denzin & Lincoln, 2005, p. 435-435).

The purpose of this study was to explore the question of how leaders that follow founders

succeed or fail and why that outcome occurs. This question can best be answered through

explanatory research and can best be explained through use of the case study approach (Yin,

2003). The weaknesses inherent in a single site case study may be moderated through a multi-site

case study.

<div align="center">Kinds of Case Studies</div>

Different case studies are characterized by different methodological approaches. These

characterizations were described by Stake (1995), and later by Denzin and Lincoln (2005), as

intrinsic, instrumental, and collective. Other researchers have defined, named and understood the

approaches differently, as in the case of Merriam, whose 1998 publication describes case studies

as descriptive, interpretive, or evaluative. In this study, however, the categorization will follow

Stake.

Although there are similarities between these different categories, the differences are

significant. The intrinsic case study observes a single subject because of its unique aspects; the

collective case study focuses on several subjects because of their shared qualities; and in the

instrumental case study the research is a means of gaining further understanding of particular

subjects.

This case study is instrumental in that it was used as an opportunity to gain further insight

into the leadership transitional processes at a general level and the influence of leadership style

on their outcomes. The overall goal was to add to the body of knowledge by addressing a

research question largely ignored by the current theoretical work.

Overview of the study

The research sample came from two companies chosen on the basis of business results as

defined by profitability, customer satisfaction, reputations as good places to work, and

accessibility. These business results were determined based upon information available through

various public means and company documents. This sample was purposive, selected by the

researcher's judgment as to interest and typicality.

Participants

Participants in this study were selected on the basis of their having replaced the founder

with a professional manager; the founder and post founder leader's willingness to participate, the

company's willingness to allow access to records and employees; and the convenience of the

Company and principals from a location perspective. The research encompassed two companies,

one whose transition was successful, and one whose was not. An informed consent approved by

the Capella's Institutional Review Board was sent to each participant prior to conducting the

field research. Each participant in the study was asked to examine the consent form and ask any

questions they might have prior to conducting an interview.

Data Collection/Construction

In this study, a multiple site case study methodology which involved a non-probability

sampling technique or methodic was used. The data was gathered from a variety of sources and

analyzed for content. Qualitative findings grow out of three kinds of data collection, interviews,

observations, and document analysis (Patton, 2003; Robson, 2002). The purpose of the research

shaped the measurement and analysis as the researcher looked for thematic content. Typically,

qualitative measures are either scales or non-numeric.

To be considered for research, interviews must consist of open ended questions that yield

in-depth responses about people's experiences, perceptions, opinions, feelings and knowledge.

Data consisted of verbatim quotations with sufficient context to be interpretable.

Researchers may use direct observations gathered from fieldwork descriptions of

behaviors, activities, actions, conversations, interpersonal interactions, organizational or

community processes, or any aspect of observable human experience. Data consisted of field

notes; rich detailed descriptions, including the context within which the observations were made.

The third source of data came from documents that were collected and analyzed from

organizational, clinical, or programs records; memoranda and correspondence; official

publications and reports; personal diaries, letters, artistic works, photographs, and memorabilia;

and written responses top open ended surveys. Data consisted of excerpts from documents

captured in way that recorded and preserved context.

An instrument was chosen to effectively classify the leadership style of the participants,

such as the Inventory of Leadership Styles (ILS) and administered to the participants.

Participants were interviewed using a guided interview, and field notes were taken from

company archival records on performance and other documentation. Direct observations and

participant observation also contributed to the body of data analyzed by further validating the

findings through triangulation. Analysis was performed through data manipulation techniques

such as: constructing arrays, creating matrices of categories, creating data displays, tabulating the

frequency of occurrences, and using temporal schema (Miles & Huberman, 1994). Extensive use of a qualitative research software program, such as NUD*ST was utilized to assist in management and analysis of the data.

The interviews were conducted at each of the organizations with only the participant(s) and the interviewer in the room. These sessions were recorded with the permission of the participant. Each session began with a brief discussion of the research and each participant was given an opportunity to address any questions or concerns he or she might have had about the research and the interviewing process. As interviews tend to be more productive when the participants are relaxed and feel in control, the researcher sought to build rapport by allowing the participants to lead the discussion, with the interview questions serving as a guide. The recorded responses were returned to the interviewee once transcribed for his or her review and verification of the accuracy of the interview.

Observations

The data collection process for this study is based in Grounded Theory which allows the researcher to build perceptions while gathering information (Creswell, 2003; Denzin & Lincoln, 2000). "Throughout the research process, grounded theorists develop analytic interpretations of their data to focus further data collection which is used in turn to inform and refine their developing theoretical analyses (Denzin & Lincoln, 2000, p. 509)…A constructivist approach to grounded theory is based on the assumption that first hand knowledge of the empirical world is located in the participants' actual experiences, multiple social realities, and the mutual creation of knowledge between the participants and the researcher. Grounded theory attempts to create as accurate a representation as possible by giving voice to participants. In such an approach the

researcher is not viewed as the expert. For example, the researcher may present as part of his or her findings the ways in which the participants' view of reality differed from their own.

Grounded theory provides strategies that connect the SME culture to the theoretical framework in order to influence and shape the research process as well as integrate practices. The theoretical sampling looks for precise information to fill holes and gaps in emerging theories, identifies conceptual boundaries, and pinpoints the fit and relevance of sample people, scenes, events and documents. While coding the data, it shapes the emergent codes and links themes and patterns. The process is continuous, as additional field notes offer new perspectives on the data and generate leads towards the collection of more data.

Data Analysis

As this research topic developed into a case study approach, measurement strategies were limited to those appropriate for that methodology. Case studies place considerable emphasis on full contextual analysis of few events or conditions and their interactions, and therefore there was richness in the detail of data. Although reliance on qualitative data makes support or rejection of a hypothesis more difficult, the depth of detail allows for verification (Cooper & Schindler, 2002).

In performing analysis of the data, each transcript was read and reread using constant comparison analysis. Data reduction was reflected in listening to the audiotapes and reviewing each transcript and field notes. The selected software program was used to display and analyze the data and assist in drawing conclusions, by noting patterns, themes, and clustering of information. Validation of findings was performed through member checking and other techniques.

A fixed or quantitative research design has always been concerned with defining an epistemological methodology for determining the truth-value of propositions and allows flexibility in the treatment of data, in terms of comparative analysis, statistical analyses, and repeatability of data collection in order to verify reliability. There are many strengths inherent in quantitative methodologies of research which made its use desirable in studying leadership in SMEs. Among these strengths are: comparison and replication are allowable; the observer is independent from the subject being observed; the subject under analysis is measured through objective methods rather than being inferred subjectively through sensation, reflection or intuition; reliability and validity of any findings may be determined more objectively than under qualitative techniques; there is strength in measuring descriptive aspects of leadership; quantitative techniques emphasize the need to formulate hypothesis for subsequent verification; the search for causal explanations and fundamental laws is aided, and quantitative methodologies generally reduce the problem to the simplest possible elements in order to facilitate analysis (Creswell, 2003; Patton, 2002; Robson, 2002,).

These strengths, however, are not the sole prerogative of quantitative designs. Indeed, many of the arguments for the use of quantitative research, especially in an environment where resources are limited, have pragmatic origins in terms of data collection and analysis at a reasonable cost and effort, as well as providing statistical proof. The weaknesses of such quantitative research designs lie mainly in their failure to ascertain deeper underlying meanings and explanations of leadership, even when significant, reliable and valid (Robson, 2002). However, factors such motivation and employees' capability, are important in studying leadership research concepts. Although quantitative methods can be used to measure such

factors, their appropriateness in explaining them in depth is limited (Creswell, 2003). A further weakness in quantitative approaches lies in their tendencies to take a snapshot of a situation that is to measure variables at a specific moment in time. Some leadership related aspects might be affected by temporal changes which cannot always be identified within a single quantitative study (Patton, 2002).

There is a strong suggestion within the research community that research, both quantitative and qualitative, is best thought of as complementary and should therefore be mixed in research. This emphasis has developed with the growing attention focused on triangulation in research (Yin, 2003). Triangulation is the combination of methodologies in the study of the same phenomenon. The assumption in triangulation is that the effectiveness of triangulation rests on the premise that the weaknesses in each single method will be compensated by the counter-balancing strengths of another (Creswell, 2003).

Quantitative data can help with the qualitative side of a study during design by finding a representative sample and locating deviant samples, while qualitative data can help the quantitative side of the study during design by aiding with conceptual development and instrumentation. The crucial aspect in justifying a mixed methodology research design in leadership is that both single methodology approaches (quantitative only and qualitative only) have strengths and weaknesses. The combination of methodologies, on the other hand, can focus on their relevant strengths. The researcher should aim to achieve a situation where blending qualitative and quantitative methods of research can produce a final product which can highlight the significant contributions of both (Creswell, 2003).

