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Integration Strategy, Transformational Leadership and Organizational Commitment in Korea's Corporate Split-offs

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Abstract

This study dealt with organizational commitment, as a result of integration strategy along with the effect of transformational leadership in the context of corporate split-off. A research model analyzing corporate split-off in terms of organizational commitment was proposed and empirically tested. Integration strategy included job security, equity, transparency, and communication. Transformation leadership consisted of idealized influence, individualized consideration, inspirational motivation, and intellectual stimulation. In addition, this study hypothesized the differing effects of integration strategy and transformational leadership on affective commitment, depending on the status of the organizational members, i.e., managers vs. employees. The results of this study showed that all the factors of integration strategy were relevant to influence affective organizational commitment. Inspirational motivation and individualized consideration were statistically relevant to explain affective commitment. The moderating effect of organizational status was also identified.

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1. Introduction

Businesses today continue to transform for survival in a rapidly changing business environment. During the global financial crisis, Korean companies have been constantly promoting corporate restructuring, which has been gaining more popularity than ever as a change management approach. In a broad sense, M&As, as a means of business restructuring, includes not only mergers and acquisitions, but also split-offs (Mueller, 1986). Recently, many Korean firms are actively engaging in corporate split-offs because this is considered as an effective means of corporate restructuring in Korea.

Insufficient, however, are the empirical studies on the split-off firms in terms of the organizational point of view. The existing studies have been made within a limited range, such as post-split performance, taxation, split type and split factors. In most cases, however, the success of split-off depends on the organizational members' commitment and dedication to the new split-off organization; yet, the reality is that many companies move to a split-off and not pay close attention to this aspect. In fact, most firms carrying out split-off decisions ignore these organizational issues at first and later on, they are trapped in insurmountable difficulties. This study deals with organizational

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commitment, as a result of integration strategy, along with the effect of transformational leadership in the context of corporate split-off. Based on the literature of post merger integration (PMI), Price-Muller Model (1986) and Del Vecchio (1999), a research model analyzing corporate split-offs in terms of organizational commitment was proposed and empirically tested while considering the Korean situation..

2. Theoretical Background and Research Framework

2.1. Corporate Split-off

Corporate split-off refers to the case in which a company is divided into two or more independent companies and the rights and obligations of the pre-split company are transferred to the divided ones. Commercial codes with respect to the split company split were for the first time made in French Corporate Law in 1966.

2.2. M&A and Human Resource Management

In general, when M&A deals are announced, all the members of the companies involved fall into a psychological state of shock. Members become afraid and psychologically unstable due to lack of information regarding the M&A. Consequently, they suffer from anxiety and sometimes display erroneous behaviors. These negative psychological consequences can overshadow the synergy that would be earned from M&A deals (Weber, 1996). Price (1995) argued that changes in the organization due to M&A create psychological shock to members of the acquired firms. Distrust and negative psychological state experienced by the members of the merged companies can be likened to a child losing his or her parents and meeting new parents came or people losing special ones. Members of merged companies first feel anger, depression, and emotional excitement and finally go through the process of accepting the reality (Mirvis, 1985). There are five characteristics of psychological changes significantly related to mergers and acquisitions experienced by those members. They are loss of identity, a lack of information and anger, survival thinking, competent member turnover and difficulties at home (Schweiger, Ivancevich & Power, 1987). This is true even in split-off companies. Because it is separated from the parent company, the members of the split-off company can face greater psychological unrest than the acquired firms.

2.3. Research Model

This study is based on the fact that the integration strategy and top management leadership play critical roles in determining the success or failure of M&As. The same is true for split-offs. Few studies have been performed in order to examine the impact of the factors affecting organizational commitment in the context of split-offs. In this study, based on the literature of M&A integration strategy and leadership, we investigate the impact of those factors on the organizational commitment in split-off cases. A research model used in this study is presented in Figure 1.

2.3.1. Integration Strategy and Affective Organizational Commitment

Organizational members of a split-off company undergo rapid environmental change. They may accommodate the differences in the new HR system and organizational culture, or actively participate in the new organization; otherwise, they may resist to change and turnover.

Members in the process of M&A experience serious instability of employment. Many empirical studies indicate that M&A firms executed structural adjustment in order to increase the efficiency of the organization (O'Shaughnessy & Flanagan, 1998). This may engender occupational instability toward members of the organization, leaving them seriously concerned. This fact is also true in a corporate split. Job security is a very important issue.

