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**CEO Transformational Leadership and its Impact on Strategic  
Change when Moderated by Environmental Uncertainty**

Gerald Kemdirim

A Thesis

in

The Faculty of Commerce

&

Administration

Presented in Partial Fulfilment of the Requirements  
for the Degree of Master of Science in Administration at  
Concordia University  
Montreal, Quebec, Canada

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**ABSTRACT****CEO Transformational Leadership and its Impact on Strategic Changes when Moderated by Environmental Uncertainty**

Gerald Kемdirim

The primary objective of the current study is to understand the mechanisms by which certain leadership qualities on the part of chief executive officers (CEO's) may be related to the strategy of their organizations. Specifically, I examined how transformational leadership is related to strategic changes and how this relationship is moderated by environmental uncertainty. Transformational leadership at the CEO level has been heralded as an important ingredient in achieving effective organizational performance. However, research has not yet revealed exactly what these leaders do in terms of strategic change. In addition, the relationship between CEO tenure and transformational leadership was examined. Lastly, the relationship between CEO tenureship and strategic change when moderated by perceived environmental uncertainty was also examined. In order to achieve the above goals a survey approach was undertaken. The survey consisted of upper-level managers from 95 American and 55 Canadian firms. Six managers per firm were contacted for a total of 900 managers. In addition, as an alternative measure of strategic change, presidents' letters for participating firms were coded from their respective 1991 annual report.

The empirical results failed to support the three hypotheses. However, the study

did reveal that perceived environmental uncertainty is associated with strategic change(s) within a firm. Furthermore, this study revealed that charismatic inspiration is associated with perceptions of an uncertain environment. This result may imply that a leader's charismatic effect may be more intensified under a crisis situation. Implications were drawn concerning future research involving the linking of transformational leadership, environmental uncertainty, strategic change, and financial performance.

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## CHAPTER 1

### INTRODUCTION

Economic globalization has forced organizations to operate under a complex and unstable business environment. An uncertain environment makes it more difficult for organizations to effectively plan for the future. Strategic change may be an important ingredient in helping to combat the negative side effects associated with an uncertain environment. Dutton and Duncan (1987) revealed that firms elicit different responses to a changed environment. A changing external environment results in firms implementing actions in order to correctly align its strategy with that of the external environment (Dutton & Duncan, 1987). Moreover, Virany, Tushman, & Romanelli (1992) revealed that change in turbulent environments improves an organization's performance.

A transformational leader may have the necessary characteristics needed to implement strategic plans that would enable a firm to adapt and combat the negative side effects of an uncertain environment. The necessary characteristics may require that a leader is both charismatic and intellectually stimulating. A leader who possesses charisma has the ability to build confidence and inspire followers to the point of undertaking selfless acts that benefit the group or the organization. An intellectually stimulating leader has the capability of helping followers generate and develop new ideas.

These leadership qualities may be essential for the implementation of strategic plans which may be initiated or spearheaded by the CEO to bring about strategic change(s) to an organization.

Strategic change that occurs through unilateral orders may not have a lasting impact (Fry & Killing, 1986). In order for effective strategic change to occur a leader must utilize charisma in order to dismantle barriers to change and negotiate for agreement and commitment from followers.

Strategic change(s) does not necessarily have to originate with the CEO. Followers may initiate strategic change that is supported and managed or championed by the CEO. A CEO who is intellectually stimulating enhances both the intellect and conceptualization of followers to the extent that they are able to bring forth new change ideas. In addition, a charismatic leader helps to build confidence in followers to the extent that they are not only able to come forth with new ideas, but are able to sell them as well.

One of the objectives of this study is to provide an in-depth examination of the association between CEO transformational leadership and strategic change within an organization. I propose a contingency relationship of CEO transformational leadership and strategic change, whereby the contingency variable is environmental uncertainty. A fundamental aspect of this model is that environmental uncertainty will moderate the extent to which a leader's behavior reflects an organization's strategic changes. In other words, will a CEO who is transformational be more prone to initiate or support strategic change when the external environment is perceived to be uncertain? The external

environment will be comprised of items such as the economy, competitors, political situation, and governmental laws.

This study also attempts to highlight whether the tenure of a CEO will be associated with transformational leadership qualities. Does a leader's transformational qualities dissipate over time? Boeker (1989) argued that senior executives are most influential during their early years of tenure. If this is the case, what implications might this have for organizations? Should organizations look toward restricting or limiting the tenureship of their CEO? An aura of expectations or a certain mystique may surround a new leader. This mystique may be the driving force behind the influence and change of organizational members. However, over time is it reasonable to expect this mystique to wear off or does this mystique really exist? This study will attempt to answer these questions.

Lastly, this study will assess whether an association exists between CEO tenureship and strategic change when moderated by environmental uncertainty. Miller (1993) argued that established or long tenured CEOs may be committed to administrative designs which they helped to create. This commitment may restrict or hamper any change efforts. This study will assess whether such an association is moderated by perceptions of an uncertain environment.

## CHAPTER 2

### TRANSFORMATIONAL LEADERSHIP

This chapter defines leadership and describes how transformational leadership is a special form that involves both charismatic inspiration and intellectual stimulation.

Leadership can be defined as the interpersonal influence an individual evokes on others in order to gain their compliance in the direction of organizationally desirable goals (Tosi, Rizzo, & Carroll, 1990). Transformational leadership is a special form of leadership that involves much more than interpersonal influence. Transformational leadership entails changing the needs, desires, and inspiration of followers. It includes dimensions of charismatic inspiration and intellectual stimulation. These dimensions will be discussed below.

#### **2.1 Charismatic Inspiration:**

Charisma is one of the key components of transformational leadership. Charisma originates from the Greek language and means a divinely inspired gift or talent for prophesizing or healing. Max Weber (1947), a sociologist, defined two types of charisma: pure charisma is based on the leader's behavior, whereas routinized charisma stems from occupying a formal or a traditional position (Yukl, 1989). Both types of

charisma are forms of authority legitimized by the followers. In response to charismatic leadership individuals might either display an emotional feeling of love or hate towards the leader (Bass, 1985). Thus, the effects or outcomes of charismatic leadership are in the eye of the beholder. Pure charisma is the essence of transformational leadership, and it occurs when routinized charisma has failed. Routinized charisma may fail when followers no longer recognize or honour the formal hierarchy of an organization. Charismatic inspiration works on an individual's intuition and feelings. A leadership style that incorporates charismatic inspiration involves managing-by-example, encouraging followers, and helping to build followers' pride, confidence and morale. Charismatic leadership entails changing the needs, values, and desires of followers to the extent that they make individual and personal sacrifices on behalf of a collective goal (House, Spangler, & Woycke, 1991). Followers are transformed into thinking on a group or collective level rather than on an individualistic level.

The ability of a leader to exercise charisma can be evaluated by the relationship between a leader and followers. When a strong and healthy relationship exists, the follower has complete trust, confidence, and an unconditional commitment and emotional devotion towards the leader. In addition, under a crisis a leader's charismatic effect is intensified in that followers are more prone to follow the leader's action(s) (Bass, 1985; House et al., 1991). The more critical the situation the greater the tendency for emotional arousal to be stirred up. This emotional arousal is channelled towards the charismatic leader's intent(s).

A charismatic leader has the courage and confidence to stand out alone and

support unconventional policies or procedures in which that person believes. Charismatic leaders have a high level of self-confidence, and are likely to take on personal risks, make self-sacrifices, and engage in strategies that substantially deviate from the organizational norm (Conger & Kanungo, 1987). At times, a charismatic leader may be viewed as defiant to the point of risking his or her career. Other times, a charismatic leader may display a self-sacrificing behavior for the well being of the group. Lee Iacocca exemplified this self-sacrificing behavior by accepting a \$1 dollar salary for his first year of service at Chrysler. Admiration of these values and the yearning to identify and model them can stimulate the transformation of followers.

Transformational leadership is conceptually similar to charismatic leadership. Transformational leaders not only have a charismatic effect on followers, but they also demonstrate individualized consideration and are intellectually stimulating (Bass, 1985). Individualized consideration allows a leader to allay followers' fears of an uncertain environment. Individualized consideration implies that subordinates are not all treated alike. Rather, the leader motivates each individual based on their needs, desires and values. Moreover, individualized consideration is a form of respect initiated by the leader and reciprocated by the follower. Individualistic consideration implies that subordinates have input into the decision making process. When individuals feel that they have contributed towards a decision making process they will be more committed towards the goal.

Intellectual stimulation is another component in transformational leadership and it entails arousing in followers the awareness of problems and how they may be resolved



(Bass, 1985). The other components of transformational leadership, intellectual stimulation and individualized consideration, will be discussed in the next section.

## **2.2 Intellectual Stimulation:**

Bass (1985) indicated that there is a correlation between charismatic inspiration and intellectual stimulation. However, there is an obvious difference between the two factors. Charismatic inspiration evokes immediate action on the part of followers. In contrast, intellectual stimulation initially elicits ideas and theories which are eventually put into action (Bass, 1985). Intellectual stimulation does not necessarily imply enhanced academic ability, but rather the skill to approach old problems in new ways. An intellectually stimulating leader relies upon reason and logic, as opposed to evidence based on hearsay, in order to change the way followers view a situation or a problem. Furthermore, Fiedler and Garcia (1987) in their cognitive resource theory acknowledge the importance of intellectual stimulation and posit that the major source of plans, decisions, and strategies that affect an organization and direct a group's action is based on the leader's intellectual abilities.

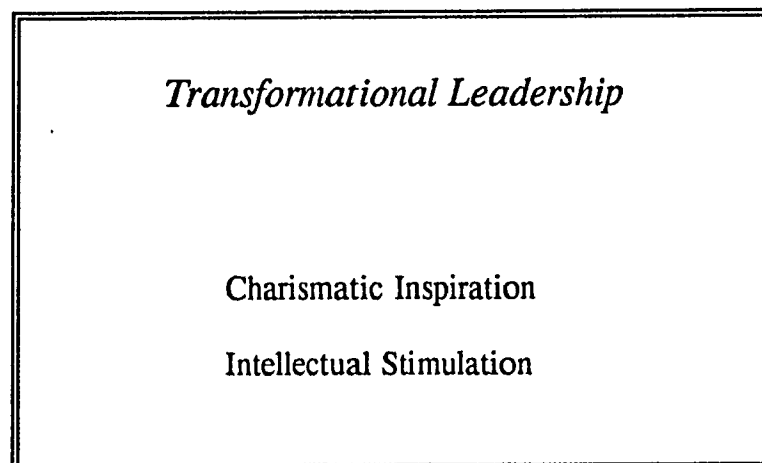
An intellectually stimulating leader enhances the intellect, comprehension, and conceptualization of followers to the point that they view problems in a different light and tackle situations which they felt were impregnable. Moreover, intellectually stimulating leaders may rely upon symbolic imagery which is capable of modifying attitudes, beliefs, and values, in order to arouse and transform followers' mental activity.

A CEO who exhibits transformational characteristics is expected to display a

combination of charismatic inspiration, intellectual stimulation and individualized consideration. Individualized consideration may not be as conceivable as the other components in CEO transformational leadership since it entails that the leader maintain face-to-face communication or contact over the telephone with followers. For this reason transformational leadership will be assessed, in this study, by charismatic inspiration and intellectual stimulation (refer to Figure #1 below). The transformational leader's role entails recognizing the need for revitalization, creating a new vision, and intellectually stimulating people toward the new vision (Tichy & Devanna, 1986; Daft, 1989). The creation of a new vision may require change(s) within the organization. Change within an organization may either be initiated or guided by a transformational leader. This leads to the next chapter which discusses transformational leadership and change.

FIGURE #1

## Components of Transformational Leadership



## CHAPTER 3

### TRANSFORMATIONAL LEADERSHIP AND CHANGE

This chapter discusses how a transformational leader can be a stimulus for change. Moreover, in order for effective change to occur a transformational leader must dismantle and overcome barriers to change. In addition, this chapter discusses how organizational learning may be associated with change. Finally, the chapter concludes with a brief discussion as to how change and learning under turbulent environments may necessitate the need for a transformational leader.

The previous chapter examined transformational leadership. This chapter will discuss how a transformational leader can overcome the barriers to change and how transformational leadership impacts upon strategic change.

Often, the continued success for any organization requires the implementation of change. The performance outcome of an organization is influenced by changes which are spearheaded by the leader (Day & Lord, 1988). Once the leader has recognized the need for change through followers' perception of the environment, he/she is still faced with the task of overcoming resistance to change. Inertia, discomfort and fear of the unknown fortify resistance to change. However, a sense of urgency, which may be due to an unstable environment that is threatening the very existence of the organization, will reduce opposition to change (Tichy & Devanna, 1986). In addition, external threats to an organization which might be caused by a competitor helps promote cohesiveness

(Johns, 1988). A cohesive group tends to function more effectively and thus may be in a better position to dismantle barriers to change. A vision that is clear cut, appealing and embodied in the organization's culture, not only evokes commitment and helps promote behavioral change, but also stimulates followers and puts meaning in their work (Beckhard & Harris, 1977).