Leadership research involves affective characteristics, as well as overall behavioral aspects. Thus a qualitative core is appropriate to investigate such aspects by examining the informant's point of view. As much leadership research is still largely exploratory, the use of qualitative methods allows for unexpected developments that may arise as part of such research. Quantitative analysis may complement the findings of qualitative methods by indicating their extent within aspects of the leadership. Quantitative analysis may confirm or reject any apparently significant data and the relationships that may emerge from research. Quantitative methods can be used to enable statistical testing of the strengths of such relationships. If such relationships are determined, then quantitative methods are weaker in providing explanations. Qualitative methods may assist in understanding the underlying explanations of significance.

The particular area of interest is that of the leadership challenges occurring in enterprises as they transition from founder led to being professionally managed. In this particular space, although most extant research is performed utilizing the fixed approach, it is apparent that all three methodologies have a contribution. According to Yin (2003), research strategy should be chosen as a function of the research situation, not the research predilection for a particular methodological approach. Each research strategy has its own specific approach to collect and analyze empirical data, and therefore each strategy has its own advantages and disadvantages. Although each strategy has its own characteristics, there are overlapping areas, which bring complexity to the process of strategy selection. In order to avoid gross misfits between the desired outcome and the chosen strategy, Yin (2003) stresses that the type of question posed; the control over actual behavioral elements; and the degree of focus on historical or contemporary

events; are the conditions which should provide the grounds for strategy choice. Patton (2002) posits a similar view that research, like diplomacy, is the art of the possible.

Trustworthiness

Data that is gathered from a single source or observation without collaboration is suspect in any research methodology. In qualitative research, one attempts to obtain multiple "opinions" from multiple "judges" in order to improve reliability of data. There are then several methods of measures of reliability that may be used.

Proportional agreement describes the proportion of pair wise agreements between judges. This measure is simple and results in a numerical value between zero and one. It does not however rule out the "chance" random agreements thus inflation reliability. Recognizing this possibility, Cohen (1960) developed a measure that directly addresses the problem of random agreement. Known as Cohen's κ it compensates for the likelihood of random agreement. The have been enhancements to this theory as well, with one of the most recent, being the proportional loss in reduction or PLR approach (Rust & Cooil, 1994).

But all of this is somewhat conjecture in a qualitative approach, as the units of analysis and the measurement will be determined somewhat as the theory emerges from the research. In people focused research, units would be individuals or small informal groups. In structure focused research, projects, programs and organizations would be considered. As my topic involves the efficacy of leadership style in the success of the leader post founder phenomenon, I looked at specific individuals and specific organizations. Opinions were gathered from multiple judges through interviews with those involved.

Transparency and Rigor

The objectivity in qualitative research is based upon the professionalism and experience of then researcher. The most crucial facet of objectivity is the ability to see reality through the eyes of the actors being researched. This can only be accomplished by constant checking with the participants in order to ensure objectivity of the findings and to minimize researcher bias from entering the study.

Triangulation

Triangulation techniques were used to reduce bias and increase validity. Triangulation typically includes the use of multiple sources of information, multiple methods for gathering the information, and sometimes multiple researchers. The more varied the sources of information, the better the chance that the data is representative of reality. The more data collection methods used, the better the chance of collecting all the data necessary to confirm or deny the patterns that emerge. Finally, although impractical in this study, multiple researchers on the project help to check the bias of a single individual.

Triangulation in this study was accomplished in two ways. The first was to compare the following contrasting sources of data: interviews, observations, documents and stories. The second was by member checks, a process in which the results and conclusions of the study were checked for agreement with the perceptions of the subjects of the study (Figure 3.).
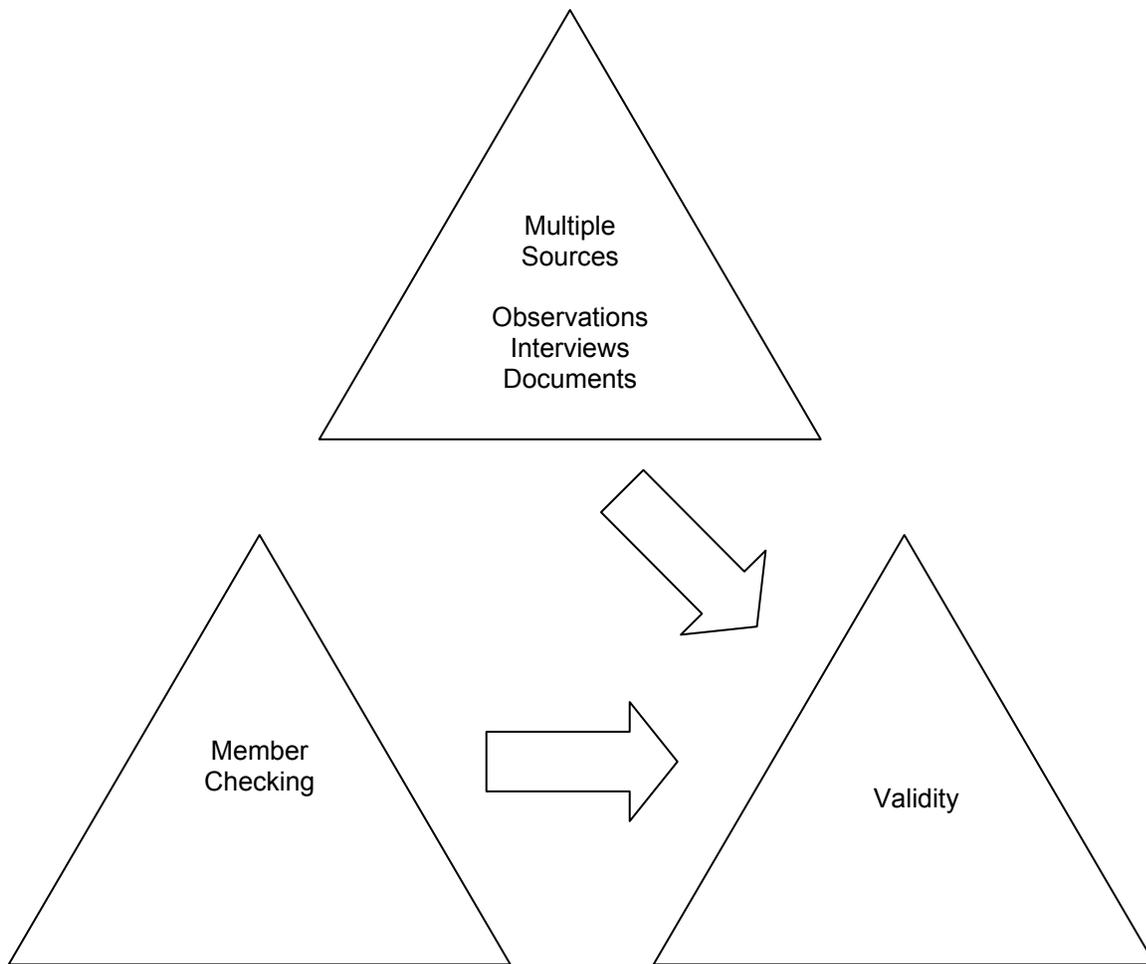
Figure 3. Triangulation methods chosen to improve validity.

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Sampling

Qualitative research approaches vary widely in the requirement for sampling. As theory may well be being developed, a single case study having a sample size of one may sufficient, whereas an ethnographic approach could require thousands of observations over an extended

period of time. The seminal criterion for sampling in flexible approaches is saturation (Robson, 2002). The choices made by the researcher in determining the scope of the study, the nature of the topic, the quality of the data, the design of the study, and the research methodology will determine the range of observations required. Qualitative approaches will often use non-probability sampling.

In this study, it was decided to use a multiple site case study methodology which involved a non-probability sampling technique or methodic. The data was gathered from a variety of sources and analyzed for content. Qualitative findings grow out of three kinds of data collection, interviews, observations, and document analysis (Patton, 2003; Robson, 2002). The purpose of the research shaped the measurement and analysis as the researcher was looking for thematic content. Typically, qualitative measures are either scales or non-numeric.

To be considered for research, interviews must consist of open ended questions that yield in-depth responses about people's experiences, perceptions, opinions, feelings and knowledge. Data consisted of verbatim quotations with sufficient context to be interpretable.

Researchers may use direct observations gathered from fieldwork descriptions of behaviors, activities, actions, conversations, interpersonal interactions, organizational or community processes, or any aspect of observable human experience. Data consisted of field notes; rich detailed descriptions, including the context within which the observations were made.

The third source of data came from documents that were collected and analyzed from organizational, clinical, or programs records; memoranda and correspondence; official publications and reports; personal diaries, letters, artistic works, photographs, and memorabilia;

and written responses top open ended surveys. Data consisted of excerpts from documents captured in way that recorded and preserved context.