Throughout the process of M&A, organizational members focus on the efforts for survival, and feel the loss of status or influence. They also feel anxiety. The psychological impact of the change in the lack of transparency can

lead to side effects. The transparency achieved by disclosing the information at the appropriate level can enhance the confidence of stakeholders (Habek, Kroger, & Tram, 2000).

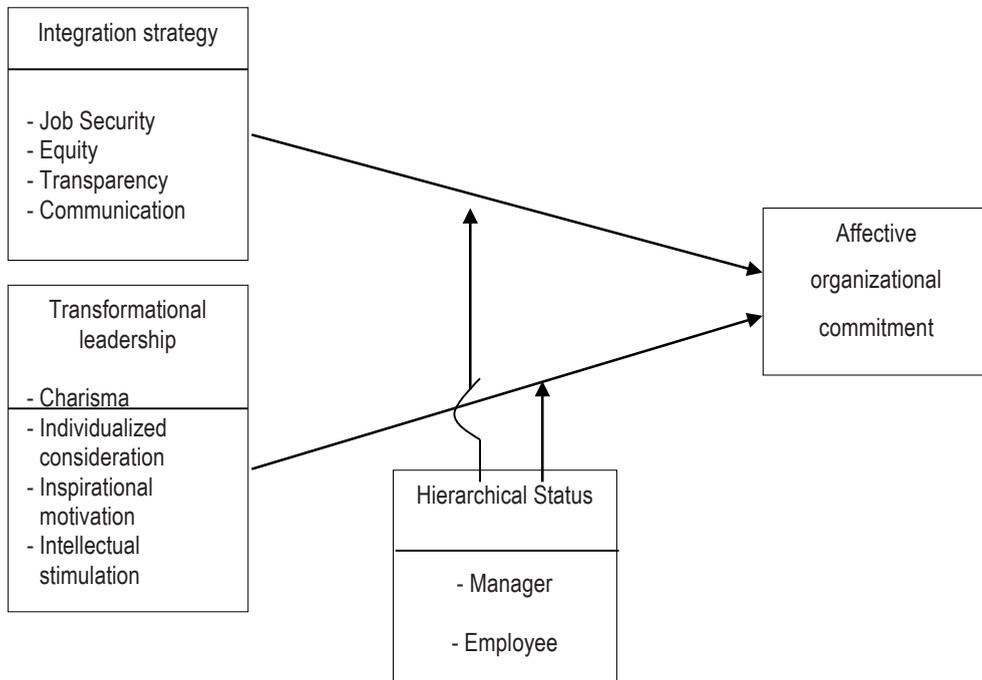


Figure 1. Research model

Hrebiniak and Alutto (1992) look at the relationship between communication and organizational commitment. Their study found that unclear communication in the organization impeded organizational commitment. Communication atmosphere, particularly the boss's satisfaction and personal feedback, revealed a positive relationship to organizational commitment. Satisfaction for the organization's informational activities was reported through a communication system, such as an in-house newsletter, the proposed system, open door and the sharing of information. All of these played the lubricant role in the organization; moreover, informal communication was also emphasized along with the importance of behavioral management philosophy and consciousness.

Affective organizational commitment refers to the degree to which members feel a loyalty to the organization he belongs to and affects the formation of the attitude of the members in general (Meyer, Stanley, Herscovitch, and Topolnytsky, 2002). In a precarious situation after the split, the company's integration efforts, a part of the integration strategy, will have a positive impact on members' affective organizational commitment. In this study, based on these previous studies, the following hypotheses regarding the relationship between affective organizational commitment and integration strategy are proposed.

H1: Integration strategy has a positive effect on affective commitment.

H1-1: Job stability has a positive effect on affective commitment.

H1-2: Split equity has a positive effect on affective commitment.

H1-3: Split transparency has a positive effect on affective commitment.

H1-4: Communication has a positive effect on affective commitment.

2.3.2. Transformational Leadership and Affective Organizational Commitment

Transformational leadership refers to the ability to present a new vision, which can lead to such a change, and the need for an organizational change. Organizational members have to have confidence in the leader. Transformational leadership reveals the value of the assigned tasks and imperatives. Transformational leaders assign tasks to members as well as expectations for success. Bass (1985) describes the four elements that comprise transformational leadership: charisma, inspiration, individualized consideration and intellectual stimulation. Charisma refers to the basis of personal skills. A charismatic leader is to transform the existing order; charisma includes pride, trust and respect from the members.

