

MANAGEMENT OF PEOPLE AND ORGANIZATIONS

Management Theory & the Global Financial Crisis

Sarantis Pispilis

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1 Executive summary

This paperwork examines four fundamental aspects of modern management theory in conjunction with the global financial crisis. What's the implication of motivation theories, decision making process, leadership theories and skills in this crucial time for the global economy?

First of all we present a conceptual model of motivation as it is depicted in Figure 1. Moreover we try to explore which is the correlation between motivation and productivity. As it is pointed out motivation is a factor that significantly influences productivity but it is only half of story. In addition we depict the five basic motivation theories, looking for commonalities, differences and the way they reflect the dynamics of the human motivational process.

We also record the role of decision making analysis as a structural element of a decision making process model which is the heart of most organisations and could lead to a favourable outcome or otherwise. In this point we try to analyze which are the factors that affect people to make a choice, by correlating the general key factors with the highlights of Barry Diller's interview.

Additionally we try to connect the controlling management theory in financial institutions with global financial crisis. We focused in the responsibility, managers of these Institutions have for this crisis, making clear that they have break into two fundamental principles of controlling management theory. On the other hand we present a possible remedy which is summarized in one word "ethics".

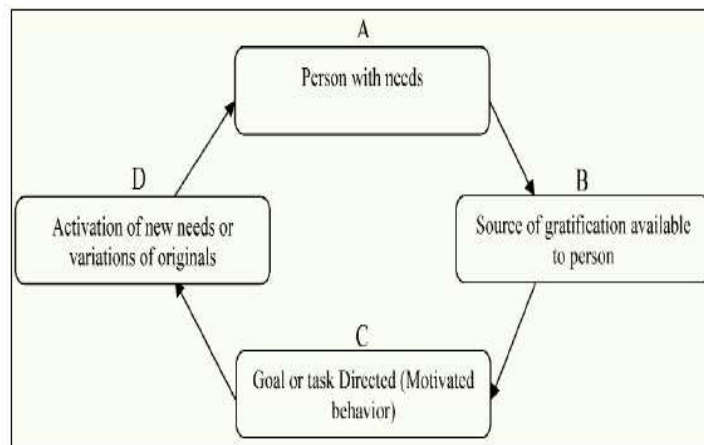
In the last section we reveal the leadership skills which a manager should have in order to maximize his personnel productivity. We also try to give an answer of how all the modern leadership theories should be implied by managers in order to eliminate the downsizing of the sector of car industry sector, which suffers from the global crisis.

2 Conceptual Model of motivation

Motivation is defined as, "a person's active participation in and commitment to achieving the prescribed results"(Conroy, 1994). The concept of motivation is somewhat abstract, different strategies produce different result at different times, and there is no single strategy can produce guaranteed favourable results all the time.

Figure 1 shows a conceptual model of motivation (Maloney, 1986).At point A, a person has needs and tries to fulfil those needs. At point B, the person finds the sources of fulfilling those needs. At point C, he engages or motivates himself to achieve tasks to fulfil his needs. At point D, once he achieves his goal, new needs or variations of those original needs will be achieved. In this way, he will remain motivated.

Figure 1: Conceptual model of Motivation (Maloney, 1986)



Motivation is a factor that significantly influences productivity. A higher level of motivation can result in higher productivity (Halepota, 2005)). The behavioural researcher Robert H Warren states that the productivity and motivation are interdependent; the increased motivation can cause increased productivity. This is true but it is only half the story, the other half is that increased productivity causes increased motivation, and that motivation is in return dependent upon productivity. In addition the leadership style of a manager has a lot of influence on the motivation of workers. The literature reveals many diverse conceptualizations of the dynamics of the human motivational process (Humphreys, 2004).

2.1 Motivation theories

There are number of misconceptions about what motivates humans and there is no simple answer to this question. In any case Concepts of motivation are somewhat abstract. To analyze factors that influence motivation, we present the five fundamental motivation theories (Halepota, 2005) (Appendix I).