Transferability

Transferability is external validity. Although research of this type is aimed more at understanding and less at generalization, it is probable that data extracted from this study will be useful in examining other transitions in leadership in organizations.

Ethics

In the process of conducting this study, I attempted to build the ethical codes of the research in concert with the participants. Ethical considerations should accompany every stage of research including data analysis. Denzin and Lincoln (2000) state "Case studies often deal with matters of public interest but for which there is neither public nor scholarly right to know" (p. 477). Therefore an ethical research project will value and scrupulously protect the privacy of the research participants. In this research, every attempt was made to obtain, respect, and maintain both the confidentiality of the information and the informed consent of the participants.

CHAPTER 4. DATA COLLECTION AND ANALYSIS

Introduction

The purpose of this study was to gain greater understanding into how the leadership style of the founder and the professional manager who replaces her or him in a small or medium enterprise affects the likelihood of a successful transition. The researcher looked specifically at the style of each leader as measured by the Multifaceted Leadership Questionnaire (MLQ65) and the perceived ethical behavior of each leader as measured by the Perceived Leadership Index Questionnaire (PLIQ) as well as the performance of the organization under their leadership. Additionally extensive interviews were conducted with the participants and company documents reviewed. This chapter presents the context and findings from two founders and their senior executives and the professional mangers who replaced them from two companies referred to under the pseudonyms Able Research and Beta Fitness. These pseudonyms were used throughout this study in order to preserve the confidentiality of the participating companies. In addition to interviews with the founders and their replacements, the researcher also interviewed a number of their direct reports. The total number of interviews conducted was 12.

Relying on the conceptual framework for primary and secondary categories of analysis, this chapter will discuss the key findings that emerged relative to the research questions:

1. Does the leadership style of the replacement leader influence his or her success in remaining in position for more than one year?

2. Does the leadership style of the founder influence the outcome of the transition from his or her leadership to that of a professional manager?

3. Does the degree of separation of the founder from the business moderate the outcome of the transition?

Following a description of organizational context, the chapter further illustrates and defines each of the findings. While the data from the primary interviews with the founders and their replacements are referred to more often than secondary sources such as documents, any secondary source used in the study collaborates what the interviews reveal.

Organizational Context

The purpose of this section is to describe the organizational context of the two companies selected for this study. For each company this section includes background information, including their historical results prior to the replacement of the founder.

To better understand the companies and their results, documents including annual financial reports, internal newsletters, new releases, and internal survey results were reviewed. Articles in the business press and the Internet were also useful. Additionally, the researcher viewed video tapes of company meetings and referenced participant interviews and field notes.

Alpha Research

Headquartered in the Southwest, Alpha Research is a pharmaceutical clinical trial research company and a major player within their indication specialties. Founded 10 years ago by a physician operating out of his home doing part-time research in his specialty indications, the company is now a multi-site, multi-indication research facility in several states. Alpha Research has grown organically rather through acquisitions limited only by available managerial talent and capital. It was recently acquired by larger company and its management team has remained in place.

In 1998, the company generated revenues of approximately $1 million and pre tax profit of $100,000. Over the ensuing five years the revenues grew to revenues of $3 million and pre tax profits of $300,000. While tripling both revenues and profits would be impressive in many organizations, the founder was not satisfied with results and felt that he had reached the limit of his abilities to lead the organization. He then attempted several times to transition from being founder led to professional management.

The first such attempt occurred in the second year of its existence as an independent source of income for the physician founder. The company was approached by a four-person professional management team who wished to exchange self promoted management expertise for an equity share in the company, i.e., they would share their business knowledge for "sweat equity". The team that worked inside the company consisted of two Harvard Business School graduates who had considerable expertise and experience in small companies. The other two of the four worked from the outside to help generate new customer orders. After establishing human resource and accounting systems to provide a measure of control and predictability in the company, they suggested that an additional professional be hired to manage the clinical side of the business. The physician founder agreed and one was subsequently recruited. According to the founder:

> …we had to have a manager to run the day to day operations and make things run smoothly and take that burden off me and the professional. I had met somebody at an investigator meeting in Phoenix who was what I was looking for. So she came on board, and indeed was very capable in a multitude of ways. And she organized things and put in SOPs and she knew the clinical side; while the two MBAs knew the business side. She

was also good at business development. She had good relationships with pharmaceutical

sponsors. She seemed to have the complete package.

Subsequently, it became apparent that the two partners in the consulting firm who were

not active in the business were not contributing and the consulting firm dissolved. During this

time Alpha Research began to have difficulties meeting its financial objectives. The two

remaining partners from the consulting company felt that it was due to the influence of the

founder and that he should step aside completely and turn the company over to them. The

clinical manger then became a problem. The founder observed:

> The staff was under a lot stress because the new hire was not a good manager. She played
>
> hardball. It was an unhappy place. Internally it was far more complicated than what I had
>
> put together originally. I couldn't manage it, and if I tried to manage it I knew that there
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> were pieces I did not have…I did not know enough. So my choice was to take them up on
>
> their offer or to buy them out. That choice would leave me without any profits for a year,
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> but I would have my company back but could I operate it? So I had that dilemma to solve
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> and I had a time limit. My gut said to take the company back.

The founder did take the company back, bought out the two professionals, replaced the

clinical manager, and found he could manage and grow the company, up to a point. The

company now has a professional CEO in place from a much larger organization and has

established procedures that no longer make it dependent upon the managerial skills of the

founder. The founder is now an employee and reports to the professional manager.

Beta Fitness

Beta Fitness was founded in Washington by a former gymnast who loved children and related his own experiences in physical development to that of childhood development in general. A retired franchising executive saw an opportunity in replicating the operation and invested to do just that. Unfortunately both the founder and the entrepreneur were very inept managers and the company began hemorrhaging capital. When the funding entrepreneur reached the limit of his willingness to continue to cover the losses, a professional manager was hired to turn around the company. The company's creative and entrepreneurial co-founders stepped aside to allow the current CEO freer rein to make the decisions required for the company to survive. As described by the professional manager:

I came to be here because of the entrepreneurial cofounder and majority shareholder who never thought of himself as a day to day manager of people, but simply someone who starts things. He asked me to come in and run the company. I was at a juncture, selling off my previous businesses and I was intrigued, as my sons had gone through the program with the other cofounder. I knew him and the entrepreneur was my best friend. Working with them made it very appealing. As the program made a difference in child's life and being an incurable entrepreneur myself, the offer of part ownership and the opportunity for growth appealed to me. If I had known how bad things were, I candidly would not have accepted the job, but I did. And soon became aware that this was a train wreck coming down the track.

This organization is a franchiser and is dependent upon the good will and references of its franchisees to grow. At the time of the transition, the franchisees were extremely dissatisfied and felt that they were being treated as subordinates rather than as partners in the success of the

company. In performing his triage, the professional manager immediately reallocated what resources that were available towards improving support of the franchisees. Internally, employee morale was also low and the CEO spent considerable time talking with each employee and describing his vision for the company. He describes his friend's, the entrepreneurial founder, effectiveness as a leader as: "His leadership style ran this company to brink of disaster in a ridiculously short period of time. It was on the very edge of non-existence for quite some period of time".

Subsequently, the organization was relocated to the Southwest to save costs and additional investors were sought. After enduring several years of brinkmanship and survival, the company has since prospered amassing eight consecutive years of double digit growth in revenue and profits. Again as described by the professional manager:

I joined in 1994. The company was losing a lot of money and continued to lose money. In 1995 we tried to become a public company (to raise additional capital). I completely took my eye off the ball during that time in trying to become a public company instead of becoming a good company. Under the theory that you have to hit bottom before you can go back up, in 1996 we had hit bottom. We were $4 million in debt with no assets and lost $800,000 on $2.1 million in revenue. I developed a survival plan and started making money in the fourth quarter 1997. There wasn't any other money available. The investor had left and expected to get his money back. We did a huge downsizing and started making money. We have grown the company since 1997 every year between 18 and 20% in year over year in revenue. In EBITDA it is more dramatic. This year we will have grown revenue by 20% but our EBITDA has almost doubled. I am much more focused on the bottom line than on revenue

growth.

The creative co-founder remains an employee of the firm and the entrepreneurial co-founder sold his interest in the company to silent investors. The professional manager is firmly ensconced as the Chief Executive Officer and President. Beta Fitness is now recognized as fulfilling its stated mission: "As the producer of the World's premier motor skill development programs for children, Beta Fitness, through outstanding training, service and support, helps our franchise owners realize their dreams of building a successful Beta Fitness business" (Beta Fitness, 2005).

<div align="center">Data Collection Process</div>

As in any qualitative research, the reliability of this multi-site case study relies upon the researcher's ability to collect relevant data on the phenomena of interest through multiple sources and without bias (Creswell, 2003). Collection of data was done on each of the participating companies' premises and through a variety of methods including interviews, observation, instruments, and document review. This variety of data collection allows triangulation techniques to be used to confirm or corroborate evidence to increase validity of findings (Patton, 2002; Stake, 1995).