In order to stimulate the enthusiasm of the members for the organization's performance and visionary inspiration, Yukl and Van Fleet (1982) convince the members to successfully complete a given task and goals of the organization. Visionary leaders are able to overcome the challenges inside and outside the organization as well as the new changes in the environment that interfere with the achievement of the goals of the organization, and also encourage members with confidence and self-worth (Avolio, Waldman, and Yammarino, 1991). To the members, a visionary leader is perceived as one with various skills, self-confidence, and the power to eliminate internal conflict, and also be able to independently make decisions at his/her own risk; effective leaders should be equipped with high self-esteem (Bass, 1990). Third, individualized consideration emerges as an important element in the relationship between leaders and members in the Ohio State University who are conducting research, and is also similar to the dimensions of consideration (Bass, 1985). Individualized consideration is also similar to the concept identified in the leader-member exchange theory, particularly the main conceptual elements. Finally, the fourth component of transformational leadership, intellectual stimulation, introduced a new environmental challenge of how transformational leaders present members through a new way and provoke independent thinking. It encourages member to recognize the problem and its solution; leading to a change in beliefs and values of the member. Members systematically conceptualize and understand the organization's problems and solutions, and help to continue to overcome the disagreements between them (Bass, 1985).

The positive impact of the transformational leadership is promoting organizational effectiveness, such as job satisfaction, organizational commitment and organizational citizenship behavior, as presented in numerous studies (Burns, 1997). Nemanich and Keller (2007) and Conger (1989) identified a positive impact of transformational leadership on members in terms of the higher-than-expected effort or extra effort. At the level of personal performance, job satisfaction, organizational commitment and organizational citizenship were also recognized. They also argued that transformational leaders supported creative thinking and influenced the performance of their subordinates through goal clarification.

Based on these previous studies of transformational leadership, in this study, the following hypothesis with regards to the relationship between organizational commitment and affective organizational commitment are established.

H2: Transformational leadership has a positive effect on affective commitment.

H2-1: Charisma has a positive effect on affective commitment.

H2-2: Inspirational motivation has a positive effect on affective commitment.

H2-3: Individualized consideration has a positive effect on affective commitment.

H2-4: Intellectual stimulation has a positive effect on affective commitment.

2.3.3. Moderating Effect of Hierarchical Status

There can be a difference between managers and employees in viewing the split-off decisions because they differ in terms of years of tenure and information obtained about the company under consideration. Hierarchical status is composed of two tiers: managers and employees. In particular, Korean firms place the manager in the position of the leading role employee in the process of a split-off on behalf of the executives. Therefore, there is a need to examine the differences that exist between managers and employees over the issue of a split-off. The following hypotheses are proposed accordingly.

H4: There is a difference between managers and employees in terms of the impact of integration strategies on affective organizational commitment

H5: There is a difference between managers and employees in terms of the impact of transformational leadership on affective organizational commitment

3. Methods

3.1. Operationalization

3.1.1. Integration strategy

In order to measure the characteristics of the integration strategy for the organizational members of a split-off company, four factors are identified and classified: job security, equity, transparency and communication. Job security refers to the degree of job stability of people who are currently working in the workplace and their perception to continue to work without being fired for no reason (Ashford, Lee & Bobko, 1989). Members undergoing organizational changes due to a split-off feel more anxiety about the state of employment, which may be the factor that hinders the integration. In this study, job security was defined as a belief about the possibility to continue to work in the current job to which they belong after the split. Equity indicates fairness showing impartiality in the process of performing a split. It consists of fairness of procedures and means in the process of the split-off, such as resource allocation. In order for a split to be successful, it requires the understanding and cooperation of the members of the company. A company shall be more actively involved in the process of revealing the information relevant to a split. By doing that, corporate members have a chance to help promote a mutual benefit and carry out the split process quickly. The probability of conflict can be reduced in the integration of the organization since the main part of the conflict comes from the sense of loss and anxiety due to the lack of qualitative and quantitative communication. Communication is an essential function for the maintenance of the organization, which becomes more important than ever (Farace, Monge, & Russell, 1977). Maintenance of an organization means changing the value and attitude of the members of an organization by giving them a new meaning for the organization.

3.1.2. Transformational leadership

Bass and Avolio (1990) discussed transformational leadership consists of the following sub-variables. Charismatic leaders overcome challenges which are firmly expressed by the awakening phenomenon subordinates in order to instill self-esteem and belief. Second, inspirational motivation encourages employees to enthusiastically accept the challenging goals and mission, and vision for the future. Third, individualized consideration means that the leader understands the specific needs of each individual by giving special attention to the subordinates and shows respect for the personnel. Fourth, intellectual stimulation refers to the activities of promoting rethinking the formal customs and sparking new ideas. In other words, it breaks the conventions of the past, or has doubts about the way their subordinates perform in order to have a new visual way of thinking.

