Leadership in the 2008 financial crisis

Understanding dimensions of Transformational & Transactional leadership during financial crisis in financial institutions

Master Thesis within Business Administration

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Abstract

Problem: - The 2008 Financial crisis has caused global impact on business market and led to question leader’s competence. Prior study has found that leadership contributes certain effects to organizations’ performance under a crisis situation, however there is little study which has been made regarding to identifying crisis leadership and its competence and management during crisis.

Purpose: - The purpose in this thesis is to bridge the gap between crisis management and leadership by finding answers of five research questions. Which are ; How this 2008 financial crisis has affected the international financial institutions, what leadership dimensions are performed by leaders during the financial crisis, which leadership style do leaders tend to rely on in international financial companies during the 2008 financial crisis, why do leaders tend to rely on the dimensions of transformational leadership or transactional leadership and what are the implications in this study that could lead to future research.

Method: - The study employs qualitative methods to fulfill better and deeper understanding about 'how’ and 'why’ on leadership dimension during the 2008 financial crisis. Data were collected by personal interviews to support and act as a foundation of the analysis to answer the research questions. The choice of interviewees is middle managers of large international companies in the financial sector in Sweden and South Korea.

Conclusions: - The finding of this study indicates that 2008 financial crisis has affected on large international financial corporations in Sweden and South Korea. Moreover, three dimensions of transformational leadership are strongly performed by the middle managers during the 2008 financial crisis. The three strongly performed dimensions are (1) Inspirational Motivation, (2) Charisma/ Idealized Influence and (3) Individualized consideration.
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1 Introduction

In this chapter we introduce crisis, crisis management and our purpose to relate crisis management to transformational and transactional leadership.

1.1 Background

Slatter (1984) addresses that surprise, short decision time and a high threat to important values are the three characteristics in a crisis situation which could increase the stress and anxiety on both the organization and the individuals. Time pressure normally can enhance people’s creativity and performance, but beyond a certain level it may turn into negative effects. In the crisis situation, managers tend to apply a simple approach that they have previously used without considering whether it is appropriate or not due to lack of time (Slatter, 1984). The impact of the stress and anxiety on individuals could induce simpler, less integrated and less complex types of thought and behavior (Chemers & Ayman, 1993). As international companies encompass a complex structure that integrates different individuals to operate, the impact on individuals might even damage the firm’s structure, disintegrate operation system, and eventually result in a failure in the crisis situation (Slatter, 1984).

Under the conditions of a crisis, leadership might make a difference to the performance and outcome of a company. Halverson, Holladay, Kazma, & Quinones’ experimental study (2004) has indicated that both attributions of leader charisma and followers’ organizational commitment have great effects in crisis situations. The importance of need for leadership has also been proved in the Hunt, Boal, & Dodge’s experimental research (1999). Tushman & O’Reilly (1996) moreover find that the performance of organizations during crises often depends on the emergence of leaders with charisma. Therefore, these findings suggest that leadership does make a difference to people and organizations under crisis conditions.

As business firms are increasingly globalized and involved in international trade, a crisis caused in an international company may not only affect itself but also generate impact on other companies globally if the international company does not handle the crisis well (Darling, 1994). The global financial crisis in 2008 can be considered as an example in this case. In 2006, a real estate bubble in the subprime mortgage market began to burst in the US while house price started decreasing (Lapavitsas, 2007). Many borrowers became unable to repay their loans which led to a loss of bad loans for banks. After the bankruptcy of Lehman Brothers in mid-September 2008, the crisis in the US has led to a global financial crisis rapidly (Shiller, 2008).

According to Lapavitsas (2007), this global financial crisis has caused by three factors; (1) Transformation of financial operation system, (2) Unfunctional money market (3) Financial globalization. The case of the 2008 financial crisis implies that collapse of international companies might result in a serious global crisis. As a result, based on the argument of that leadership contributes certain effects to organization’s performance under crisis situations, we would like to understand leadership styles that leaders in international companies tend to rely on during the 2008 financial crisis in this thesis.
1.2 Problem

As the financial crisis and its impact has been briefly explained in the background, what we concern about is the leadership in response to crisis. Leadership is regarded as a critical factor in the initiation and implementation of the transformations in organization (Bass, 1998). Leaders contribute value to the development of a clear vision and inspire followers towards the vision. They further stimulate strong motivation for followers to change (Lievens, Geit & Coetsier, 1997).

When a crisis occurs such as natural disasters, terrorist attack, product failure, work place violence, bribery, scandal etc, leaders’ role become very important to lead a company and react to the crisis (Pearson & Clair, 1998). Schoenberg (2004) noted that it is the leader’s competence to decide whether they will just survive from the crisis or turn the crisis into opportunities. For example, if a crisis is mishandled, the stock price of a company would decrease a 10% while if the crisis is effectively managed, only 5% of stock price decreases after the crisis and have more possibility of quick recovery in the stock market (Wooten & James, 2008). This indicates that if a leader cannot handle the company properly, it could cause short or long term significant damages or even to a collapse of the company (Wooten & James, 2005). Furthermore, a crisis in an organization occurs unpredictably most of the time. Leaders should be prepared anytime for any kind of potential crisis.

Well respected and charismatic leaders who are loved by followers can turn out to be ineffective in different situations (Bass, 1998). This means, some types of leadership might not suit for certain situations. Therefore, one of important features of an effective leader is to be able to adjust appropriate leadership (transformational or transactional) in the different situations (Bass,1998). For instance, Burns (1978) addresses about how Franklin Delano Roosevelt could successfully change his transactional leadership into charismatic leadership to overcome a crisis during his regime (Bass, 1998).

Effective response during crises can lead to competitive advantage (Garcia, 2006). On the contrary, ineffective crisis response may lead a company into a catastrophe. Leaders who pay more attention to giving credit for vision and strategic planning than effective crisis response often put their company’s future at risk (Garcia, 2006). Schoenberg (2004) moreover notes that crisis management is a test of the quality, character and skill of leadership. Thus, leaders’ role in making response to a crisis and leading the company through the crisis becomes very important in crisis management.

Nevertheless, there is little study which has been made regarding to identifying crisis leadership, its competence and management during crisis (Wooten & James, 2008). Although there is numerous literature on how to handle crises with recommendations and strategies, it has not yet to be developed as certain types of leadership that are prefered in handling a crisis.
2 Purpose

In crisis management, a crisis consists of four stages (Fink, 1986). The stages are: prodromal crisis stage, acute crisis stage, chronic crisis stage and crisis resolution stage, which will be addressed further and deeper in the theoretical framework. Moreover, there are different types that a crisis can be such as product tampering, natural disaster, financial problems, etc. As the financial crisis has occurred from the US and led to a global financial crisis since 2008 (Costas, 2008), it is a valuable opportunity for us to study the crisis type of a financial crisis in our research.

In the aspect of leadership types, Burns (1978) classifies leadership types into mainly transformational leadership style and transactional leadership style. Each leadership style has different standardized dimensions. Transformational leadership has dimensions of charisma/idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration (Bass, 1990). On the other hand, there are three dimensions in transactional leadership, which are contingent reward, active management by exception and passive management by exception (Bass, 1990).

The leadership of middle managers is focused in this research. The role of middle manager is important in crisis management due to the characteristic of their position, which middle managers have close access and relation to both internal (employees, subordinates, e.t.c) and external resources (client, stockholder, e.t.c) (Rouleau, 2005). When a company faces a crisis, lots of change occurs in the company, it is important for middle managers to enact a role of communicating, implementing and carrying out strategies to those changes (Meyer, 2006).

However, most of literature on crisis management usually puts focus on formal or explicit knowledge (Nonaka, 1994). The goal of the literature is to enhance the efficiency of prevention, diagnosis and intervention (Lalonde, 2007). It often results in the form of recommendatory strategies presented as the right way to manage crises (Lalonde, 2007). Moreover, research on leadership styles has been widely and deeply studied, while leadership in a specific situation has not much explored yet. There is little knowledge about what leadership style leaders rely on in crisis management.