Participants

The organizations selected for inclusion in this research were done so on the basis of set criteria requiring each to be classified as a SME (small/medium enterprise) as defined by the U.S. Small Business Administration and having undergone a transition in leadership from a founder to a professional manager. Additional criteria were the requirements that the professional managers had been in place for a minimum of one year and were deemed either a

success or had been removed within one year and deemed a failure. Stake (1995) states that in an instrumental case study, "…some cases will do a better job than others" and that "the first criterion of selection needs to be to maximize what we can learn" (p.4). The selected participants are considered to be a purposeful sample for this research. Researchers (Denzin, 2005; Creswell, 2003; Patton 2002; Miles & Huberman, 2001; Stake, 1995) have defined purposeful sampling as a methodological technique which ensures that the chosen sample focuses on the researcher's topic of interest in the research as well as to gain access to information rich cases.

Once the current leaders of the two organizations had given permission for their companies to participate in this research and indicated their willingness to make available their company records and employees, an invitation and an informed consent form (see Appendix) were sent to each participant. These documents explained the purpose of the study, its duration, procedures and possible discomforts, persons to contact with questions, a statement of confidentiality, and a statement of voluntary participation. Each participant was asked to sign and date the form and a copy was provided to them for their use. Before beginning each interview, the participants were asked to review the informed consent form and ask and questions they might have regarding its content.

Data Collection

Data was collected in person by the researcher utilizing in depth interviews and document review conducted on site at each of the selected companies as well as through the administration of instruments. There were two case studies with four participants in one and seven participants in the second. Interviews were held in the privacy of a closed conference room with only the

participant and researcher present. Each interview was recorded with the permission of the participant for later transcription.

The interviews began with a brief description of the research and its purpose. The beginning stages of each interview were spent discussing the participant's position, tenure, how he or she came to be at the company and his or her background in an effort to establish rapport. This process relaxed the participants and gave them an opportunity to feel comfortable with answering questions.

A guided interviewing technique utilizing a set of open ended questions was utilized to elicit responses in the participants own words regarding the culture of the organizations, the various aspects of leadership style, and the effects of those styles on the organization and its goals (Appendix II). The transcriptions of those recordings were compiled and crosschecked to determine thematic context. In both companies, the first to be interviewed was the leader of the organization.

Instrumentation

Observational and anecdotal data may have led the researcher to false conclusions regarding the perceived leadership styles of the leaders participating in the study and therefore validated instruments were used to provide some measure of grounding to the research. Bass and Avolio (1998) developed an instrument to determine leadership style they named the Multifactor Leadership Questionnaire (MLQ). The MLQ measures a broad spectrum of leadership types and identifies the characteristics of a transformational leader. The results of this instrument are shown in Table 1. While this work has had its distracters (Goodwin, Wofford, & Whittington, 2001) it remains the instrument of choice in determining transformational leadership

characteristics. The instrument has undergone several revisions since its introduction and the most recent MLQ5 Short Form was utilized for this research.

In addition, a number of studies have linked traits such as credibility, honesty, and integrity with perceptions of effective leadership (Bass, 1990; Posner & Schmidt, 1992). The positive effects of ethical leadership on both leader and organizational effectiveness signal that ethical competence is vital to an individual's success as a leader (Parry & Proctor-Thomson, 2002).

Craig and Gustafson (1998) developed an instrument that quantifies stakeholder perceptions of the integrity of leaders' behavior.   The Perceived Leader Integrity Scale (PLIS) is composed of items that assess specific leader behaviors that are applicable across a wide range of organizational settings. As perceived integrity is a measure of the authenticity of the leader, this instrument was also administered to each of the employee participants in the study.

<div align="center">Data Analysis</div>

As Patton reminds researchers: "The purpose of qualitative inquiry is to produce findings. The process of data collection is not an end in itself" (2002, p.371). This researcher's abilities to collect data collection and analysis have been informed by the literature review, personal experience, and academic course work.

The research study data analyses began with interviews and continued with document review while the interviews were ongoing. The researcher looked for patterns and themes emerging from respondents' perceptions in the data. Rubin and Rubin (2004) suggest this is a richer approach than attempting to use existing academic literature frames to assign categories to

respondents' answers. The literature review also became valuable in sensitizing the researcher's ability to discover surprises arising from the data (McCracken, 1988).

Organizing the data was the first step in data analysis (Patton, 2002). This process included verbatim transcription of the recorded interviews with participants. Interviewer observational data were annotated to the raw interview data utilizing word processing software. Data from the two instruments were compiled by respondent and means and standard deviations calculated.

In depth review of the data occurred next. Patton (2002) writes: "The analysis of qualitative data is a creative process. It is also a process demanding intellectual discipline, analytical rigor and a great deal of hard work" (2002, p.381). Due to the nature of qualitative research, an exact approach may be difficult to describe in detail. McCracken (1988) notes: "The exact manner in which the investigator will travel the path from data to observations, conclusions and scholarly assertion cannot and should not be fully specified" (p.41).

The search for usable information took longer than expected. The open-ended search of the data yielded a seemingly unlimited pool of information. It took several iterations of combined data collection and analysis before the themes of the study emerged more clearly. The analysis of data utilized in this study is illustrated in Figure 4.

Interviews with Participants

Observations of Participants

Document Review

Content Analysis Using Inductive Logic

Multiple Iterations

Identification of Categories, Themes, and Patterns

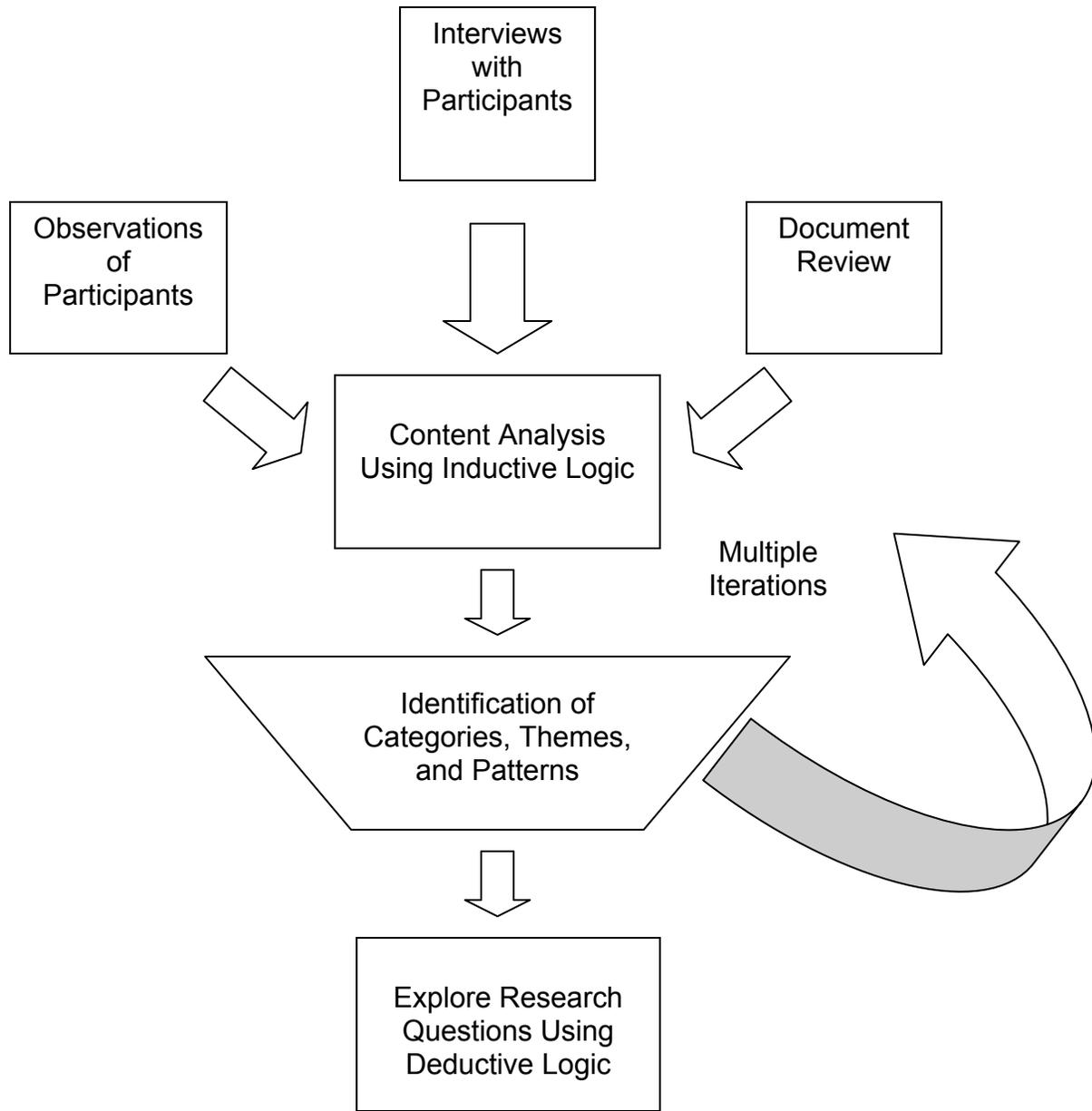Explore Research Questions Using Deductive Logic

Figure 4. Data Analysis Process

A qualitative research data analysis software program was used to provide assistance in categorizing the data and identifying themes. N6, the successor program to NUD*ST, from QSR International was chosen due to its ease of use and market dominance. N6 allows the researcher to automate most clerical tasks in the management of large amounts of textual data and speeds the coding necessary to determine emerging themes. N6 software's memo and journaling facilities were used to ease the researcher's access to the information in the data by inserting titles which corresponded to key points of the interviews and documents.