The new vision, created by a transformational leader, must be correctly aligned with the environmental pressures facing the organization and must also create a change within the organization (Tichy & Devanna, 1986). Once the transformational leader has successfully reduced resistance to the new vision, the leader is still faced with institutionalizing the vision. The institutionalization process must be implemented both at the organizational and individual level in order to achieve maximum effectiveness. The implementation of the new vision may involve the alteration of the current organizational structure which includes its norms, beliefs, attitudes and values. A transformational leader is capable of bringing about changes to an organization's norms, beliefs, attitudes, and values through the use of symbolic imagery (Bass, 1985).

Change within an organization has been cited as an essential element for first and second order organizational learning (Virany et al., 1992). Change, however, does not always denote learning (Fiol & Lyles, 1985). Organizational learning refers to the process of ameliorating actions by increasing knowledge and understanding (Fiol & Lyles, 1985). Organizational learning can also be conceived as a programming process (Starbuck, Greve, & Hedberg, 1978). Organizations observe and learn that certain activities may be successful. Organizations proceed to crystallize and standardize these

activities (Starbuck et al., 1978). Organizations are able to react quickly to most environmental changes because these changes activate programs that have been learned. Second-order organizational learning enables an organization to adapt to turbulent environments. First-order learning, on the other hand, is associated with inertia and incremental learning. First-order learning is most effective in terms of organizational performance when an organization is faced with a stable environment. However, under turbulent or uncertain environments, second-order learning, which emphasizes changes to an organization's core assumptions, may be essential (Virany et al., 1992). Changing an organization's leader or the executive team may be one way to effectively proceed with second-order learning (Virany et al., 1992). A change of leadership may result in new and better ideas. Moreover, Thomas (1988) stated that differences in leadership significantly contribute to performance variations within firms. Research has revealed that a change in top level leadership has explained up to 45% of an organization's performance (Day & Lord, 1988).

In contrast to the aforementioned studies which revealed that leadership change is associated with an organization's performance, several researchers have suggested that leadership is inconsequential or has a causal relationship with a firm's performance (Meindl & Ehrlich, 1987; Pfeffer, 1977). These propositions are mainly a reflection of research on executive succession that have revealed little if any performance variance associated with leadership succession at the helm (Lieberson & O'Connor, 1972; Salancik & Pfeffer, 1977). Moreover, Meindl and Ehrlich (1987) suggested that not only do individuals romanticize the concept of leadership, but it takes on a larger-than-life value

and performance outcomes are therefore more likely attributable to leadership. The romanticized conception of leadership implies that individuals have a strong belief and faith in the significance of leadership factors in determining the functioning of an organization (Meindl & Ehrlich, 1987). In contrast, other researchers have uncovered significant relationships between a firm's performance and that of executive succession (Weiner & Mahoney, 1981; Day & Lord, 1988). Moreover, Smith, Carson, & Alexander's (1984) longitudinal study revealed that effective leadership was associated with improved organizational performance.

In order to maintain harmony with a changing environment an organization must adapt (Katz and Kahn, 1978). The adaptation process is facilitated by a transformational leader who recognizes that the environment may be changing and responds by instituting strategic changes within the organization. Change must occur both at the individual and at the organizational level in order for it to be institutionalized. The context of change and learning, especially in a turbulent environment, brings forth the need for a transformation leader. The question is: Can a turbulent or uncertain environment be effectively measured? This leads to the next section which deals with environmental uncertainty.

## CHAPTER 4

### THE MODERATING EFFECT OF ENVIRONMENTAL UNCERTAINTY

This chapter assesses environmental uncertainty both from an objective and a subjective viewpoint and its implication(s) for transformational leadership.

Environmental uncertainty can be defined as the degree or level of accuracy with which the future environment can be predicted. Moreover, it may be broken down into an objective and/or a subjective state. Environmental uncertainty may be objectively assessed by changes in earnings, technology, and market conditions. Subjective environmental uncertainty, on the other hand, is measured by means of perception and based on an individual's perceived inability to foresee how environmental components might change.

In order to effectively guide an organization, a leader requires a firm understanding of the external environment. Organizations function as open systems and as such must interact with their environments (Katz & Kahn, 1966). Lawrence and Lorsch (1967), and Burns and Stalker (1961) revealed that an uncertain environment has a significant impact in the design of an organization's structure and process (McCaskey, 1976). Knowledge of the external environment is not only essential but critical for an organization's survival and continued existence. In this study, the term environment

refers to external factors outside the organization. For instance, facets of an organization's external environment would include suppliers, customers, competitors, trading partners, and government(s).

Charismatic leadership is considered essential especially under conditions of environmental turbulence (Katz and Kahn, 1978). In a similar vein, since charismatic leadership is a component of transformational leadership, a leader possessing transformational leadership qualities may be considered essential for an organization facing a turbulent or uncertain environment.

Much of the literature pertaining to the measurement of environmental uncertainty considers it acceptable for a leader's strategy to be heavily influenced by a perceived need for change. Bourgeois (1985) and Snow (1976) stated that strategic decision making is based on information transmitted by top management. In other words, a leader should rely upon subjectively based perceptions of environmental uncertainty rather than an objective measure of environmental uncertainty (Anderson & Paine, 1975). It is postulated that environmental elements, which may constitute uncertainty, act as a stimulus (Downey, Hellriegel, & Slocum, 1975). The stimulus gains meaning when it has been structured by an individual's perception(s) (Downey et al., 1975). More precisely, decisions as suggested by Kofka (1935) are based on the behavioral environment which is the degree of perceived uncertainty (Downey et al., 1975).

Milliken (1987) stated that in order to validate the perceptual or subjective measure of uncertainty, an attempt should be made to objectively measure environmental uncertainty. Several researchers have attempted to objectively operationalize



environmental uncertainty (Snyder & Glueck, 1982; Tosi, Aldag, & Storey, 1973). Their research labelled environmental volatility as an objective measure of environmental uncertainty. However, many researchers have been quick to note that environmental volatility denotes change or a rate of change which does not necessarily signify uncertainty (Bourgeois, 1978; Pfeffer & Salancik, 1978; Lenz & Engledow, 1983; Milliken, 1987). Furthermore, Buzzell (1980) indicated that research undertaken in industrial economics has revealed that environmental change does not display a random pattern, rather it is indicative of a systematic or an evolutionary change. Moreover, Glover (1966a,b,c) asserts that environmental change is systematic, continuous and it is likely to be predictable (Lenz & Engledow, 1983). In other words, environmental change can be certain and predictable, whereas uncertainty is associated with unpredictable change. In addition, if the outcome of volatility or change displayed a systematic pattern, then volatility would not denote uncertainty, rather a predictable change (Milliken, 1987). An environment that changes with a known pattern is not uncertain. Thus, is it conceivable to objectively operationalize environmental uncertainty? Since previous research has found it difficult to objectively operationalize environmental uncertainty, perhaps a subjective or a perceptual mode may be an ideal method by which to measure environmental uncertainty.

The question remains as to the importance of objectively measuring environmental uncertainty. Even if it were possible to objectively measure environment uncertainty, decisions would still be made on a subjective basis. In other words, decisions would be based on followers' interpretation of the environment which is surmised through the

buffering process. Buffering, also known as environmental scanning, is the process of absorbing environmental uncertainty. More precisely, buffering involves protecting an organization's technical core by exchanging resources and material between the organization and the environment (Daft, 1989). Based on the above, if it were possible to objectively operationalize environmental uncertainty, it would involve a two step process. The first step would involve gathering and absorbing objective information pertaining to an uncertain environment through buffering. The second step would entail making effective use of the information based upon the followers' interpretation of the buffering process and a leader's paradigm. Therefore, the net effect of environmental uncertainty may be viewed from a behavioral or a subjective viewpoint as opposed to an objective standpoint. For instance, Waldman & Ramirez (1992) used individuals' perceptions of stress, risk, and market expansion in order to measure environmental uncertainty.

Previous research has indeed failed to objectively operationalize uncertainty. Uncertainty has been assessed through variables which measure market and technological change (Lawrence & Lorsch, 1967). Moreover, Miller (1993) assessed the external environment through variables such as changes in dominant new designs and deregulation of industries. Although an objective method of measuring environmental uncertainty may be more reliable than a perceived or subjective method and may result in a better match or fit between the external environment and an organization's strategy, the attempt to objectively assess it may lead to methodological problems. Moreover, Waldman and Ramirez (1992) relied upon individuals' perceptions as a measure of environmental

uncertainty. This study also assesses environmental uncertainty through a subjective or a perceptual mode for the reasons provided above.

Environmental scanning is a strategy employed by an organization in order to cope with uncertainty and learn more about events and trends in the environment (Hambrick, 1981). Hambrick (1981) states that, in order to cope with uncertainty, executives can scan the following four segments of the environment:

1.) *Output environment* reflects demographic shifts which affect trends in the external product market. Demographic shifts involve trends and developments in size, character of the population, age distribution, marriage and divorce rates (Kotler, 1983).

2.) *Regulatory environment* involves governmental regulations, taxes, and litigations involving the industry.

3.) *Throughput environment* refers to new advancements in process technology.

4.) *Administrative environment* refers to external developments and new approaches to organizational design.

Since this study assesses the external environment, the latter two segments which refer to the internal environment is outside the confines of this research.

A firm's choice of strategy is based on its interpretation of the external environment (White, 1986). Moreover, Bourgeois (1985) stated that the accuracy with which followers perceive the environment is positively associated with the financial performance of their firm. In other words, a fit between the external environment and an organization's resources is the key to effective performance (Andrews, 1971). Therefore, it is conceivable that a firm's strategic action(s) which is (are) contingent upon

the perceived nature of its environment may have a direct impact on its financial performance. Andrews (1971) and Chandler (1962) believe that CEOs are responsible for establishing strategic plans which align the organization's internal strengths and weaknesses with the opportunities and threats presented by the external environment. More specifically, when a firm faces an external environment which is uncertain, I propose that a CEO who is also transformational will undertake strategic change. This leads to the next section which discusses strategic change within an organization.

## CHAPTER 5

### LEADERSHIP AND STRATEGIC CHANGE(S) IN AN ORGANIZATION

This chapter examines how transformational leadership may be associated with strategic change(s) within an organization. Next, the association between leadership and tenureship as well as CEO tenureship and strategic change when moderated by an uncertain environment are discussed.

#### 5.1 The Concept of Strategy:

The term strategy is derived from the Greek word strategos, meaning the art of the general (Hart, 1967). The concept of strategy became more pronounced in organizational literature during the 1950's (Snow & Hambrick, 1980). Strategies are intended to achieve results or goals determined by the organization (Galbraith and Schendel, 1983).

Strategy can be defined as a continuous process of taking advantage of opportunities and avoiding threats created by an uncertain business environment (Cravens, LaForge, & Ingram, 1990). Strategy can be perceived as a set of consistent behaviors put forth by an organization in order to establish a transient niche in its environment (Mintzberg, 1978).

Organizations formulate strategies as a means of achieving their objectives (Thompson & Strickland, 1992). Corporate strategy refers to "what type of business" a company pursues and the distinctiveness or manner in which it operates. Specifically,

strategy can be viewed as the type of industry in which an organization competes or how it will compete within a given industry (White, 1986). The former refers to a corporate strategy dilemma, whereas the latter depicts a business unit strategy issue. A corporate level strategy, as opposed to a business level strategy, may require greater involvement from the CEO. Therefore, for the purpose of this study, focus and attention will be geared towards a corporate strategy.

An organization's strategic plan is a statement that includes its goals, objectives, and how management intends on achieving them in light of an organization's internal and external environment (Thompson & Strickland, 1992). The process of strategic planning can be defined as the formal and informal human interactions which occur during the development of a strategic plan (Dutton & Duncan, 1987). The strategic planning process not only allows for information critical to an organization's survival to be brought to light but also acts as a buffering process in absorbing uncertainty (Dutton & Duncan, 1987). In addition, during the strategic planning process critical information perceived by the followers may be transmitted to the CEO.

An organization's CEO is the most visible and pertinent strategy manager who is responsible for guiding both the formulation and implementation of strategic plans (Thompson & Strickland, 1992). Strategic plans or actions cannot be accomplished without the leader's endorsement. Once the leader accepts and endorses the change action, that individual then becomes the strategic change agent (Fry & Killing, 1986). An organization's CEO may spearhead strategic initiatives. Moreover, according to Katz and Kahn (1978) corporate policies and strategies are formulated by upper level leaders

in organizations. Furthermore, Khandwalla (1977) argues that strategic variables, in essence, are the sole province of top management. Essentially, a CEO's role can be perceived as the strategic apex of an organization.