If we try to compare these theories it is obvious that we could find a lot of similarities and differences since some of them are extension of others. Mc Gregor's theories (XY) are based in two set of assumptions in relation to human behaviour. In any case it is clear that the title of article "CEOs share Economic pain" is indirectly the implication of three critical assumptions of Maslow's theory¹, Expectancy theory² and Mc Gregor's Y theory³ (Appendix I)

More specifically in Maslow's theory a point worth mentioning is that, a person who has had all of his or her lower level needs fulfilled, and is looking to meet higher level needs, may go back to the lowest level needs if there is a sudden reversal in the environmental (Halepota, 2005). This assumption finds the accurate implication in the article "CEOs share Economic pain".

On the other hand by using the Expectancy theory as a structural tool of management all the CEO's referred to the article, taking in consider that could predict the emerging economic crisis they should readjust their payments as they will.

Finally as referred to the Mc Gregor's Y theory, external controls and the threat of punishment are not the only means for bringing about effort toward organizational objectives. People, in our case, the CEOs, should exercise self-direction and self-control in the service of objectives to which they are committed (Halepota, 2005). This mean that they should exercise themselves to accept the pay cuts to theirs income in order to serve the objective of saving a diminishing organization-company.

3 Decision making process analysis for Management

Decision making is at the heart of most organisations and could lead to a favourable outcome or otherwise. A decision can be defined as an irrevocable allocation of resources such as labour, materials and capital. Once a decision is taken, it may not be possible to recover fully all the resources used for taking and implementing the decision. Therefore, before making a decision, a systematic and well-defined step-by-step procedure must be put in place. Decision problems can be divided into two categories according to the number of criteria: a single-criterion decision making problem (SCDM) and a multiple-criteria decision making (MCDM) problem (Sonmez, 2007).

The key word in decision making process is analysis, which refers to the process of breaking something down into its constituent parts. After that decision analysis provides a formal mechanism for integrating the results so that a course of action can be provisionally selected. This has been referred to as the ‘divide and conquer orientation’ of decision analysis (Goodwin et al, 2004).

It should be stressed, however, that over the years the role of decision analysis has changed. Decision analysis will not solve a decision problem, nor is it intended to. Its purpose is to produce insight and promote creativity to help decision makers make better decisions (Keeney, 1982).

3.1 Factors that affect how people make choices

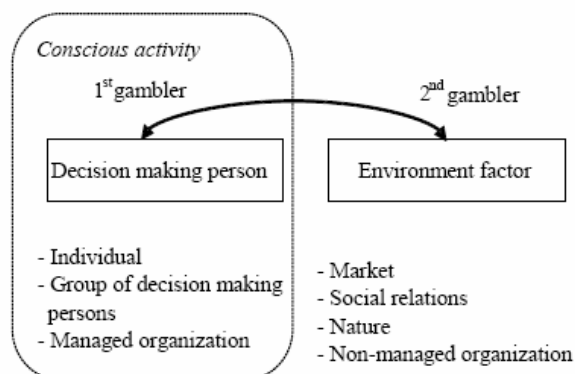
In the interview given by Barry Diller, it is depicted a number of factors which was taken in consider by him in order to resign from Fox and Paramount and create a smaller business. In this paragraph we try to isolate the highlights of his interview correlating them with the general key factors of how people make choices.

In general the key factors appear to be: (Goodwin et al, 2004):

- *The time available to make the decision* (“the effects of the bumpy financial climate”, “Film companies is so different tan it was 10 or 20 years ago”, “Newspaper companies they are probably going to be toast”) (Ovide, 2008).
- *The effort that a given strategy will involve* (“Be absolutely certain of what the parameters are, what the clarity is, that you can explain it to yourselves and explain it externally”, “Focus in singular purpose is the best approach for businesses.”) (Ovide, 2008).
- *The decision maker’s knowledge about the environment* (“Social networking advertising is being discounted because there is so much inventory [of available ad spots], and because methods have not yet been found to make it very effective”, “Internal complexity makes for superficiality”, “The company was overly complex and unmanageable”) (Ovide, 2008).
- *The importance of making an accurate decision* (“We won’t get out of the parameters we have set for ourselves, which is pure Internet whose drive wheel is this distribution and marketing machine”) (Ovide, 2008).