The decision was made not to define themes before analyzing the data, in order to remain open to any unexpected and unpredicted themes that might emerge as a result of the research process. Thus, the coding was vague until most of the interviews were completed. Since the interviews were semi-structured, there were many differing issues discussed by different participants. Analysis of the data moved from very detailed through successive stages to the general. With the emergence of patterns and themes, the analysis continued through a "delimitation process whereby irrelevant repetitive or overlapping data are eliminated (Patton, 2004, p.408). Through this data reduction, the researcher connected patterns in building toward overarching themes of leadership styles as well as success and failures in leadership transitions in SMEs. The structural synthesis of the data emerged from the patterns and themes.

The findings are reported in themes. Documents and attributions of direct quotations from the data are not cited as to preserve anonymity. Agreement among the interviews, documents and the instrument findings were not always congruent. Respondents often gave multiple answers to a single interview question requiring further contextual probing and analysis.

Additionally, responses to questions were not always clean in that the resulting data spill across and possibly apply to multiple research questions.

Findings

In viewing the data through the lens of the first and second research questions, there were three themes identified: vision, authenticity, and accountability. These themes were common between the two companies and among many of the participants. The research questions asked: Does the leadership style of the replacement leader influence his or her success in remaining in position for more than one year and does the leadership style of the founder influence the outcome of the transition from his or her leadership to that of a professional manager? The analysis of the data in the two cases studied follows.

Vision

The ability of a leader to create an image of what can be and present that image in a convincing manner to his or her followers is one of the skills attributed to transforming leadership as described by Burns (1978) and later to transformational leadership (Bass & Aviolo, 1996). Within the context of the Multi-Factor Leadership Questionnaire (MLQ5), vision is measured through the level of Inspirational Motivation and Idealized Influence the leader exerts. The professional leaders who have successful completed transitions have scored consistently high in these categories. While the normative value for all U.S. self rated managers on a scale of zero to four for Idealized Influence is 2.95 with a standard deviation of 0.53, the professional managers at Alpha Research and Beta Fitness scored 4.00 and 3.33 respectively. For Inspirational Motivation, the normative values are 3.04 with a standard deviation of 0.59. At Alpha research and Beta Fitness the professional managers self-scored 3.33 and 3.75.

Table 1. Results from the Multifactor Leadership Questionnaire (MLQ5 Short Form).

Results from the Multifactor Leadership Questionnaire (MLQ5 Short Form).

			II	IM	IS	IC	CR	ME	LF
Beta Fitness Professional Manager			3.33	3.33	3.33	3.50	2.33	2.33	0.67
	Employees	μ	3.56	3.33	3.55	3.00	3.00	3.00	1.78
	(n=3)	σ	0.51	0.34	0.39	0.67	0.33	0.33	0.77
Alpha Research Founder			3.75	3.75	3.00	3.25	3.25	1.25	0.75
	Employees	μ	3.00	3.42	1.92	2.77	2.02	1.67	1.19
	(n=5)	σ	0.74	0.54	0.66	0.39	0.51	0.74	0.83
Professional Manager			4.00	3.00	3.75	2.75	2.50	2.75	1.25
	Employees	μ	4.00	3.75	3.00	3.50	2.50	2.00	1.25
	(n=5)	σ	0.55	0.37	0.51	0.76	0.32	0.24	0.73
Normative Results US self	μ		2.95	3.04	2.96	3.16	2.99	1.28	0.61
		σ	0.53	0.59	0.52	0.52	0.53	0.70	0.52
US Followers	μ		2.84	2.78	2.70	2.83	2.87	1.36	0.63
		σ	0.71	0.76	0.69	0.66	0.62	0.80	0.63

Legend:

II	Idealized Influence
IM	Inspirational Motivation
IS	Intellectual Stimulation Individualized
IC	Consideration
CR	Contingent Reward Management by
ME	Exception
LF	Laissez-Faire Leadership

Able Research. This successful transition has its roots in the ability of the founder to have established a clear sense of purpose and to then step aside, which is rooted in his willingness to adapt. While discussing his leadership style, he described it as:

Be positive. Lead by example. Walk the talk. Nothing is below you. I have done everything in this company. I am a resource. Never raise my voice so that people will never hesitate to speak to me. That way I feel I know what is going on in the organization. That way I can intervene if necessary. If somebody makes a mistake, 90% of the time it is a perfectly honest mistake. I take responsibility for that because they did not get the education or the tools or the knowledge base to know it was a mistake. It is never punitive; it is always talking about how it's going to get better. We do good things here. Not just good because we are working with medicine, although that is the cornerstone, but because it is a community in and of itself. We have mutual relationships and mutual obligations to one another. And that makes it worth coming to work. You know, I wrote down the Alpha Creed which is what we believe in and we try to live by that…not just have a little plaque on the wall. But I think it is important to say what you mean and do what you say. Optimism is important because people have to know for all the hard work it is a good thing and you have good outcomes from what you are doing. And you are in a position in a company that is highly regarded in its industry. You are working for somebody that is good and that is a fun place to work.

Employee comments tend to support the founder's impressions. When asked to contrast how the founder's style contrasted with the style of the previous professional managers, one of the senior employees related:

The founder was more at our level as far as making us understand the different changes in the company and making us feel comfortable and how everyone's job was going to be okay. The other individuals you are speaking of were more bland, I guess you could say. Almost where they were so authoritative, they had you worried, but the founder would put you at ease and say this is what is going to happen and everything is going to be all right. He made you feel more at ease by explaining things in laymen's terms what was going on with the company.

The leadership style of the current professional manager is described by employees as being more in tune with that of the founder. One employee stated, "He makes me feel confident that he is doing an excellent job and I don't have to worry and that anything really bad is going to happen to the company because of not managing it correctly."

The previous professional managers in the firm did not enjoy this level of support, as their leadership style was more transactional in nature, scoring above the normative values of 1.28 and 2.99 on the MLQ5 in management by exception and contingent rewards respectively. The average score for the two previous managers were 2.75 on management by exception and 3.25 on contingent rewards. An employee at Alpha Research characterized the leadership style of these individuals as, "…you were told what to do and expected to do it. There was never any discussion or requests for input from the staff. Morale was low and everyone was working in an atmosphere of distrust and fear."

Dissatisfaction with this situation is what led the founder to make the decision to regain management of the company and to later bring in more transformational professional

management to sustain its growth and to improve its operations. The founder had built the business around his vision for the company that he termed:

The Alpha Research Creed

We will always be completely honest and truthful.

We will treat each other, our volunteers and our visitors with the utmost respect and dignity.

We will give the highest quality care to our study volunteers.

We will honor all promises made and thereby earn the trust of our patients, our fellow workers and our business clients.

We will always strive to do our best at whatever we do.

We will use our best judgment at all times.

We will always volunteer to help each other.

We will encourage learning in our colleagues and ourselves.

Beta Fitness. Beta Fitness has succeeded in its transition from being founder led to being professionally managed largely due to the leadership skills of the manager as described by one of his senior executives:

I think his leadership style is very effective, if you look at the growth of our company. He is a visionary. He has very good ideas. The professional manager is not the kind of leader who's focused on today's results. I guess what I really like about his style is he knows we're going. He stays focused on long-term and is more than willing to reinvest to take us there.

Another executive describes this aspect of leadership even more clearly, "He is a visionary. He's got a very clear vision to as what he expects of individuals and where he is taking the company. I think he does a really good job of communicating that to the employees within the organization." This professional manager's subordinates rate him highly in terms of idealized influence ($\mu = 3.56$; $\sigma = 0.51$) and inspirational motivation ($\mu = 3.33$; $\sigma = 0.34$) on the four point MLQ5 scale, when normative values for these follower rated factors were ($\mu = 2.84$; $\sigma = 0.71$) and ($\mu = 2.78$; $\sigma = 0.76$) respectively, indicating a perception of a highly visionary approach to leadership.