Strategic variables can be manipulated to an extent, and consist of an organization's goals, upper management's philosophy, style, initiatives for growth, and survival (Khandwalla, 1977). Organizations have the latitude to implement strategic decisions in order to adjust and cope with a turbulent environment (Fiol & Lyles, 1985; Hambrick, 1981). This latitude allows organizations to learn and assess the viability of past strategic decisions in relation to the external environment. Learning and adaptation are the key to organizational survival.

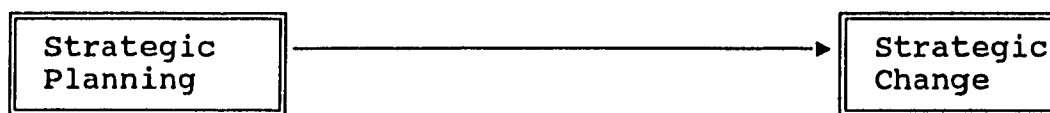
An organization's strategy influences the extent of organizational learning. In turn, selected strategies are based on organizational learning (Fiol & Lyles, 1985; Mintzberg, 1978). In essence, strategy and learning share a symbiotic relationship whereby one feeds off the other.

Firms must select a strategy which matches environmental demands (Miller & Friesen, 1983; White, 1986; Hambrick, 1981). The formulation of an organization's strategy entails matching its infrastructure with the perceived opportunities presented in the environment. A better match or fit between the infrastructure and the environment results in higher firm performance (Fry & Killing, 1986; Paine & Anderson, 1977).

An organization's strategy is constantly evolving due to the changing external environment (Thompson & Strickland, 1992). The strategic planning process handles strategic issues such as an uncertain or changing external environment. Once the

strategic plan has been formulated, selected strategies are ready to be transformed into change actions. These change actions in essence can be seen as strategic changes and are discussed in the next section (refer to Figure #2).

FIGURE #2  
Strategic Change Process



### **5.2 Strategic Change:**

Strategic change can be perceived as an advancement or an evolution from one form, style, or structure to another. Stated in other terms, strategic change can be viewed as an extension or the implementation and execution of a planned strategy. Moreover, Mintzberg (1978) defines strategic change as an organization's response to environmental change.

Strategic change may occur through: 1) cost reductions, 2) consolidation, 3) mergers and acquisitions, 4) joint ventures, 5) restructuring and/or diversification/alteration in market focus. First, in order for a firm to maintain its cost competitiveness in an uncertain environment it may select the strategy of cost reduction. Cost reductions may be achieved by reducing a firm's debt level and/or capital expenditures.

Next, firms may undertake the strategy of consolidations, mergers and acquisitions in order to increase growth, reduce risk, increase managerial skills, and



realize synergistic effects (Kryzanowski, Gandhi, Gitman, 1982). Consolidation involves the unity of two or more firms in order to establish a new corporate entity (Kryzanowski et al., 1982). The old firms cease to exist. A merger, on the other hand, occurs when firm A assumes the assets and liabilities of firm B, and firm B ceases to exist (Kryzanowski et al., 1982). Contrary to consolidations, mergers and acquisitions, in which all resources are merged under a single management, joint ventures entail the amalgamation of parts of firms in order to accomplish specific goals and objectives (Brigham, Kahl, & Rentz, 1987).

Furthermore, firms may undertake restructuring which is an internal strategy which may involve financial restructuring such as changing an organization's equity debt makeup or the reorganization of an organization's chart. Reorganization of the organizational chart may be achieved either through the reduction of the work staff by such means as termination incentive plans, layoffs and/or the realignment of followers' tasks and responsibilities. Many organizations which compete globally and attempt to remain competitive must resort to a strategic change initiative of reducing their workforce. A reduction in personnel is one of the most difficult strategic change problems that will confront a transformational leader (Tichy & Devanna, 1986). Followers fear reorganization since it entails disturbance to the status quo, a caveat to the vested interests in their jobs, and an upset to instituted ways of doing things (Kotter & Schiesinger, 1979; Fry & Killing, 1986). Such a situation would necessitate a transformational leader. This individual would be faced with the task of recognizing and getting others to recognize the uncertain environment. Next, the transformational leader

would have to allay followers fears and convince them to commit to a new organizational vision. In order for a leader to be considered transformational he/she must have the ability to inspire and motivate followers toward change.

Lastly, firms may decide to alter their market focus. Alteration of market focus is externally oriented and may entail modifying products and services, and diversifying into related and/or unrelated areas of business. Diversification by definition implies change; distinctiveness; unlikeness; and innovation (Pitts & Hopkins, 1982). More precisely, when applied to a business establishment it denotes change among a firm's activities (Pitts & Hopkins, 1982). According to Miles (1982), diversification is the maturation of knowledge required to compete in new frontiers. A firm utilizing the strategy of diversification may horizontally or vertically diversify. Burns & Stalker (1961) and Porter (1980) stated that innovation or change is essential for organizations facing a turbulent and uncertain environment. Moreover, Normann (1971, 1977) and Jelinek (1979) stated that diversification, innovation and growth are processes of organizational learning. Organizational learning in turn ameliorates strategic actions (Fiol & Lyles, 1985).

Dundas and Richardson (1980) argued that an organization which undertakes a corporate strategy that involves unrelated diversification or distinct change among a firm's activities achieves little gain. Their reasoning is based on the view that the organization's dominant business will continue to dominate the diversification and distort the allocation of resources. Their perception is that resource allocation will be distorted due to top management's constrained rationality. In other words, top management is

unable to change from the normal groove of functioning. Their perceptions must have been based on a non-transformational leader. On the contrary, a transformational leader is associated with implementing strategic changes and not being satisfied with the status quo when the environment is uncertain.

### **5.3 Transformational Leadership and Strategic Change:**

Transformational leadership, in an age of complexity, and market globalization, may be a vital ingredient for organizational success. Economic globalization has been cited as a major source of uncertainty (Tichy & Devanna, 1986). Social and technological changes over the past few decades have accelerated and resulted in firms operating under a more uncertain environment. Uncertainty makes organizational planning difficult (Khandwalla, 1972). Uncertainty can be reduced by either getting out of a certain business, redeploying a firm's assets or through learning and adaptation (Tichy & Devanna, 1986). The more uncertainty an organization faces, the more it will rely upon techniques in order to reduce it (Khandwalla, 1972). In essence, these techniques can be viewed as strategic changes undertaken in order to combat uncertainty. An uncertain environment coupled with economic globalization make it important for a firm to have a leader who is transformational.

Waldman and Ramirez (1992) argued that a volatile environment would generate a high degree of concern and uncertainty on the part of a firm's managers. Under such conditions, CEO transformational leadership may be necessary in order to mitigate fears and generate faith in followers. The enunciation of an inspirational vision by a

transformational leader may facilitate the establishment of a collective effort on the part of senior management to successfully achieve the organization's goals (Bass, 1985; Tichy & Devanna, 1986). In other words, the transformational leader may assist senior management in coping with the emotional arousal that emanates due to their perception of an uncertain environment.

Behavioral changes are the key to strategic change (Fry & Killing, 1986). Behavioral attributes such as resistance to change, inertia, and fear of the unknown often block or hamper change efforts. According to Kotter and Schiesinger (1979), individuals normally resist change due to fear of losing something of value, a misconception of the implication(s) of change, a belief that the planned change is meaningless for the organization, and a low tolerance for change. This brings forth the need for a leader who possesses charismatic inspiration and is capable of intellectually stimulating followers. Charismatic inspiration is a vital component in the transformational leadership construct. As stated earlier, charisma can either take the form of pure charisma or routinized charisma. Pure charisma addresses an individual's values, intuitions, feelings and lends emotional support in order to motivate and bring about commitment to change (Kuhnert & Lewis, 1987). Pure charisma, since it works on an individual's emotions, may have a greater tendency to reduce resistance to change and bring about commitment to a new vision. Thus, a transformational leader who utilizes charismatic inspiration may be successful in bringing about a consensus for change. A consensus for change facilitates the strategic change process for a transformational leader.

As stated earlier, intellectually stimulated leaders may rely upon symbolic imagery

which is capable of modifying followers' attitudes, beliefs, and values and thus bring about a commitment to change. In order to bring about a desire or a consensus for change under a turbulent environment, a transformational leader relies not only upon his/her charisma but also on the ability to be intellectually stimulating and thus transform followers' mental activity.

The recognition of a changing external organizational environment is the catalyst for strategic change within an organization. The transformational leader gains insight to the changing and turbulent environment through followers' perceptions of the external environment. A turbulent or uncertain environment may be a source of fear for followers in that uncertainty may lead to job or firm insecurity. In order to combat this fear or anxiety caused by a changing and turbulent environment, a transformational leader may respond by either initiating strategic changes or may guide strategic change initiatives introduced by followers. These organizational changes are set forth not only to conserve jobs but also to ensure organizational survival.

Thus, within the context of change, transformational leaders may undertake or direct strategic changes which are initiated by followers. Strategic changes are undertaken for organizational survival. These changes are fostered by the charismatic, transformational leader who attempts to reduce or allay followers' fears which emanate due to their perceptions of an uncertain environment. In contrast, a leader who does not possess transformational qualities may not sense followers' perceptions of an uncertain environment, let alone stimulate or inspire followers to implement strategic change. A turbulent or uncertain environment is expected to moderate the relationship between

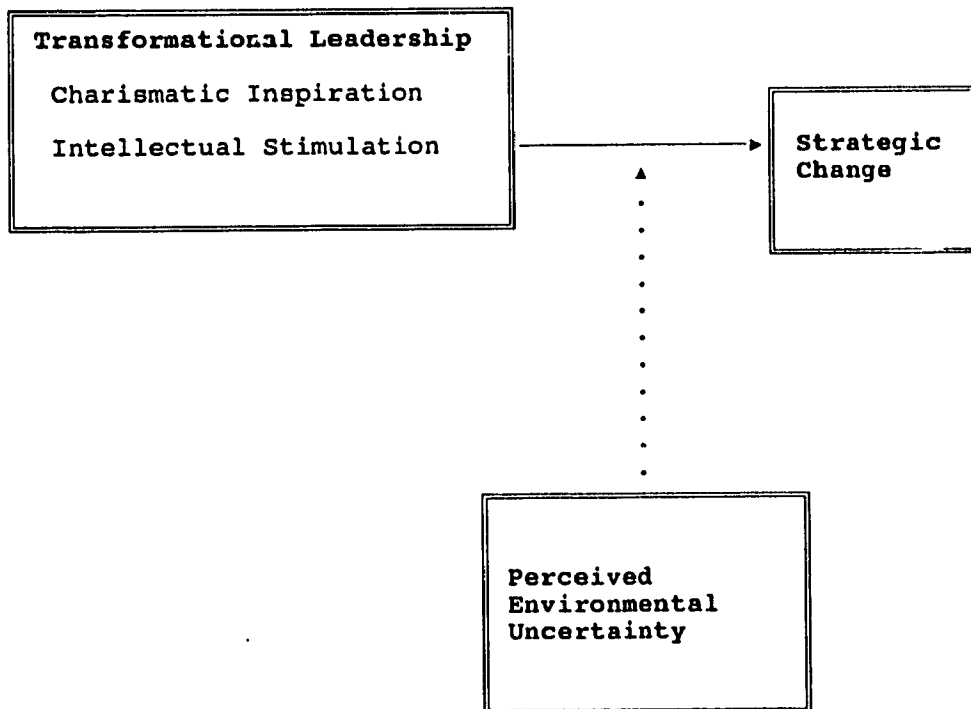
transformational leadership and strategic changes. In other words, a CEO who is a transformational leader will be more prone to initiate or guide strategic changes when faced with a turbulently-perceived environment. Leadership must evolve in order to meet the challenges which an uncertain and turbulent environment presents. Second order organizational learning emphasizes changes to an organization's core strategy, and represents a medium which transformational leaders can utilize in order to adapt to an unpredictable environment. Transformational leaders will recognize that due to environmental instability an organization may need to initiate strategic change.

A CEO who is a transformational leader will select strategic initiatives when facing a perceived turbulent environment. I am proposing that the greater the perceived level of environmental uncertainty, the greater will be the tendency for a transformational leader to initiate or guide strategic changes such as restructuring and altering the current market focus (refer to Figure #3 on the next page). More specifically, I hypothesize that,

H1 Transformational leadership will be highly associated with strategic changes, such as restructuring and alteration of market focus, when the organizational environment is perceived to be uncertain. Conversely, CEO transformational leadership will be minimally associated with strategic changes, such as restructuring and alteration of market focus, when the organization's environment is perceived to be more certain or predictable.