The purpose in this thesis is to find out how leadership is performed by middle managers in terms of transformational and transactional leadership dimensions during the 2008 financial crisis and the reasons why they do so. We also aim to explore the implication for future research. The possible contributions in this study is to serve as a bridge between crisis management and leadership, as well as an initiation of crisis leadership style.
3 Delimitation

Both fields of crisis management and leadership is vast range and examined in detail, setting a category that what this study would focus on is necessary. Among the various types of crisis, the 2008 financial crisis would be focused. In terms of leadership, transformational and transactional leadership styles would be focused. This would be thoroughly described in the theoretical framework. Additionally, this study does not seek for the comparison between leadership during the financial crisis and regular times. This study specifically focuses on how international companies in the financial sector have responded and managed in terms of leadership styles during the 2008 financial crisis and why they have done so.

4 Theoretical framework

As competence of leadership is often questioned during the crisis, deep study of the relation between the financial crisis and leadership styles is found to be worth exploring. Prior to proceed, clear distinctions and definitions on a crisis, crisis types, crisis phases in crisis management and leadership dimensions of transformational and transactional leadership will be explained in this section.

4.1 Crisis management

Nowadays, the frequency that crises occur in corporations has significantly increased (Darling, 1994). Crises are basically unexpected and unpredictable. Besides, crises can possibly endanger corporate reputations and survival. During the past several decades, a great amount of research and studies on the topic of organizational crises have been conducted by many researchers (e.g., Darling, 1994; Fink, 1986; Pauchant and Mitroff, 1992; Pearson & Clair, 1998; Pearson & Mitroff, 1993). Mitroff (2004) addresses that it is important for an organization to identify crises and prepare itself systematically. Furthermore, the importance for leaders to sensitize their roles during a crisis cannot be ignored (Pauchant & Mitroff, 1992).

In order to deal with a crisis and perhaps turn it into opportunities, it is no longer a question of “if” a company will face a crisis; instead, it is a question of “when will a crisis occur,” “what type of the crisis” and “how to prepare for it” (Kash & Darling, 1998). Therefore, it is essential and believed by researchers that crises must be studied and managed with a systematic approach, crisis management. This is because crisis management provides a corporation with a systematic tool to respond to crisis situations (Bowonder & Lingstone, 1987; Pearson & Clair, 1998; Pauchant & Mitroff, 1992). Crisis management allows the corporation to maintain its day-to-day operations while the crisis is being dealt with (Darling, 1994).
Role of middle managers

The role of managerial leadership is very essential in response to a crisis. When a company faces a crisis, lots of change occurs in the organizations, it is important for middle managers to enact a role of communicating, implementing and carrying out strategies to those changes (Meyer, 2006). Due to their characteristic position, middle managers have close access and relation to both internal (employees, subordinates, e.t.c) and external resources (client, stockholder, e.t.c) (Rouleau, 2005). This demonstrates that middle managers would be positioned as the first line for assistance in the change and persuade both internal and external relations with reasons of the change and its impact (Rouleau, 2005; Meyer, 2006). Via communication, middle managers help turn the company into a new direction while protecting the company’s reputation at the same time (Rouleau, 2005).

In crisis communication, communication with external resources will be no doubt to be one of the most important and challenging aspects because it may affect a company’s reputation (Alexander & Maehlum). It is essential to be honest to the media, customers, and stockholders. Fink (1986) notes that the external resources will treat companies fairly and kindly in return if the company provides information honestly. “No comments” is an unacceptable response to the media during the crisis. Providing crisis-related information honestly and openly is the essential element while communicating with the external resources.

In this study, middle manager’s relationship with subordinates which is referred to internal resources would be focused due to the unique role of middle managers. The unique role of middle manager is to communicate with employees during changes in a company since they are the one who is most likely to address employees’ or subordinates’ stress and problems caused by the changes (Huy, 2001, 2002; Meyer, 2006). Coombs (2000) suggests that companies must provide correct crisis-related information to employees, tell them the impact on the organization and what affects the crisis might bring to their work and lives.

The most important element in the communication with employees is expressing empathy and compassion (Coombs, 2000). Moreover, the company must let its employees know that their value and importance have been respected by the company to strengthen the trust during the crisis. Nevertheless, the suggestion made by Coombs (2000) needs to be implemented by someone, which is middle managers. Decisions are made from top management, but the implementation is carried out by middle management. Poor middle managerial leadership such as ill informed or unsupportive attitude can cause unsuccessful execution of strategies (Meyer, 2006). Therefore, the role of middle managers during a crisis is as important as top managers in response to the crisis.
4.1.1 Crisis

There exists many definitions on a crisis defined by several scholars. Person & Clair (1998) note that ”a crisis is a low-probability, high-impact event that threatens the viability of the organization and is characterized by ambiguity of cause, effect, and means of resolution, as well as by a belief that decisions must be made swiftly” (p. 60).

Kash & Darking (1998) define a crisis as any unplanned event which can be caused by injuries and deaths to employees, customers, or even the public, moreover it might result in shutting down the business, disrupting operations, or threatening reputation. Furthermore, Barton (1993) considers a crisis as an unpredictable event which might result in negative results. Impact of the event may significantly damage products, services, financial conditions, customers, and employees of an organization.

Even though these researchers define a crisis with different combinations of words, there seems to be a common thought among the preceding definitions. All the definitions presented above only pay attention to the negative impacts on the corporation.

A crisis is not only a threaten, but also possibly an opportunity to a corporation. Fink (1986) defines a crisis as ”an unstable time or state of affairs in which a decision change is impending, and it results in either a desirable or undesirable outcome.” (p. 15)

The Fink’s definition (1986) implies that crises have dual meanings as well as dual outcomes (Massey & Laren, 2006). Alexander & Maehlum (2008) also address that ”a crisis is a turning point for better or worse” (p. 7). In Chinese, the word of crises is called ”wei-ji”, which is exactly a combination of two meanings, ”wei means danger” and ”ji means opportunity” (Darling, 1994). Based on the theme of this thesis and the fact that one of the authors’ native language is Chinese, we consider Darling’s (1994) definition to be the most suitable;

‘A crisis is an unstable time or state of affairs in which a decisive change is impending—either one with a distinct possibility of a highly undesirable outcome or one with a distinct possibility of a highly desirable and extremely positive outcome.’ (Darling, 1994, p. 5)
4.1.2 Types of Crisis

Shaluf, Ahmadun and Said (2003) reviewed and summarized the major research findings that have established about types of a crisis (see Figure 1). According to Shaluf et al. (2003), a crisis can be classified into two big types; community crises and non-community crises. Community crisis is a crisis generated by either natural or technological agents are conflict type situations such as wars, civil disturbances, terrorist attacks, etc (Quarantelli, 1988). On the other hand, non-community crisis such as transportation accidents are the crisis which does not give impact on the functioning of a community.

Figure 1. Types of crisis (Shaluf, Ahmadun and Said, 2003)

4.1.2.1 Community crisis

There are natural crises which result from natural disasters, industrial crises that result from socio-technical disasters, and non-industrial crises which result from the conflict type “political” crises and non-conflict type crises. Industrial crises are man-made disaster caused by industrial activities (Shrivastava, Mitroff, Miller & Miglani, 1988). The man-made disaster results from situations where organized industrial activities is the main source and causes major damage to human life, and natural and social environments such as product poisonings and product tampering (Shrivastava et al. 1988).

Non-industry crises result from the conflict type “political” crises and non-conflict type crises. Conflict type political crises are associated with causes and consequences of crises that create ‘political disruptions’ (Shrivastava et al. 1988). Furthermore, Shaluf et al. (2003) indicate that the conflict type crisis can divided into external crises and internal crises. Internal crisis are caused by internal organizational variables such as products, production systems, structures, and culture (Shrivastava & Mitroff, 1987). Computer breakdown, sabotage by insiders, failure to adapt/ change are typical internal crises. The external crises primarily result from the external environment such as government policies and regulations and relationships with external stakeholders such as clients and
suppliers (Shrivastava & Mitroff, 1987). Hostile takeovers, executive kidnappings, and terrorist attacks are examples of external crises (Shrivastava & Mitroff, 1987).

