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FACULTY OF ECONOMICS**

DIPLOMA THESIS

LEADERSHIP IN MULTINATIONAL CORPORATIONS

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DECLARATION OF AUTHORSHIP

I, student Robin Werner hereby certify that I am the author of this diploma thesis, which I have written under the mentorship of assistant MSc. Matevž Raškovič and allow the work to be published on the web pages of the Faculty of Economics in Ljubljana.

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INTRODUCTION

What is Leadership? I ask a timeless question, which perhaps has never been timelier. Today, people in your country, in my country, and all around the world are confused, frightened, and angry. Many feel deeply betrayed by the institutions and individuals they entrusted with the protection of their livelihoods. The heads of governments, banks, and multinational corporations (MNCs) created a complex interactive system, which is responsible for the current crisis. People, who are suffering under the consequences, are wondering what kind of leadership may be appropriate to solve the problems the world is facing.

The purpose of this diploma thesis is the analysis of the theoretical knowledge of leadership to deliver information that is necessary to answer the above-asked question.

The objective of this diploma thesis is to give insight in the complex field of leadership, especially by considering MNCs.

Pertaining to the structure of the thesis, I first give an overview of the development process of globalization and its effects on the world economy. In the second part of my thesis, I explain why companies internationalize and define the term multinational corporation (MNC) and describe the different types of the generic multinational corporation. The third part is the core of my thesis. Within this part I point out some of the most crucial definitions of leadership, explain several essential leadership theories, discuss two prominent contingency leadership theories and give an overview of the current leadership approaches. After that, I provide an insight into the field of management skills and activities, the importance of personalities at work, and the significance of effective communication within multinational corporations. My personal view to effective leadership will follow in the sixth part, before I conclude with a short summary of the whole topic.

1 GLOBALIZATION AND THE WORLD ECONOMY

Nowadays, the whole world speaks about globalization and its effects on societies and economies around the globe. But what is globalization? In the first part of my thesis I briefly explain the history of the phenomenon of globalization, its modern version, how it manifests itself nowadays and the effects resulting from it.

1.1 A BRIEF HISTORY OF GLOBALIZATION

The historical roots of **globalization** are discussed broadly, but scholars have not come to a consensus yet. Some scientists believe to recognize early forms of globalization already in the third millennium BC (Frank, 1998). The development of the Silk Road is considered as one of the first steps in the evolution process of globalization. In the first century AD, the Roman Empire, the Parthian Empire and the Han Dynasty were connected through it commercially (Weatherford, 2005). Furthermore, the 16th century represents a major step in the globalization process. A substantial cultural, social and material exchange started between Eurasia, Africa and

the Americas. The first multinational corporation is thought to be the British East India Company founded in 1600s. It became the first company to share its risk and enable joint ownership through the issuance of shares. In the 19th century, globalization approached its modern form. Industrialization allowed the cheap production of household items by using economies of scale, while rapid population growth created sustained demand for commodities and manufactures (Frank, 1998).

1.2 MODERN GLOBALIZATION

The three main dimensions of contemporary globalization are economy, society and politics. Corresponding to the topic of my thesis, I will only concentrate on the economic phenomenon. Table 1 shows the four main economic flows, which characterize contemporary globalization (issues).

Table 1: The four main economic flows, which characterize globalization

-
- **Labor/people:** net migration rates, inward or outward migration flows, weighted by population
 - **Goods and services:** gross domestic product (GDP), gross national product (GNP)
 - **Technology:** international research & development flows, proportion of populations using particular inventions
 - **Capital:** inward or outward direct investment as a proportion of national income or per-capita income
-

Source: M. J. Sirgy, D. J. Lee, C. Miller & J. E. Littlefield, *The impact of globalization on a country's quality of life: toward an integrated model*, 2004, pp. 251-298.

According to Osterhammel and Petersson (2005) barriers to international trade have been considerably lowered through international agreements since World War II. One of the most remarkable agreements was the General Agreement on Tariffs and Trade (GATT) in 1947. It built the foundation of the World Trade Organization (WTO), which was founded in 1995. Table 2 shows the individual initiatives carried out as a result of GATT and the WTO.

Table 2: Individual initiatives carried out as a result of GATT and the WTO

-
- Reduced transportation costs, especially resulting from the development of containerization for ocean shipping
 - Reduction or elimination of capital controls
 - Elimination of tariffs; creation of free trade zones with small or no tariffs
 - Reduction, elimination, or harmonization of subsidies for local businesses
 - Creation of subsidies for global corporations
 - Supranational recognition of intellectual property restrictions (e.g. patents granted by China would be recognized in the United States)
 - Harmonization of intellectual property laws across the majority of states
-

Source: J. Osterhammel, & N. P. Petersson, *Globalization: a short history*, 2005, pp. 4-12.

Other bilateral and multilateral trade agreements have also been signed in pursuit of the reduction of tariffs and barriers to trade. The Treaty on European Union, also called the Maastricht Treaty, was signed in 1992, the North American Free Trade Agreement (NAFTA) in 1994. As a result of these globalization policies, world exports rose from 8.5% of total gross world product in 1970 to 16.1% in 2001. By comparing the actual amount of money of exported goods in 2003 (\$ 6,600,000,000,000) and in 2008 (\$ 13,890,000,000,000), it can be recognized that this trend has intensified even more in recent years (Indexmundi, 2009).

1.3 GLOBALIZATION NOWADAYS

Globalization is not a single concept that can be defined and encompassed within a set time frame, nor is it a process that can be defined clearly with a beginning and an end. Furthermore, it cannot be explained with certainty and is not applicable to all people and in all situations. Globalization involves economic integration, the transmission of knowledge, the transfer of policies across borders, cultural stability as well as the reproduction, relations, and discourses of power (Al-Rodhan, 2006).

Kiely and Marfleet (1998, p.3) define the process of globalization very broadly as “... a world in which societies, cultures, politics and economics, in some sense, come closer together.”

From an economic point of view, countries are growing more interdependently. As far as politics are concerned, the trend is more nationalistic. This is a dangerous combination. The old global economy had few power centers (the United States, Europe, Japan), was mainly defined by trade and was committed to the dollar as the central currency. Its major countries shared democratic values and alliances. Today's global economy has many power centers (including China, Saudi Arabia and Russia), is defined by finance as well as trade and is exploring alternative currencies to the dollar. Major trading nations now lack common political values and alliances (Samuelson, 2008).

As the world saw, this may lead to significant problems. Since the late 2000s, much of the industrialized world entered into a deep recession. Some analysts say the world is going through a period of so called deglobalization after years of increasing economic integration (Roubini, 2009). Stephen Schwarzman, CEO of the Blackstone Group LP, said on March 10th 2009: "Between 40 and 45 percent of the world's wealth has been destroyed in little less than a year and a half. This is absolutely unprecedented in our lifetime." The recent financial and economic crisis has devastated many of the previous assumptions in the 21st-century banking world. It has become clear that moving (credit) risk round the world in complex chains did not make the system safer and more efficient, as bankers once argued. In this time we are mostly focusing on the financial sector. But in one aspect complex finance and modern manufacturing have much in common: their dependence on globalization.

Western manufacturing has become ever more dependent on cross-border systems of production intended to make business more efficient, by placing each stage of production in the region where it can be most profitably performed. In addition, western finance has embraced a vision of globally integrated capital markets in the name of more efficient banking. Manufacturers are now realizing that dealing with a crisis is especially hard when companies are widespread around the globe. That does not mean that the concept of globally integrated supply chains is going to die, as well as the idea of trading financial risk round the world will not disappear. But any chain is only as strong as its weakest link. The world recognized this painfully through the financial collapse. Hopefully, manufacturers will learn their lessons from the banking crisis on the potential downside of globalization (Tett, 2009).

1.4 EFFECTS OF GLOBALIZATION

In this next section I briefly explain some of the positive and negative influences of contemporary economic globalization. The below-mentioned arguments are some examples to represent both, globalization supporter and opponents. I chose the mentioned ones to explain the controversy of globalization.

Judging the positive effects of globalization on a country's quality of life, Sirgy et al. (2004) assume that global flows of goods create more jobs, increase wage levels in the export sectors, and lower the prices of imported goods. Therefore, contributing to the purchasing power of the exporting country. In countries that have succeeded in promoting economic exchanges across borders, an increase in economic and social welfare is much likely to appear. Moreover, increased demand for and choice of foreign goods is also assessed as a plus on the list of globalization influences. Globalization offers many favorable outcomes ranging from enlarged markets through access to innovative ideas to more investment opportunities abroad.

According to Chossudovsky (2003), globalization enables multinational corporations (MNCs) to produce more cost-efficiently and lower transaction/production costs. Corresponding to that fact, MNCs take advantage of lower labor costs in many developing and third world countries, thus exploiting the populations. One famous example are the so called sweatshops, in which people and often even children work for harrowingly low wages. Furthermore, multinational

corporations use their political power to manipulate the political restrictions of these countries to reach their goals. As a result they e.g. exploit the natural resources without paying adequate tribute. Moreover, they destroy the natural environment which builds the basis for agriculture and thus for life for most of the population in those countries.