FIGURE #3

Model of Transformational Leadership Moderated by Environmental Uncertainty  
as it Impacts on Strategic Change



#### **5.4 An Association Between Transformational Leadership and Tenureship: Tenureship and Strategic Change:**

The previous section argued that the relationship between transformational leadership and strategic change will be moderated by followers' perceptions of an uncertain environment. It is conceivable that there are other characteristics such as the CEO's tenure that may influence strategic change. This section will put forth the argument that tenureship is negatively associated with transformational leadership and in turn with strategic change when the environment is perceived to be uncertain.

Environmental pressure is normally a precursor for organizational change. However, not all organizations respond to this pressure (Tichy & Devanna, 1986). This may occur because transformational leadership is necessary for change and not all leaders or chief executive officers possess such qualities. For instance, some leaders display transactional leadership qualities. Transactional leaders, as opposed to transformational leaders, are more prone to accept status quo rather than seek new ways of doing things (Bass, 1985). Furthermore, transactional leaders will only focus upon change strategies which they perceive can clearly work (Bass, 1985). Unlike the transformational leader, the transactional leader is more risk averse. This type of paradigm reflects the 'no risk no return philosophy'. In essence, from the perspective of effecting change, transactional leadership is considered below transformational leadership in the leadership continuum (Bass, 1985; Kuhnert & Lewis, 1987).

One of the ingredients required for a leader to effectively use transformational qualities is the ability to accurately perceive or recognize followers' perceptions regarding a changing external environment. The failure to identify a changing external



environment may lead to a firm's unravelling. For instance, the failure of the American auto industry in the late 70's and early 80's to recognize the change or shift in customer demand towards smaller compact cars dealt a severe blow to Chrysler, Ford, and General Motors (Tichy & Devanna, 1986). Thus, the recognition of an uncertain or changing environment is one of the key roles a CEO must undertake. This role can be realized through the interpretation of the external environment as perceived by the followers.

A potentially negative aspect of the external recruitment of a CEO may be the internal uncertainty which followers might perceive due to a change in leadership and thus what lies ahead. To date little is known as to the impact succession has on organizations (Miller, 1993). However, it may be reasonably argued that if a leader possesses charisma, its effects may be most evident at the onset of the leader's tenure in the company. In other words, a charismatic leader at the onset of his/her tenure may generate curiosity, anticipation, and perhaps renewed expectations in followers. These may be emotions and/or expectations not fulfilled by the predecessor and may help bring about commitment and help reduce internal uncertainty. Over time the charismatic effects of leadership may diminish. The leader may not be able to generate the same level of enthusiasm once realized.

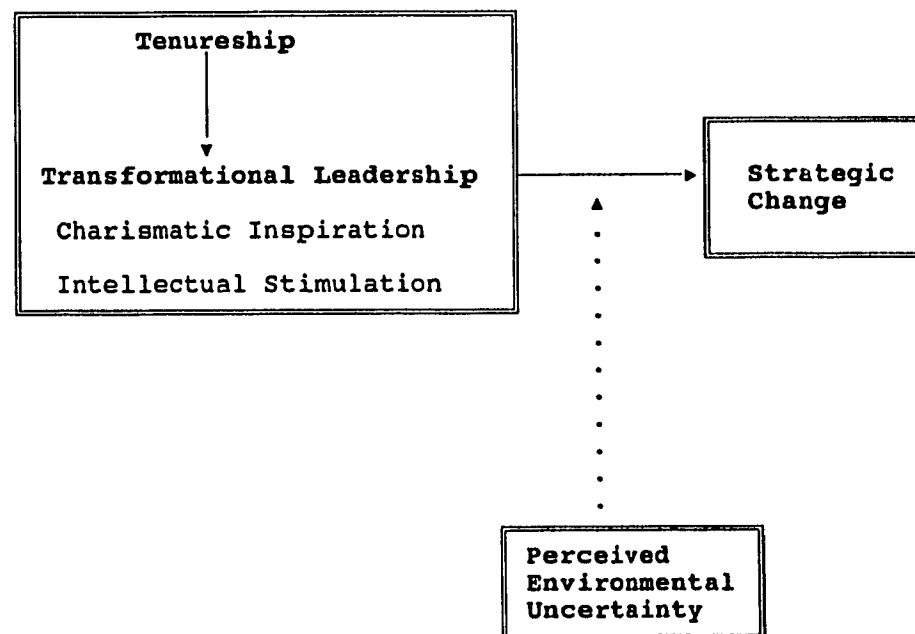
Gilmore (1991), Andrews (1971), and Chandler (1962) have asserted that strategic change is associated with CEO leadership. More specifically, Fredrickson, Hambrick, & Baumrin (1988), and Greiner & Bhambri (1989) argue that new CEOs can be a stimulus for change. However, in order for strategic change to occur, it is crucial that followers are committed both to the leader and the process of change.

A charismatic leader may envision the need for change and set the ball in motion. However, in order for strategic change(s) to be fully executed, the leader requires the followers' assistance. A declining level of commitment, which may be caused by a reduced charismatic effect, curtails a leader's ability to effectively govern strategic change(s). Moreover, long-tenured CEOs may become too confident of their understanding of the pressures confronting the firm (Miller, 1993). In other words, according to Katz (1982), Miller (1991), and Wells (1962), CEOs may rest on their laurels and may not make use of the buffering process and therefore fail to recognize threats and opportunities presented by the environment and fail to make appropriate changes (Miller, 1993). Conversely, a new CEO may not be familiar with the process and problems facing the organization and therefore may be more prone to assess the external environment (Miller, 1993). According to Boeker (1989) senior executives are most effective and influential during their early years of tenure. Moreover, Virany et al., (1992) state that due to institutionalization senior executives inhibit change efforts and thus must be replaced. A study undertaken by Wiersema & Bantel (1992) revealed that top management teams characterized by shorter organizational tenure were more prone to undertake corporate strategic changes. Furthermore, Miller (1993) revealed that CEO succession or new leadership was associated with change within a firm. Taking Miller's findings a step further and substituting CEO tenureship for new leadership, I propose that transformational leadership will be associated with tenureship, and in turn, strategic change under conditions of environmental uncertainty (refer to Figure #4). More specifically, I hypothesize that:

- H2 Transformational leadership will be negatively associated with CEO tenureship.
- H3 CEO tenureship will be associated with strategic change when the environment is perceived to be uncertain. Conversely, CEO tenureship will be minimally associated with strategic change when the environment is perceived to be more certain.

FIGURE #4

Model of CEO Tenureship and Transformational Leadership,  
and their Impact on Strategic Change



An association between strategic change and CEO tenureship could have practical implications for organizations in that it may have an important influence on the manner by which they evolve (Miller, 1993). For instance, Miller (1993) revealed that an organization's evolutionary process, which was impacted by CEO succession, resulted in both an increase and a decrease in the dissemination of power, and the aggressiveness in which organizations compete. Limiting CEO tenure can be achieved through frequent executive successions. Executive succession is necessary to introduce new perspectives especially when the organization's environment is changing and/or when the organization's performance is deteriorating (Virany et al., 1992). Moreover, Chandler (1962) argued that dramatic changes in strategy occur only when top executives change. Therefore, under a turbulent or unstable environment it may be necessary to undertake executive change in order to bring about marked changes to a firm's strategy.

### **5.5 Summary:**

This study attempts to reveal whether a relationship exists between a CEO who possesses transformational qualities such as charismatic inspiration and intellectual stimulation, and strategic change within an organization when the environment is perceived to be uncertain. In other words, this study will test whether a CEO, who is transformational, will be more prone to undertake or guide strategic change when followers' perceive the environment to be uncertain. In order to combat an uncertain environment it may be necessary for an organization to implement strategic change. A transformational leader is responsible for undertaken strategic changes which are based on the follower's interpretation of the external environment. Strategic change does not necessarily have to originate or be initiated by the leader. A leader's ability to intellectually stimulate followers allows them to develop and initiate strategic change actions that are supported by the leader.

As stated earlier, a leader who does not possess transformational qualities may not have the cognitive ability to recognize an uncertain environment, and therefore may not implement or direct strategic change(s). Strategic change may be crucial for an organization's survival when the environment is perceived to be uncertain.

Strategic change can be enacted by a direct unilateral command. However, this method may not result in effective strategic change. Effective strategic change may occur when barriers such as resistance, inertia, and fear of the unknown have been successfully dismantled. A leader who possesses charismatic inspiration may be able to bring about commitment towards change and transform followers into accepting the new

vision.

This study also examines the relationship between CEO tenure and transformational leadership and its impact on strategic change(s) when moderated by an uncertain environment. This may have practical implications in that strategic choices may be influenced by CEO tenure.

## CHAPTER 6

### METHODOLOGY

This chapter describes the criteria used for selecting the participating organizations and a detailed explanation as to how the measures were derived. In addition, this chapter explains the procedure followed in order to obtain data from respondents. Tables which illustrate the results from the two mailings are displayed in this chapter. Lastly, this chapter explains how regression analysis (SPSSx) was employed in order to assess the data.

#### **6.1 Participating Organizations:**

A survey was conducted of managers at the level of vice-president, senior vice-president or general division manager for 95 American and 55 Canadian firms. An exhaustive list of all the occupational titles occupied by respondents can be found in Appendix A. The sample firms represented a wide range of industries such as telecommunications, automotive, retailing, utilities, food, banking, and manufacturing. In order to be considered, a firm had to conform to several criteria. For instance, the firms had to have annual net sales greater than 1 billion dollars, a CEO who had tenure for at least two years in the organization, and at least six individuals per firm who were at the level of vice-president, senior vice-president or general division manager. Subsequently, after meeting the above criteria, firms were randomly chosen from a pool of 929 American and 188 Canadian firms available on Disclosure. Nearly twice as many American firms were solicited for participation due to the fact that there was a greater

proportion of American firms, from the pool of firms available on Disclosure, which met the aforementioned criteria.

The criterion of using firms with net sales greater than 1 billion dollars was based on the notion that it would be easier to gather necessary data such as annual reports from larger organizations. The criterion of at least two years for CEO tenure was used in order to allow the CEO an opportunity to implement strategic changes. Selecting a minimum tenureship much greater than two years may have substantially reduced the pool of firms available. This is due to the frequent changes in CEOs which have occurred in many firms over the past couple of years. As a prime example, the average length of tenureship for CEOs in the study was 7.46 years (89.57 months) with a standard deviation of 5.96 years (71.52 months).

The primary unit of analysis for this study is the firm. Analysis at the firm level allows for the amalgamation of individual respondents, thus allowing for a more reliable assessment of the resulting variables. To help insure that surveys from at least two managers per firm were ultimately collected, six managers per firm were targeted in the initial sample. That is, a total of 900 managers were surveyed with the hope of obtaining at least a 33 percent response rate on average. The names and addresses of managers were obtained from corporate directories such as Disclosure, The Financial Post Directory of Directors, and the Million Dollar Directory: America's Leading Public & Private Companies.



## **6.2 Measures:**

All items in the survey were measured using the format of a five-point Likert scale. Following the work of Waldman and Ramirez (1992), environmental uncertainty was tested as a key moderating variable in determining how CEO leadership relates to strategic changes, such as restructuring and change in market focus. The issue of assessing uncertainty in terms of perceptions versus more objective measures has been discussed at length by Milliken (1987) and Anderson and Paine (1975). Environmental uncertainty was assessed through a subjective or perceptual mode for the theoretical reasons mentioned previously. The environmental uncertainty construct was tapped through the work of Khandwalla (1976) and Miles and Snow (1978), and consisted of ten items. Items are shown in section I of Appendix C. The first five items were derived from the work of Khandwalla (1976), while the latter five were adapted from Miles and Snow (1978). Respondents were asked to assess their firm's external environment. The external environment is comprised of more than an economic outlook; it also includes the social, political and technological aspects. The alpha coefficient for environmental uncertainty was .69.

Strategic change was assessed by two methods. First, strategic change was assessed through items included in the survey (shown in section II of Appendix C). The alpha coefficient for strategic change was .73. Secondly, strategic change was assessed by counting the proportion of lines in the CEO's letter included in the 1991 annual reports for respective companies that was dedicated to the content, the element and/or the intent of strategic change. Support for this approach can be found in the work of

House et al. (1991) which assessed leadership charisma by coding editorials of elected United States presidents. Their editorials were printed a day after their inauguration in the New York Times.

In order for a sentence to constitute a strategic change it may either be a proposed future strategic change or a current strategy presently being initiated by the CEO. Furthermore, the mere mention of strategy or strategic focus constituted a strategic change. A sentence did not have to be explicitly coined "strategic change" in order for it to be deemed a strategic change sentence. Complete sentences were used when counting strategic change. In other words, the entire sentence was counted even if a couple of words or terms towards the beginning or the end of the sentence did not have strategic change implications.