Authenticity

As described in the literature review, authenticity refers to the leaders' ability to be true to themselves, to have an inherent moral and ethical basis to their value systems (Luthans & Avolio, 2003; May, Chan, Hodges & Avolio, 2003). In this context, the Perceived Leadership Integrity Scale (PLIS) was administered to each follower in order to obtain another perspective of the leader's authenticity. This instrument was found to have high internal consistency (Cronbach's $\alpha = 0.97$) and adequate convergent validity with factors such as job satisfaction, desire to quit and conscientiousness (Craig and Gustafson, 1998). Integrity is measured in the PLIS through a reverse-scored scale in an attempt to avoid ambiguities between supererogatory, ethical and morally required acts (Craig and Gustafson, 1998). For example, because supererogatory acts are those that may be morally commendable but not morally required, the absence of such acts does not necessarily imply lack of integrity. However, attempting to distinguish these acts from positive behavior that is morally required or ethical is difficult. Using items that describe unethical behavior avoids such ambiguity so that when the presence of

unethical behavior is detected then a leader will be deemed unethical and without integrity. On the other hand if all unethical behavior is absent, the leader can be said to act ethically and possess integrity. Scoring was structured so that a higher score indicates perceptions of higher leader integrity. On this instrument the professional managers in both companies rated high levels of perceived integrity scoring 3.94 in Beta Fitness and 3.87 in Alpha Research with their followers.

The "leading by example" actions of the authentic leader may well create an atmosphere of trust and confidence within his or her organization. The positive attitudes and values of the leader may also contribute to the establishment of a culture of organizational learning, and thus to adaptation to the new leader's style which in turn may contribute to success of the transition to new leadership.

Alpha Research. Given the multiple attempts at transitioning leadership, there is an understandable skepticism among employees at Alpha Research as to promises made by professional managers. Regarding the current professional manager, employees state, "He makes me feel confident that he is doing an excellent job and I don't have to worry that anything really bad is going to happen to the company because of not managing it correctly. I can trust him."

Regarding perceived trust or lack of trust in the previous managers at Alpha Research, employees reported:

I am sure they did trust us in some aspects but, I didn't really see anything specific. They never really discussed much with us. We would have office meetings and they would ask for ideas and stuff like that that needed to be changed or improved or whatnot. At that point in

time they would be involved in the meetings and see what we wanted to do and ask what's your feedback on this and stuff like that, but always seemed to question our motives.

The founder enjoyed the respect and trust of his employees although they may not have felt he was as strong of a manager as the current professional manager. One employee characterized the founder's authenticity by stating, "You always knew where you stood with the founder. There was never the ambiguity I felt with the first professional manger. When the founder told us something you could take it to the bank. He never went back on his word."

Beta Fitness. The situation at Beta Fitness was completely different. It was not a question of the founders not presenting an authentic persona to the employees and executives, but rather that the persona presented was at odds with the reality of their situation; that situation being the imminent collapse of the enterprise. Employees and executives alike could not see how the founders were going to be able to lead them out of it.

For the professional manger hired to perform the turnaround, the situation required facing reality and dealing with it. These tasks required not only his leadership skills but also a high degree of instilling trust in his subordinates. The professional manager stated his approach this way:

Managing to me is a very separate skill than leading. There are instances in which I am a better leader than a manager. In fact I think there are far better managers than I am, but my ability to lead overcomes my managerial weaknesses. I think people who work for me trust me and I will be very honest and very fair with them at all times in dealing with them.

Employees at Beta Fitness feel strongly that the relationship with their leader is the foundation of their success, and the cornerstone of that foundation is their willingness to trust him completely. One senior executive describes the professional manager's approach this way:

The CEO likes to think of the organization is being flat. He makes a point of being connected to everyone in the organization. Everyone would tell you that they would feel connected to him. It is very much a one-on-one relationship. He is certainly not into hierarchy. There is no hierarchical structure and organization. That's what I think people like about him they know what they're going to get. The culture of my previous company was wonderful and I enjoyed working there until they were purchased by a British Company. The company completely changed then and became very bureaucratic and a lot of corporate back stabbing and it ceased being fun. There are no politics in Beta Fitness. I just love the environment. And the CEO is the one who makes it that way

The professional manger at Beta Fitness describes his own approach as:

A huge part of what I do and a huge part of what I think is my number one responsibility is the creation of an atmosphere of trust. We have a wonderful culture here. When I say that: People smile a lot. They love to come to work. We have zero turnover of the people we want to keep. The only turnover we have are hiring mistakes and we don't make many of those. So we have almost no turnover, but not because we are tolerant. Everyone here knows and understands that they have to have to perform at an extraordinary high level given their job position. It has been said, and everyone understands that they have to perform at a level of 8 or above on a scale of zero to ten or you cannot be here. It is up to the managers to manage to either coach someone to that level or replace them. And that is why we don't have much turn

over because at this point in time everyone is performing at an 8 or above. Now six months ago there were two people who weren't and I finally lost patience and said that this has to change. I spend an extraordinary amount of time on employee morale. The greatest strength of the company is that people are absolutely passionate about what they do here. People come and visit and talk to us about. They just cannot believe the passion.

Accountability

Although accountability may be considered a transactional leader's attribute, the creation of the feeling of empowerment of employees by their leader is also a critical aspect of a transformational leader. Within the context of the definition provided Bass and Avolio (1966), this aspect would be within the individualized consideration and management by exception factors of the MLQ5. The professional managers of the two case study companies score within the normative band for self rating of individualized consideration ($\mu = 2.99$; $\sigma = 0.53$) and higher for management by exception (normative $\mu = 2.28$; $\sigma = 0.70$). Alpha Research's professional manager scored 2.75 and Beta Fitness' 3.30).

Able Research. It is interesting to note the contrast between the founder's follower ratings on the MLQ5 and his replacement's for individualized consideration and management by exception. The founder was rated lower in individualized consideration and higher on management by exception than was his replacement. His employees' comments mirror these ratings:

The company was very much smaller and so we never really came across situations like we do today as far as the growth of the company and how many studies we are

conducting at one time and so forth. The founder was pretty laid back. It was a much different atmosphere to deal with.

I think the professional manager has a lot more confidence. He just really knows that other people didn't know what they were doing. He feels more confident, more comfortable and takes charge more, and solves problems and things like that than did the founder. He has really taken charge of the company and as far as I am concerned that was exactly was the founder needed. For someone to do that for him.

He does staff meetings periodically and he is excellent as far as describing how the company is doing, the different ideas they have, where the company is going, and the different goals we are setting. He wants all the employees to interact as far as making decisions. He gives us different options and then we vote on it. It is nice because we all vote and decide what we want. And this makes you feel more important as far as being a part of the company rather than just an employee.

Beta Fitness. I think one thing that Bob does of a really good job of is that he creates the expectation for each executive. As you mentioned earlier, there are three other executives within the organization. I think he does a good job of identifying what the expectation is that giving the direction of and allowing each individual to go out and execute to the best of their abilities and allows them the ability to make decisions with regards to how run whatever department they are running. He is not a micromanager. I am pretty clear on the direction I need to be heading with the resources that I have available to me. I know the boundaries that I have to work within. I am able to feel like if I need assistance he is there again providing me with direction when that time arrives.

Founder distance from management

The third of the research questions posed by this study was whether the degree of separation of the founder from the business moderates the outcome of the transition. In the case of Alpha Research, the founder remained active in the business throughout the several cycles of professional management, and only upon selling his business did he step totally back from its management and leadership. In Beta Fitness, the entrepreneurial co-founder left soon after the professional manager was employed and found an investor to purchase his interest. The creative co-founder remains as the heart of the creative programs that form the basis of the offerings of the company. He has no role whatsoever in its management.

Alpha Research. In attempting to ascertain the impact of the founder's active roles during transitions in leadership, employees and the current professional manger were asked to describe how the founder influenced the process. While greatly admired for his forthrightness and compassion, some employees viewed him as a micro-manager. The professional manager described the founder in fond terms for his vision in starting the company, but with relief regarding the current organizational structure which removed the founder from management.

The executive team felt that the founder vacillated between tight controls on operations to abrogating almost all responsibility for results. The managers he initially brought in were not held accountable for results until things became a crisis. As he gained confidence in the current professional manager he distanced himself from most decisions, allowing the professional freedom to exercise leadership which led to improved performance and the successful sale of the business.

Beta Fitness. The CEO of Beta Fitness provided this insight of the roles of the co-founders and their distance during the transition:

The creative co-founder never did have any part in the management or leadership of the company, and he remained dedicated to the vision throughout the transition. The entrepreneur left as quickly as he could, leaving me to pick up the pieces. Had he stayed, he would have made the turn around much more difficult. His leadership style ran this company to brink of disaster in a ridiculously short period of time. It was on the very edge of non-existence for some period of time.