In conclusion, globalization is a double-edged process. By examining the process of globalization, we recognize that mostly developed countries benefit from the advantages and developing countries are afflicted with the disadvantages of globalization. But there are also several arguments for the other way round. It depends on the personal priorities, whether an individual is a globalization supporter or objector. Both camps have comprehensible arguments to underline their point of view. Therefore, it is about every person himself/herself to collect information from all sides to build his/her personal opinion.

2 BACKGROUND INFORMATION ON MULTINATIONAL CORPORATIONS

Considering MNCs, we have to understand their complexity. In the following part of my thesis I will therefore explain companies' motives for internationalization as well as the internal and external circumstances a company has to create. Moreover, I will explain the different types of the generic MNC.

2.1 COMPANIES' MOTIVES FOR INTERNATIONALIZATION

Since Welch and Luostarinen's (1988) analysis of the evolution of the internationalization concept, a number of useful reviews have been conducted in an effort to synthesize the literature on this. Nevertheless, a single, universally accepted definition of the term "internationalization" remains elusive, as a number of interpretations can be found in literature. One view of internationalization considers it to be a pattern of investment in foreign markets explained by rational economic analyses of internalization, ownership, and location advantages (Dunning 1988). A second view is that internationalization is an ongoing process of evolution whereby companies increase their international involvement as a function of increased knowledge and market commitment (Johanson & Vahlne, 1977).

According to Karagozoglu and Lindell (1998) the basis for the **internationalization** of companies are external circumstances, which companies cannot or almost do not control. These factors, which enable the companies to internationalize, are the result of the constantly proceeding globalization process and the everchanging environment in which MNCs operate. Without this development, it would be more than difficult, if not impossible for companies to internationalize. Furthermore, every company has to create several internal conditions on its way to internationalization. Table 3 gives a brief overview of the enabling conditions for internationalization

Table 3: Overview of the enabling conditions for internationalization

-
- Markets have become increasingly similar, as income distributions in industrialized countries have equalized. Forces: internationalization of media, international travel, migration, active international marketing standardization of technologies affecting intermediate goods and capital investments, the development of "global products".
 - Lower communication costs facilitating: central control, coordination of worldwide logistic systems.
 - Removal of trade barriers.
 - Existence of organizational structures for globalization.
(Presence of MNCs internationally over time led to learning how to handle foreign manufacturing and sales and developing international information gathering abilities. Global information networks and global market research are the foundations for globalization).
-

Source: N. Karagozoglou, M. Lindell, *Internationalization of Small and Medium-Sized Technology-Based Firms: An Exploratory Study*, 1998, pp. 44-59.

There is a growing number of conceptual and empirical literature on the motivations for internationalization. It has established that overseas expansion is initiated, and continually influenced, by the complex interaction of several factors. These are both internal and external to the firm. However, a significant development in thinking has been that the influence of the motives for internationalization changes over time. At a macro level, some attention has been given to the broader socio-economic and commercial environment within which companies operate and its impact upon the structure of motivations at varying points in time (Burt, 1993). It has also been argued that the motives for internationalization become more proactive in nature over time as a result of growing experience at company level (McGoldrick & Fryer, 1993).

Hollander (1970) contends that the motives for internationalization may be accidental (i.e. countries changing their borders), commercial (i.e. profit-orientated) and non-commercial (i.e. social, political, personal, ethical). Alexander (1995) observes that despite the attention given to this subject in the intervening years and the undoubtedly complex and multidimensional nature of the motives for internationalization, research continues to recognize two fundamental approaches originally discussed by Hollander: reactive and proactive internationalization. Reactive internationalization occurs when saturation and marginal opportunities in the home market are the key influences on a company's decision to expand internationally whereas proactive internationalization stems from the firm's willingness to exploit international opportunities before the domestic market reaches saturation. Table 4 gives a brief overview of the motives for internationalization.

Table 4: Overview of the motives for internationalization

-
- Economies of scale and scope (flexible manufacturing technologies reversed the trend toward "world scale" plants)
 - Global production (exploiting comparative advantages of different countries)
 - Resource seeking
 - Market seeking
 - Information seeking
 - Diversification
 - Strategic motives (following customers, preemption, retaliation)
-

Source: N. Alexander, *Internationalization: Interpreting the Motives*, 1995, pp. 77-98.

According to Hollensen (2007), increasing profit (e.g. sudden shift in exchange rates) and a general motivation for growth are the fundamental motives for internationalization. If a company produces a unique product or provides unique services or technologies, it will use the chance to internationalize, because opportunity costs of exploiting these assets in foreign markets will be low. The development of foreign markets (e.g. caused by political changes) can motivate companies to expand in foreign countries and markets. Access to special knowledge about customers, marketplaces, and market situations can be an essential advantage for the company compared to its competitors. Furthermore, increased production for foreign markets could result in a reduction of production costs for domestic sales (economies of scale). If a company produces seasonal products, internationalization could lead to a constant demand throughout the year. Internationalization is much easier for companies located in Europe than it is for companies in the U.S as geographical distances between European countries are small. Therefore, many of those countries share similarities in culture, legal factors, and sometimes even in language (e.g. Germany, Austria, Switzerland).

Internationalization also demonstrates a great opportunity for exporting, licensing, outsourcing, and the development of global alliances. Nevertheless, internationalization entails disadvantages. Companies can divert resources from domestic to international markets. Moreover, going overseas is a permanent learning process. Companies need to constantly adapt to new and changing environments. Corresponding to the above-mentioned advantages and disadvantages the efficiency of internationalization is dependent on the current situation of each company.

2.2 DEFINITION OF A MULTINATIONAL CORPORATION

The terms **multinational corporation** (MNC), **transnational corporation** (TNC), and **multinational enterprise** (MNE) are broadly and synonymously used by international business commentators, practitioners, and scholars. MNCs are recognized as corporations that do business in more than one country, that produce and sell products or services in different countries, and/or that have operations and investments in many countries around the world (Caves, 1982).

Dunning (1993, p. 3) defines a MNC as an “enterprise that engages in foreign direct investment (FDI) and owns or controls value-adding activities in more than one country”. MNCs are traditionally described as successful companies that have grown over time into very large corporations, that conduct their business beyond the regulatory reach on any one country, and which are multinational, multi-regional, or global in their operations, strategy and vision. More recently, however, the high-tech boom of the 1990s and the growth of the world wide web have led to the emergence of born global or international new venture (INV) corporations that are possibly small in size, young in age, and that use available technologies to conduct their business on a global scale (Oviatt & McDougall, 2005). In today’s world, almost all firms are multinational to some degree, by exporting and importing raw materials or finished products, by employing foreign capital, people and processes, or by investing in foreign assets, operations, and subsidiaries, and having foreign shareholders.

2.3 TYPES OF MULTINATIONAL CORPORATIONS

The MNC is undeniably one of the most important concepts in international business and yet there is no consistent definition of it. The term MNC has been variously defined; therefore, we face the absence of an agreed taxonomic classification. This, and the resulting inconsistency in operational definitions across many studies made comparisons between results difficult, if not impossible.

According to Bartlett and Ghoshal (1989), a generic MNC faces three strategic goals: (1) global efficiency in existing operations, (2) local responsiveness (by being embedded in many local contexts) and (3) world-wide learning (international transfer of core competences). Bartlett and Ghoshal (1989) further point out four types of the generic MNC as to the way they balance these 3 goals, namely (1) the multidomestic company, (2) the global company, (3) the international company and (4) the transnational company. Table 5 shows a detailed description of each type.

Table 5: Detailed description of Bartlett and Ghoshal's types of the generic MNC

-
- **Multidomestic company:** The main business activity is located in national markets. The organizational systems are often based on independent subsidiaries. The main form of control by the parent company is monitoring and controlling financial flows.
 - **Global company:** This is essentially a model in which Headquarter (HQ) management takes home country management approaches and tries to replicate them abroad in order to achieve economies of scale. Strategic decisions will exclusively be taken at HQ level, with research and development also concentrated in the home country.
 - **International company:** HQs become increasingly aware of cross-national differences in consumer demands. They export knowledge and expertise to foreign subsidiaries and transfer the ability to choose the nature of products and services to suit the requirements of the local market to local managements.
 - **Transnational company:** Management control is dispersed across the corporation, rather than being concentrated at HQ. Unlike the previous three forms, the international units of the enterprise are highly interdependent. Due to this, there are extensive flows of people, knowledge, and resources not just from HQ to subsidiaries, but also from foreign subsidiaries to HQ, and between individual subsidiaries.
-

Source: C. Bartlett, & S. Ghoshal, *Managing across borders: The transnational solution*, 1989, pp 1-26.

Aggarwal, Kearney & Berrill (2009) defined another useful taxonomy. According to them, any kind of multinational corporation can be classified as being either regional, trans-regional or global in its activities. Therefore, the world has to be divided into five regions: Europe, Asia, Africa, Australasia and the Americas. Table 6 gives an overview of the parameters used and their definitions.