The following is an example of strategic terms from the president's letter which constituted a strategic change. For instance, a proposed strategic change may be accomplished through cost reductions (capital reduction, debt reduction, work force reduction), reorganization, alteration of market focus, product redirection, diversification (horizontal and vertical diversification) divestiture, change in executive personnel, joint venture(s), strategic reorientation (cost competitiveness), realignment (changes or modifications in asset portfolio), consolidation(s), mergers and acquisitions, and by research and development. The aforementioned terms were found in the company's annual reports. Available annual reports for the fiscal year 1991 were assessed for participating organizations. Strategic comments made in the CEO's letters were assumed to be indicative of a proposed strategic change.

Two independent coders were trained and subsequently assessed the CEO's letter. The author was one of the coders. Coders were trained on phrases or expressions which constitute strategic change such as the terms mentioned above. In order to establish a common frame of reference both raters jointly assessed seven randomly selected firms. This allowed for a reliability test between the two coders which revealed a high inter-rater reliability score of .66. In order to reduce coding error the resulting average was used. The corollary strategic changes from the CEO's letter was assessed separately from the strategic responses found in the survey.

As an alternative method in testing strategic change, an attempt was made in this research to measure changes in a firm's four digit SIC code from year 1 to year 2. The SIC code was developed primarily for the use of the U.S. census in order to measure economic activity in the U.S. economy (Pitts & Hopkins, 1982). The results are published on an industry basis rather than a firm basis (Pitts & Hopkins, 1982). Support for this approach can be taken from the work of Virany et al. (1992). They utilized a design whereby strategic change was measured through additions or deletions of a company's major product lines. However, given the relatively short time frame of two years, the criteria for CEO tenure, meaningful variances in a firm's SIC code from year 1 to year 2 were non-existent. In other words, given the data analysis period, it would be hard to attain strategic change for newly tenured CEOs therefore making it biased against them. Moreover, in order for a firm to reflect a change in its SIC code there needs to be a major shift in its market focus. Such a change may take a number of years in order to be fully orchestrated. This will create a lag in SIC change and may result in

preferential treatment, in terms of attributing strategic change, for longer tenured CEOs.

Managers also assessed the transformational leadership of the CEOs for their respective firms. This was measured using items from the Multifactor Leadership Questionnaire which are shown in section III of Appendix C (Bass, 1985; Bass & Avolio, 1990). These items are designed to assess intellectual stimulation and charismatic/inspirational leadership which is central to the transformational leadership construct. Intellectual stimulation was assessed by questions 7, 8, 9, and 11, whereas the other questions in section III of the survey assessed charismatic/inspirational leadership. The alpha coefficient for intellectual stimulation was .86 and .90 for charismatic/inspirational leadership.

CEO tenure was measured in the survey by asking respondents to indicate the length of time, in months, that their respective CEO had been in his or her position. The survey also requested the CEO's name in order to ascertain that the tenureship indicated, within firms, was indeed for the same person and also to verify that the CEO was indeed being measured. These items are shown in section IV of Appendix C.

In order to adjust for the manner or the direction in which some questions were posed it was necessary to recode or reverse some of the questions prior to analysis. For instance, perceived environmental uncertainty questions 1-4, and 8-10, found in section I of Appendix C, and all the transformational leadership questions found in section III were reversed.

**6.3 Procedure:**

Prior to mailing, the names, job title, and addresses of all 900 participants were verified in the latest issue of The Financial Post Directory of Directors, and the Million Dollar Directory: America's Leading Public & Private Companies. Two mailings were conducted. The first mailing occurred from December 1992 until the first week of January 1993. This mailing included a confidential survey and was introduced by a covering letter explaining the purpose of the study and emphasized the importance of the respondent's participation. Code numbers were included on surveys so that managers and their firms could be subsequently identified for data analyses and for follow-up reports of aggregate survey results. All survey responses were treated confidentially in that no single respondent was identified. The first mailing, from a sample size of 900, resulted in approximately 190 responses of which 169 were usable. This resulted in a usable response rate of 18.8% (refer to Table 1 below). The breakdown of targeted participants by country and the usable responses from the first mail out is listed below.

**TABLE 1**  
**RESULTS FROM FIRST MAIL OUT**

	# OF FIRMS TARGETED	# OF TARGETED PARTICIPANTS PER FIRM	INITIAL SAMPLE SIZE	INITIAL SAMPLE SIZE (%)	USABLE RESPONSES
FIRST MAILING	150	6	900	100%	169
CANADIAN FIRMS	55	6	330	36.7%	—
U.S. FIRMS	95	6	570	63.3%	—

Non-participants and non-usable responses were caused by several factors. For instance, the targeted individuals had recently retired or quit the organization, lacked the time to participate in the survey, or stated that it was against company policy. Non-usable responses were the result of individuals who chose not to be identified and subsequently removed the survey code number by either defacing or cutting off the code by means of scissors.

For non-respondents to the first survey, targeted phone calls were made in an attempt to gain their participation. That is, individuals were contacted who represented firms for which only one manager had responded. The purpose of these targeted phone calls was to increase the number of firms with at least two responding managers. This would allow for enhanced reliability of firm-level measures. During the targeted telephone calls managers were reminded of the importance which their participation would have not only in making this research relevant but also for practitioners like themselves.

Six weeks after the initial mailing a second mailing with an approximate sample size of 679 was undertaken as a follow-up to non-respondents to the initial survey. Once again, the surveys were accompanied by a covering letter explaining the survey and expressing the importance of respondents' participation. The second mailing resulted in an additional 65 usable responses (refer to Table 2 below). The breakdown of targeted participants by country and the usable responses from the second mail out is listed below.

**TABLE 2**  
**RESULTS FROM SECOND MAIL OUT**

	# OF FIRMS TARGETED	SAMPLE SIZE	SAMPLE SIZE (%)	USABLE RESPONSES
SECOND MAILING	142	679	100%	65
CANADIAN FIRMS	51	221	32.5%	—
U.S. FIRMS	91	458	67.5%	—

The drop in the sample size for the second mailing, from 900 to 679, was partially due to changes in leadership. In other words, the CEO who was at the helm as of November 1992 had been replaced, and thus the respective firm was not targeted in the second mail out. This information was captured through daily newspapers such as The Financial Post. Usable responses were further curtailed due to changes in leadership. In order to ensure a maximum response rate, an 8 week time period, from the date of the second mail out, was allowed to elapse before any data were analyzed. Finally, an additional mailing was undertaken for respondents who indicated in the

survey that they would like an aggregated feedback report.

The total number of usable responses was reduced due to respondents who chose not to be identified and subsequently removed the code number from their survey. In sum, the overall effective response rate was 32.0% (refer to Table 3 below). The effective sample size, usable response rate, effective response rate, total number of respondents and the confirmed non-participants are listed in Table 3 below. The initial sample size of 900 had to be corrected for in order to take into account factors which were outside the surveyor's control. Such factors include individuals who had either retired, were away on business, no longer with the firm or were unable to be located. This resulted in a reduced sample size or an effective sample size of 860. The usable response rate was derived simply by dividing the number of usable responses by the effective sample size. In contrast, in calculating the effective response rate, the numerator (total number of respondents) was comprised of the number of usable responses, participants whose surveys were unable to be traced back to their respective firm, and respondents who did respond with a confirmation of non-participation. Confirmed non-participants are individuals who responded with letters stating that it was either against company policy to participate, the survey suggests they rate their CEO and they do not believe in doing so, or that it was time consuming and they lack the time. For the above reasons, the effective response rate is slightly higher than the usable response rate (32.0% vs. 27.2%). In either method of calculation the Canadian firms had a substantially higher response rate than their American counterparts.



**TABLE 3**  
**OVERALL EFFECTIVE RESPONSE RATE**

	CDN. FIRMS	U.S. FIRMS	TOTAL FIRMS	PERCENT
INITIAL SAMPLE	330	570	900	100%
UNABLE TO LOCATE/ RETURN TO SENDER	2	21	23	2.6%
RETIRED/AWAY ON BUSINESS/NO LONGER WITH FIRM	7	10	17	1.9%
EFFECTIVE SAMPLE SIZE *	321	539	860	----
TOTAL # OF USABLE RESPONSES	117	117	234	95.6%
UNIDENTIFIABLE RESPONSES, THUS UNUSABLE	11	1	12	----
CONFIRMED NON - PARTICIPANTS	12	17	29	3.2%
TOTAL # OF RESPONDENTS *	140	135	275	----
USABLE RESPONSE RATE *	36.4%	21.7%	27.2%	----
EFFECTIVE RESPONSE RATE *	43.6%	25.0%	32.0%	----

\* Refer to the formulas below.

EFFECTIVE SAMPLE SIZE = INITIAL SAMPLE - (RETIRED/ON BUSINESS/ NO LONGER WITH FIRM  
+  
UNABLE TO LOCATE/RETURN TO SENDER)

USABLE RESPONSE RATE =  $\frac{\text{TOTAL NUMBER OF USABLE RESPONSES}}{\text{EFFECTIVE SAMPLE SIZE}}$

EFFECTIVE RESPONSE RATE =  $\frac{\text{TOTAL NUMBER OF RESPONDENTS}}{\text{EFFECTIVE SAMPLE SIZE}}$

TOTAL RESPONDENTS = TOTAL NUMBER OF USABLE RESPONSES  
+  
UNIDENTIFIABLE RESPONSES  
+  
CONFIRMED NON-PARTICIPANTS

#### **6.4 Analysis:**

As mentioned previously, the firm was selected as the primary unit of analysis. In spite of attempts which were made to attain at least 2 respondents per firm, 41 firms out of the 112 responding firms had only one respondent (refer to Table 4 below). Table 4 describes the number of usable responses at a firm level. The responses revealed that there were a greater proportion of Canadian firms, in comparison to their American counterparts, who responded. An overwhelming 90.9% of Canadian firms targeted responded to the survey.

**TABLE 4**  
**DESCRIPTIVE STATISTICS (RESPONDING FIRMS)**

	CDN. FIRMS	% OF TOTAL CDN. FIRMS	U.S. FIRMS	% OF TOTAL U.S. FIRMS	TOTAL CDN. & U.S. FIRMS	% OF TOTAL
# OF FIRMS WITH NO RESPONSE	5	9.1%	33	34.7%	38	25.3%
# OF FIRMS WITH 1 RESPONSE	17	34.0%	24	25.3%	41	27.3%
# OF FIRMS WITH 2 OR MORE RESPONSES	33	60.0%	38	40.0%	71	47.3%
# OF PARTICIPATING FIRMS	50	90.9%	62	65.3%	112	74.7%

Regression analysis (SPSSx) was employed to analyze the data. Strategic change variables served as dependent variables. In addition, through the use of the program SPSSx, attempts were made to determine whether environmental uncertainty moderates the relationship between CEO transformational leadership and extent of strategic change. A moderator is a variable which affects the relationship between two other variables. For instance, the impact or the outcome of variable A (e.g., leadership) on B (e.g., strategic change) may change if variable C (e.g., environmental uncertainty) enters the equation and acts as a moderator. In this example, the moderator term would be attained by multiplying  $A \times C$ .

Initial analyses examined individual responses to assess the reliability of all the measures. The second level of analysis was at the firm level. At this level it was possible to measure and analyze strategic change variables obtained through the president's letter. In addition, the survey results from CEO tenureship, transformational leadership, environmental uncertainty, and strategic change were amalgamated for firms which had two or more respondents.

Aggregated tests were conducted by computing analysis of variance (ANOVA). A comparison of variances between versus within firms was undertaken for the aggregated firms. The results from the analysis of variance, although not significant, revealed that strategic change and charismatic inspiration had a greater variance between firms as compared to within firms. In other words, respondents' perceptions within the same firm differed less than that of respondents across firms. The F-ratio for strategic change was 1.85 with a probability less than .01; the F-ratio for charismatic inspiration

was 1.85 with a probability less than .01. Conversely, environment and intellectual stimulation revealed a greater variance within firms as compared to across firms. Results from the analysis of variance revealed that the F-ratio for external environment was 1.16 and the probability was .23; the F-ratio for intellectual stimulation was 1.18 and the probability was .21. The premise was that there was an understanding as to the external environment which firm A faced and that other firms encountered different environments, thus any perceived environmental differences encountered within a firm would be due to perceptual error. Furthermore, the supposition was that there would be a greater variance across firms as opposed to within firms. A greater variance within firms compared to across firms may be an indication that aggregation should not be used. Despite the results the decision was made to aggregate because without aggregating all the hypotheses could not be tested.