For non-conflict type situation, Shaluf et al. (2003) note that social crises may include rumors, sexual harassment and boycotts. In terms of economic crises, they are categorized into non-financial crises and financial crises.

In this study, we will focus on financial crisis which categories under community crisis, non-industrial crisis, non-conflict type situation and economic crisis. This is because not only the impact of the financial crisis in 2008 was great and led to a global recession but also it is more likely to evoke accurate or fresh memory from leaders who have faced the 2008 financial crisis in their company. Therefore, in the following section, the financial crisis will be explained in depth.

4.1.2.2 Financial crisis

There is no one strict definition of “financial crisis,” but several assumptions and ideas were discovered in the research field. Jickling (2008) indicates, “A common view is that disruptions in financial markets rise to the level of a crisis when the flow of credit to households and businesses is constrained and the real economy of goods and services is adversely affected” (p. 2). Moreover, according to Mishkin (1991), a financial crisis can be defined as trouble in financial markets that cause problems of market’s capability in distributing capital, which causes suspension of investments. Benmanke (1983) described a financial crisis in more detail that it is panic of banks that coinciding failure and reducing amount of intervening of financial activities which result in decline of economical activities (Mishkin, 1991).

According to Mishkin (1991), five factors that cause a financial crisis are; increase in interest rates, stock market declines, increase in uncertainty, bank panics, and unanticipated declines in the aggregated price level.

Interest rates

Companies or investors are usually the one who is willing to take risks and pays the higher interest rates (Mishkin, 1991). However, it is less likely and attractive for reliable borrowers to obtain loans if the interest rate is raised to an unacceptable level, while unqualified borrowers may still want to borrow money. This makes lenders unwilling to take risks to give bad loans, which thus leads to a decline in investment projects and economical activities (Mishkin, 1991).

Stock Market

When stock market crashes, it can cause moral hazard problems in financial markets (Greenwald & Stiglitz, 1988). From the perspective of lenders, the decline in the stock market lowers lenders willingness to lend because the net worth of companies decreases while the stock market crashes, which makes less protection of fulfilling repayments to lenders. This therefore weakens investments and economic growth (Mishkin, 1991).
terms of borrowers, the moral hazard increases (Greenwald & Stiglitz, 1988). Borrowing companies, which have lower net worth, would tend to make more risky investments because they have less to lose if their investments fail. This moral hazard problem makes lending less attractive to lenders and therefore affects economic activities (Mishkin, 1991).

**Increase in uncertainty**

Due to failure of leading financial/non-financial institution, recession, stock market crash, collapse of price bubble cause uncertainty in the financial market. Lenders are unable to be sure whether who is credible borrower or not, which causes hesitate to lend money (Mishkin, 1991). Crises come when the lenders view the growing uncertainty, become distrustful and refuse to give loans (Tobin, 2000).

**Bank panics**

Banks are one of essential roles in economic activities such as information producing, helping dynamic investment, etc. In a financial panic, depositors feel that it is insecure to deposit money in banks and hence withdraw their money from banks, which causes a contraction in loans because banks lack of funds from depositors to make loans. Moreover, a bank panic can also lead banks to increase interest rates in order to restrain the needs of loans from companies. As we have mentioned before, higher interest rates will result in economic contraction and investment decrease (Mishkin, 1991).

**Unanticipated declines in the aggregated price level**

Unexpected declines of the price level also decrease the net worth of corporations. Because the payments of debt are contractually fixed in nominal terms, an unanticipated decline of the price level actually raises the value of liabilities in real terms, This makes the liabilities become a larger burden due to the fact that companies still need to repay the same amount of money written in the contracts even though the price level has been decreased. However, the declined price level does not raise the real value of companies’ assets. The higher value of liabilities and lower real values of assets reduce the companies’ net worth in real terms. It can result in moral hazard problems and eventually lead to a contraction of investments and economic activities as we mentioned before (Mishkin, 1991).

**4.1.3 Financial crisis in 2008**

**Cause of financial crisis**

In 2008, financial crisis has occured from US and it has led to a globalal financial crisis rapidly. This global financial crisis has caused by three factors; (1) Transformation of finanacial operation system, (2) unfunctional money market (3) financial globalization (Lapavitsas, 2007). In this papaer, the recent finanical crisis in 2008 will be focused because many people and companies are influenced by this financial crisis (Shiller, 2008). In order to understand the impact of the financial crises on international companies, basic background on the 2008 financial crisis is needed to be explained.
Transformation of the financial operation system

A root of the financial crisis can go back to the time after 9/11 attack in New York (Lapavitsas, 2007). At that time, the US Federal Reserve cut its interest rates and loosened of credit in order to encourage people to borrow and ease up the panic and fear which pervaded financial markets from the 9/11 attack. Banks then took advantages of this and started to promote mortgages (Lapavitsas, 2007). Meanwhile, the US government made the transformation of the way banks assess lending.

In the past, people needed to have a good personal relationship with banks to borrow money from banks. However, nowadays the assessment of credit has become a quantitative and computerized process (Lapavitsas, 2007). If the applicant is above a certain threshold assessed by computer, bankers give them the loan. Bankers often fail to verify borrowers’ income to assess borrowers’ ability to repay their loans (Shiller, 2008). Therefore, it became easier for banks as well as borrowers to have risky lending such as lending on subprime mortgages. Because of the competition among the banks, banks tended to increasingly lower the threshold to attract applicants as many as possible. These aggressive mortgage lenders and complacent borrowers became the people who feed the housing bubble (Shiller, 2008).

Unfunctional money market with uncertainty

The epicenter of the crisis lies in the money market, which has been unable to function properly since August in 2007. The money market is where the banks lend to each other, which serves as a basis of capitalist finance (Lapavitsas, 2007). Money market lending gives flexibility to banks and is a reliable way of pricing what they sell. If the money market does not work well, then banks cannot work well. Banks, especially large commercial banks, are the foundation of the capitalist financial system because they create most of the fresh credit and they create money (Lapavitsas, 2007). If banks carry bad debt such as the subprime mortgage loans in this case and cannot deal with it, the banking system as a whole cannot function well. The reason is obviously that banks do not trust each other, since all of them have assets that are contaminated by subprime loans.

Deep uncertainty in the money market has meant that fresh credit has been more difficult to be generated in the financial system because the money flaw was frozen (Lapavitsas, 2007). This has resulted in an increasing cost of capital for corporations to invest. As the liquidity of capital is constrained, the difficulty of making investments and develop the economy is enhancing as well because businesses activities rely on a healthy banking system (Coy, 2008). The longer credit remains unavailable, the greater the damage to the economy.

Financial Globalization

Globalization of financial markets has affected assets and debts including securities, bank loans and deposits (Tobin, 2000). The communications revolution based on the technological improvements have made transactions in assets and debts easier and cheaper to globalize than trades in commodities. There is no physical frontier between countries but only national regulations that might be barriers to financial transactions. As these regulations have been liberalized by governments, international capital has
flowed rapidly and liberally around the world. These flows could possibly be causes of financial crises, recessions and depressions (Tobin, 2000).

When it comes to the financial crisis in 2008, once banks made mortgage loans, these mortgages loans were packaged, sold, and resold to investors around the world and guarantee payment of interest to the investors (Shiller, 2008). That is what “securitization” is about - selling bits of paper that give rights to interest payments accruing on separate loans (Lapavitsas, 2007). Many new institutions in the world emerged that began involving with the securitization business. They would obtain cheap credit in the environment of low interest rates after 2001, use it to make loans and then securitize them. Therefore, the reason why a small sickness within the US economy grew enormously is due to the way capitalist credit works in the financial globalization (Lapavitsas, 2007).

Moreover, certain countries have been generating huge surpluses—China mainly, India, Russia and the Gulf countries (Lapavitsas, 2007). These financial surpluses come from trade surpluses. However, most of the surpluses have flowed to the US, where savings and consumption have significantly declined (Lapavitsas, 2007). On the other hand, the central banks of developing countries bought the US’s government bonds where the surpluses went to. These funds serve as a form of lending of the US to some poor countries (Lapavitsas, 2007). However, the lending also has become securitized assets, thus ultimately promoting the burst of this subprime bubble (Lapavitsas, 2007).