Summary

Data collected and analyzed during this study have provided insight into the impact that the style of leadership exercised by the founder and his or her replacement has on the success of a transition in leadership. Additionally, the analysis has indicated a relationship between the distance the founder maintains from the organization's day to day operations and the outcome of a transition in leadership. These findings will be discussed in detail along with recommendations for further research in the next chapter.

CHAPTER 5. RESULTS, CONCLUSIONS, AND RECOMMENDATIONS

Introduction

Organization is a means of overcoming the limitations mortality sets to what any one person can contribute. …An organization that just perpetuates today's level of vision, excellence and accomplishment has lost the capacity to adapt. And since the one and only thing certain in human affairs is change, it will not be capable of survival in a changed tomorrow.

Peter Drucker

Drucker's (2001) words succinctly state the obvious focus of this research; in founder led organizations the enterprise's survival is dependent upon how well the founder prepares for, selects, and supports his or her replacement. Without successful succession, the enterprise dies with the founder. The general research design of this multi-site case study was to select, study, interpret and present findings that illuminate the impact of the style of leadership on the success of leadership transitions in small and medium enterprises. This chapter will contain a discussion of the major findings with respect to the research questions, the implications of those findings to organizational leaders, limitations of the study, recommendations for further research, and concluding observations.

Major Findings

While authentic transformational leadership characteristics appear in those leaders whose transitions that were successful, transactional leadership orientation is also used by almost all leaders some of the time, but less when crises are not present. This finding is congruent with the

work of previous researchers (Bass & Aviolo, 1988). Indeed, the research and findings agree that transformational leadership and transactional leadership are often blended within the style of any particular leader.

In transitional situations, both the environment and direction of the organization are unclear. Because transformational leadership activity patterns and methods focus on establishing and sustaining aspirations, a shared vision of the future, and not on the current task environment, transformational leadership methods enable coordinated action even without specific knowledge of the organization's performance landscape. Transformational leadership activity patterns and methods empower all individuals to envision hitherto unconsidered possibilities and to participate in the creation of an unknown future by overcoming obstacles when they arise, whatever they may be. These patterns exhort the organization's members to believe in their common future and to challenge their own personal beliefs regarding their goals and what is possible (Bass, 1985; Burns, 1978). Thus these aspirations are sustainable even in the face of short-term setbacks which inevitably occur in leadership transitions.

This research has found that the transformational leader enjoys greater success than does the transactional leader through the non-crisis portion of transitions, and that the distance of the founder from the day-to-day operations of the organization following the transition improves the probability of success. The ability of the founder to stand back and allow the successor professional manager an opportunity to establish his or herself as the leader of the organization appears to be a critical factor in those transitions in which the founder remains in the business.

The leadership style of the founder has not been established as a finding of consequence in the success or failure of the transition in leadership in SMEs. In the cases studied in this

research, the founders have both remained and left with little, if any impact, on the success of their successor.

Implications

Leadership in organizations is both extremely complex and inherently uncertain. Traditional leadership research has focused on important individual leadership behaviors, such as initiating structure, motivating and inspiring action, providing personal consideration, and setting the values and moral direction of an organization. The present research contributes to this body of research by presenting another dimension to the study of leadership in times of change. The premise of this study is that the leadership style of both the founder and his or her professional successor are critical elements in the success of the transition.

To the organization facing a transition in leadership or to the leader considering assuming that mantle, the implications of this research are clear. The state of readiness of the organization to accept the change will be critical to its success. Whether the founder is leaving the organization or remaining, his or her willingness to stand aside and support the professional manager will determine to a large extent the success of the transition. The transformational leader, especially one who is demonstrably authentic, has an improved opportunity to succeed.

Limitations of the Study

This study was limited due to the research design of a comparative case study of two companies. The findings are limited to each company studied and comparisons of similarities and differences between the companies. The findings cannot be generalized to all SMEs. When I began this study, I believed that one company was a successful transition and the other a failure.

As the research evolved, I discovered that the company which I felt was a failure had transitioned twice and the second transition was a success.

Another limitation of this study involved the number of participants interviewed at each site. Only those participants who had knowledge of and experience with the transitions were interviewed. Additional interviews, especially at multiple levels of the organizations may have changed the results. The interviewer's skills and bias as an interviewer also brought limitations to this study. The background of the interviewer as a former SME founder, as a professional CEO, and as a consultant must also be taken into account as a potential source of bias.

<div align="center">Recommendations for Future Study</div>

The need for further research in this field and the recommendations for such by the researcher are based upon the review of the literature and the findings from this study. The emergent themes from the research point to how the leadership style of the founder and his or her professional management replacement contribute to the success of a transition, but how they also affect the culture of the organization. Given this observation, additional research is recommended on how culture either mediates or moderates the impact of leadership style during transitions.

Leadership theory has addressed the question of change and transformation, but usually from a single perspective, that of the role and function of the leader as a change agent (Drucker, 1995; Kanter, 1983; Kotter 1990). Organizational change literature has studied the problem of transformation from a systems perspective highlighting the complex interactions involved in learning (Schein, 1992; Senge, 1990). Although some research has approached bridging these

two perspectives, there exists no cogent synthesis of how leadership style relates to the transformation of organizations in the face of change.

This researcher also recommends that the application of March's dichotomous treatment of organizational learning be explored for applicability of adaptive systems in the understanding of the successful transition process (March, 1991). A more quantitative approach may well establish a better basis for transferability to other organizational transitions and improve validity of the findings. As would further research into other possible influences on the success of transitions in leadership, such as the outside interests of the founder, their age, their degree of involvement in planning for the transition and the selection of the successor, as well as the stimulus causing the transition to occur.

Conclusions

Transitions in leadership are paradoxical: they are most needed when circumstances make their emergence and effective exercise most difficult, *id est*, in times of crisis either internally or externally to the organization. New leaders have a daunting task, for they must be like Janus, the Roman god, with one face to the future and one to the past. They must prepare the organization for the inevitable changes that are coming and yet preserve the elements of the culture, which identify the unique capabilities and personality of the enterprise. To be effective, a leader must accept some of the traits of the organization into which he or she is transitioning in order to develop the relationships that will allow the making of new traits stimulated by their arrival.

Traditional research in leadership styles and organization change has focused on the phenomena *in situ*, without consideration of the impact various styles of leadership have on the

change. The present research contributes to this body of knowledge by presenting the finding that transformational leadership aids in a positive outcome to transitions from founders to professional managers in a small or medium enterprise. Given the criticality of choosing the correct leader to the success of an organization, it is it is even more paradoxical that in SMEs the task of choosing a successor leader falls on those most ill prepared to do so. Boards of small and medium companies, or the founders themselves, find that this task is one that they may only do once in a lifetime. The question of who is the correct candidate to succeed a founder is a complex one and one whose answer lies in the needs of the organization. If the founder is to remain in an active role, regardless of their failure or success in leadership, then their ability to stand back and give the new leader an opportunity to establish their imprint on the culture of the organization is seminal to the success of the transition.

Whether the founder is a transformational leader, authoritarian or laissez-faire, this research indicates that the successor should be transformational in style in order to improve the probability of a favorable outcome in the transition of leadership. It is the researcher's observation from this multi-site case study that the transformational leader who is also perceived as being authentic by his or her followers enjoys even a greater opportunity to succeed.

Survival in the long term for an organization, as for any complex system is not assured. By carefully constructing a leadership succession plan that accounts for the dynamic nature of the organization's environment, its culture, and its readiness for change, an organization may improve its odds for survival. The style of the leader chosen is seminal to that success.

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CAPELLA UNIVERSITY

Institutional Review Board
225 South 6th Street, 9th Floor
Minneapolis, Minnesota 55402

Institutional Review Board Application

**(When this IRB application is completed, it is to be submitted with the research proposal for the
next stage of review. The Provost, or designee, gives final approval. See the checklists at the end of
this form to verify that you have completed all of the information for this application.)**

Name ___Learner__Michael Denning_____
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_____
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_____
Field of Study __Leadership_____ Degree Program __Ph.D._____

Supervisor Name ____John Whitlock, Ph.D._____
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_____
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_____
Provost _____

__7/14/05_____Fill in date you successfully completed the online IRB Training required
modules and optional modules appropriate to research topic

1. **Project Title**: (Use same title as Final Proposal)

Effect of Leadership Style on the Transition of Founders to Professional Managers in SMEs.: A Multi-site
Case Study
_____

2. **Inclusive dates of project**: _10.05_ **through** _12/05_

3. **Abstract**

The leadership dynamics that occur as a company moves through its metamorphosis from a founder led business to a professionally managed enterprise are little understood (Dandridge, 1979). This transition from a founder led, small business where the leader can touch everyone and do everything, to one where professional management and organizational skills are required for success is an inflection point in the life of most enterprises; and is when most enter a crisis of leadership (Fliostad, 1991). It is the premise of this proposed case study that one of the critical aspects of those who have successfully crossed this "chasm" is the ability of the founder to not only adapt his own style, but to also to allow the new leader to "adapt" to the changes required.