Moderator regression analyses (Cohen & Cohen, 1975) were conducted to test the hypothesis that perceived environmental uncertainty moderates the relationship between CEO transformational leadership and strategic change(s) within an organization. In addition, another moderator analyses was undertaken in order to assess whether perceived environmental uncertainty moderates the relationship between CEO tenureship and strategic change(s) within an organization. Separate interaction terms were derived by multiplying the two components of transformational leadership by perceived environmental uncertainty for firms which had two or more respondents. A third interaction term was obtained by multiplying CEO tenure by perceived environmental uncertainty. Charismatic inspiration, intellectual stimulation, and CEO tenureship were

initially entered into the regression equation. Perceived environmental uncertainty was then added into each equation. Lastly, the respective interaction term was entered into each equation. The interaction term was entered to establish whether it added significant, unique variance over and above the main effects of transformational leadership (charismatic inspiration and intellectual stimulation), CEO tenureship, and perceived environmental uncertainty to account for strategic change(s) within an organization. This was done separately for each of the two measures of strategic change.

## CHAPTER 7

### EMPIRICAL RESULTS

This chapter reveals the descriptive statistics and the correlations of all the variables used in the study. Results from the moderator regression analyses, which were used in testing the hypotheses, are examined.

Descriptive statistics for aggregated survey results are shown in Table 5 for firms with two or more respondents. Aggregation occurred when there were two or more respondents per firm. Measures with missing responses were not aggregated. In general, CEOs exhibited a high degree of transformational leadership as evident in the high score on the five-point scale for inspirational leadership and intellectual stimulation; perceived environmental uncertainty was more toward the latter end of the five-point scale which signified that the external environment was perceived to be uncertain; strategic change was toward the middle of the five-point scale. In contrast to the non-aggregated results which revealed a mean CEO tenure of 89.57 months (7.46 years) and a standard deviation of 71.52 months (5.96 years), the aggregated results revealed a mean tenure of 93.28 months (7.77 years) and a standard deviation of 71.90 months (5.99 years).

Strategic change 1991A & B which was tapped through the president's letter and found in the firm's annual reports was assessed by two independent coders. President's

letter, found in the respective firm's 1991 annual report, for 102 of the 112 responding firms were coded for strategic change elements. The possible range of values were measured in percentage and therefore range from 0 to 1; where 0 indicates that there is no strategic focus and 1 reflects 100% strategic focus. The aggregated results reveal that strategic change from the president's letter was toward the lower end of the scale. This would imply that firms in this survey, for the fiscal year 1991, were not heavily oriented towards a strategic change focus.

Intercorrelations are shown in Table 6 for CEO tenure, charismatic inspiration, intellectual stimulation, perceived environmental uncertainty, strategic change (survey), strategic change 1991A & B, and strategic change average. The significant correlation between strategic change 1991A & B unveiled that there was a high inter-rater reliability between the two coders. In other words, the high correlation signifies that the two raters were indeed assessing the same items. Strategic change average is the mean from strategic change 1991A & B. Contrary to predictions made in hypothesis 2, the intercorrelations revealed little relationship between CEO tenure and the two components of transformational leadership (charismatic inspiration and intellectual stimulation). Significant relationships were found between charismatic inspiration and intellectual stimulation, charismatic inspiration and environmental uncertainty, charismatic inspiration and strategic change (survey), perceived environmental uncertainty and strategic change, strategic change 1991A & B and strategic change average. The data also revealed that convergent validity did not exist between the strategic change variable from the survey and either of the strategic change variables from the president's letter.

**TABLE 5**  
**AGGREGATED RESULTS (FIRM LEVEL)**  
**(DESCRIPTIVE STATISTICS)**

<u>VARIABLES</u>	<u># OF FIRMS</u>	<u>MEAN</u>	<u>STANDARD DEVIATION</u>
CEO TENURE	69	93.28	71.90
CHARISMATIC INSPIRATION	70	4.36	.45
INTELLECTUAL STIMULATION	70	3.25	.56
PERCEIVED ENVIRONMENTAL UNCERTAINTY	71	3.48	.34
STRATEGIC CHANGE (SURVEY)	70	3.28	.56
STRATEGIC CHANGE 1991A (PRESIDENT'S LETTER)	102	.26	.11
STRATEGIC CHANGE 1991B (PRESIDENT'S LETTER)	102	.30	.13
STRATEGIC CHANGE 1991A&B (AVERAGE) (PRESIDENT'S LETTER)	102	.28	.11



**TABLE 6**  
**CORRELATION MATRIX**

<u>VARIABLES</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>
1. CEO TENURE	---							
2. CHARISMATIC INSPIRATION	.18	---						
3. INTELLECTUAL STIMULATION	.14	.49**	---					
4. PERCEIVED ENVIRONMENTAL UNCERTAINTY	-.09	.24**	.22	---				
5. STRATEGIC CHANGE (SURVEY)	.13	.36**	.14	.41**	---			
6. STRATEGIC CHANGE 1991A (PRESIDENT'S LETTER)	-.10	-.04	-.24	.08	.01	---		
7. STRATEGIC CHANGE 1991B (PRESIDENT'S LETTER)	.02	-.12	-.09	-.06	.07	.66**	---	
8. STRATEGIC CHANGE 1991A&B (AVERAGE) (PRESIDENT'S LETTER)	-.03	-.09	-.18	.01	.05	.90**	.92	---

\*\* p < .01

Results of the moderator regression analysis are displayed in Tables 7,8,9 and 9A on the pages below. Results for strategic change measured in the survey are shown in Tables 7 and 9A. Tables 8 and 9 reflect strategic change which was assessed by coding the president's letter. Tables 7 and 8 assessed and failed to lend support to hypothesis 1. Results from Tables 9 and 9A displayed a lack of support for hypothesis 3.

Partial F-tests were conducted in order to ascertain whether unique and additional variances were added to the regression equation by each of the predictors and their interaction terms. Consistent with the findings in the correlation matrix, inspirational leadership accounts for significant variance in predicting strategic change that was measured through the survey. In addition, perceived environmental uncertainty accounted for significant variance in predicting strategic change (survey). However, the interaction between inspirational leadership and perceived environmental uncertainty did not add unique variance.

In confirmation to the correlation table, intellectual stimulation does not account for significant variance in predicting strategic change (survey). In contrast, perceived environmental uncertainty accounted for significant variance in predicting strategic change (survey). The interaction between intellectual stimulation and perceived environmental uncertainty did not add unique variance.

In accordance with the findings revealed in the correlation matrix, inspirational leadership does not account for significant variance in predicting strategic change when strategic change is assessed through the president's letter. In addition, perceived environmental uncertainty did not account for significant variance in predicting strategic

change (president's letter). Moreover, the interaction between inspirational leadership and perceived environmental uncertainty did not add unique variance.

Confirming the correlational findings, intellectual stimulation and perceived environmental uncertainty do not account for significant variance in predicting strategic change (president's letter). Furthermore, the interaction between intellectual stimulation and perceived environmental uncertainty did not add unique variance. Both the interaction and the independent variables do not account for significant variance in predicting strategic change when assessed through the president's letter.

In support of the correlational findings, CEO tenureship does not account for significant variance in predicting strategic change. The results are the same regardless of the method used to measure strategic change. Perceived environmental uncertainty does not account for significant variance in predicting strategic change when strategic change was measured through the president's letter. In contrast, perceived environmental uncertainty added significant variance in the prediction of strategic change when strategic change was assessed by the survey. Regardless of the procedure used to assess strategic change, there was no interaction effect between CEO tenureship and perceived environmental uncertainty.

**TABLE 7**  
**MODERATOR REGRESSION ANALYSES PREDICTING**  
**STRATEGIC CHANGE (SURVEY)**

(N=70)

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	<u>R<sup>2</sup></u>	<u>Cumulative R<sup>2</sup></u>
CHARISMATIC INSPIRATION (CI)	.13**	
PERCEIVED ENVIRONMENTAL UNCERTAINTY (PEU)	.12**	.25**
CI x PEU	.01	.26**
	<u>R<sup>2</sup></u>	<u>Cumulative R<sup>2</sup></u>
INTELLECTUAL STIMULATION (IS)	.02	
PERCEIVED ENVIRONMENTAL UNCERTAINTY (PEU)	.15**	.17**
IS x PEU	.01	.18**

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\*\* p < .01

**TABLE 8**  
**MODERATOR REGRESSION ANALYSES PREDICTING**  
**STRATEGIC CHANGE AVERAGE (PRESIDENT'S LETTER)**

(N = 102)

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	<u>R<sup>2</sup></u>	<u>Cumulative R<sup>2</sup></u>
CHARISMATIC INSPIRATION (CI)	.01	
PERCEIVED ENVIRONMENTAL UNCERTAINTY (PEU)	.00	.01
CI x PEU	.02	.03
	<u>R<sup>2</sup></u>	<u>Cumulative R<sup>2</sup></u>
INTELLECTUAL STIMULATION (IS)	.03	
PERCEIVED ENVIRONMENTAL UNCERTAINTY (PEU)	.00	.03
IS x PEU	.01	.04

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**TABLE 9**  
**MODERATOR REGRESSION ANALYSES PREDICTING**  
**STRATEGIC CHANGE AVERAGE (PRESIDENT'S LETTER)**

(N=102)

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	<u>R<sup>2</sup></u>	<u>Cumulative R<sup>2</sup></u>
CEO TENURE (CT)	.00	
PERCEIVED ENVIRONMENTAL UNCERTAINTY (PEU)	.00	.00
CT x PEU	.01	.01

**TABLE 9A**  
**MODERATOR REGRESSION ANALYSES PREDICTING**  
**STRATEGIC CHANGE (SURVEY)**

(N=70)

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	<u>R<sup>2</sup></u>	<u>Cumulative R<sup>2</sup></u>
CEO TENURE (CT)	.02	
PERCEIVED ENVIRONMENTAL UNCERTAINTY (PEU)	.20**	.22**
CT x PEU	.02	.24**

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\*\* p < .01

## CHAPTER 8

### DISCUSSION

This chapter discusses the meaning and implication(s) of the results found in the previous chapter. Furthermore, a revised model based on the results is assessed. In conclusion, this chapter reveals some limitations or shortcomings of the current study.

Hypothesis 1, which stated that CEO transformational leadership will be associated with strategic change when moderated by environmental uncertainty, was not supported. Moderator analysis revealed that a component of transformational leadership (charismatic inspiration), an independent variable, by itself was associated with strategic change. Furthermore, in contrast to hypothesis 1, moderator analyses showed that the relationship between charismatic inspiration and strategic change was not contingent upon the level of perceived environmental uncertainty. Thus, it would seem that followers' perceptions of an uncertain environment do not moderate the relationship between CEO transformational leadership and strategic change(s) within an organization.

In support of Gilmore (1991), Andrews (1971), and Chandler (1962) who stated that strategic change is associated with CEO leadership, this study reveals that CEO charismatic leadership is associated with strategic change. Moreover, in line with Khandwalla (1977) who argued that strategic variables are the sole province of top management, this study revealed that a leader who is charismatic is associated with

implementing strategic change(s) within an organization regardless of how the external environment is perceived. The association between charismatic leadership and strategic change may be explained through pure charisma. Pure charisma which is a component of a charismatic leadership works on an individual's emotions and therefore may have the tendency to facilitate strategic changes initiated by the charismatic leader.

The results indicated that perceptions of an uncertain environment are directly associated with strategic change(s) by an organization. This outcome supports the study results of Paine and Anderson (1977) which indicated that perceptions of high uncertainty would conform with perceptions of high need for internal change. This association may indicate that in order to cope with an uncertain external environment organizations may require the execution of strategic change(s). Khandwalla (1972) stated that organizations rely upon techniques in order to reduce uncertainty. Strategic change which is ameliorated by organizational learning may be the technique employed in order to combat an uncertain environment. Strategic change(s) might involve such things as making changes to a firm's product focus, financial structure, divestments/acquisitions, and executive personnel.

A CEO who is charismatically inspired is associated with having the ability to perceive when the external environment is uncertain. The ability for a charismatic leader to perceive an uncertain environment will allow the leader to measure and allay followers' fears of an uncertain environment. As stated earlier, followers' fears of an uncertain external environment may emanate due to job insecurity.

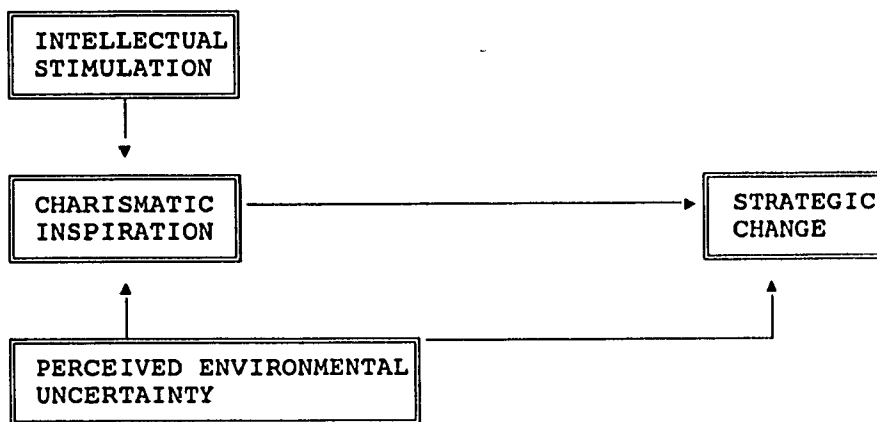
The results also ran contrary to hypothesis 1 in that the second component of



transformational leadership (intellectual stimulation) was not associated with strategic change when moderated by a perceived uncertain environment. When intellectual stimulation as opposed to charismatic inspiration acted as the independent variable the results were similar in that perceived environmental uncertainty was directly associated with strategic change. Although intellectual stimulation was not associated with strategic change, it was significantly correlated with charismatic inspiration which in turn was highly associated with strategic change. Thus, not only are charismatic leaders associated with the ability to perceive an uncertain environment, but are also associated with being intellectually stimulated and having the ability to implement strategic changes within an organization. In sum, the results reveal that a leader does not have to be transformational in order to be associated with strategic change. The results of this study are reflected in the revised model shown in Figure #5.