In mid-2007, increasing losses in subprime mortgage markets triggered disturbances in the international financial system (Jickling, 2008). The extent of the turbulence has been surprising because the size of the U.S. Subprime market is much smaller in comparison with global financial markets. The problems were known well early when the housing prices hit the top in 2006. It was inevitable for subprime borrowers to have difficulty in paying their payments, which resulted in a great loss to banks (Lapavitsas, 2007). Since mid-2007, central bankers including the Federal Reserve have implemented a series of changes to prevent the downturn in U.S. subprime housing from turning into a financial crisis (Cecchetti, 2008). Moreover, the U.S. Federal Reserve tried to supply funds to ease liquidity constraints in the short term. However, it eventually could not make up the losses from the exposure to subprime mortgage market loans and resulted in a global financial crisis. (Lapavitsas, 2007).

4.1.4 The impact on corporations

From the perspective of corporations, Blatz, Kraus, & Haghani (2006) noted that a typical crisis process begins with a strategy crisis. It is likely to result in a failure if the company is unable to secure long-term success potential and achieve strategic goals. Failure of successfully carry out responses and actions will eventually lead the company to a situation where the profit goals are not met (Blatz, Kraus, & Haghani, 2006). The global financial crisis has affected the general demand of consumptions, which escalated the possibility of an earnings crisis where profit goals are not met. On the other hand, the financial crisis has also made it more difficult for companies to obtain loans from banks, even for financial institutions to get loans from other financial institutions. While the corporations use up its equity capital and is unable to ask for help from banks, the company cannot help but end up in a liquidity crisis (Coy, 2008). Moreover, they will begin to ax jobs, cease investment, and default on their repayment
of debts. If rising defaults make banks to tighten credit further, the downturn in economy will be intensified.

4.1.5 Crisis phases

‘A crisis is a turning point for better or worse.’ (Alexander & Maehlum, 2008, p. 7). If corporations can detect and plan for a crisis, the corporations will have a far better chance to turn the crisis into an opportunity than someone who allows the crisis comes and strikes the corporation without any preparation (Darling, 1994). In fact, most of crises do not occur suddenly and unexpectedly. The early signals and symptoms are possibly checked and detected before a crisis comes (Kash & Darling, 1998). A crisis consists of four different and distinct phases (Fink, 1986). The phases are: prodromal crisis stage, acute crisis stage, chronic crisis stage and crisis resolution stage.

4.1.5.1 Prodromal crisis stage

In the medical field, a prodrome is a signal or a symptom of an upcoming disease (Kash & Darling, 1998). It warns a person that he/she might suffer from a disease in the future. In the business world, a prodrome can be considered as a signal of crises. Most crises have early signals that imply potential problems, although Fink (1986) indicates that these signals sometimes might be too invisible to be recognized. The reason why prodromes are so important to catch is that it is much easier to take care of the problem and even avoid the crisis before it becomes acute in this stage (Kash & Darling, 1998).

It takes less time and resources to manage a potential crisis during the prodromal crisis stage. Take the 2008 global financial crisis for example, since mid-2007 central bankers including the Federal Reserve have implemented a series of measures such as supplying funds to ease the liquidity constraint in order to prevent the downturn in U.S. subprime housing from turning into a financial crisis (Cecchetti, 2008). These measures could be a signal of a possible crisis for financial institutions due to the fact that the financial markets has been globalization and worldwide capital flows and transactions are liberalized. Therefore, any fluctuation in financial markets could affect other financial markets globally (Tobin, 2000).

4.1.5.2 Acute crisis stage

In the prodromal stage, a prodrome may be too vague to be detected. Later, an acute stage occurs as long as some damage has been done (Fink, 1986). In an acute crisis stage, a problem demands urgent attention (Cash & Darling, 1998). An immediate action is needed whether the acute symptom emerges suddenly or is transformed from the prodromal stage. The scale of damage depends on the corporation. Corporations that have ignored signals in the prodromal crisis stage are more likely to suffer from significant damage of a crisis. Only the corporations which have prepared for crises can maintain their day-to-day operations in the acute crisis stage (Cash & Darling, 1998).

One of the major difficulties in dealing with a crisis during the acute phase is the speed and intensity (Fink, 1986). The speed is based on the type of crisis, while the intensity is primarily determined by the severity or value of the possible outcomes. Therefore, once a corporation has come to the acute crisis stage, it is essential to assess the severity of
damage and response properly to the crisis as soon as possible in order to minimize the harm. The key in this stage is to control and manage the crisis as much and as soon as possible in order to restrain the damage caused by the crisis (Alexander & Maehlum, 2008).

Fink (1986) indicates that the acute crisis stage is often the shortest stage of the four stages. Nevertheless, it sometimes may feel it is the longest phase due to its intensity. In the global financial crisis case, one after another large financial institutions’ collapses stroke the confidence among banks from the beginning of 2008, which led to a liquidity crisis and credit restraint for financial institutions around the world (Jickling, 2008). This stage of the financial crisis is where we focus in this research because this is the stage where international financial institutions suffered from the severe impact of the financial crisis.

4.1.5.3 Chronic crisis stage

After the main damage has been through, the chronic crisis stage occurs. During the chronic crisis stage, companies clean up the wreck left over from the acute crisis stage. It may be the period of recovery for some firms, while it can also be death knell for others (Darling, 1994). Some companies might experience financial upheaval, management shake-ups, hostile takeover, or bankruptcy (Fink, 1986).

Capable leaders of international companies will take advantage of this crisis to improve its crisis management planning by analyzing the response and actions to the crisis (Kash & Darling, 1998). It is more efficient to examine what went wrong, what went right and how to response better during the time right after the crisis happened rather than analyze it after the crisis had been relieved for a long time (Darling, 1994). Therefore, this is the time for reviewing the whole incident of crisis management.

In the case of the financial crisis, many economists are predicting when the economy will start to recover. Some analysts believe that the recession is over and the economy is recovering (Pylas, 2009). Moreover, the financial sector in 2009 has recently led stock markets in some countries higher than before (Pylas, 2009). However, the future growth of the financial sector is still predicted to be slower than other sectors (Steverman, 2009). It needs time for people and investors to build confidence on the financial sector again since the financial crisis seems to occur due to investment mistakes made by large financial institutions in the subprime market in the US (Steverman, 2009).

4.1.5.4 Crisis resolution stage

In this final stage, there should be a crisis management goal, which is where the turning point is (Darling, 1994). This period can be even a time of congratulations for some corporations because the crisis had created an opportunity for the companies to increase their reputation through excellent crisis management. However, in reality, the end of a crisis is possibly followed with another prodrome (Cash & Darling, 1998; Gonzalez-Herrero & Pratt, 1995). A neglected prodrome of crises can become a severe crisis again and lead a company to irrecoverable situations. Thus, it is important to note that a crisis must be solved completely during these four crisis stages; otherwise it will result in another crisis which might endanger a company in a greater level (Fink, 1986).
4.2 Leadership

Leadership might make a difference to the performance and outcome of the company during a crisis. According to Halverson et al (2004), both attributes of leader charisma and follower organizational commitment have great effects under crisis conditions. The importance of need for leadership has also been proved in the Hunt, Boal, & Dodge’s experimental research (1999). Tushman & O’Reilly (1996) find that the performance of organizations during crises often depends on the emergence of leaders with charisma. In addition, the reason why leadership is emphasized is because a leader needs to adopt to several complex situations and phases, which demands leaders’ skills, abilities and personal traits enabling them to make a plan, have an appropriate response and learn during the crisis (Wooten & James, 2008). Thus, the effect of leadership on crisis management cannot be disregarded. Furthermore, the importance of leadership has been stressed when the financial crisis has occurred.

Competent leadership during the 2008 financial crisis has been focused by media as well. U.S. News (2008) wrote that the reason why institutions such as AIG, Bear Stearns, Fannie Mae and Lehman have failed is simply because the leadership ignored two basic principles; focusing on long term commitments and actively ensuring a healthy market. (George, 2008).