Table 6: Parameters used and their definitions

-
- **Regional:** An activity that takes place entirely within the region in which the home country is located is referred to as "regional". For example, consider a German corporation that is headquartered in Berlin and that sells its products throughout Europe.
 - **Trans-regional:** An activity that occurs in more than one region.
 - **Global:** An activity that takes place in all five regions of the world.
-

Source: R. Aggarwal, C. Kearney & J. Berrill, *Classifying MNCs in International Business: Implications for Research Design and Strategy*, 2006, pg. 5.

According to Dunning (1993), it is moreover possible to differentiate MNCs according to their way of integration. Table 7 shows the different types of integration in question.

Table 7: Different types of integration

-
- **Horizontally integrated:** MNCs manage production establishments located in different countries to produce the same or similar products (e.g. McDonald's).
 - **Vertically integrated:** MNCs manage production establishments in a certain country/in certain countries to produce products that serve as input to its production establishments in another country/in other countries (e.g. Adidas).
 - **Diversified:** MNCs manage production establishments located in different countries that are neither horizontally nor vertically nor straight, nor non-straight integrated (e.g. Microsoft).
-

Source: J. H. Dunning, *Multinational Enterprises and the Global Economy*, 1993, pp. 117-168.

According to Aggarwal et al. (2009), it is furthermore possible to describe any MNC more in detail. Table 8 gives an overview of the characteristics which are to be considered.

Table 8: Characteristics for the consideration of a MNC in detail

-
- Type (public, private listed, private unlisted, nonprofit).
 - Organization (single firm, multiple firm, alliance, joint venture, franchise, network).
 - Size (assets, sales, workforce).
 - Age (date of incorporation).
 - Country of headquarters (abbreviation of country name).
 - Industry or industries in which it operates.
 - Ownership and control (shareholder and management details).
 - Location/dispersion of operations.
-

Source: R. Aggarwal, C. Kearney & J. Berrill, *Classifying MNCs in International Business: Implications for Research Design and Strategy*, 2006, pg. 6.

Corresponding to the mentioned points, we can classify MNCs according to their level of multinationality, their type of integration and their specific characteristics, which describe every MNC more in detail. Since the scientific world did not agree on one clear taxonomy to describe the different types of MNCs, these are two useful possibilities for classification, but not the only ones.

3 LEADERSHIP AS A PROCESS

One of the most complex topics to which social research has been applied is leadership. The term "leader" appeared already before Common Era. But the term **leadership** has only been developed in the end of the 18th century (Stogdill, 1974). Nevertheless, no scientific research on the topic existed until the 20th century (Bass, 1990). But since that time research was intensive and comprehensive. Corresponding to that, we face a multiplicity of leadership definitions, theories and approaches nowadays. In the next chapter of my thesis, I will explain and discuss

crucial definitions, theories and approaches which resulted from the development process of leadership.

3.1 DEFINITIONS OF LEADERSHIP

The historical lines of thought on leadership have occurred within a relatively short time-period. Many of the arising thoughts disappeared almost instantly. Stogdill said once, "There are almost as many definitions of leadership as there are persons who have attempted to define the concept (Stogdill, 1974, p.259)." In the following part, I will quote and explain some definitions of leadership, published by the main authors on the issue. These definitions are chronologically arranged according to the development process of leadership.

"Leadership may be considered as the process (act) of influencing the activities of an organized group in its efforts toward goal setting and goal achievement." (Stogdill, 1950, p. 3)

This definition was developed during the **influence period**. It was the second step in research on leadership after the **personality period**. The scholars at the time recognized leadership to be a relationship between individuals and not a characteristic of a solitary leader. It addresses aspects of power and, in particular, influence of leaders on their followers. The unidirectional effort of top-down influence with no thought for the wants and needs of followers is inappropriate in today's business world (Van Seters, & Field, 1993).

"Leadership is the influential increment over and above mechanical compliance with the routine directives of the organization." (Katz & Kahn, 1978, p. 528)

The **situational period** made a significant step forward in proceeding leadership theory by acknowledging the importance of factors arising from the respective situations of leader and subordinate. Examples include the type of task, social status of leader and subordinates, and the nature of the external environment (Bass, 1990). Those situational aspects then determine the kinds of leader traits, skills, influence, and behaviors that are likely to cause effective leadership.

"Leadership is the process of influencing the activities of an individual or a group in efforts toward goal achievement in a given situation." (Hersey & Blanchard, 1988, p. 86)

The **contingency period** characterized a major progress in the development of leadership theory. For the first time it was recognized that leadership was not found in merely one of the pure, one-dimensional forms discussed previously, but rather contained elements of them all. The essence is that effective leadership was contingent or dependent on one or more factors of behavior, personality, influence, and situation (Van Seters, & Field, 1993).

"Leadership is a reciprocal relationship between those who choose to lead and those who decide to follow" (Kouzes & Posner, 1987, p. 1).

The study of leadership was re-emerged once more when it was suggested that leadership resided not only in the person or the situation, but also and rather more in social interaction and role differentiation. This idea is the basis of the **transactional period**, which is basically the influence period revisited, since it addresses the influence between leader and subordinate (Van Seters, & Field, 1993).

“Leadership is the capacity to translate vision into reality” (Bennis, 1989, p. 14).

“Leadership is the reciprocal process of mobilizing by persons with certain motives and values, various economic, political and other resources, in a context of competition and conflict, in order to realize goals independently or mutually held by both leaders and followers”. (Burns, 1978, p. 425)

The **transformational period** characterizes the latest and most capable phase in the development process of leadership theory. Its remarkable improvement over previous periods lies in the fact that it is based on intrinsic as opposed to extrinsic motivation. Also, in comparison with the transactional period, leaders must be proactive rather than reactive in their thinking; radical rather than conservative; more innovative and creative, and more open to new ideas (Bass, 1985).

All theories agree on the assumption that leadership includes a process whereby one person exerts intentional influence over other persons to direct, structure, and facilitate activities and relationships in a group or organization. The differences of the mentioned definitions are based on the development process of leadership. Nevertheless, there is a multiplicity of further definitions with regard to leadership. The major differences concern the questions whether leadership is a specialized role or a shared influence process, the type of influence process, and whether leadership and management highly differ or not. Further differences are whether the influence is based on emotions or reason and deal with the purpose of leadership attempts (Yukl, 2002). Yukl (2002, pg. 6) concluded, “the definition of leadership is arbitrary (...) there is no single ‘correct’ definition.”

3.2 DIFFERENT LEADERSHIP THEORIES

In the following part of my thesis, I will explain some crucial leadership theories that are relevant to the understanding of contemporary leadership. According to the set conditions of my thesis, I will outline the trait approach, two contingency theories, the transactional, the charismatic, and the transformational approach. I chose these theories because they cover the development of leadership theories from the beginning until most recently and highlight the crucial step in between.

3.2.1 Great Men Theory

The **Great Men Theory** is the oldest approach towards leadership and its development, which started with the studies of Galton (1869). It is most often associated with Carlyle (1841). He was a Scottish commentator and historian in the 19th century and is known for his quote: "The history of the world is but the biography of great men." According to his idea, heroes shape history through their divine inspiration and their personal characteristics (Hirsch, 2002). Researchers of the time thought that anybody could be an effective and strong leader by means of imitating men (including Muhammad, Shakespeare, Luther, Rousseau, and Napoleon), who achieved extraordinary accomplishments in history. Therefore, they studied and analyzed the personalities and biographies of great men in history (Van Seters & Field, 1993). After studying a myriad of great men, researchers recognized that personalities and biographies differ enormously. Thus, they realized that this method was inadequate to identify specific personality traits, which were thought to be the predictor of effective leadership (Borogotta, Rouch & Bales, 1954). The results frustrated the researchers and they didn't go further into their studies. Nevertheless, personality traits are still seen as a crucial factor of effective leadership and will be recognized in subsequent studies on the topic.

3.2.2 Early trait theories

The central part of literature on **early trait theories** was published between 1930 and 1950. After the scientific world had understood that the imitation of personalities is extremely difficult, systematic research began, which was focused on individual characteristics that universally differentiate leaders from non-leaders. A large number of personal characteristics was investigated such as: (1) stature, (2) physical energy, (3) gender, and (4) appearance as well as (5) psychological traits and motives such as intelligence, need for achievement, authoritarianism, and (6) need for power (House & Aditya, 1997). Stogdill (1948), who was the most influential author to address this issue, identified several traits by using measures of leader effectiveness and identified correlations (between traits) as high as .50. Unfortunately, such findings were seldom replicated. Therefore, researchers at the time didn't believe in the existence of any universal traits associated with effective leadership (House & Aditya, 1997). One problem of early trait research was that neither precise situational demands of leaders nor the degree to which the situation permitted the behavioral expression of personality inclinations were taken into account. Furthermore, there was almost no empirically validated personality theory to guide the search for leadership traits. Consequently, there were only a few replicated investigations of the same traits. Finally, trait studies were almost entirely based on samples of individuals, who didn't hold significant positions of leadership (House & Aditya, 1997).