FIGURE #5

Revised Model



The findings also revealed a lack of support for hypothesis 2 which stated that new tenureship would be associated with high transformational leadership. Furthermore, the results in this study did not support Miller's (1993) findings that new leadership (CEO tenureship) is associated with change(s) within a firm. A plausible explanation for the differences in results between the two studies is the length of time, in terms of data collection, that was allowed to elapse. In other words, in contrast to the current study, Miller's study was longitudinal and tracked firms using secondary archival data that were 20 years or older. This study would indicate that the length of time which a CEO has been in power should have no bearing on his/her transformational ability. Thus, the charismatic and intellectual stimulating effects of a CEO are not impacted by tenure.

The findings from this study failed to lend support for hypothesis 3 which stated that CEO tenureship will be associated with strategic change when the environment is perceived to be uncertain. In other words, CEO's tenure has no impact on a firm's strategic change initiatives regardless of perceptions of an uncertain environment.

This study displayed that charismatic inspiration is indeed associated with perceptions of an uncertain environment. A charismatically inspired leader is one who not only inspires confidence from followers, but also generates respect and projects visionary ideas. The results were contrary to the findings of Waldman and Ramirez (1992) and in support of findings by House et al. (1991), which revealed that a leader's charismatic effect under a crisis situation is more intensified and follower's will be more inclined to follow the leader's action(s). The latter two studies used a measure of performance as the dependent variable, whereas this current study relied upon strategic

change as its dependent variable. A firm wishing to implement immediate change(s) may rely upon a charismatic leader since charisma works on an individual's intuition and feelings and elicits immediate action on the part of followers.

The results did not reveal convergent validity between the strategic change variable collected from the survey and that collected from the president's letter. A potential explanation for the lack of correlation is based on the fact that the strategic change variables measured in the survey essentially captured the entire tenureship of the CEO whereas the strategic change variable from the president's letter only captured a period of one year. As stated earlier, the average CEO tenureship from the survey ranged from 5.96 to 7.46 years depending on whether the aggregated or the non-aggregated results are used. In addition, the fiscal year 1991 was atypical in that there was a high rate of inflation, unemployment and firm closures. A high rate of inflation may have curtailed strategic change initiatives which required extensive capital expenditure. A curtailment in strategic change, for the year 1991, would tend to support the low strategic change focus which was revealed in the coding of the president's letter for the fiscal year 1991.

This study contributes to theory in that it illustrates that charismatic leadership can be an additional tool for understanding leaders who cannot maintain direct relationships with their followers and who must lead by inspiration rather than by control when seeking to effect strategic change within an organization.

In sum, the findings from this study reveal that perceptions of an uncertain environment is associated with strategic change within a firm. Moreover, a CEO who

possesses charismatic inspiration, regardless of perceptions of the external environment, may be a stimulus for strategic change(s) within a firm. These results suggest that organizations wishing to pursue or implement strategic change, as opposed to maintaining the status quo, should attempt to recruit executives who possess charismatic leadership qualities. Perhaps a relationship between the CEO and followers that is charismatically inspirational will allow for the generation of organizational support in implementing strategic changes.

### **8.1 Limitations:**

Aggregating data at the firm level would reveal more meaningful results. This is based on the belief that there would be a greater variance across firms as opposed to within firms. However, the results from this study may have been limited in that a greater variance occurred within firms as compared to across firms for some of the measures. Perhaps there are other ways to subjectively or objectively measure the environment in order to help control this situation.

This study was limited in that the type of industry in which an organization operates was not considered. Since perceptions of environmental uncertainty have been known to differ by industry (Hrebiniak & Snow, 1980; Hambrick, 1983), a certain industry may have revealed a moderated relationship between leadership and strategic change.

Another limitation in this study was the one year time period used to assess

strategic change through the coding of the president's letter. Assessing strategic change, through the president's letter for a time period greater than one fiscal year, may reflect a more accurate picture of strategic change orientation on the part of the CEO.

## CHAPTER 9

### FUTURE RESEARCH

The final chapter gives suggestions and recommendations on other avenues by which this current project can be extended.

Future research may attempt to assess strategy by observing changes in an organization's standard industrial classification (SIC) code over a period of 4-5 years. Changes in an organization's SIC code from year 1 to year 5 will reflect a strategic change in market focus. Lamont and Anderson (1985) selected a 5-year period in order to determine if a firm had diversified into at least one new four digit SIC code. A similar attempt was undertaken in this research. However, the short time frame of two years, resulted in an insignificant variance in a firm's SIC code from year 1 to year 2.

The data revealed that Canadian firms, in comparison to their American counterparts, were more responsive. Future research may embark upon this discovery and place a heavier emphasis on Canadian firms in order to increase the response rate. This may limit the generalizability of the results to Canadian firms only.

It has been accepted that organizations are not environmentally independent (Anderson & Paine, 1975). Future research may expand the definition of the environment to include an organization's internal environment and assess whether it has a moderating effect on strategic change. The internal environment, in contrast to the

external environment involves aspects within a firm such as the throughput and administrative environment mentioned earlier. The throughput environment refers to process technology, whereas the administrative environment includes new approaches to an organization's design which consist of its norms, beliefs, attitudes and values. In sum, the organizational design refers to an organization's culture. In order to have effective strategic change an organization's cultural values may have to be aligned with its strategy (Daft, 1989). In addition, the internal environment according to Duncan (1972) consists of an organization's goals and objectives, and its information processes and networks.

Future research, in studying environmental uncertainty, may want to consider the type of industry in which an organization operates. Perceptions of environmental uncertainty differ by industry (Hrebiniak & Snow, 1980; Hambrick, 1983). From an economist's point of view, organizations may face different environmental uncertainties depending on whether they are operating under a perfectly competitive, duopolistic, or a monopolistic market. Bain (1959) noted that an organization may face a different type of environmental uncertainty due to the type of product or service it offers. For instance, firms in the automotive industry operate under an oligopolistic market, which is a form of monopoly, and are compelled by United Auto Workers (UAW) contracts. This form of constraint provides a collective or an industry perception of an aspect of the environment (Hrebiniak & Snow, 1980). The industry may be treated as a surrogate to the environment. More specifically, industry could be used as a control variable to determine if it moderates the relationship between leadership and strategic change.

In the future, a similar research may attempt to extend the one year time period used to assess strategic change from the president's letter. An attempt to code strategic change from the president's letter over a consecutive period of a few years may help to eliminate peculiarities caused by an atypical year.

Future research may attempt to extend this study beyond the confines of Canadian and American firms in order to test whether or not the current findings are externally valid. In other words, future research may want to assess whether the results from this study would be attained in other countries.

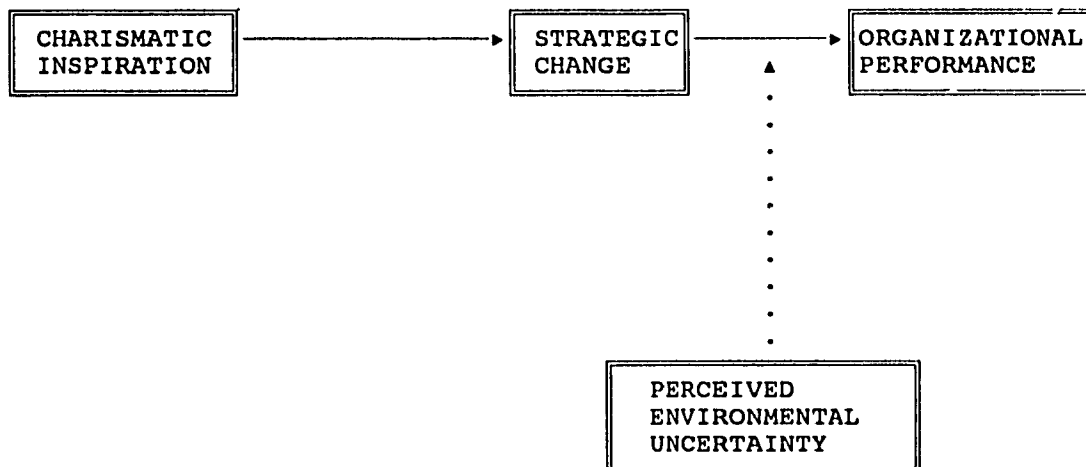
An extension of this study may incorporate financial performance data such as return on investment, net profit margin and net income to determine whether there is a link with a firm's perception of an uncertain environment and its financial performance. As stated earlier, Bourgeois (1985) revealed that the accuracy with which senior executives perceive the environment will be positively associated with a firm's financial performance. Furthermore, an attempt may be made to examine the relationship between charismatic leadership and financial performance. In other words, similar to the study undertaken by Waldman and Ramirez (1992), future research may attempt to assess organizational performance as the dependent variable and assess whether charismatic leadership is associated with strategic change which is in turn associated with organizational performance when moderated by an uncertain environment (refer to Figure #6 below). Strategic change acts as the intervening variable in this model. In contrast to the current study which hypothesized that perceptions of an uncertain environment will moderate the relationship between leadership and strategic change(s), this model suggests



that perceptions of environmental uncertainty will moderate the relationship between strategic change(s) and an organization's performance.

FIGURE #6

## Extension of Current Model



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## APPENDIX A

Appendix A includes an exhaustive list of all the occupational positions and titles occupied by the respondents.

### OCCUPATIONAL POSITION/TITLE

01 = HUMAN RESOURCES/PERSONNEL/PROFESSIONAL DEVELOPMENT/PUBLIC RELATIONS
02 = MANAGEMENT/DIRECTOR
03 = VICE CHAIRMAN/COMPANY GROUP CHAIRMAN
04 = EXECUTIVE VICE PRESIDENT/SR. VICE PRESIDENT/SR. EXECUTIVE VICE PRESIDENT
05 = VICE PRESIDENT
06 = CORPORATE STRATEGIC PLANNING & DEVELOPMENT/CORPORATE PERFORMANCE/POLICY
07 = ASSISTANT CORPORATE SECRETARY/GENERAL COUNSEL & SECRETARY
08 = TREASURER
09 = PRESIDENT/GROUP PRESIDENT
10 = CHIEF OPERATING OFFICER
11 = CONTROLLER
12 = TAX
13 = MARKETING, MERCHANDISING & RETAILING
14 = FINANCE & CHIEF FINANCIAL OFFICER
15 = COMMUNICATION
16 = ENGINEERING
17 = SAFETY & ENVIRONMENT
18 = LAW
19 = CONSULTANT

## APPENDIX B

Appendix B displays a list of all the Canadian and American firms that participated in the survey along with the number of participants per firm.

<sup>a</sup> In order for a firm to have a rating in this column there must be at least two respondents from the firm. An average score for the respondents is calculated in order to arrive at a numerical figure denoting the degree of strategic change. The possible range of values are from 1 to 5; where 1 = little if any strategic change initiatives undertaken within the firm and 5 = strategic change oriented.

<sup>b</sup> The values in this column were derived by two independent coders who assessed strategic change elements in the president's letter which were found in the 1991 annual reports. The possible range of values were measured in percentage and therefore range from 0 to 1; where 0 represents that there is no strategic focus and 1 = 100% strategic focus. Several attempts were made to attain all the annual reports for the participating firms. However, a few firms contacted either stated that they did not issue an annual report for that year or promised that they would send it but never followed through. Subsequent attempts through library research and follow up calls were made to secure the missing reports but to no avail.