In this section, definition of leadership, types of leadership and its dimension will be explained to understand the leadership in depth.

Definition

According to Daft (1999), leadership is defined as the influence between leaders and followers that both have shared purpose/value and desires to change. There are several ways to define leadership. Dubrin (2004) has summarized six representative definitions of leadership which are: interpersonal influence for goal achieving, setting directions and orders, let followers make to act towards shared directions, be example to others, motivate followers and be responsible as being a leader. Furthermore, Dubrin (2004) noted that leadership is needed not only in high level position but also all levels and can be practiced.

However, defining the term of leadership is still vague and different depending on institutions in which it is found (Bass & Stogdill, 1990). Therefore we decided to get into specific types of leadership brought by Burns (1978). Burns (1978) classifies leadership into mainly two types; transformational and transactional.

“Transactional leadership works within the framework of the self-interests of his or her constituency, whereas the transformational leader moves to change the framework.” (Bass & Stogdill, 1990, p. 23)
Relations between transformational and transactional leadership

The theory of transformational and transactional leadership was first introduced by Burns (1998). The concept of the theory is that transformational leaders would provide purposes to achieve goals, emphasize on intrinsic needs, while transactional leaders would focus on resources exchange (Judge & Piccolo, 2004).

Burns (1998) argued that ‘transformational and transactional leadership represents ends of a single continuum’ (p.755). On the contrary, Bass (1985) disputes that transactional and transformational leadership are ‘separate concepts and best leaders are both transformational and transactional’ (p.755) (in Judge & Piccolo, 2004). Bass believes that transformational leadership performs more effective when it is based on transactional leadership and vice versa is not likely to occur (in Alimo-Metcalfe & Alban-Metcalfe, 2005; Den Hartog et al, 1997). Therefore, in order to become an effective leader, one should be able to change their leadership style according to the situation. Bass (1998) further developed the theory of 4 dimensions in transformational leadership and 3 dimensions in transactional leadership (in Judge & Piccolo, 2004).

This paper focuses on exchanging leadership style and see what dimensions of leadership is used during the crisis based on Bass’s argument (1998). Therefore, definitions of each leadership and its dimensions are explained in this paper.

4.2.1 Transformational leadership

Transformational leaders can be seen as leaders among peers (Dubinsky, Yammarino, & Jolson, 1995). These leaders are often future oriented with long term views on problems and opportunities (Bass, 1990; in Dubinsky et al. 1995). These leaders are very considerate and aware of needs and problems of subordinates which make it easier for them to motivate employees to work towards an organizational goal while still fulfilling individual interests (Dubinsky et al. 1995). Transformational leaders inspire followers to match their personal interest with company goals (John, 2002). Due to this character, followers slowly transform into leader’s style (Bass, 1990, p.53; in Gardiner, 2006).

Moreover, transformational leaders are good at communication and sharing information. These leaders think highly of participation and encourage others to become a leader like oneself (Gardiner, 2006). Transformational leaders pay attention to morality, liberty, equality, peace and harmony (Bass, 1985), given that leaders expect to see these traits from followers as well, which results in a decentralized organization structure where individuals have autonomy on decision making (Bowditch & Buono, 1994; in Mishra, 1996). Therefore transformational leadership is mostly favored, which generates the greatest impact and reach high positive satisfactory on employees (Dubinsky et al. 1995; in John, 2002).
4.2.1.1 Charisma/Idealized influence (II/CL)

This dimension implies that leaders differentiate from followers by having a strong vision and mission (Dubinsky et al. 1995). These types of leaders can motivate employees’ pride, trust, faith and enthusiasm which encourage them to believe in the vision (Dubinsky et al. 1995).

The main indicators of charisma/Idealized influence are determination, optimism, self-confidence, and ability to achieve mission (Sarros & Santora, 2001). These types are also called charismatic leaders. High oratorical/communication skills, great personality and creating vision make it easy to transform followers into goal and vision (Sarros & Santora, 2001).

Due to these features, followers want to emulate leaders and often see them as a role model or symbolic and rely on them to do right things when it comes to ethical and moral conduct (Bass, 1998). Furthermore, these leaders often have confidence in both oneself and their followers due to an appealing leadership based on strong emotional control (Judge & Piccolo, 2004).

However, if a leader is too charismatic, it might lead him or her to become narcissistic and self-serving leaders, which is especially common for high positions. This is because these leaders can easily ignore other’s opinions and punish any criticism or opposition (Alimo-Metcalfe & Alban-Metcalfe, 2005). The example of attitudes of these leaders are; (1) “we can be a winning team because of our faith in each other. I need your support to achieve our mission”, (2) “Alea iacta est” (I’ve made the decision to cross the Rubicon, so there’s no going back), (3) “You must trust me and my direction to achieve what we have set out to do” (Bass, 1998, p.12).

4.2.1.2 Inspirational motivation (IM)

Leaders with inspirational motivation make an articulate vision that motivates followers (Judge & Piccolo, 2004). Through providing meaning and reason of challenge, they inspire followers to work with enthusiasm and optimism (Bass, 1998).

Team spirit is often stimulated during this process (Bass, 1998). These leaders are good in communication that shows employees directions, such as objectives, future goals and commitment to the goal. (Dubinsky et al. 1995). In order to have inspirational motivation, leaders need to have strong interpersonal skills, self confident and emotions that would inspire employees to be motivated (King, 2002). As a result the charismatic style leaders influence and inspire people towards the vision (King, 2002). Moreover, these leaders believe that a high degree of autonomy can provide opportunities and chances for subordinates (Sarros & Santora, 2001). However, these leaders emphasize on creativity and have high standards that may cause pressure among peers (Sarros & Santora, 2001). On the other hand, the example of attitudes of these leaders are; (1) “Let’s work together to merge our aspirations and goals for the good of our group”, (2) “You need to say to yourself that every day you are getting better, you must look at your progression and continue to build upon it over time” (Bass, 1998, p.12).

Due to lots of similarity between charismatic leadership and inspirational motivation, these two dimensions can be formed as a combined single factor of charismatic-
inspirational leadership (Bass, 1998). In this study we will have separate sections for charismatic/idealized influence and inspirational motivation.

4.2.1.3 Intellectual stimulation (IS)

Leaders’ risk-taking, challenging status quo and encouraging creativity can be indicated as characteristic of intellectual stimulation (Judge & Piccolo, 2004). This type of leaders motivate followers to become innovative and creative through asking questions, rethinking and solving problems in new ways (Bass, 1998). Leaders emphasize on reasoning before solving problems and take actions (Politis, 2002). These leaders tend to think these skills are one of intelligence and expected workers to have the skills and try to cultivate out of employees (Dubinsky, Yammarino, & Jolson, 1995).

Therefore, no public criticism would occur when followers make mistakes due to different ideas than the leader (Bass, 1998). The most important issue for these leaders is to have abilities to solve problems, challenge status quo and be creative. Therefore, these leaders are very rational and precise in decision making (Sarros & Santora, 2001). The examples of attitude of IS are: (1) “can we try to look at our assumptions as a group without being critical of each other’s ideas until all assumptions have been listed?” , (2) “you must reexamine the assumption that a cold fusion engine is a physical impossibility. Revisit these problems and question your assumption” (Bass, 1998 P.12).

4.2.1.4 Individualized consideration (IC)

Leaders who have strong individualized consideration dimension have good relationships with employees. This factor can be judged as a fundamental behavior of transformational leadership (Sarros & Santora, 2001). This is because leaders tend to fulfill employees’ needs, attention and concerns acting as a mentor or a coach (Judge & Piccolo, 2004).

The leader pays special attention to the individual and act differently according to what is needed for each individual (Bass, 1998). Followers perceive their leader considerate and fell the leader treats them as a person not as just an employee, when leaders can remember their recent conversation with the followers on personal matters (Bass, 1998). Leaders often have personal interaction with each employee, which is helped by a leader’s great communication skill (Dubinsky et al. 1995). In this process, it is important that leaders are very effective listeners while assuring that followers do not feel that they are being checked (Bass, 1998).