3.1.3. Affective organizational commitment

Affective organizational commitment is the loyalty of the members to the organization to which they belong (Price & Mueller, 1986). It refers to the degree of attitude to which the organization members feel a sense of unity for the organization and remain to continue as a member of the organization (Mowday, Steers, & Porter, 1979).

3.1.4. Moderator

Organizational hierarchical status is proposed in order to see the difference between managers and employees in terms of the effects of the integration strategy and transformation leadership on affective organizational commitment. Managers include those with and above the rank of a section manager, and organizational members below the rank of a section manager are classified into employees.

3.2. Data

3.2.1. Samples

The data used in this study were collected by the staff working in Korean companies which underwent a split-off from March 2009 to 2012. Questionnaires were directly distributed to the subjects of the split-off companies and collected after the brief description of the survey. Some of the questionnaires were collected through mail. In order to facilitate the collection of questionnaires from the potential respondents, e-mails and phone calls were made.

3.2.2. Data collection

To check validity of the measurement scale, first of all, corporate HR practitioners and researchers were consulted. A preliminary study was conducted among 40 employees of a company (LG Hausys) in January 2012 to confirm that the survey terminology used in the content is not difficult or unfamiliar to the respondents, that there are no errors in the configuration and arrangement, and that there are no questions to avoid responding.

The survey was conducted to split corporate members for about a month, from February 20, 2012 to March 20, 2012 in order to investigate the purpose and intent of the HR department and executive director of the corporate split. Because the survey was sensitive to them, we visited them to ask for cooperation; some questionnaires were collected via mail.

3.3. Results of Analysis

In this study, a correlation analysis was first conducted. There were no major problems that could hinder further statistical analysis. Looking through the results of the correlation analysis, there was a positive impact of the integration strategy and transformational leadership on affective organizational commitment, as hypothesized in this study. Therefore, it was presumed that the independent and dependent variables used in this study were appropriate to capture the proper relationship between the variables.

AMOS was used to conduct the structural equation model analysis in order to test H1. The results are shown in Table 1.

Table1. Effects of integration strategy on affective organizational commitment

| | Paths | | Standardized Coefficients | S.E. | C.R. | P |
|---------------------------------|-------|-------------------------|------------------------------|------|-------|------|
| Affective Commitment | <-- | Job Security | .124 | .062 | 1.965 | .049 |
| Affective Commitment | <-- | Equity | .276 | .076 | 3.211 | .001 |
| Affective Commitment | <-- | Transparency | .571 | .090 | 5.169 | .000 |
| Affective Commitment | <-- | Communication | .258 | .102 | 2.565 | .010 |

The results support hypothesis H1-1, i.e., job security has a positive effect on affective organizational commitment. The CR value is 1.965, $P = 0.049$ and statistically significant. H1-2, the equity of the split-off which has a positive effect on affective organizational commitment, was supported; the CR value is 3.211, $P = 0.001$ and

statistically significant. Hypothesis H1-3 was also supported with CR values of 5.169 and $P = 0.000$ and statistically significant, meaning that the split-off transparency has a positive effect on affective organizational commitment. Results of the regression analysis on communication have a positive effect on affective organizational commitment. H1-4 was also supported with a value of CR 2.565, $P = 0.01$. This result shows that the integration strategy has an impact on affective organizational commitment, suggesting that the PMI (post merger integration) strategy in the M&A can also apply to split-off cases. Amos was used to perform the structural equation model analysis in order to test H2. The results are presented in Table 2.

Table 2. Effects of transformational leadership on affective organizational commitment

| | Paths | | Standardized Coefficients | S.E. | C.R. | P |
|---------------------------------|-------|-----------------------------------------|------------------------------|-------------|--------------|-------------|
| Affective Commitment | <--- | Charisma | .112 | .100 | 1.600 | .110 |
| Affective Commitment | <--- | Inspirational Motivation | .286 | .100 | 3.372 | .000 |
| Affective Commitment | <--- | Individualized Consideration | .236 | .101 | 2.355 | .019 |
| Affective Commitment | <--- | Intellectual Stimulation | -.015 | .054 | -2.33 | .816 |

Hypothesis H2-1, Charisma has a positive effect on affective organizational commitment, was not supported, showing a value of CR 1.600, $P = 0.110$. Hypothesis H2-2 was supported, showing a statistically significant relationship with a value of CR 3.372, $P = 0.00$. With the value of CR 2.355, $P = 0.019$, H2-3 is supported. H2-4 about Intellectual stimulation is not supported with a value of CR -2.330, $P=0.816$. These results indicated that the leaders presenting the vision for a new organization to the members as well as the individual consideration in splitting the situation would have positive impacts on affective organizational commitment.

