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Impact of Authentic Leadership & Virtuousness on Organisational Performance during a Downsizing Exercise

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Description

Leadership plays a pivotal role in organisational performance which is often highlighted during periods of crisis (Cameron & Lavine, 2006). Typically in today's modern society it is the board of directors who are given the role of leading organisations, the board operates by making decisions collectively in an environment where the relationship between the Chairperson of the board and the CEO has a cascade effect throughout the organisation (Australian Institute of Company Directors, 2010).

This paper will examine the impact authentic leadership & virtuousness has on organisational performance during a downsizing exercise, highlighting the cascade effect of the Chairperson's role combined with elements of organisational virtuousness on positive deviant outcomes.

Key theoretical interests will focus on authentic leadership and organisational virtuousness.

Location

iC - SBS Teaching Facility

Impact of Authentic Leadership & Virtuousness on Organisational Performance during a Downsizing Exercise

Abby Rodwell

Abstract

Leadership plays a pivotal role in organisational performance which is often highlighted during periods of crisis (Cameron & Lavine, 2006). Typically in today's modern society it is the board of directors who are given the role of leading organisations, the board operates by making decisions collectively in an environment where the relationship between the Chairperson of the board and the CEO has a cascade effect throughout the organisation (Australian Institute of Company Directors, 2010).

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Introduction

In 2000 Company A necessitated a downsizing initiative which closed the Australian manufacturing facility and centralised manufacturing at alternate existing overseas sites, this directly impacted 130 local roles. The most likely consequence of a downsizing exercise on this scale is negative deviance at both the employee & organisational level (Cameron, 1998). Research has uncovered that negative deviance is the result of morale, trust and productivity deterioration in the aftermath of downsizing in most organisations (Cameron, Kim, & Whetton, 1987).

Empirical studies show that while some companies have reported financial improvements following downsizing, the majority have failed to realise the predicted improved levels of efficiency, productivity, profitability and competitiveness (Sahdev 2003, Mackay 2004). Research found that of 1,441 Human Resource Managers from organisations that downsized between 1990 – July 1996, 76% reported an instant & adverse impact on employee morale (Frazee, Valerie, 1997). Other impacts on a workforce experiencing downsizing include increases in absenteeism by 7%, disability claims rising by 10%, turn over increasing by 28% (of those not directly impacted by downsizing), productivity decreasing by 40%, quality decreasing by 35% and operating profits decreasing by 45% (Frazee, Valerie, 1997).

Company A did not experience these negative deviant results during their Australian manufacturing site closure, instead the opposite occurred. This paper will suggest that success of this downsizing exercise was impacted by the company Chairperson/CEO intentionally implementing strategies that enabled positively deviant results during and after the downsizing (Weick 2003) starting with the edict to his Australian leadership team of 'do whatever it takes to protect our employee's well-being and our brand'. During interviews with employees during the downsizing it was evident that the Chairman/CEO had also successfully established and fostered a positive organisational climate throughout the business where strong relationships open and honest communication and meaningfulness of work was emphasised. The financial, organisational and human implications of the year 2000 downsizing exercise for Company A included; productivity increased during the downsizing, absenteeism was reduced compared to the same period the previous year, insurance claims were down, employee turn-over remained consistent with the same period the previous year, 100% re-employment for employees impacted, no union issues during the downsizing, no industrial sabotage, employees achieved all key performance indicators during the downsizing and received bonuses.

This paper will explore how an organisation was able to achieve positive deviant results, focusing on two key theories; authentic leadership where Chan, Hannah & Gardner (2005) propose that authenticity in leaders is an important leadership multiplier, and is preparatory for producing a virtuous cycle of performance for leaders, followers and organisations. Together with Cameron 2003, Cameron & Lavine's 2006 proposal that organisation's that are high on virtuousness out-perform their less virtuous counterparts during times of crisis such as during a major downsizing.

Key Theories

Authentic leadership is a lifelong development phenomenon that involves attaining greater self-awareness along with a steadfast commitment to and regulation of the self. It is exhibited through the materialisation of authenticity during leadership episodes, multiplying leadership effects on actual performance (Chan, Hannah & Gardner, 2005). Authentic leadership is based on the principles of positive psychology and strives to find an opportunity to move organisations, communities, and societies forward by focusing on what is right with people and building on their strengths (Luthans & Avolio, 2003).

Authentic leaders are driven by a set of end-values that represent an emphasis toward doing what's right for their people. Authentic leaders endeavour to operate with no gap between their advocated values and values in use and actions. This requires that they intensify their understanding of their own core values, enabling leaders to safeguard them with consistency (Avolio, 1999). It is proposed that authentic leadership behaviour cascades from the very top of the organisation down to the newest employee. (Buckingham & Coffman 1999).

Virtuousness helps to buffer an organisation from the negative effects of downsizing by boosting resiliency, solidarity and a sense of efficacy (Masten et al 1999). Seligman and Csikszentmihalyi (2000) point out for example, that the occurrence of human virtuousness works as a buffer against dysfunction and illness at the individual and group levels of analysis.

Negative outcomes linked with downsizing occur at least partly because downsizing obliterates social capital and interpersonal connections. By shattering the psychological contract between employees and the firm (Rousseau 1995) downsizing 'weakens the glue that binds' individuals to one another and to the organisation (Baker 2000). Virtuousness on the other hand, nurtures interpersonal connections and social capital (Coleman, 1998; Baker 2000) so it functions as a cure to the predisposition of dissolution in downsizing (Cameron, 1994).

Virtuousness has been shown to mitigate the negative effects of downsizing. Two key attributes of virtuousness help clarify these results; its amplifying qualities which can foster escalating positive consequences and its buffering qualities which can protect the organisation against negative consequences (Fredrickson 2001; Dienstbier & Zillig, 2002;)

Conclusion & Aims

Throughout Company A Australia the Chairperson/CEO had established forgiveness, optimism, trust and integrity as expected behaviours. Throughout the organisation, stories of empathy and acts of thoughtfulness and virtuousness were reported almost daily. Employees reported that the personal and company damage caused by the closure announcement were forgiven, employees released bitterness and anger and instead a positive future was accentuated. Employees identified the climate of positivity as a key to their healing during interviews. The downsizing exposed the already established virtuous patterns of interaction, caring and concern. Leadership introduced activities to cultivate healing at the organisational level and many events represented altruistic acts of virtuousness.

It can be suggested that the Chairperson/CEO of Company A demonstrated authentic leadership as he rose above his own self-interest abiding with his high end values which are reportedly shaped and developed across a leader's lifespan (Avolio, 2003). Similarly it appeared that the Chairman/CEO built and integrated positive collective identification (Kark & Shamir, 2002) for employees with the organisation's mission and values, which is one of the most important responsibilities of authentic leadership.

This framework provides the platform for research in the area of authentic leadership at board level, the cascade effect it has on the CEO and employees and whether this type of leadership is impacted by or impacts on examples of virtuousness within an organisation and in turn how individual & organisational performance are affected.

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