In addition, these leaders act as coaches or mentors, making followers to support, to respect, to trust and to be more loyal towards the leader (Dubinsky et al. 1995; in John, 2002). However, some researchers argue that individualized consideration is effective in building moral work place and encourage teamwork but it lacks of achieving result, which implies that on a certain level, controlling and giving directions are needed to have a better outcome (Sarros & Santora, 2001). An example of these leader’s attitudes can be: (1) “what can we do as a group to give each other the necessary support to develop our capabilities?” (2) “I will provide the support you need in your efforts to develop yourself in the job” (Bass, 1998 P.12).
4.2.2 Transactional Leadership

Transactional leaders believe that exchanges should be taken place in relationship between followers and leaders (Bass 1990; in Gardiner, 2006). Transactional leaders are good at setting direction, goal and clarifying roles of followers in the company (Politis, 2002). Therefore, leaders know what followers needs, help fulfilling their needs and provide great motivation in order to produce outcome, but at the same time, leaders make clear that what would be rewards or punishments/disciplines depending on the performance of followers (John, 2002). However, because these characteristics, transactional leaders are limited in sharing information, being unable to appreciate divergent thinkers and making decision making be done by leaders rather than a whole group (Gardiner, 2006).

4.2.2.1 Contingent reward (CR)

Contingent reward is when a leader sees relationships between employees as rewards or exchange connections. This means every transaction made between leaders and employees is based on established expectation and reward systems which are materialistic and tangible (Judge & Piccolo, 2004). Transactional leadership is less effective than transformational leadership at motivating followers (Bass, 1998). These leaders promote fulfillment by setting directions to the needs and wants of employees (Sarros & Santora, 2001). If these leaders are healthy, it can remain as a reciprocal relationship, but if it is overused, leaders become too narrow and limited to produce results. The attitude of these leaders are; (1) “let’s agree on what has to be done and how you will be rewarded if you achieve the objectives, (2) “If you achieve the objective I’ve set, I will recognize your accomplishment with the following reward...” (Bass, 1998, p.12).

4.2.2.2 Management by exception (Active & Passive- MEA & MEP)

Management by exceptions can be divided into two types such as active and passive types. Commonly these leaders have high trust on employees, believing they would do work with satisfactory standard (Sarros & Santora, 2001). These leaders stay away from giving directions as long as production goals are met (John, 2002). Most of times these leaders do not want to identify problems because they feel that they are mocking peers. This can be considered as poor communication and lack of confidence at the same time can be viewed as keeping status quo in peace (Sarros & Santora, 2001). In comparison with transformational leadership and contingent reward, this corrective transaction tends to be more ineffective (Bass, 1998). The attitude of these leaders are: (1) “let’s develop the rules together that we will use to identify mistakes”, (2) “these are the rules, and this is how you have violated them” (Bass, 1998 P.12 ).

Active leaders who manage by exception usually monitor employees’ behavior in order to predict problems to reduce potential danger or cause of problems (Judge & Piccolo, 2004). When assignments were submitted by followers, leaders monitor their work in detail, focus on mistakes and take corrective action towards the right direction (Bass, 1998). They think these actions on the basis are important and would result in transactions between leaders and followers (Judge & Piccolo, 2004).
On the other hand, passive leaders who manage by exception would wait till problems have occurred even though potential problems have been observed (Judge & Piccolo, 2004). While active leaders are active on finding errors and mistakes, passive leaders wait to find deviances and mistakes to take corrective action (Bass, 1998). Furthermore, if active leaders intervene before problems occur, passive leaders would intervene after the problem really occurs (Judge & Piccolo, 2004). However, generally leaders are encouraged to learn Passive MBE, when they need to manage numerous subordinates who are directly reporting to the leader (Bass, 1998).

4.2.3 Leadership and crisis management

This part is considered as the basis of answers to the following research questions: How do leaders perform leadership during a crisis? What impacts may a financial crisis generate on leadership? (Redundancies, motivation, emotionally, etc)

Previous study has been made that transactional leadership tends to emerge when a situation is stable and predictable, while transformational leadership is likely to be more effective when the situation is uncertain, problematic and unstable (Bass 1998).

This is because, from the four dimensions of transformational leadership, it is natural to see that transformational leadership emphasizes the importance of trust, compassion, and empathy (Burns, 1978). Building trust has been considered as one of the important components for transformational leaders (Conger & Kanungo, 1987). Krämer, Roderick, & Thomas (1996) further argues that trust enacts an essential role for a leader during a crisis situation because trust could bring positive effects on three key aspects of organizational behavior in crisis management. The three behaviors are decentralized decision making, undistorted communication and collaboration.

Nevertheless, Bass (1998) also states that the most effective leader is the one that integrate both task and relation oriented approach. This implies that transformational leadership can be useful during the crisis while it might not be the most effective without integrating with transactional leadership. 

“The best leaders demonstrate their ability to clarify the path to the goals; the general findings likewise have been that the best leaders are both transactional and transformational.” (Bass, 1998, p.60)

The following table shows how leaders react in an emergency (Table 1). It shows the characteristics of each leadership dimension during the emergent situation.
Table 1. Task/Goal subordinate, and leader conditions fostering the Emergence of the Full Range of Leadership (Bass, 1998)

<table>
<thead>
<tr>
<th>Emergent Leadership</th>
<th>Reinforcements/ Tasks/Goals</th>
<th>Subordinates</th>
<th>Leader</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charisma</td>
<td>Uncontrolled, conflict, stress</td>
<td>Inexperienced, low self-esteem, low self-efficacy</td>
<td>Realistically self-confident, determined, unconventional</td>
</tr>
<tr>
<td>Inspirational Motivation</td>
<td>Ambiguous</td>
<td>Inexperienced</td>
<td>Articulate, flexible, emotional, perspicacious,</td>
</tr>
<tr>
<td>Intellectual stimulation</td>
<td>Problems to be solved</td>
<td>Experienced, high</td>
<td>Rational, unconventional, perspicacious</td>
</tr>
<tr>
<td>Individualized consideration</td>
<td>Unmet individual needs</td>
<td>Inexperienced, career-oriented</td>
<td>Caring, empathetic, relations-oriented</td>
</tr>
<tr>
<td>Contingent Reinforcement</td>
<td>Controlled by Leader</td>
<td>Inexperienced, materialistic, not idealistic</td>
<td>Materialistic, conventional, not idealistic</td>
</tr>
<tr>
<td>Active management-by-exception</td>
<td>Objectively measurable performance</td>
<td>Inexperienced</td>
<td>Task-oriented</td>
</tr>
<tr>
<td>Passive Management by-exception</td>
<td>Uncontrolled, controlled by organization</td>
<td>Experienced</td>
<td>Reactive</td>
</tr>
<tr>
<td>Laissez-faire</td>
<td>unimportant</td>
<td>Experienced</td>
<td>Distracted, indifferent uncaring</td>
</tr>
</tbody>
</table>

As it can be seen in the table, the reaction to the emergency can be different depending on leadership dimensions. It is hard to say certain leadership dimensions are better than the others. Furthermore, according to Bass’ (1998) argument, a leader can display more than one leadership dimension regardless of which leadership style the leaders belongs. Thus, we aim to find out what dimensions of leadership are performed by middle managers during the 2008 financial crisis and the reasons behind in this research.
5 Research questions

In the research, leadership has generally been conceptualized into transactional and transformational leadership styles (Burns, 1978). The core concept of transactional leadership is based on a series of exchanges between leaders and followers as Burns said that "transactional leaders approach followers with an eye to exchange one thing for another" (Burn, 1978, p.4). On the other hand, transformational leadership goes beyond the exchanges by providing motivation and inspiring followers (Bass, 1985). Transformational leaders are all about change, innovation, creating new visions, and entrepreneur (Tichy & Devanna, 1986).