- *Whether or not the decision maker has to justify his or her choice to others* (“I think it's totally fair for people to say we have a company that is so overcapitalized. But we're not going to make acquisitions that are outside the parameters we have set: Internet, more than likely advertising-based, more than likely in our area of knowledge. Every mistake we've made in acquisitions has been outside our essential spheres of expertise. It's equally possible that as we focus more we will repatriate this cash in the next couple of years”) (Ovide, 2008).
- *A desire to minimize conflict* (“It was hurtful to the company in which they're investors, it was hurtful to me, it was a waste of time and money. It's over. It certainly has no effect because my relations with John Malone are right and proper. They can have board members, but I outvote them”) (Ovide, 2008).

Figure 2: Factors of Decision Making (Christauskas, 2007)



4 The Golden Boys of financial institutions are “wanted”

Confidence is everything in finance. With a flawed diagnosis of the causes of the crisis, it is hardly surprising that many policymakers-managers have failed to understand its progression. Today’s failure of confidence is based on three related issues: the solvency of banks, their ability to fund themselves in illiquid markets and the health of the real economy (Anon, 2008a).

The bursting of the housing bubble has led to hefty credit losses: most Western financial institutions are short of capital and some are insolvent. But liquidity is a more urgent problem. America’s decision last month to let Lehman Brothers fail and the losses that implied to money-market funds that held its debt prompted a global run on wholesale

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credit markets. It has become hard for banks, even healthy ones, to find finance; large companies with healthy cash flows have also been cut off from all but the shortest-term financing. That has increased worries about the real economy, which itself adds to the worries about banks' solvency (Anon, 2008a).

But what's the core of the problem concerned the responsibility of "Golden Boys" of financial institutions! The fashionable answers come in sweeping indictments of speculators, greedy Wall Street executives and free-market ideologues. France's president, Nicolas Sarkozy, recently said that the world needed to "bring ethics to financial capitalism". Brazil's president, Luiz Inácio Lula da Silva, wants to combat the "anarchy of speculation" (Anon, 2008b). All these opinions could be easily translated in Golden Boys focusing on maximizing short-term profits. Moreover the non conservative policies of financial institution in approving "toxic products" caused the housing bubble. All these observations boost the voices of "professors" who focus the problem in two parameters (Anon, 2008c):

1. The lack of Professionalism of Managers of Finance Institutions
2. The Unwillingness of top managers (Golden Boys) to adopt the more stringent Knowledge and competency standards required by true professions. In other words, their refusal to put their decision making process and the control management process under a model, based in ethics.

4.1 A model of Ethical decision making could be a solution

The interest in ethical decision making has heightened as a result of recent scandals such as Enron and WorldCom. However, for more than 20 years researchers from many disciplines have examined the variables that influence business managers when making ethical decisions (McDevitt, 2007).

In order to apply this model specifically to ethical decision making, it is necessary to understand Janis and Mann's (1977) "ideal" procedural criteria. The authors use anecdotal information to describe criteria that give decision makers a better chance of attaining their objectives. Decision makers who follow all of these procedural criteria are judged to have made a vigilant information search and will reach the best decision under the circumstances. Janis and Mann (1977) do not present the decision result as good or bad. Rather the omission of one of the criteria leaves the decision process open to defect (Appendix III). The decision makers use the following seven criteria to the best of their abilities and within their information processing capabilities when conducting a vigilant information search:

1. "thoroughly canvases a wide range of alternative courses of action;
2. Surveys the full range of objectives to be fulfilled and the values implicated by the choice
3. Carefully weighs whatever he knows about the costs and risks of negative consequences, as well as the positive consequences, that could flow from each alternative;
4. Intensively searches for new information relevant to further evaluation of the alternatives;

5. Correctly assimilates and takes account of any new information or expert judgment to which he is exposed, even when the information or judgment does not support the course of action he initially prefers;
6. Reexamines the positive and negative consequences of all known alternatives, including those originally regarded as unacceptable, before making a final choice;
7. Makes detailed provisions for implementing or executing the chosen course of action, with special attention to contingency plans that might be required if various known risks were to materialize.” (Janis and Mann 1977, p. 11).

5 Leadership skills in content with management theory

Managers face many challenges related to the businesses they are in as well as with the people they manage and lead. So how does one become a manager who gets the work accomplished and leads so that teams are inspired to follow and succeed?