3.2.3 Recent trait theories

Interest in leadership traits re-emerged in the early 1970s. Since that time, the developments of the personality theory as well as of the operationalization of traits have seen substantial progress. Moreover, several new empirically supported traits have been suggested. Beginning in the mid 1970s, the studies of individual dispositions as predictors for individual behavior have become

more theoretical. There are four **recent trait theories** that enjoy empirical support. These are McClelland's (1) "Achievement Motivation Theory", his (2) "Leader Motive Profile (LMP) Theory", House's (3) "Theory of Charismatic Leadership" and Kenny and Zaccaro's (4) "Leader sensitivity and flexibility constructs" (House & Aditya, 1997).

Schneider (1983) criticized that traits must be stable and able to predict behavior over substantial periods of time and across widely varying situations. However, he observed that traits are predictive of an individual's behavior in selected situations, yet not in all ones. According to that, an individual, who is disposed towards aggressiveness, more likely behaves aggressively only in situations with arousing aggression. In other situations, the same individual is not likely to behave more aggressively than others.

By way of conclusion it can be said that there are a number of traits that differentiate leaders from other people. Furthermore, the effect of traits on leader behavior and leader effectiveness is enhanced to a great extent by the relevance of traits to the situation in which the leader functions.

3.3 CONTINGENCY THEORIES

The development of **contingency theories** represents a major advance in the evolution of leadership theory. It replaced the assumption that leadership is based on a one-dimensional form with the idea that effective leadership was contingent or dependent on one or more factors such as behavior, personality, influence, and situation. Therefore, the theories argue that there is no universal approach towards effective leadership. Effective leadership always depends on the internal and external factors an organization faces. Several contingency approaches were developed concurrently in the late 1960s (Van Seters & Field, 1993). In the following part of my thesis, I will focus on Fiedler's Contingency Model and Hersey and Blanchard's situational leadership theory.

3.3.1 Fiedler Contingency Model

The **Fiedler Contingency Model** (Fiedler, 1964) is based on the assumption that effective group performance depends on the correct combination of the individual's basic leadership style and the degree to which the situation gives control to the leader. This model basically includes four parts.

First of all, the potential candidate has to rate the coworker with whom he/she least enjoyed working together. For this reason, Fiedler developed the **least preferred coworker (LPC)** questionnaire. The LPC questionnaire consists of a set of 16 contrasting adjectives. The respondent has to rate his/her least preferred coworker for each of the 16 sets on a scale of 1 to 8. Fiedler (1964) argues that he can classify the individual's basic leadership style based on the result. If the candidate scores high in the LPC questionnaire, that means he/she described his/her least preferred coworker in a positive way. Fiedler labels him/her as **relationship-orientated**. According to Fiedler, the respondent is **task-oriented** if the LPC score is low. He assumes that an individual's leadership style is not changeable. That means that if a situation requires a relationship-oriented leader and the current person is task-orientated, there are only two

possibilities for improvement: Either the situation has to be modified or the leader has to be replaced in order to achieve optimal effectiveness.

The second part is the definition of the situation. After identifying the basic leadership style of an individual through the LPC questionnaire, it is necessary to match the leader with the situation. According to Fiedler (1964), three contingency dimensions exist that define the key situational factors that determine the effectiveness of leadership. These are shown in Table 9.

Table 9. Fiedler's three contingency dimensions

The **leader-member relations** pertain to the level of trust, confidence, and respect members have in and for their leader. Those relations can be good or poor.

Task structure is the degree to which the job assignments are structured or unstructured. Fiedler differentiates between high and low.

Position power describes the level of influence a leader has over power variables in an organization. The influence can be weak or strong.

Source: F. E. Fiedler, *A Contingency Model of Leadership Effectiveness*, 1964, pp. 155-163.

The next step is to evaluate the situation in terms of these three contingency variables. According to Fiedler (1964), eight different categories in which leaders can be classified can potentially be created by mixing the three contingency dimensions. Fiedler asserts that the leader-member relation directly influences both other dimensions and that it is therefore the most critical one. Finally, the Fiedler Contingency Model connects the acquired knowledge of an individual's LPC score and the assessment of the three contingency variables to achieve maximum leadership effectiveness.

This model is based on evaluation carried out by human beings with a subjective point of view. The results could be influenced by daily conditions and emotions of the respondent. Furthermore, according to Schiersheim and Kerr (1977), the composition of the LPC questionnaire is not well understood. Scientific studies have shown that the LPC scores are instable. The fact that an individual's basic leadership style is fixed means that there are no more than two ways to improve leader effectiveness, which is a rather narrow-minded model. It is useful to differentiate between task-orientated and relationship-orientated potential leaders, but from my point of view, this differentiation is too imprecise to find the appropriate candidate for a permanent executive position in a MNC. Nevertheless, the core hypothesis of Fiedler's contingency model is scientifically proved and supported (Peters, Hartke & Pohlman, 1985). This model delivers enlightening information on the direction of the leadership needed. Therefore, Fiedler's Contingency Model is more helpful to find persons for unique and specific challenges like in natural disasters where special characteristic traits are needed to solve the explicit problem. All in all, organizations should use Fiedler's Contingency Model to obtain additional information.

Fiedler and Garcia's (1987) **Cognitive Resource Theory** is the redefinition of the earlier contingency model developed by Fiedler. The theory focuses on the influence of the leader's intelligence and on the experience with regard to his/her reaction to stress. The core of the new theory is that stress is the rival of rationality. Stress is damaging the leader's ability to think logically and analytically.

3.3.2 Hersey and Blanchard's Situational Leadership Theory

Hersey and Blanchard (1988) evolved the **Situational Leadership Theory**, a leadership model that is easy to use and understand. It says that the followers and their readiness are the basis of success. Hersey and Blanchard agree with Fiedler on the point that the selection of the right leadership style is a crucial part of success. But they argue that success depends on the readiness of the followers, even if the most appropriate leadership style was already chosen. Hersey and Blanchard (1988) define the term **readiness** as the ability and willingness of people to accomplish tasks. According to the framework they developed, a classification of the behavior of leaders in four specific activities is possible. Different types of followers' readiness as well as the resulting leadership behavior are presented in Figure 1.

Figure 1: Different types of readiness and leadership behaviors

	WILLING	UNWILLING
ABLE	No need to do much	Supportive and participative style
UNABLE	Display of high task orientation High relationship orientation	Clear specific directions

Source: P. Hersey & K. Blanchard, *Management of Organizational Behavior: utilizing human resources*, 1988, pp.269-271.

I thoroughly agree with the theory that success is dependent on the willingness and ability of the workforce. The idea of the situational leadership theory seems to be an efficient tool to allocate a specific situation to one of the four defined scenarios. But these scenarios and especially the consequences are defined very broadly. There are no exact details and no precise advice is given to solve the specific situation. Furthermore, I think at least one possible scenario should not be improved. If an organization has an unwilling and unable workforce, then it should not try to improve this disastrous and absolutely inefficient situation by means of working on that workforce. It should change the workforce, because an absolutely inefficient workforce will never be efficient.

In conclusion, I think this approach is useful because it includes the workforce as a crucial part of success. But it is not exact enough to acquire accurate information in specific cases.

3.4 CURRENT LEADERSHIP APPROACHES

Transactional, charismatic and transformational leadership are currently the three mainstream approaches on contemporary leadership. These theories are not completely different; they are linked in some parts. According to Greenberg and Baron (2000), the two major components of effective leadership are charismatic and transformational leadership. The reasons will be explained in the following part on current leadership approaches.

3.4.1 Transactional leadership

With the development of the **transactional leadership** approach, the study of leadership went another step further. It suggested that leadership is not only based on the person or the situation, but also and rather more on transactions between the leader and subordinates that affect the relationship (Van Seters & Field, 1993). Transactional leadership was first described by Weber (1947) and redefined by Bass (1990). Transactional leaders guide or motivate their followers in the direction of established goals by clarifying role and task requirements. According to Bass and the current theory of transactional leadership, **laissez-faire** is the most passive and therefore the least effective leader behavior. The leader tries to abdicate responsibilities and avoids taking decisions. Therefore, laissez-faire is considered as a non-leadership approach (Bass & Avolio, 1994). **Management by exception** can be divided in a passive and an active part. In case the leader is passive, he would only intervene if standards were not met. An active leader observes and searches for deviations from rules and standards and takes corresponding actions. This kind of leader tends to be available when a problem has already appeared, which is often too late. Both parts of management by exception are only slightly better than the laissez-faire behavior and thus still ineffective (Bass, 1985; Yukl 1989). The last approach of transactional leadership is called **contingent reward**. By using this method, the leader motivates his followers to finish their duties in the given framework by promising rewards for good performance and by recognizing accomplishments. If the tasks are not accomplished within the given framework, punishment of the individual is the consequence (Bass, 1985; Yukl 1989). Despite the fact that all pure transactional approaches are based on a passive leader and are mostly ineffective, the contingent reward can be an effective style of leadership under certain circumstances. Please see Appendix 1 for an overview of the transactional leadership methods.

Nevertheless, all transactional leadership styles are not useful to motivate the workforce to perform above expectations and to transcend their own self-interest for the sake of the organization. The workforce acts just as a tool of the management. There is no space for creativity, proactivity, or personal responsibility. Therefore, this leadership approach is not evaluated as highly effective and should just be the basis for advanced strategies (Bass & Avolio, 1994).