Table 3 presents the results of the statistical analysis on the moderating effect of the hierarchical status on the relationship between integration strategy and transformational leadership and affective organizational commitment. There was a moderating effect with $P = 0.031$.

Table 3. Moderating effect of hierarchical status

| Model | DF | CMIN | P | NFI | IFI | RFI | TLI |
|-------------------------|----------|---------------|-------------|-------------|-------------|-------------|-------------|
| Manager-Employee | 8 | 16.961 | .031 | .003 | .004 | .001 | .001 |

In Table 4, the moderating effect of the hierarchical status on the relationship between integration strategy and affective organizational commitment is presented. In Table 5, the moderating effect on the relationship between transformational leadership and affective organizational commitment is shown.

Table 4. Effects of integration strategy on managers' affective commitment

| | Paths | | Standardized Coefficients | S.E. | C.R. | P |
|---------------------------------|-------|---------------------|------------------------------|-------------|--------------|-------------|
| Affective Commitment | <-- | Job Security | .167 | .070 | 2.139 | .040 |
| Affective Commitment | <-- | Equity | .354 | .099 | 2.999 | .003 |
| Affective Commitment | <-- | Transparency | .450 | .102 | 3.420 | .000 |
| Affective Commitment | <-- | Communication | .151 | .117 | 1.237 | .216 |

Table 5. Effects of integration strategy on employees' affective commitment

| | Paths | | Standardized Coefficients | S.E. | C.R. | P |
|---------------------------------|-------|----------------------|------------------------------|-------------|--------------|-------------|
| Affective Commitment | <-- | Job Security | .070 | .119 | .609 | .543 |
| Affective Commitment | <-- | Equity | .087 | .106 | .720 | .471 |
| Affective Commitment | <-- | Transparency | .937 | .175 | 4.004 | .000 |
| Affective Commitment | <-- | Communication | .427 | .167 | 2.412 | .016 |

According to these analyses, in the case of managers, job security (CR value of 2.139, $P = 0.040$), equity (CR value of 2.999, $P = 0.003$) and transparency (CR value of 3.420, $P = 0.000$) were statistically significant, whereas communication was not. In the case of employees, transparency (CR value of 4.004, $P = 0.000$) and communication (CR value of 2.412, $P = 0.016$) turned out to be statistically significant, whereas the other two, job security and equity, were not. There is a difference between the manager and the employee in terms of the effect of integration strategy on affective organizational commitment. Thus, H4 was supported.

Next, Tables 6 and 7 show the results of the statistical analysis on the moderating effect of hierarchical status on the relationship between transformational leadership and affective organizational commitment.

Table 6. Effects of transformational leadership on managers' affective commitment

| | Paths | | Standardized Coefficients | S.E. | C.R. | P |
|---------------------------------|-------|-------------------------------------|------------------------------|-------------|--------------|-------------|
| Affective Commitment | <-- | Charisma | .206 | .174 | 1.991 | .046 |
| Affective Commitment | <-- | Inspirational Motivation | .292 | .119 | 2.613 | .009 |
| Affective Commitment | <-- | Individualized Consideration | .171 | .107 | -1.399 | .162 |
| Affective Commitment | <-- | Intellectual Stimulation | -.094 | .063 | -1.124 | .261 |

Table 7. Effects of Transformational Leadership on Employees' Affective Commitment

| | Paths | | Standardized Coefficients | S.E. | C.R. | P |
|---------------------------------|-------|-----------------------------------------|------------------------------|-------------|--------------|-------------|
| Affective Commitment | <-- | Charisma | .023 | .103 | 2.23 | .824 |
| Affective Commitment | <-- | Inspirational Motivation | .191 | .157 | 1.445 | .148 |
| Affective Commitment | <-- | Individualized Consideration | .449 | .212 | 2.213 | .027 |
| Affective Commitment | <-- | Intellectual Consideration | .192 | .109 | 1.461 | .144 |

In the case of managers, charisma (CR value of 1.991, $P = 0.046$) and inspirational motivation (CR value of 2.613, $P = 0.009$) were statistically significant and the other two individualized consideration and intellectual consideration were not. For the employees, only individualized consideration (CR the value 2.213, $P = 0.027$) was statistically significant. Therefore, H5 was supported.