A significant and challenging part of a manager’s role is utilizing what are called “soft skills,” interpersonal skills or relational skills. Dr. John Fleenor of the Center for Creative Leadership says that “soft skills,” such as establishing trust, displaying empathy and communicating effectively make all the difference in leading others. These are the types of skills that much of the research reports is crucial for managers to develop into successful leaders. Goleman (1997) suggests that technical skills and knowledge that make one qualified for a job but that it is one’s interpersonal ability that makes one successful on the job.(Scamardo, 2006)

In this time of year, facing a global business recession this type of skills should be “used” by managers to save or reduce the losses in car industry. Tight credit is reckoned to have cost the American carmakers 40,000 sales in August, worth about \$1 billion in revenue. The impact has been felt most by America’s Big Three, General Motors, Ford and Chrysler which have suffered this year as consumers shunned gas-guzzlers in favor of the smaller cars mostly made by Japanese firms in American factories (Anon, 2008d).On the other hand BMW and Volkswagen's Seat and Skoda subsidiaries are also reported to be curbing output in the face of falling demand. Moreover in the UK Ford has introduced a four day week for workers at the Southampton plant which makes Transits and some 970 employees at the company's stamping plant at Dagenham are also facing short time working (Anon, 2008e)

However once industrial subsidies like this begin to flow, it is difficult by managers to stop them; even they have all the necessary “soft skills”. Having in mind this assumption the American government came to General Motors, Ford and Chrysler aid this week when George Bush signed an energy bill that includes \$25 billion in loan guarantees to ease their pain. Supposedly this is to allow the Big Three to retool their factories to produce more economical vehicles. In Europe car industries still wait from the Eurogroup to find the remedy for their losses (Appendix II).

5.1 Leadership theories

Through the years, leadership theorists have identified a number of distinct leadership approaches and styles (Appendix II). A considerable portion of this research has been effectively summarized in a typology of leadership approaches originally presented by Manz and Sims (1991) and explicated and expanded by others (e.g., Goel, Manz, Neck, & Neck, 1995; Manz & Sims, 2001; Pearce, 2004; Pearce & Sims, 2002; Pearce, Sims, Cox, Ball, Schnell, Smith, & Trevino, 2003; Sims & Manz, 1996). Within this typology, each of four leadership archetypes represents a distinct leadership perspective that is well established within the leadership literature (Houghton, 2005)

1. Directive leadership involves providing specific task-focused directions, giving commands, assigning goals, close supervision and constant follow-up.
2. Transactional leadership focuses on the creation of reward contingencies and exchange relationships resulting in a calculative compliance on the part of followers
3. Transformational leadership, often contrasted with transactional leadership, involves the creation and communication a higher-level vision in a charismatic way that elicits an emotional response and commitment from the followers
4. Empowering leadership emphasizes employee self-influence processes rather than hierarchical control processes and actively encourages followers to utilize self-leadership strategies. This approach to leadership has been called “Super Leadership” in popular media and defined as the process of leading others to lead themselves.

6 Conclusions

To summarize, motivation is a factor that significantly influences productivity. A higher level of motivation can result in higher productivity. Increased productivity causes increased motivation, and that motivation is in return dependent upon productivity. In addition the leadership style of a manager has a lot of influence on the motivation of workers. For example Mc Gregor's theories (XY) are based in two set of assumptions in relation to human behaviour. Moreover in motivation theories it is obvious that we could find a lot of similarities and differences since some of them are extension of others and etc.

In addition the key word in decision making process is analysis, which refers to the process of breaking something down into its constituent parts Decision analysis will not solve a decision problem, nor is it intended to. Its purpose is to produce insight and promote creativity to help decision makers make better decisions.

As far as concerned the global economic crisis today's failure of confidence is based on three related issues: the solvency of banks, their ability to fund themselves in illiquid markets and the health of the real economy.

Moreover the non conservative policies of financial institution in approving "toxic products" caused the housing bubble. It has become hard for banks, even healthy ones, to find finance; large companies with healthy cash flows have also been cut off from all but the shortest-term financing. That has increased worries about the real economy, which itself adds to the worries about banks' solvency.