The **leader-member-exchange (LMX) theory** is one of the most important transactional theories. According to Dienesch and Liden (1986), the LMX focuses on the relationship between the leader and his/her followers and its consequences. The LMX argues that leaders develop an

extraordinary relationship to an inner circle of their followers. This circle is called the in-group. High levels of responsibility and trust are often devolved to the members of this in-group. Moreover, they receive a disproportionate amount of the leader's attention and are preferred beneficiaries of special privileges. Followers, who are not part of the in-group, are members of the out-group and receive less attention, trust, and exclusive privileges. The selection process and the development of the relationship is subconscious and starts immediately after a person joins a team. The resulting relationship is relatively stable over time. Leaders choose in-group members because they have the same attitude and demographic background or similar personality traits as the leader. In-group members have higher performance ratings, are more committed to work, and report greater job satisfaction than out-group members (Deluga, 1998).

It is a part of human nature to surround oneself with the most suitable persons. This happens in everybody's daily life. Therefore, the leader-member exchange theory will always be right in some cases if we consider the business world and even more the rest of the world. If the selection process of the "in-group" members is done responsibly, and is not based on personal relationships, the LMX is even highly conducive to improve the performance of the MNC.

3.4.2 Charismatic leadership

Through the development of **charismatic leadership**, leadership became a state of consciousness. It is a comprehensive theory in which leader traits, behaviors, influence, and situational factors are combined to increase subordinate receptivity to ideological appeals (Conger & Kanungo, 1987). Charismatic leadership is based on a four-step process (Robbins & Judge, 2009). The most important part is the formulation of a long-term strategy, called vision. This vision has to be articulated in the organization through the vision statement. In the next step, the charismatic leader has to create a new set of values, which the followers should imitate. This happens if the employees identify themselves with their leader. The charismatic leader is willing to take personal risks to implement his/her vision and is sensitive to his/her followers' needs. If, through the vision and its statement, emotions of the followers are included, the charismatic leader finally convinces his/her followers through unconventional behavior in accordance with the vision (McLaurin & Al Amri, 2008).

The origin of charismatic leadership can be both, heredity and study. The first includes that charismatic leadership is related to personality. According to Robbins (1992), a charismatic leader is self-confident, has strong faith in his vision, doesn't show ordinary behavior, and is a change seeker. As far as study is concerned, researchers developed a functioning three-step learning program (Robbins & Judge, 2009).

As I mentioned, charismatic leadership is connected with personality. Leaders with a self-orientated, narcissistic, and intolerant personality will not act in the best interest of their organization. They will use organizational resources to increase their personal benefit. The optimal leader shows individual capability, team skills, managerial competence, the ability to stimulate others to high performance, humility, and professional will. Such a leader is called level-5 leader (Robbins & Judge, 2009). This type of leadership affects performance and job satisfaction among the workforce enormously and positively.

3.4.3 Transformational leadership

Transformational leadership is built on top of the transactional approach. Transformational leaders inspire their followers to transcend their own self-interest for the good of the organization and are capable of having profound and extraordinary effects on them (Bass, 1985; Yukl 1989). The following four parts of transformational leadership increase step by step with regard to activeness of the leader and the efficiency of the method.

Through **individualized consideration**, the leader gives personal attention to his employees. He treats employees individually, coaches and advises them. The next step is **intellectual stimulation**. Applying this method, the leader promotes intelligence, rationality, and careful problem solving. Within the **inspirational influence** concept, the leader communicates high expectations; he uses symbols to highlight requirements and expresses important purposes in simple ways.

Idealized influence is the most active and effective approach within the theories of transactional and transformational leadership. By using this method, the leader provides a vision and a sense of mission. If he implements these ideas successfully, he instills pride and gains respect and trust (Avolio, Waldman & Yammarino, 1991). Please see Appendix 1 for an overview of the transformational leadership methods.

These styles produce levels of follower effort and performance that go beyond the results of the transactional approach alone. But it is not about deciding which style is the better one. The optimal leader combines both approaches (Bass & Avolio, 1994; Avolio et al., 1991). In doing so, the leader generates extra effort on the part of the workforce, higher productivity, higher morale and job satisfaction, higher organizational effectiveness, lower turnover, less absenteeism, and greater organizational adaptability (Walumbwa, Avolio & Zhu, 2008). Transformational leaders are able to encourage their followers to be more innovative and creative; this finally leads to a greater sense of trust in the leader (Deluga, 1988). The ability of transformational leadership can be learned and trained (Robbins & Judge, 2009).

3.4.4 Contemporary leadership roles

Another current idea of leadership is **mentoring**. According to Allen and Eby (2007), mentoring is a unique relationship between two people and a learning partnership, which involves psychosocial and career-related support. Furthermore, it is reciprocal, asymmetrical and dynamic. Through the intensive personal relationship between mentor and protégé, both parties take benefits. The mentor gets unfiltered access to the attitudes and feelings of lower ranking employees and receives early warning signals of potential problems through his protégé. This is a unique chance to obtain this kind of important information in MNCs. According to new findings, the profit of the protégé is rather a psychological one and cannot be measured in terms of career success. Therefore, mentoring is more efficient for the mentor than for the protégé. But nevertheless, it is a great opportunity for the protégé to establish networks and to get insight into the management.

Several studies proved that **effective teams** increase efficiency and performance. There are four different kinds of teams. **Problem-solving** teams consist of 5-15 employees from the same work area, who meet for a few hours each week to discuss ways of improving quality, efficiency, and the work environment. Employees from about the same hierarchical level, but from different work areas, who come together to accomplish tasks, are building **cross-functional teams**. **Virtual teams** are created out of scattered members who are to communicate by using information and communication technologies to achieve common goals. The fourth team type is the **self-managed work team**. Such a team consists of 10-15 people, who take on responsibilities of their former supervisors.

Through the increased popularity of teams, the importance of **self-leadership** rose. Training in self-leadership leads to responsible, capable, and self-contained employees, who are able to act without rules and regulations in a confident way. Highly motivated, able and willing individuals in ambitious positions of an organization form the basis of this kind of leadership (Kellett, 1993). **Digital communication** has an enormous impact on the business world in the 21st century. Therefore, it is necessary for managers to think about the right way to use this communication channel to increase and not decrease trust, motivation and finally through that performance. There is a lot of room for misunderstandings, misinterpretations and hence demotivation. Therefore, executives of MNCs ought to train their digital communication skills, as they have to use these communication tools to operate beyond borders every day (Robbins & Judge, 2009).

4 MANAGEMENT SKILLS AND ACTIVITIES

The roles of the management, its skills and activities will be explained in the following part of my thesis. Moreover, I have to mention Henri Fayol's statement (1949) saying that managers perform five **management functions**: planning, organizing, commanding, coordinating, and controlling. Nowadays, we speak only of four, where leading summarizes coordinating and commanding (Daft, 2005).

4.1 MANAGEMENT ROLES

According to Mintzberg's (1973) **managerial roles**, we can classify the behavior of managers in three main groups, each with subgroups. The first group covers **interpersonal roles**. A manager has to be a symbolic head, who is to perform a number of routine duties of legal or social nature. Any manager playing this interpersonal role is called **figurehead**. The next role is the **leader role**. Managers are responsible to motivate and to direct their workforce. Mintzberg defined **liaison behavior** as the ability to maintain a network of outside contracts, which provide favors and information.

The next group deals with **informational roles**. All managers have to be in touch with external people and other organizations to gain information concerning their own organization from outside. If managers act as the control center of internal and external information, Mintzberg calls them **monitors**. They are **disseminators** if they transmit external information to internal personnel. The third informational role is the one of the **spokesman**. A manager acts as a spokesman if he transmits internal information like policies, actions, and results to outsiders.

The third main group comprises **decisional roles**. Mintzberg (1973) defined four roles, which deal with making choices. By playing the role **entrepreneur**, the manager searches within and outside of his organization for opportunities and initiates projects. The **disturbance handler** is responsible for corrective actions when the organization faces unexpected disturbance. Mintzberg's **resource allocator** approves significant organizational decisions. The fourth decisional role is the **negotiator**. The manager represents the organization in major negotiations. According to Mintzberg (1973), every effective manager represents these roles. They are the basis for being successful. But Mintzberg neither answers the question which roles are more important than others, nor does he state on which of the roles managers should spend most of their time to be effective. Please see Appendix 2 for an overview of Mintzberg's management roles.

4.2 MANAGEMENT SKILLS

Katz (1992) defined three essential **management skills**: the technical, the human, and the conceptual skill. **Technical skills** cover the ability to apply specialized knowledge or expertise. By way of intensive formal education, the specialist obtains special knowledge and subsequently practices in his field (Katz, 1992).

Human skills refer to the ability to motivate, work with and understand people, both individuals and groups. These skills create the basis for interaction between people in everyday life. Moreover, they are necessary to solve conflicts and are useful in negotiations. Therefore, good human skills in communication, motivation, and delegation are essentially important to successful performances of managers of MNCs (Katz, 1992). Decision-making requires managers to identify problems, to develop alternative solutions to rectify those problems, to evaluate those alternative solutions, and to select the best one.