4. Conclusion and Discussion

This study is based on the recognition that effective human resource management after the split is very important to the ultimate success of a split-off. When there is a split-off, many of the managers and employees are transferred to the new split-off company from the parent company. Therefore, the integration strategy and manager's leadership are essential for solving the various organizational issues facing the split-off company and for establishing the esprit de corps of the newly split company.

Based on the existing literature of M&As and PMI Research and transformational leadership, this study attempted to empirically examine an overlooked issue, the effect of integration strategy and leadership on organizational commitment in the context of corporate split-offs, which has been receiving more and more popularity in Korea for the purpose of corporate restructuring.

The importance of an integration strategy in a split-off was identified, as in the literatures of M&A and PMI. In the split process, members of an organization receive considerable psychological impact and fears for the instability of employment (Schweiger & Weber, 1989). In this situation, when employment security is guaranteed for a new company, and the higher the transparency and equity of the split, the members can increase their affective commitment. In reality, many companies, when split, are not seeking for ways to improve transparency and equity while ensuring job security. Communication is usually top-down, and it can interfere with affective organizational commitment. Our research results suggest that a split-off company must consider equity, transparency and communication as well as job security in order to improve the affective commitment of the members of the new split company.

Transformational leadership was, in general, relevant to affective organizational commitment. In this study, inspirational motivation and individualized consideration were the only relevant factors to influence affective organizational commitment. Under an uncertain situation, such as split-offs, presenting a compelling vision for the new split company may be critical to the members of the company in persuading them to accept the split-off circumstances. The members of the new organization may feel that they are treated with care when they are individually considered. Under the crisis situation such as a split-off, intellectual stimulation and charisma may not be operating to invoke affective organizational commitment, since the members of the organization are overwhelmed by the issue of the organization's stability and survival. The split can be seen as a crisis that threatens the stability of the organization. The split decision may produce distrust and betrayal to the members of the company so that the leader's charisma and intellectual stimulation become irrelevant to affective organizational commitment. A leader must be able to put high priority to presenting a new vision for the organization, taking into account the individual members for them to settle for a split.

It is found that there was a difference between managers and employees in terms of the factors of an integration strategy influencing affective organizational commitment. For managers, affective organizational commitment was related to job security, equity and transparency, whereas employees' affective organizational commitment was related to communication and transparency. The reason of this different result may be due to the fact that managers are more sensitive to job security and equity than employees because they usually have more chance to be the target of downsizing and restructuring in split-offs. Managers have longer tenure in the company than employees and thus, they may feel more threatened when facing a split-off situation. On the other hand, communication is an important variable in determining employees' affective organizational commitment. In most split-off decisions in companies, the split-off information is usually communicated to team leaders and staff members, forgoing lower level employees. Communication about split-offs is usually not sufficient for employees. Accordingly, employees are thirsty for information and communication, which can play a critical role in improving affective organizational commitment. Transparency is statistically significant for both managers and employees in influencing affective organizational commitment. Therefore, it is transparency that a split-off company must ensure for affective organizational commitment throughout the whole company.

Further, there was a difference between managers and employees in terms of factors of transformational leadership influencing affective organizational commitment. Charisma and inspirational motivation were relevant to managers' affective organizational commitment. Only individualized consideration was related to affective

organizational commitment for employees. Managers may care more about the future of the new split company so that they feel a more need for new vision and charisma of corporate leadership to carry out the vision. On the other hand, lower level employees may be more sensitive to and appreciate the individual treatment of corporate leaders in a split-off. Basically, a split-off means dividing a company, resulting in a reduced size of a company. Managers may have a feeling of more insecurity and anxiety and thus, they may place more emphasis on the vision and charisma of the leadership.

This study has the following theoretical or methodological limitations, and further research is required. First, this is an exploratory study on corporate integration after a split-off of Korean companies. Few studies have analyzed the issues of integration in terms of human resource management. Therefore, generalizations about the results of this study must be reserved until there are a sufficient number of subsequent empirical studies related to the integration. Second, research on split-offs is very limited. Split firms are very reluctant to comment on the split. For example, in a company surveyed for this study, it is an unwritten rule not to mention split-offs.

Fourth, only transformational leadership was investigated for this study. Additional and various kinds of leadership must be examined in the split-off situation.

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