Having all these in mind we could easily draw a conclusion: it is difficult by managers to stop this crisis even they have all the necessary "soft skills", such as establishing trust, displaying empathy and communicating effectively. These are the types of skills that much of the research reports is crucial for managers to develop into successful leaders but in our crisis scenario it seems not enough to save either the car industry nor any other major industry.

Today the main question which dominates refers to the actions which must be taken in order to get out of the crisis. A lot of suggestions could be put in the table of global dialogue. But for start we could adopt a model of ethical decision making process which would be the basis for stabilize and decrease the global markets awareness.

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Appendix I

Halepota, H. (2005) Motivational Theories and Their Application in Construction.
Journal of Cost Engineering, 47(3), p.14-16

Table 1: Motivation Theories (Halepota, 2005)

	Cussin's Approach or Management by Threat	Maslow's Theory (Hierarchy of needs)	McGregor's Two Theories (Theory X)	McGregor's Two Theories (Theory Y)	Expectancy Theory	Herzberg's Theory
1	Based on the idea that, the more you yell and curse at laborers, the more productive they will be.	<p>He categorized the need in the following <i>five levels</i>:</p> <ul style="list-style-type: none"> • physiological needs (wage, salary and working conditions) • safety needs (job security, sick pay and safe working conditions) • social needs (team work and other activities to develop relationships between coworkers) • esteem needs (positive feedback and opportunities for advancement) • self actualization needs (include creating challenging tasks that are stimulating.) 	<p>Basic principle 1</p> <p>The average human being has an inherent dislike of work and will avoid it if possible.</p>	<p>Basic principle 1</p> <p>The expenditure of physical and mental effort in work is as natural as play or rest</p>	<p>Basic principle 1</p> <p>The theory advocates that motivation of an individual depends upon the individual's perception regarding his or her capability to do a particular job, the reward associated with the accomplishment of the job, and the value he or she places on the reward</p>	An extension of Maslow's, and the expectancy theory.
2	It flourished during the Great Depression and World War II	Basic principle 1: Different things motivate different individuals.	<p>Basic principle 2</p> <p>Because of this dislike of work, most people must be coerced, controlled, directed, threatened with punishment to get them to give adequate effort toward the achievement of organizational objectives</p>	<p>Basic principle 2</p> <p>external controls and the threat of punishment are not the only means for bringing about effort toward organizational objectives. People will exercise self-direction and self-control in the service of objectives to which they are committed</p>	<p>Basic principle 2</p> <p>The expectation for reward is different from person to person.</p>	Basic principle 1 There are two factors that cause motivation and demotivation in an organization. The job enrichment factor, and demotivation as hygiene factors.
3	This approach did not motivate the laborer to increase productivity	Basic principle 2: A reward, which is very important and valuable for one person, may not have importance or value for another person.	<p>Basic principle 3</p> <p>The average human being prefers to be directed,</p>	<p>Basic principle 3</p> <p>Commitment to objectives is a function of the rewards associated with their</p>	<p>Basic principle 3</p> <p>The key point of the expectancy theory is that the more attractive the reward, the</p>	Job enrichment factors are: <ul style="list-style-type: none"> • achievement

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			wishes to avoid responsibility, has relatively little ambition and wants security above all.	achievement	stronger the perception will be	<ul style="list-style-type: none"> • recognition • responsibility • freedom • advancement
4		¹ A point worth mentioning is that, a person who has had all of his or her lower level needs fulfilled, and is looking to meet higher level needs, may go back to the lowest level needs if there is a sudden reversal in the environmental.	Does not seem functional, because this approach is based on invalid and wrong assumptions.	Basic principle 4 The average human being learns, under proper conditions, not only to accept, but to seek responsibility;	Basic principle 4 ² This theory can be used to predict the motivational consequences not only on pay changes, but also for promotions, changes in working conditions and assignments, use of overtime, training, and recognition of achievements, to name a few	Hygiene factors are referred to: <ul style="list-style-type: none"> • Work conditions • Policies • Administrative efficiency • Style of supervision • relationship between employees
5				Basic principle 5 The capacity to exercise a relatively high degree of imagination, ingenuity and creativity in the solution of organizational problems is widely, not narrowly, distributed in the Population.		
6				Basic principle 6 Under the conditions of modern industrial life, the intellectual potentialities of the average human being are only partially utilized.		