To be able to do that, a manager needs **conceptual skills**. Those skills enable the manager to analyze and diagnose complex situations (Katz, 1992). All of these management skills are essential to lead and direct a MNC effectively and successfully. Therefore, it must be obligatory that managers of MNCs train their management skills to reach the most appropriate result.

4.3 MANAGEMENT ACTIVITIES

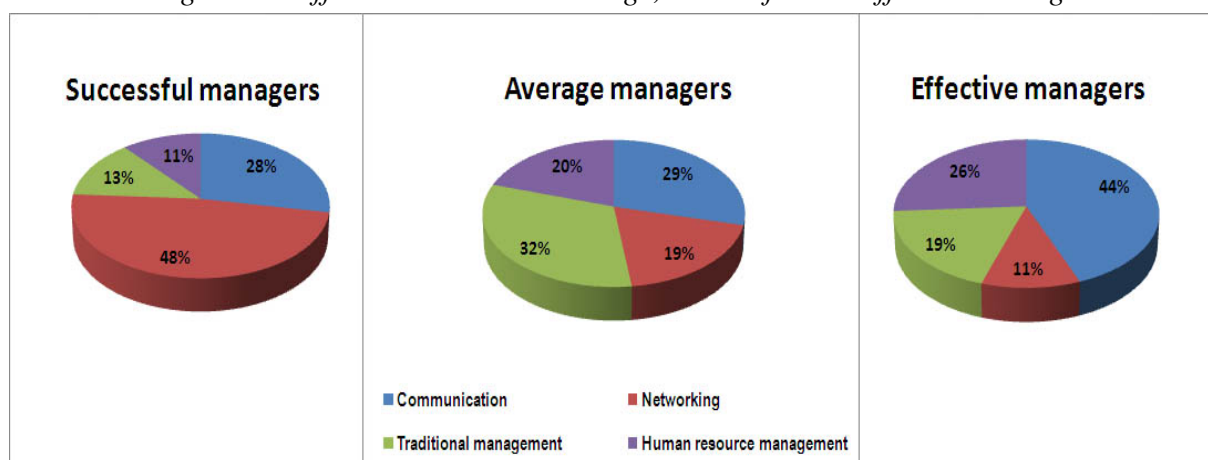
Luthans (1988) studied more than 450 managers and developed **four managerial activities**, which all managers carry out. According to Luthans (1988), an average manager spends between 20 – 30% on each of the following activities: communication, traditional management, human resource management, and networking.

Communication consists of handing out paperwork and exchanging routine information with internals and externals. Decision-making, controlling, and planning are the main aspects of **traditional management**. The activity **human resource management** includes most interpersonal contacts between the manager and any person connected to the organization. **Networking** is the activity to socialize and interact with outsiders.

Luthans (1988) recognized an essential difference between effective and successful managers. **Effective managers**, defined in terms of quantity and quality of their performance and the satisfaction of their employees (Luthans, 1988), spend 44% of their time on communication,

19% on traditional management, 11% on networking, and 26% on human resource management. By comparison, a **successful manager**, defined in terms of the speed of promotion within his organization (Luthans, 1988), spends 28% on communication, 13% on traditional management, 48% on networking, and 11% on human resource management. The result is a significant discrepancy between these two types of managers, especially if the activities networking and communication are highlighted. This study illustrates the importance of networking and political and social skills in getting ahead in organizations. The common point of view is that the promotion of a manager is directly connected to his performance. Luthans's study (1988) shows that this is a sophism and a historical assumption. Figure 3 shows the differences between average, successful and effective managers.

Figure 2: Differences between average, successful and effective managers.



Source: F. Luthans, *Successful Vs. Effective Real Managers*, 1988, pp. 127-131.

5 PERSONALITY AT WORK

The workforce and the management are crucial to a successful organization. Therefore, the personalities of these persons are essential for success. Different internal and external circumstances require different personalities. Thus, it is fundamental to hire candidates with appropriate personality traits. Hence, managers should know that scientific studies have shown that personality tests are useful in hiring decisions (Tausz, 1984; Ellner, 2007).

There are several personality tests, which are used to obtain additional information for hiring decisions. In the following part, I will concentrate on the Mayers-Briggs Type Indicator and the Big Five Model because both approaches have become the dominant framework for identifying and classifying traits over the past 20 years (Gardner & Martinko, 1996).

5.1 THE MAYERS-BRIGGS TYPE INDICATOR

Nowadays, the **Myers-Briggs Type Indicator** (MBTI) is by far the most widely used and studied personality-assessment instrument in the world, with over three million people a year completing the psychological test (Gardner & Martinko, 1996; Offermann & Spiros, 2001). The MBTI consists of 100 questions. These questions relate to the behaviors and feelings of the respondent in particular situations. Based on the respondent's answers, the candidate is classified

as sensing or intuitive (S or N), thinking or feeling (T or F), extraverted or introverted (E or I), and judging or perceiving (J or P). All in all, the classification describes 16 personality types. Please see Appendix 3 for a more detailed description of each classification.

Although the MBTI is the most common personality test, it faces enormous criticism in the scientific world. According to Garden (1991), one problem is that it forces a person into either one type or another, e.g. a person can only be introverted or extroverted. There is nothing in between, although people can be both introverted and extroverted to a certain degree. Moreover, Pittenger (1993) found that the J-P and S-N factors show a high correlation. Furthermore, the MBTI is based on honest self-responding on part of the candidate. Therefore, it is possible that the respondent manipulates the results by giving dishonest or even wrong statements. Pittenger (1993) found that even in retests over a period of five weeks, a one-point difference on a particular dimension resulted in a reclassification of personality type for 50 percent of the subjects in his study. Gardner and Martinko (1996) concluded that the scoring of the MBTI leads to an unstable personality characteristic type. Thus, the reliability of the MBTI is at least questionable.

In conclusion, the MBTI is a useful tool to obtain additional information about potential candidates, but it should not form the basis for choosing employees. This personality test should definitely be included in leadership development programs if it is used with caution. Using the MBTI in a rigid manner, may lead to inaccurate assessments of people's personalities. If users take some of the weaknesses of the MBTI into consideration and consider what adjustments might be necessary in order to make accurate assessments of people's personalities, then the Myers-Briggs Type Indicator can be a useful assessment instrument.

5.2 THE BIG FIVE PERSONALITY MODEL

A great number of scientific studies and research support the thesis that five basic dimensions underlie all others and encompass most of the significant variation in human personality. **The Big Five** factors are: Extraversion, Agreeableness, Conscientiousness, Emotional stability, and Openness to experience. All five factors show an influence from both heredity and environment. Twin studies suggest that these effects contribute in roughly equal proportion (Jang, 1996). Barrick and Mount (1991) noticed a relationship between these personality dimensions and job performance. For example, people who score higher in conscientiousness develop higher levels of job knowledge. Those higher levels of job knowledge in turn contribute to higher levels of job performance. People who score high on emotional stability are happier than those who score low. Of the Big Five traits, emotional stability is most strongly related to life satisfaction, job satisfaction, and low stress levels. Extrovert persons experience more positive emotions than introverts and tend to perform better in jobs that require significant interpersonal interaction. One negative aspect of extraversion is that extrovert persons are very impulsive. Therefore, they are more likely to be absent from work and engage in risky behavior. Finally, extraversion is a strong predictor of leadership, because extraverts show rather socially dominant behavior. Individuals who score high on openness to experience are more creative in science and in art than those who score low. Creativity is important to leadership - therefore, open people are more

likely to be effective leaders. Agreeable individuals generally make a better first impression than disagreeable ones. Therefore, they tend to do better in interpersonally oriented-jobs, as e.g. customer service (Barrick & Mount, 1998). Please see Appendix 5 for a detailed description of each factor.

Although most of the scientists agree on the validity of this test, there is some criticism. One common critique is that the Big Five do not explain all human personalities. Moreover, some scientists see correlations above the five dimensions (Block, 1995). This leads to adulteration of results. In conclusion, the Big Five Personality Model is the best tool to choose people. Especially in MNCs, there are cross-cultural factors to be considered. Research proved that the Big Five are valid from a cross-cultural point of view. This is an enormous advantage of this test compared to others. The five dimensions are described in such a way that the model can be used all over the world (Robie, Brown & Bly, 2005).

5.3 OTHER PERSONALITY TRAITS

Although the Big Five Personality Model has proven to be the most efficient personality test to choose individuals, it is still not exact enough to describe someone's character in detail (Block, 1995). Therefore, I will now briefly describe more specific personality attributes that have been found to be powerful predictors of behavior in organizations.

Individuals who are excessively competitive and always seem to be experiencing a sense of time urgency are **type A personalities**. These people always tend to move, they cannot cope with leisure time, and strive to think or do two things at once. In the North American culture and in most of the European cultures this trait is positively associated with ambition and the successful acquisition of material goods.