According to Dubrin (2004), leaders who have the characteristics of individualized consideration, intelectual stimulation, and chrisma positively contributed to companies’ performance. Moreover, he also indicates that transformational leadership accounts for companies’ performance more strongly than transactional leadership when the environment is uncertain. Transformational leaders are more satisfying and motivating to the subordinates and more likely to be rated by the leader’s supervisor as effective leaders (Judge & Bono, 2000). Transformational leadership is particularly appropriate in turbulent situations such as crisis situations because it requires leaders to scan the environment for additional sources of support and seek out innovative alternatives and solutions under this uncertain situation (Bass, 1985).

Nevertheless, Bass (1998) also stresses that "transformational leadership styles build on the transactional based in contributing to the extra effort and performance of followers" (p.5). Bass (1999) further said that "the best leaders are both transformational and transactional" (p.21). Sarros & Santora’s research (2001) shows that both transactional and tranformational leadership are important in generating positive performance, which supports Bass’ argument (1998) of that the leaders who often supplement transactional leadership with transformational leadership are more effective. This implies transformational leadership may not be effective without the foundation of transactional leadership.

The divergent perspectives on the effectiveness of transformational and transactional leadership has triggered interest in leadership styles during crisis. As the impact of the financial crisis has been spread all over the world (Shiller, 2008), the divergent arguments about the effectiveness of different leadership styles make us wonder whether leaders in practice tend to rely on tranformational leadership style or transactional leadership style during the 2008 financial crisis. Therefore, we pose the following research questions;

1. How this 2008 financial crisis has affected the international financial institutions?
2. What leadership dimensions are performed by leaders during the financial crisis?
3. Which leadership style do leaders tend to rely on in international financial companies during the 2008 financial crisis?
4. Why do leaders tend to rely on the dimensions of transformational leadership or transactional leadership?
5. What are the implications in this study that could lead to future research?
6 Methods

6.1 Research approach

According to (Cooper & Schinder, 1998), the question of whether a study method should be qualitative or quantitative is supposed to be answered based on the purpose of the study. The objective of our research in this thesis is to find out how leadership is performed by the middle managers in terms of transformational and transactional leadership dimensions during the 2008 financial crisis and the reasons why they do so. We also aim to explore implications for future research. As a result, we decided to conduct a qualitative research reasoning that data collected by a qualitative method will be more available for us to achieve the purpose. Moreover, Ritchie & Lewis (2003) indicate that qualitative research aims to provide a deeper understanding of the subject studied, which is based on the researcher’s own interpretation of detailed information and data. Therefore, we believe that a qualitative method will suit our purpose better than a quantitative method in this thesis since our aim requires a better and deeper understanding about ‘how’ and ‘why’.

6.2 Data collection

Information sources are classified into primary and secondary types. There are two alternatives to gather primary data, which are observation and communication (Cooper & Schindler, 1998). Observation is to observe conditions, behavior, events, people, or processes. Comparing with observation, communication approach is more efficient and economical (Cooper & Schindler, 1998). In communication approach, surveys and interviews are the most common approaches. Since the focus in this thesis is on the leadership in response to the 2008 financial crisis, we need to conduct personal interviews with middle managers who have been recently involved in the 2008 financial crisis in order to achieve our purpose. The data collected from the personal interviews will be the primary data in this thesis. By utilizing a primary approach, new data is collected with an aim to support and act as a foundation of the analysis in order to answer the research questions (Cooper & Schinder, 1998).

The interviews will be conducted with middle managers in international financial institutions for our research. We chose to conduct interviews with international financial institutions because the crisis impact on the financial industry are much more direct than other industries since this financial crisis was derived from the banking sector in the United States (Financial Times, 2008). Moreover, international companies are more likely to exposure to the crisis impact due to the financial globalization previously mentioned in the section of problem. The financial globalization has made the financial flow liberal and rapid, which is also one of the reasons why the financial crisis has spread from the United States to all over the world (Costas, 2008).

In addition to the interviews, questionnaire which evaluates the middle managers’ leadership, will be also distributed to 3 to 5 of the middle managers’ subordinates to fill in. The reason why we also use the questionnaire for the subordinates is that people might have different perceptions of the leadership dimensions. The data collected from the questionnaires could confirm what the middle managers say is in accordance with what dimensions of leadership style that they perform and help us identify leadership dimensions. Using questionnaires is thus helpful to increase the credibility of the data.
collected from interviews. Moreover, it is important to bear in mind that asking questions in a wrong way will generate an incorrect reflection of the fact because of lack of skill and expertise (Marchall & Rossman, 1999). Besides, failing to comprehend and interpret responses may also result in incorrect analysis. In order to avoid failing in this research, we keep the facts in mind that might make our research failed while preparing for, performing and finally analyzing the result of the interviews.

6.3 Selection of research objects and respondents

The choice of interviewees was originally designed to be 10 managers from 10 international financial institutions such as banks and insurance companies that are located in South Korea and Sweden. The number of samples is better to be between 4 and 10 (Eisenhardt, 1989). With fewer than 4 samples, it might become unconvincing for empirical grounding. With more than 10 samples, it becomes difficult to handle with the complexity and volume of the data to analyze and draw the conclusion. Moreover, the questionnaire was designed to be administered by 5 of the managers’ subordinates. The size of the companies would be large companies that are in the financial sector, which have more than 250 employees and have more than three branches overseas.

When it comes to selecting samples, we chose to apply convenience sampling to obtain our data for the study. During the research, one of the authors was located in Gothenburg (Sweden) and the other one was located in Seoul (South Korea). The 10 interviews were originally designed to be five conducted in Gothenburg (Sweden) and the other five conducted in Seoul (South Korea) based on the convenience of our locations. Furthermore, we believe that the possibility to organize a face-to-face interview with companies in Gothenburg (Sweden) and Seoul (South Korea) is higher than other places because Gothenburg and Seoul were the places where authors located during the research. These are the reasons why we decided to manage our interviews both in Gothenburg (Sweden) and Seoul (South Korea).

In order to find interview subjects who fit our criteria – middle managers in the international financial institutions with more than 250 employees and three branches overseas, which have been affected by the 2008 financial crisis – we searched for the contact information of the headquarter of suitable international financial institutions on the internet. With the contact information email requests and phone calls were made for interview arrangements. In the email and phone calls, we mentioned our criteria regarding to the financial crisis to ensure that the financial institutions are in the acute crisis stage where we focus in the research. From each company, the person who is in charge of student contacts provided us the contact information of suitable middle managers for this research. We contacted the middle managers via telephone and email, with a brief presentation about ourselves and our research.

Nevertheless, some of the banks in Sweden were unable to participate in our research due to the confidentiality reasons in relation to the financial crisis. For some other swedish banks, the time frame was too narrow for them to be able to participate in our research. The insurance companies in Sweden claimed that they have not been affected by the financial crises. As a result, we could only conducted interviews with 3 managers from 2 banks in Sweden. In South Korea, 9 interviews were conducted with managers from 2 banks and 3 insurance companies. There are total 41 questionnaires that we collected.
We decided to carry out our analysis based on the data collected from the 12 interviews including 3 in Sweden and 9 in South Korea since all the data collected from 12 interviews is valuable for our analysis and helpful for us to draw the conclusion.

6.4 Interviews and questionnaires

Our purpose is to explore how leadership is performed by the middle managers in terms of transformational and transactional leadership dimensions during the 2008 financial crisis, the reasons why they do so, and the implication for future research. As to serve our purpose, we chose to conduct semi-structured interviews with the interviewees because it is more efficient for us to collect the data available to analyze with a list of questions. In semi-structured interviews, the researcher have a list of themes and questions to be covered. The questions may be varied depending on the flow of the conversation (Saunders, Lewis, & Thornhill, 2007).

There are mainly two ways to perform interview questions, which are open questions and closed questions (Cooper & Schindler, 1998). Open questions do not contain a limited set of responses but a frame of reference for respondents to answer. Closed questions offer a fixed set of choices to respondents.

In our interviews, we presented both open questions and closed questions. Some questions might be omitted and the order of questions may be varied in particular interviews depending on the flow of the conversation in the interviews. The questions primarily focus on the information about the crisis situation in the company, how they have dealt with it in relation to leadership styles, and the reasons behind. The open questions provided us the deep information which we need to accomplish our purpose of understanding how they perform their leadership style and why they tend to rely on transformational or transactional leadership styles during the financial crisis.