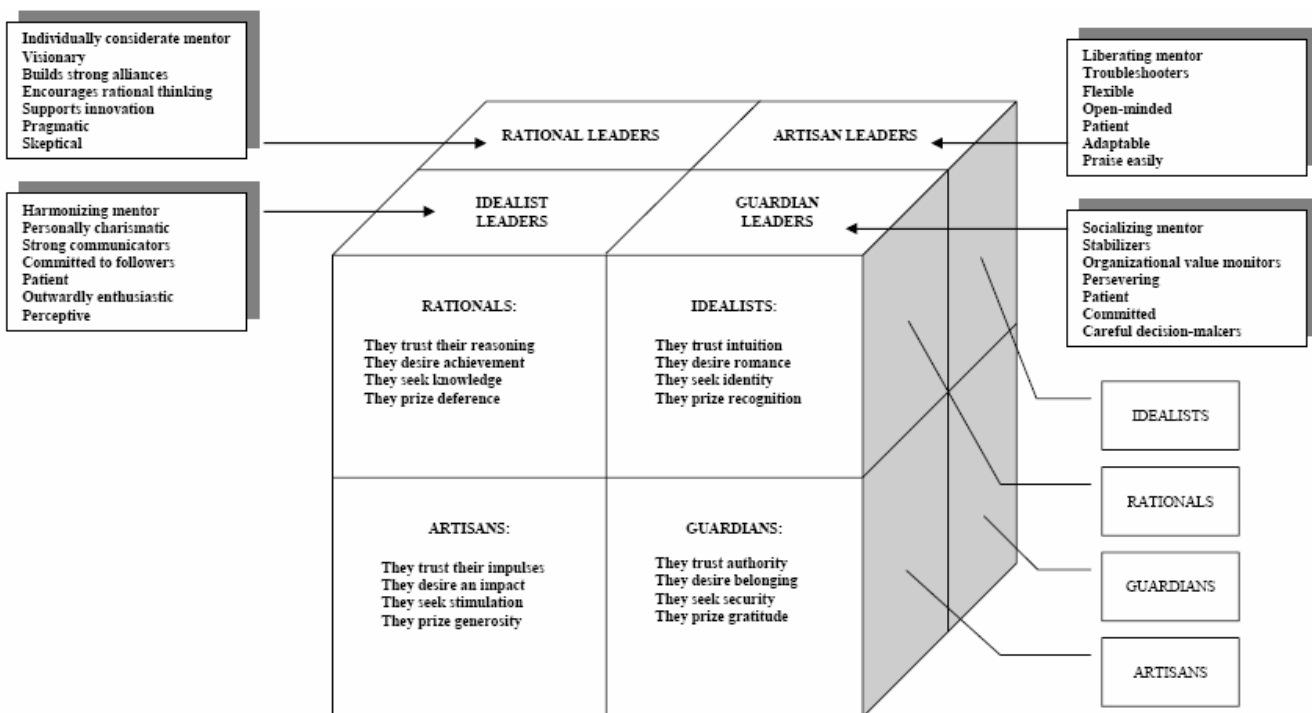
Appendix II

Humphreys, J. (2004) Leadership and Temperament Congruence: Extending the Expectancy Model of Work Motivation. *Journal of Leadership and Organizational Studies*, 10(4), p.58-79.

Goethals, R.D. and Sorenson, L.G. (2006) *The Quest for a General Theory of Leadership*, Massachusetts, Edward Elgar Publishing, Inc

Very effective leaders and we believe truly transformational leaders, go beyond the matching of goals and skills and attempt to match their behaviours, communication, and rewards with the needs and desires of individual followers. We refer to this as “responsible to” congruency as leader and follower are in a reciprocal relationship where the leader has a responsibility to understand the follower’s temperament and exhibit interactions congruent with the maintenance and enhancement of the self-concept and, thus, the relationship. We represent this leader/follower temperament congruency by way of a dyadic temperament cube (Figure 4).

Figure 3: The Dyadic Temperament Cube (Humphreys, 2004)



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Clearly, all four temperaments will be encountered in an organizational setting and all can make excellent followers. What is crucial, though, is that leaders realize, consider, and utilize the individual temperaments of followers to enhance communication and the dyadic relationship to augment follower motivation.