There is a difference between people, as to how they like or dislike and see themselves as being capable and effective. This concept is called **core self-evaluation**. Individuals with positive core self-evaluation perform better because they set more ambitious goals, are more dedicated to their goals, and keep attempting to reach those goals for a longer period of time.

Individuals who are pragmatic, maintain emotional distance, and believe that ends can justify means are high in **Machiavellianism**. Those people tend to be highly effective, but are also a potential danger. Some Machiavellians use their ambitiousness rather in favor of their own interests than for the organization's (Robbins & Judge, 2009).

Campbell, Goodie & Foster (2004) describe **narcissism** as a personality trait of persons with a grandiose sense of self-importance, who require excessive admiration and are arrogant. Narcissists think they are better leaders, but their colleagues actually rate them as worse leaders.

Snyder (1974) defines **self-monitoring** as a person's ability to adjust their behavior to external and situational factors. An individual, who is highly sensitive to external cues and behaves differently in different situations, is called high self-monitor. Highly self-monitoring managers tend to be more mobile in their careers, receive more promotions, and are more likely to occupy central positions in an organization.

People differ in their willingness to take risks. **Risk-taking** is another very important personality trait of managers. An organization has to find an individual whose attitude towards risk suits

with the one of the company. In general, managers of large companies like MNCs are more risk-averse than growth-oriented entrepreneurs, who actively manage small businesses (Campbell et al., 2004).

According to Thompson (2005), a **proactive** personality actively takes the initiative to improve his/her current circumstances or creates different ones. Proactive people create positive changes in their environment, regardless of or even in spite of constraints or obstacles. Proactivity displays desirable behavior patterns that organizations covet. These personality traits are valid world-wide. Nevertheless, organizations, especially MNCs, have to recognize where the potential candidate comes from with regard to the home country and its culture. One personality trait may be requested in North America but is not requested in Japan (Robbins & Judge, 2009). Therefore, it is essentially necessary to take the environment of potential leaders into consideration.

5.4 CROSS-CULTURAL COMMUNICATION

Considering MNCs includes the consideration of different countries and cultures. Cultural differences can easily create barriers to effective communication. Communication is crucial to effective leadership and the management of MNCs. According to Harzing and Feely (2008), the international management research community failed to deal with this issue in an adequate manner, since Holden (1987) published his analysis of 463 English management texts 22 years ago. Marschan-Piekkari, Welch, L. and Welch, D. (1997) described the difficulty of managing businesses across the language barrier as the forgotten factor. Cross-cultural communication can obviously be the main barrier to effective leadership. Therefore, it is an essential responsibility of every MNC to concern itself with this issue.

Grenville-Howard, Hoffman and Wirtenberg (1993) believe that cultural barriers can be caused by differences in **semantics**. Some words can have different meanings in different cultures and may not be translatable. For instance, the new capitalist Russia has difficulties to communicate with British and US-American businesses, because English terms like efficiency and free market cannot directly be translated into Russian. According to Graham (1981), there are also barriers caused by **connotations**. The same words may have different connotations in different cultures. The translation of the Japanese word “hai” is “yes”. American would interpret that their counterpart means “yes, I agree” but it rather means, “yes, I am listening”. Therefore, a kind of sensitiveness is necessary to avoid misunderstandings.

Furthermore, cultural barriers can be caused through **differences in tone**. The way something is said can strongly influence how others understand it. Hence, it is important to determine whether a formal or an informal style is appropriate in the respective situation. The fourth barrier is caused through **different perceptions**. People who speak different languages actually show differences in how they view the world. Eskimos, for instance, use more than 100 words for snow. This makes it obvious that they perceive the world in a different way (Stapel & Semin, 2007).

Besides, leaders of MNCs have to consider the cultural context of the country with which they make business. **High context cultures** like Japan, China, and Korea rely on non-verbal and situational communication. A person’s official status, place in society, and reputation carry considerable weight in communication. Moreover, contracts made by handshake are often of

more value than a formal document. High context cultures imply substantially more trust by both parties. **Low context cultures** like Germany, Switzerland, and the Scandinavian countries rather rely on verbal communication. Contracts in low context cultures have to be in written form, they must be precise and formulated using highly legal vocabulary (Charles, 2000).

Due to all these potential cross-cultural barriers to effective communication, I think it is right to assume differences until similarity is proven. In addition, managers should emphasize description rather than interpretation or evaluation of different behaviors and it is definitely useful and necessary for them to practice empathy. Managers should treat their interpretations as a working hypothesis that needs further testing.

6 PERSONAL APPROACH TO EFFECTIVE LEADERSHIP IN MNCs

I have already described transactional, charismatic, and transformational leadership. These three prevailing theories are the basis for efficient leadership, but they are not the sole key to success. As I have already mentioned, these basically efficient approaches turn into inefficiency if the leader has a self-orientated personality. To eliminate this potential danger, we have to add two components to these theories, namely ethics and trust.

Trust is based on integrity, competence, consistency, loyalty, and openness. Trust does not in general increase performance, but mistrust decreases it as a rule. Therefore, it is essential to create a trustful relationship between leader and followers. The consequence of adapting these components is the so-called authentic leadership and the idea of socialized charismatic leadership (Robbins & Judge, 2009).

Nevertheless, leadership is such a complex construct that we have to go into greater detail to describe the whole concept of effective leadership. The selection process to fill the positions of a MNC is crucial to subsequent success. Within this process, the organization should use all reliable tools to select the most appropriate candidate.

It is useful to accomplish personality tests, which shed light on the qualities of the specific candidate with regard to the job requirements. As I already described, the Myers-Brigg Type Indicator is useful for the development during the selection process, but it should not be used for the final choice of candidates (Gardner & Martinko, 1996). The organization can resort to the Big Five Personality Model to get helpful information for that final step (Robie, et al. 2005).

These tests are effective to acquire additional information. All the same, MNCs should use further tools during the selection process. Personal interviews give the organization the opportunity to identify specific leadership traits such as extraversion, self-confidence, a vision, verbal skills, or a charismatic physical presence.

The whole process is not completed after a MNC selected one candidate. As I have already pointed out, transformational leadership is the basis of success. The necessary abilities can be learned and trained. Hence, training of executives increases their subsequent performance. Appropriate candidates should have a strong self-monitoring personality, because these individuals are flexible and can change their behavior. To ascertain whether a candidate disposes of that attribute is left to personality tests. Every individual is different, even those who fulfilled every expectation during the selection process. One-on-one training is therefore the best method

to improve the executives' interpersonal skills and to teach them how to act less autocratically (Robbins & Judge, 2009).

There is no global concept of effective leadership. According to the GLOBE program, this popular credence is at least arguable. There are some universal aspects of leadership, especially some of the elements constituting transformational leadership, which is the basis of effective leadership. Worldwide, vision, foresight, providing encouragement, trustworthiness, dynamism, positiveness and proactivity are desirable attributes of leaders. Moreover, the concept of the Big Five is cross-culturally effective (Robie et al., 2005). Nevertheless, a certain cultural sensitivity is important for MNCs to lead teams in different cultures. In general, the described attributes are the same, but cultural differences play an important role with regard to implementing, practicing and dealing with them.

For established executives of a MNC, mentoring is a unique tool to obtain unfiltered access to the attitudes and feelings of lower ranking employees. Through a protégé the mentor acquires exclusive information, like early warning signals of potential problems. Due to this excellent source of information, the organization is able to prevent potential problems (Allen & Eby, 2007).

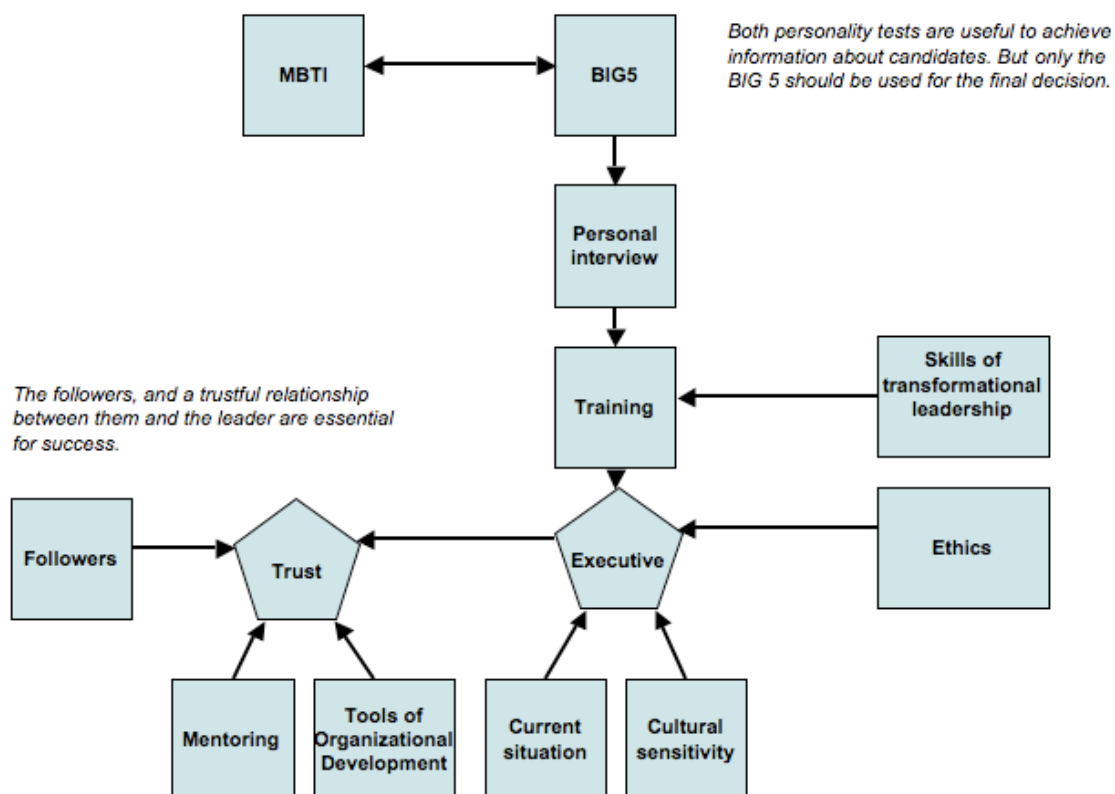
According to Avolio et al. (1991), followers are a crucial part of efficient leadership. The success of the organization is based on them. Not only in times of change, action research is an effective tool to generate information about potential problems. It is always useful and heavily involves the employees in the process of problem preventing and solving. Through action research and further tools of organizational development (sensitivity training, survey feedback, process consultation, team building, intergroup development, and appreciative inquiry), the organization creates a sense of belonging among the workforce. Improved relationships between the employees and increased trust in the executives are a consequence, too. More motivated, confident, and satisfied employees are one of the key factors of efficient performance.