4. **Participant/Subject Population (or Final Sample to be selected)**

a. Number: Male _10____ Female __5____ Total __15____

b. Age Range: _30__ to _60__

c. Location of Participants:
(Check all that apply)

__x_ business

____elementary / secondary school

____outpatient

____hospital / clinic

____university / college

____other special institution / agency: specify_____

d. Special Characteristics:
(Check all that apply)

_x_adults with no special characteristics

___Capella University learner, faculty, and/or staff

___inpatients

___outpatients

___prisoners

___students

___other special characteristics:
specify _____

e. Recruitment of Participants/Subjects

Participants will be identified by the researcher and the Chief Executive Officers of the selected organization.

f. Approval for Use of Records
N/A

g. Initial Contact with Participants/Subjects

Researcher will make initial contact personally with the CEOs of each prospective organization and subsequently with each participant.

h. Inducements or Rewards to Participants/Subjects
N/A

i. Activity for Control Group
N/A.

5. **Confidentiality of Data**

a. Only the researcher will have access to the data. The taped interviews, transcripts, observation logs and field notes will be kept in a secured file at the researcher's offices and identified only by a code number. The index of the code numbers will be stored separately. Data will be stored for seven years.

Signature of Researcher

As a Researcher (e.g., Learner, Faculty Employee, Consultant, Directed Employee/Agent, Independent Contractor, Adjunct Faculty) you certify that:

- The information provided in this application form is correct and complete.
- You will seek and obtain prior written approval from the Committee for any substantive modification in the proposal.
- You will report promptly to your Supervisor any unexpected or otherwise significant adverse events in the course of this study.
- You will report to the Supervisor and to the participants/subjects, in writing, any significant new findings which develop during the course of this study which may affect the risks and benefits to participation in this study.
- You will not begin the research until final written approval is granted.
- You understand that this research, once approved, is subject to continuing review and approval by your Supervisor. You will maintain records of this research according to Supervisor guidelines. Substantive change requires submitting an addendum to a previously approved application. An addendum is a totally new application form with attachments. The cover letter with the addendum describes the changes that were made from the originally approved application.

If these conditions are not met, approval of this research could be suspended.

Signature of the Researcher:

_____ Date____10/09/05_____

Signature of Supervisor

As a Supervisor (e.g., Mentor, Instructor, Practicum Supervisor, Internship Supervisor, Staff Supervisor) you certify that:

- The information provided in this application form is correct and complete.
- You will review and provide prior written approval to your Supervisee for any substantive modification in the proposal. You will inform the committee members appointed to oversee the research and its results.
- You will receive reports from your Supervisee about any unexpected or otherwise significant adverse events in the course of this study. You will inform the committee members appointed to oversee the research and its results.
- You will review research records maintained by your Supervisee until the final written document is produced and approved by you and the oversight committee.
- You will inform the oversight committee about the progress of your Supervisee from the time of developing research questions, through the proposal, IRB application, collection of data, writing results, and completing the documentation of the research.
- You will contact the Lead Subject Matter Expert (e.g., Chair of the Specialization, Faculty Director) if additional review is needed.
- You will make sure that this application has been completed by your Supervisee including all accompanying attachments before signing your name for approval.
- You assume responsibility for ensuring that the research complies with University regulations regarding the use of human participants/subjects in research.

If these conditions are not met, approval of this research could be suspended.

Signature of the Supervisor:

Name _____ Date_____

Title _____

Signature of Provost or Designee
As Provost, or designee, I acknowledge that this research is in keeping with the standards set by the university and assure that the researcher has met all requirements for review and approval of this research.

Signature of Provost or Designee

Name _____ Date_____

**Effect of Leadership Style on the Transition of Founders to Professional Managers in SMEs
Consent Form**

You are invited to be in a research study of effect of leadership style on the success of the transition from a founder led organization to that of a professionally managed one as part of a doctoral dissertation.

We ask that you read this document and ask any questions you may have before agreeing to be in the study.

This study is being conducted by Capella University.

Background Information:

The purpose of this study is to ascertain if the leadership style of the leader affects the success of the transition from a founder led organization to that of a professionally managed one.

Procedure:

If you agree to be in this study, we will ask you to do the following things:

Participate in an interview which will last approximately one hour with the researcher and answer questions to the best of your ability.

Additionally, you may be asked to complete an instrument designed to determine how you perceive the style of leadership exercised in your organization.

Risks and Benefits of Being in the Study:

The study has the following risks:

First, there is a small risk that you will feel stress and anxiety in answering the questions which you will be asked.

Second, there is the additional risk of concerns you may have regarding the confidentiality of your responses.

If at any time, you feel that these risks become unbearable or unacceptable, the researcher will immediately terminate the study.

Confidentiality:

No one other than the researcher will have access to the information, data, and recordings accumulated as part of this study. The information provided by you will be coded without identification and kept confidential for a period of seven years before being destroyed.

Voluntary Nature of the Study:

Your decision whether or not to participate will not affect your current or future relations with your employer.

New Information

You have the right to withdraw from the study at any time; therefore, any significant new findings that might influence your participation will be presented to you when relevant.

Contacts and Questions

The researcher conducting this study is
Michael Denning

You may ask any questions you have now.

If you have questions later, you may contact the researchers at (602) 690-0664.

If you have any questions or concerns regarding the study and would like to talk to someone other than the researcher, contact Research Subjects' Advocates, Capella University, 225 South 6th Street, 9th Floor Minneapolis, MN 55402 telephone (612)977-5000.

If you decide to participate, you are free to withdraw at any time without affecting those relationships.

You will be given a copy of this form to keep for your records.

Statement of Consent:

I have read the above information. I have asked questions and have received answers. I consent to participate in the study.

Signature_____ Date _____

Signature of Investigator or Person Obtaining Consent_____ Date _____

APPENDIX C

Interview Questions

1. How long have you been at_____?

2. What is your position?

3. Please describe your primary responsibilities

4. To whom do your directly report?

5. What are your peer positions?

6. How often do you observe your leader's style?

7. How would you describe that style?

8. Does your leader's style ever change? When? Under what circumstances?

9. How effective is that style in leading the organization?

10. Describe the founder's style of leadership

11. How does your current leader's style differ from the founder's?

12. Which style do you prefer? Why is that?

13. Which style was more effective in achieving the company's goals?

14. Why do you think that was so?

APPENDIX D

PLIS Rev 1.2

Use the scale below to indicate how well each item describes the person you are rating:
(1) = Not at all; (2) = Barely; (3) = Somewhat; (4) = Well

	PLIS Rev. 1.2
1	Ridicules people for their mistakes
2	Tries to get even
3	Shows unfair favoritism toward some people
4	Would lie to me
5	Would risk other people to protect himself/herself in work matters
6	Deliberately fuels conflict among other people
7	Is evil
8	Would use "feedback" as an excuse to criticize someone as a person
9	Has it in for me
10	Would allow someone else to be blamed for his/her mistake
11	Would falsify records if it would help his/her work situation
12	Has high moral standards
13	
14	Would deliberately exaggerate people's mistakes to make them look bad to others
15	Is vindictive
16	
17	Would withhold information or constructive feedback because he/she wants someone to fail
18	Would treat some people better if they were of the other sex or belonged to a different ethnic group
19	Would deliberately distort what I say
20	
21	Is a hypocrite
22	Would try to hurt someone's career because of a grudge
23	Would blackmail an employee if (s)he thought (s)he could get away with it
24	Enjoys turning down requests
25	Would make trouble for someone who got on his/her bad side
26	Would try to take credit for other people's ideas
27	Would steal from the organization
28	Would risk other people to get back at someone else
29	Would engage in sabotage against the organization
30	Would try to get people fired just because (s)he doesn't like them
31	Would do things that violate organizational policy and then expect others to cover for him/her
32	Would risk hurting the organization to further his/her own personal interests
33	Can be trusted with confidential information
34	Tells the truth
35	Would deliberately put off doing tasks in order to create a problem for someone else
36	Would argue or disagree with someone without a good reason (e.g., to embarrass or make trouble for someone, to establish dominance)

	PLIS Rev. 1.2
37	Would deliberately avoid responding to e-mail, telephone, or other messages to cause problems for someone else
38	Would spread rumors or gossip to try to hurt the organization or its members
39	Puts his or her personal interests ahead of the organization
40	Not interested in work that doesn't bring personal glory or recognition
41	Would take action against an employee who was guilty of ethical misconduct
42	Would report ethical violations committed by other employees
43	Believes rules are meant to be broken
44	Is rude or uncivil to coworkers