Leadership theories based upon internal processes of individuals include both cognitive and moral theories. Cognitive theories of leadership perceive behavior as being due to internal factors of individuals, and both leaders and followers are perceived through the lens of individuals that may be affected by learning, culture, past history, psychology, emotion and anything that alters their conscious state such as drugs, hunger, or perceived threats (Green and Mitchell 1979; Calder 1977; Ayman and Chemers 1983). Moral theories are also based upon an internal, individual process; however, leadership is now seen as a relationship between leaders and followers where they all strive to attain mutual goals (Burns 1978).

Morality becomes the central component in these theories and is often elevated to the most desirable goal. Various prominent theories fit into this category, including servant leadership (Greenleaf 1977), citizen leadership (Couto 1992), and transformational or transforming leadership (Burns 1978, 2003). But morality is not a strategy; it is a goal (Zakaria 2003). Sometimes these works have emphasized morality as a goal without relection on the strategic consequences of a leader’s decisions; other times moral action is emphasized as a tactic but still without relection on the leader’s ability to succeed at bringing into existence a particular outcome – hence part of the dilemma of leadership studies from this scholar’s perspective.

Figure 4: Mark Walker’s matrix: schools of thought in the study of leadership (Goethals, 2006)

<i>School of Thought</i>	<i>'Great man' or trait-based leadership theory</i>	<i>Behavioral leadership theory</i>	<i>Contingency leadership theory</i>	<i>Cognitive leadership theory</i>	<i>Moral leadership theory</i>	<i>Strategic/ transactional leadership theory</i>
<i>Element</i>						
Key component	Traits of the individual leader are the determinant of effectiveness	Leadership style is the determinant of effectiveness	Leadership style in a particular situational context is the determinant of effectiveness	Behavior perceived as being due to internal factors of individuals observed	Attention to or elevation of morality as the most desirable goal	Individual decision-making that leads to goal fulfillment
Relative role of leaders and followers	Leader-centered	Leader-centered	Leader-centered	Individual perception of leaders and followers	Leader–follower relationship	Leader–follower relationship
Related theories and concepts	Heroic leadership	'Task'- vs. 'people'- oriented leaders	Situational leadership	Culture-based or -sensitive theories	Servant leadership; citizen leadership; transforming leadership	Exchange & transactional theories; formal & game theory; LMX, strategic theory in management; military theories.
Theorists	Carlyle	Lewin; Stogdill and Coons; Kahn and Katz; Bales and Slater	Fiedler; Vroom and Yetton	Green and Mitchell; Calder; Ayman and Chemers (cross-cultural theories)	Greenleaf (servant leaders); Burns (transforming leaders)	Frohlich, Oppenheimer, and Young; Riker; Burns (transactional leaders); Lake and Powell; Hunt

Appendix III

Cameron, M. F and Dennis, A.G. (2000) Factors Influencing Creativity in the Domain of Managerial Decision Making. *Journal of management*, 26(4),p. 705-732.

The concepts of rationality and creativity in Decision making process

Rationality is the reason for doing something and to judge a behavior as reasonable is to be able to say that the behaviour is understandable within a given frame of reference (Butler 2002).

Eisenhardt and Zbaracki (1992) argue that the debate over whether decision-makers are rational or boundedly rational is no longer very controversial, where empirical research clearly supports the following. First, the existence of cognitive limits to the rational model of decision-making; Janis (1989). (Elbanna, 2006).

In addition in an era when the competitive environment demands that organizations develop new products, processes and revisions to accepted ways of thinking and doing, there are increasingly frequent calls to pursue creativity as a source of competitive advantage in decision making process.

In literature it is suggested that an effective alternative generation process in decision making process should combine both search and creativity, but that these activities should occur within a context that balances both. Unfortunately, such features are not typical of most managerial decision processes. Managers rarely concern themselves with creativity during their day-to-day decision making activities.

Acronyms and Abbreviations

CEOs	Chief Executive officers
SCDM	Single criteria decision making
MCDM	Multiple criteria decision making
Eurogroup	European union countries which are in Euro zone
Golden boys	Financial Institutions Managers