Efficient leadership also depends on the present situation of an organization. In turbulent times, the institution needs a different leadership to be efficient than in well going times. Especially in times when an organization has to change because of the situation it faces, efficient leadership is necessary. There are several approaches to change organizations successfully. Kotter's Eight Step Plan for implementing change is rather advisable than Lewin's Three Step Model, because it is built upon Lewin's theory, but includes newer insights. These eight steps can be scaled into the three steps originally formulated by Lewin. The addition of Kotter's steps provided greater detail, giving more significance to the theory.

Innovation is a driving force in times of change and actually the basis of change. Therefore, there should be space for innovations within an efficient organization. An efficient leader supports innovative employees even when they fail. In this way innovations do not get suppressed. These should be part of a long-term strategy (Robbins & Judge, 2009).

In conclusion one can say that there is no general approach to effective leadership, which would cover all possible scenarios. Every situation, based on different internal and external circumstances, needs a special leadership. Figure 6 shows the plan of procedures for my personal approach to effective leadership.

Figure 3: Plan of procedures of my personal approach to effective leadership



CONCLUSION

The success of every organization is based on several different people. One of them has to coordinate and lead the other ones towards a common goal. This extraordinary ambitious task is called leadership. Leadership includes all special characteristics of executives, which enable them to convince others of their visions, goals, values, or procedures and to be a role model for them. This complex and demanding task is composed of a large number of constituent parts. Leadership can vary in its style and regarding the tools used. There is a huge pool of different approaches; each of them is suitable for a specific situation. Therefore, it is essentially necessary to recognize that effective leadership cannot be generalized. It always depends on the individual situation and its circumstances. Moreover, the leaders themselves and their personality are crucial to success. Personality traits are based on heredity and on the respective surroundings, in which a person grew up and is living. As a result, nature and environment create different types of leaders with different abilities, skills, and perspectives. Companies have thus the difficult, yet very essential task to choose an individual who matches the organization's situation. Executives of Multinational Corporations are required to have particular personality traits, which enable them to operate effectively in and between different countries and cultures. Hence, it is an even more challenging task to find an individual who suits a MNC and its cross-cultural business.

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APPENDICES

Appendix 1: Transactional and Transformational methods of Leadership

TYPE OF LEADER	DESCRIPTION OF THE METHOD
<i>Transactional Leader</i>	
Contingent Reward	Contracts exchange of rewards for effort, promises rewards for good performance, recognizes accomplishments.
Management by Exception (active)	Watches and searches for deviations from rules and standards, takes corresponding action.
Management by Exception (passive)	Intervenes only if standards are not met.
Laissez-Faire	Abdicates responsibilities, avoids making decisions.
<i>Transformational Leader</i>	
Idealized Influence	Provides vision and sense of mission, instills pride, gains respect and trust.
Inspirational Motivation	Communicates high expectations, uses symbols to focus efforts, expresses important purposes in simple ways.
Intellectual Stimulation	Promotes intelligence, rationality, and careful problem solving.
Individualized Consideration	Gives personal attention, treats each employee individually, coaches, advises.

Source: Bass, B. M. (1990b). *From Transactional to Transformational Leadership: Learning to Share the Vision*.

Appendix 2: Mintzberg's Managerial Roles

ROLE	DESCRIPTION
Interpersonal	
Figurehead	Symbolic head; required to perform a number of routine duties of legal or social nature.
Leader	Responsible for the motivation and direction of employees.
Liaison	Maintains a network of outside contacts who provide favors and information.
Informational	
Monitor	Receives a wide variety of information; serves as nerve center of internal and external information of the organization.
Disseminator	Transmits information received from outsiders or from other employees to members of the organization.
Spokesperson	Transmits information on organization's plans, policies, actions, and results to outsiders; serves as expert on organization's industry.
Decisional	
Entrepreneur	Searches organization and its environment for opportunities and initiates projects to bring about change.
Disturbance handler	Responsible for corrective action when organization faces important, unexpected disturbances.
Resource allocator	Makes or approves significant organizational decisions.
Negotiator	Responsible for representing the organization at major negotiations.

Source: Mintzberg, H. (1973). *The Nature of Managerial Work*.

Appendix 3: Organizational Characteristics Associated With Each MBTI (Attitude and Function)

<p>Extrovert Types</p> <ul style="list-style-type: none"> • Prefer participating in a variety of tasks • Enjoy working in teams • Like having others around them • Impatient with long, tedious jobs • Act quickly, sometimes without much cognitive reflection 	<p>Introvert Types</p> <ul style="list-style-type: none"> • Prefer quiet settings • Prefer working either by themselves or in small intimate groups • More at ease when working on one project at a time without interruption • Develop ideas through cognitive reflection
<p>Sensing Types</p> <ul style="list-style-type: none"> • Draw upon experience and standard operating procedures to solve problems • Enjoy using facts and data in their analyses • Have a strong present orientation • Work in a linear, step-by-step fashion • Aware of the amount of time needed to complete projects • Start with facts and then slowly develop, if at all, a broader vision of things to come 	<p>Intuitive Types</p> <ul style="list-style-type: none"> • Prefer solving complex problems • Enjoy challenges • Have a future orientation • Rely heavily on hunches rather than facts • Seek out innovative ideas • Start with a vision or a big picture of where they like to see their organization progress, with little interest in the details of how to get there
<p>Thinking Types</p> <ul style="list-style-type: none"> • Rely on logic to reach conclusions • Task-oriented, and hence more likely to make the tough decisions that adversely impact people • Rely on impersonal values in making decisions • Perceived as firm-minded 	<p>Feeling Types</p> <ul style="list-style-type: none"> • Seek harmony in the workplace • Sympathetic to people's needs • Viewed as people-oriented • Have an aversion to telling people unpleasant news
<p>Judging Types</p> <ul style="list-style-type: none"> • Work in a linear fashion, preferring to perform one job at a time • Seek out closure on issues • Tend to make quick decisions • Prefer structured work environments • Maintain strict work schedules • Less flexible in their work behavior 	<p>Perceiving Types</p> <ul style="list-style-type: none"> • Prefer flexibility in their work environments • Work on multiple projects simultaneously • Delay decision making in order to keep their options open • Quick to adapt to changing conditions

Source: Hirsh, S., & Kummerow, J. (1998). *Introduction to type in organizations*.

Appendix 4: Detailed description of the BIG 5 factors

TRAIT	DESCRIPTION	HIGH SCORERS ARE...	LOW SCORERS ARE...
Openness to experience	Being curious, original, intellectual, creative, and open to new ideas.	Creative, imaginative, eccentric and open to new experiences.	Practical, conventional, skeptical and rational.
Conscientiousness	Being organized, systematic, punctual, achievement-oriented, and dependable.	Organized, self-directed and successful, but controlling.	Spontaneous, careless, can be prone to addiction.
Extraversion	Being outgoing, talkative, sociable, and enjoying social situations.	Outgoing, enthusiastic, active and talkative; seeks novelty and excitement.	Aloof, quiet, independent; cautious and enjoy time alone.
Agreeableness	Being affable, tolerant, sensitive, trusting, kind, and warm.	Trusting, empathetic and compliant; slow to anger.	Uncooperative and hostile, find it hard to empathize with others.
Emotional stability	Being anxious, irritable, temperamental, and moody.	Prone to stress, worry and negative emotions.	Emotional stable but can take unnecessary risks.

Source: Robbins S. P., & Judge T. J. (2009). *Organizational Behavior (13th Edition)*.