## PARTICIPATING CANADIAN FIRMS

<u>FIRM NAME</u>	<u>( ) = # OF PARTICIPANTS</u>	<u>STRATEGIC CHANGE (SURVEY) <sup>a</sup></u>	<u>STRATEGIC VARIABLE <sup>b</sup> PRES. LETTER</u>
1. ALCAN ALUMINUM LTD	(2)	1.79	.22
2. BANK OF MONTREAL	(4)	2.32	.06
3. BANK OF NOVA SCOTIA	(1)	----	.27
4. BOMBARDIER INC.	(3)	3.90	.46
5. BRITISH COLUMBIA TELE. CO.	(2)	3.00	.41
6. CT FINANCIAL SERVICES INC.	(1)	----	.19
7. CAE INDUSTRIES	(2)	3.21	.41
8. CAISSE DE DEPOT. ET PLACE. DU QUE.	(3)	2.43	.07
9. CANADA LIFE ASSURANCE CO.	(3)	3.00	.11
10. CANADA POST CORPORATION	(5)	3.43	----
11. CANADIAN PACIFIC LTD.	(2)	3.88	.34
12. CANADIAN TIRE CORP. LTD.	(1)	----	.34
13. CANADIAN UTILITIES LTD.	(1)	----	.28
14. CHRYSLER CANADA LTD.	(3)	3.29	.19
15. COMINCO	(3)	2.62	.22
16. CONFEDERATION LIFE INS. CO.	(2)	3.43	.31
17. CROWN LIFE INSURANCE CO.	(4)	3.32	.34
18. DOMINION TEXTILE INC.	(3)	3.14	.34
19. DOMTAR INC.	(3)	4.05	.51
20. EMCO LTD.	(3)	3.05	.34
21. FALCONBRIDGE LTD.	(1)	----	.28
22. FEDERATED CO-OP. LTD.	(3)	3.43	----
23. GULF CANADA LTD.	(3)	3.61	.29
24. THE HORSHAM CORPORATION	(1)	----	----
25. HUDSON'S BAY CO.	(3)	3.67	.26
26. LAIDLAW INC.	(1)	----	.35

## PARTICIPATING CANADIAN FIRMS (CONTINUED)

<u>FIRM NAME</u>	<u>( ) = # OF PARTICIPANTS</u>	<u>STRATEGIC CHANGE (SURVEY) <sup>a</sup></u>	<u>STRATEGIC VARIABLE <sup>b</sup> PRES. LETTER</u>
27. LAURENTIAN GROUP CORP.	(1)	----	.22
28. LOBLAW COMPANIES LTD.	(2)	3.29	.24
29. LONDON LIFE INSURANCE CO.	(6)	3.05	.18
30. MACLEAN HUNTER LTD.	(1)	----	.23
31. MACMILLAN BLOEDEL LTD.	(1)	.401	.38
32. MANUFACTURERS LIFE INS. CO.	(1)	----	.44
33. MEDIS HLTH. & PHAR. SVS. INC.	(2)	3.93	----
34. THE MOLSON COMPANIES LTD.	(1)	----	.19
35. MONTREAL TRUSTCO INC.	(1)	----	.29
36. MOORE CORP. LTD.	(2)	3.14	.36
37. MUTUAL LIFE ASSUR. CO. OF CAN.	(1)	----	.15
38. NORTHERN TELECOM LTD.	(2)	3.86	----
39. THE OSHAWA GROUP LTD.	(2)	3.29	.26
40. PETRO-CANADA LTD.	(1)	----	.27
41. PRATT & WHITNEY CAN. LTD.	(5)	3.24	----
42. QUEBECOR INC.	(5)	3.49	.35
43. REPAP ENTERPRISES INC.	(3)	3.62	.16
44. ROYAL BANK OF CANADA	(4)	3.25	.24
45. THE SEAGRAM CO. LTD.	(1)	----	.25
46. SHELL CANADA LTD.	(1)	----	.33
47. THE TORONTO DOMINION BANK	(3)	2.90	.27
48. TRANSALTA UTILITIES CORP.	(4)	2.93	.21
49. UNILEVER CANADA LTD.	(3)	3.52	.48
50. WESTCOAST ENERGY INC.	(3)	3.43	.20

## PARTICIPATING UNITED STATES FIRMS

<u>FIRM NAME</u>	<u>( ) = # OF PARTICIPANTS</u>	<u>STRATEGIC CHANGE (SURVEY) *</u>	<u>STRATEGIC VARIABLE<sup>b</sup> PRES. LETTER</u>
51. ALEXANDER & ALEXANDER SVCS.	(1)	----	.36
52. ALUMINUM COMPANY OF AMERICA	(3)	3.71	.42
53. ALLTEL CORP.	(1)	----	.32
54. AMERICAN BRANDS INC.	(2)	4.00	.09
55. AMERICAN HOME PRODUCTS	(1)	----	.44
56. AMERICAN TELEPHONE & TELEG. CO.	(2)	3.79	.18
57. AMR CORP.	(1)	----	.11
58. AON CORP.	(1)	----	.18
59. APPLE COMPUTER INC.	(1)	----	.39
60. ASARCO INC.	(2)	3.14	.36
61. ASHLAND OIL INC.	(2)	3.21	.15
62. ATLANTIC RICHFIELD CO.	(3)	3.46	.21
63. AVON PRODUCTS INC.	(2)	3.86	.24
64. BAKER HUGHES INC.	(3)	3.33	.29
65. BAUSCH & LOMB INC.	(2)	4.50	.24
66. BECTON DICKINSON & CO.	(3)	2.76	.38
67. BELLSOUTH CORP.	(1)	----	.27
68. BOEING CO.	(1)	----	.18
69. CATERPILLAR INC.	(3)	2.67	.54
70. CBS	(1)	----	.12
71. CHEVRON CORP.	(2)	3.07	.33
72. CHRYSLER CORP.	(2)	----	.24
73. CHUBB CORP.	(2)	2.00	.16
74. CMS ENERGY CORP.	(4)	3.68	----
75. COLUMBIA GAS SYSTEM INC.	(1)	----	.07
76. COMPUTER SCIENCES CORP.	(1)	----	.16
77. DUKE POWER CO.	(2)	3.29	.28
78. ENRON CORP.	(3)	4.43	.11
79. FIRST OF AMERICA BANK CORP.	(2)	2.79	.19
80. FORD MOTOR COMPANY	(2)	2.64	.38
81. GENERAL DYNAMICS CORP.	(1)	----	.33

## PARTICIPATING UNITED STATES FIRMS (CONTINUED)

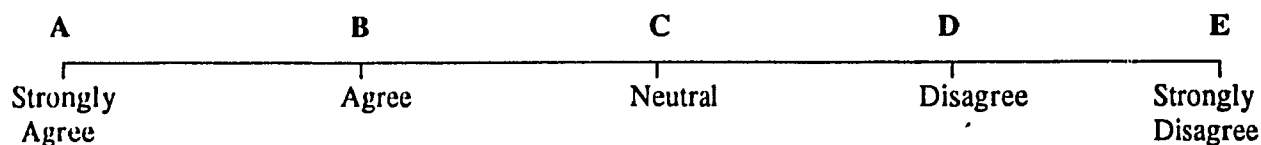
<u>FIRM NAME</u>	<u>( ) = # OF PARTICIPANTS</u>	<u>STRATEGIC CHANGE (SURVEY) *</u>	<u>STRATEGIC VARIABLE <sup>b</sup> PRIS. LETTER</u>
82. GENERAL ELECTRIC COMPANY	(1)	----	.11
83. GENERAL MILLS INC.	(2)	3.93	.18
84. HARSCO CORP.	(1)	----	.25
85. HERSHEY FOODS CORP.	(2)	3.00	.30
86. HOME DEPOT	(3)	3.19	.17
87. JOHNSON & JOHNSON	(3)	2.76	.38
88. KELLY SERVICES INC.	(2)	3.50	.34
89. K MART CORP.	(2)	4.43	.34
90. LONG ISLAND LIGHTING CO.	(1)	----	.29
91. MAPCO INC.	(1)	----	----
92. MASCO CORP.	(3)	4.38	.20
93. MATTEL	(3)	3.24	.41
94. MOTOROLA INC.	(3)	3.19	----
95. PEPSICO INC.	(3)	2.81	.30
96. POLAROID CORP.	(2)	2.71	.45
97. RAYTHEON CO.	(1)	----	.22
98. REEBOK INTERNATIONAL LTD.	(1)	----	.46
99. SARA LEE CORP.	(1)	----	.31
100. SCOTT PAPER COMPANY	(2)	3.64	.50
101. SHERWIN WILLIAMS COMPANY	(1)	----	.28
102. TEXACO INC.	(3)	3.57	.17
103. TEXAS INSTRUMENTS INC.	(1)	----	.42
104. TOYS R US INC.	(2)	2.43	.30
105. TURNER BROADCASTING SYS. INC.	(2)	3.07	.27
106. UNION ELECTRIC COMPANY	(2)	2.57	.33
107. VONS COMPANY INC.	(1)	----	.40
108. WASTE MANAGEMENT INC.	(2)	3.71	.22
109. WELLS FARGO & COMPANY	(1)	----	.10
110. WESTVACO CORP.	(2)	2.29	----
111. WHIRLPOOL	(1)	----	.37
112. XEROX INC.	(2)	3.43	.44



## APPENDIX C

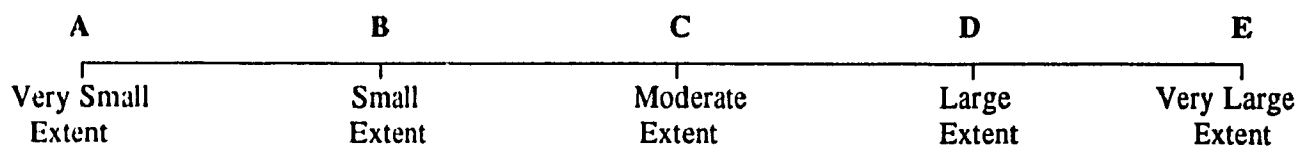
**LEADERSHIP & STRATEGIC CHANGE SURVEY**

- I. How would you characterize the external environment within which your firm functions? In rating this environment, where relevant, please consider not only the economic but also the social, political, and technological aspects of the environment.**



1. \_\_\_ Very dynamic, changing rapidly in technical, economic, and cultural dimensions.
2. \_\_\_ Very risky; one false step can mean the firm's undoing.
3. \_\_\_ Very rapidly expanding through the expansion of old markets and the emergence of new ones.
4. \_\_\_ Very stressful, exacting hostile, hard to keep afloat.
5. \_\_\_ Very predictable: easy to forecast the future state of affairs in the environment.
6. \_\_\_ Market activities of your key competitors have become more predictable.
7. \_\_\_ Your customers demand for existing and/or new products has become more stable and predictable.
8. \_\_\_ Market activities that involve price, quality, and design changes from your suppliers have become more unpredictable.
9. \_\_\_ Government agencies are implementing changes in laws or policies which are becoming more unpredictable.
10. \_\_\_ The political situation of countries in which you have operations is becoming increasingly uncertain.

- II. Since the current CEO has been in office, to what extent has your firm introduced changes in the following areas?**



1. \_\_\_ Product focus.
2. \_\_\_ Organizational structure.
3. \_\_\_ Financial structure.
4. \_\_\_ Internal organizational processes/programs.
5. \_\_\_ Executive personnel.
6. \_\_\_ Divestments.
7. \_\_\_ Acquisitions.

III. Think about the chief executive officer of your firm. To what extent does each of the following statements describe or characterize this person?

A	B	C	D	E
Frequently if not always	Fairly Often	Sometimes	Once in a while	Not at all

1. \_\_\_ I have complete confidence in him/her.
2. \_\_\_ Makes people feel good to be around him/her.
3. \_\_\_ Generates respect.
4. \_\_\_ Transmits a sense of mission.
5. \_\_\_ Shows determination when accomplishing goals.
6. \_\_\_ Communicates high performance expectations.
7. \_\_\_ His/her ideas have made me reconsider some of my own ideas which I had never questioned before.
8. \_\_\_ Enables me to view problems from a different perspective.
9. \_\_\_ Provides me with new ways of looking at things which used to baffle me.
10. \_\_\_ Provides a vision of what lies ahead.
11. \_\_\_ Suggests ways to get at the heart of complex problems.
12. \_\_\_ I am ready to trust him/her to overcome any obstacle.
13. \_\_\_ Gives reasons to be optimistic about the future.

IV. The following items will be used for making comparisons among groups of respondents. Again, this information will be kept strictly confidential.

1. Firm name? \_\_\_\_\_
2. Main business of your firm?  
\_\_\_\_\_
3. Industry? \_\_\_\_\_
4. Your name? \_\_\_\_\_  
(optional: in order to send you an aggregated feedback report)
5. Your title or position? \_\_\_\_\_
6. How long have you been in this firm? years \_\_\_\_\_ months \_\_\_\_\_
7. How long have you been in your current position in this firm?  
years \_\_\_\_\_ months \_\_\_\_\_
8. What is your age? \_\_\_\_\_
9. What is your gender? Male \_\_\_ Female \_\_\_
10. Who is the CEO of your firm?  
\_\_\_\_\_
11. How long has the CEO of your firm been in his/her position?  
years \_\_\_\_\_ months \_\_\_\_\_