Due to the fact that most of middle managers were occupied with the huge amount of workload facing crisis time, length of the interviews was asked to be not more than one hour. Therefore, we decided the maximum length of the interviews to be one hour, which was allowed by the managers and also enable us to obtain data to answer our research questions. The interviews in South Korea were conducted in Korean due to the fact that most of Korean people do not speak English. Although some of the Korean middle managers could speak English, they preferred to talk in Korean in order to avoid any miscommunication and be able to get into the subject deeply. The answers in the interviews conducted in South Korea were translated from Korean to English by the Korean author.

In the questionnaire for subordinates, questions are designed to be closed questions with a limited set of answers for respondents to fill in. In order to identify which dimensions the leaders tend to perform, samples of Multifactor Leadership Questionnaire (MLQ) questions from academic articles were used. MLQ is an instrument developed by Bass (1985) to reflect the dimensions of transformational and transactional leadership styles and measure transactional and transformational leaders’ behavior (Lowe, Kroeck, & Sivasubramaniam, 1996).

Based on the MLQ questionnaire, statements under each dimension of transformational and transactional leadership styles during the financial crisis situation are presented.
Respondents to the questionnaire were required to display leader’s behavior described in each statement using a 5-point scale (see Appendix 9.2). Questionnaires will be filled by the leaders’ 3 to 5 subordinates in order to help us confirm the consistency with the data collected from the leaders. The questionnaires also supported us to answer the research question of whether leaders tend to rely on transactional or transformational leadership styles in terms of leadership dimensions during the financial crisis. In order for the subordinates in South Korea to understand the questions in the questionnaire, the questionnaire was translated from English into Korean by one of the authors and translated back from Korean to English by another person.

The procedure of personal interviews was firstly initiated with short introduction about our purpose of the interview. After the introduction we started asking the interview questions. On the other hand, the questionnaire for subordinates was being filled while the leader was being interviewed. The subordinates were asked to rate their manager’s behavior and leadership style during the financial crisis. They were also encouraged to answer all questions with honesty, participate as voluntarily with the assurance of their anonymity. The result was collected right after completion of the leader’s interview in order for leaders not to interfere with subordinates’ answer. Therefore, the time for subordinates to fill in the questionnaire were taken maximum one hour.

6.5 Data analysis

We recorded all of our interviews with permission from the interviewed managers, since this method could provide an accurate rendition for the data collected from the interviews (Yin, 2003). The raw data collected needs to be organized in an appropriate manner for the analysis. Therefore, we decided to transcribe all the audio-recorded interviews in order to guarantee that all relevant data is included for analyzing. The data which was collected in Korean was translated into English by the Korean author. Moreover, in order to ensure the anonymity and confidentiality, pseudonyms were invented for the 7 financial institutions that participated in this research.

It is difficult to analyze empirical findings collected from an unstructured interview due to the fact that it involves different perceptions, feelings and experiences. There are no fixed way and rules to analyze qualitative research. However, some suggestions are still exist. Ritchie & Lewis (2003) suggest identifying key categories, themes or concepts as a basis for further interpretation. Since theories about dimensions of transformational and transactional leadership styles exist, the categorization will be made based on these theories. This can support our analysis to be more systematic.

We modified and combined the analysis approaches suggested by Saunders, Lewis and Thornhill’s procedure (1999) and Strauss and Corbin (1990) for data analysis in our research. First, in order to answer the research questions, we mainly sorted our raw data into the categories of the financial crisis’s impact and leadership dimensions which were derived from our theoretical framework. Since our interview questions were designed and structured based on our theoretical framework, it is unnecessary for us to label the data. Second, we reorganized the data under each dimension, discover new subcategories, and name the subcategories according to concept of the grouped data.

Third, we uncovered the patterns in the subcategories by making comparisons of the data. We identified the patterns under each subcategory and further group the data accord-
ing to the patterns. At the same time, we made statements based on the patterns of data. The verification of statement against data was implemented in order to find evidence that supports our statements. Furthermore in this stage, result of survey from subordinates was added to support interviewee’s argument. Lastly, a number of valuable implications were discovered after previous steps of analyzing, we therefore laid out the implications in the end.

7 Analysis; interpretation

7.1 Common Situation and impact of Financial crisis in Financial sector Industry

7.1.1 Higher funding cost

Increased funding cost has been one of the mainly impacts among the financial institutions that we interviewed. The benchmark bank lending rate, LIBOR (London Interbank Offered Rate), was raised to a high level again in mid-September of 2008 after the bankruptcy of Lehman Brothers (Duyn, 2008). LIBOR is an interest rate which banks charge each other when they borrow short-term funds from other banks in London interbank market (LIBORATED, 2009). The LIBOR is one of the most common used benchmark of interest rates for loans to corporations and consumers (Rozens, 2008). Banks can normally rely on each other to meet the daily needs of cash. The interest rates are usually lower than the interest rates in other markets, reflecting a confidence in each other that the loan will be repayed by fellow financial institutions (Rozens, 2008). However, the confidence has never fully recovered after the collapse in August 2007 (Mollenkamp, Whitehouse & Shah, 2008).

After the bankruptcy of Lehman Brothers in mid-September 2008, LIBOR soared to a high level again, which urged banks stopped lending to each other or charged high interest rates for the loans. The pressure on the cost of funding was therefore elevated due to the lack of confidence among banks in the world (Mollenkamp, Whitehouse & Shah, 2008).

In the case of banks in South Korea, since the subprime problems occurs in the U.S., foreign investors has been leaving South Korea, which results in six month, net foreign direct investment became negative (Fackler, 2008). As South Korea heavily depends on borrowing from overseas, banks in South Korea has been affeted seriously during this financial crisis (Fackler, 2008). Because international banks had thier own problems in terms of liquidity, they were unable to lend money to banks in South Korea. This implies that South Korean banks have been facing liquidity problems. Although the government in South Korea guaranteed to help out South Korean banks, thier fundamental problem still lies on the foreign currency funding (Fackler, 2008).

Furthermore, middle managers of banks in South Korea also noted that many of SMEs which rely on export trade have problems due to the fact that South Korea currency has plunged against US dollar. Moreover, banks in South Korea would not further give loans to SMEs because of the liquidity problem in banks (The Hankyoreh, 2008). Therefore, the SMEs in South Korea has had a hard time to maintain its liquidity of cash
flow during this global financial crisis, which might eventually lead to insolvency problems for banks (The Hankyoreh, 2008).

“Most of big companies have their own assets, so that it is not so much problem, but when SMEs do not have assets, it generates big impact both on themselves and banks. Especially this financial crisis was related to export and foreign exchange, so that it even caused more problems. Therefore from bank’ perspective, we needed to find a way out to avoid insolvency.” (Kang Sae Chang, personal communication, 2009-05-11)

As banks have been facing the liquidity problems, other financial institutions were gradually affected. It became difficult to obtain loan from banks and even borrow money from other financial institutions (Coy, 2008).

“There was a cash flow problem in our company and other competitors faced difficulties in liquidity as well.” (Kim Kang ouk, personal communication, 2009-04-29)

“Due to stock declining, there was less profit earned by clients. Actually in Korea, 190 financial consultants are facing problems and difficulties.” (Hong Sun Ho, personal communication, 2009-04-30)

However, when it comes to insurance company in South Korea, foreign international companies are more seriously affected compare to domestic international companies in terms of images.

“Before global company usually used to have advantages, but this time, global companies have been affected significantly. This is because we got less support from The Netherlands (ING is originally from the Netherlands) and our name is similar to AIG. Therefore at this moment we are trying to restructuring and not able to be active but be passive.” (Jin Taeho, personal communication, 2009-04-30)

In Sweden, export and exchange currency was affected by the 2008 financial crisis. According to The Local (2009), Swedish exporters are heavily hit in spite of that Swedish krona has been being weak. Both export and import in Sweden has dramatically decreased. The number of working days has been lower, which explains the falls in exports and imports. This led to a decreased GDP of Sweden, which implies a downturn in the economy of Sweden. On the other hand, as explained previously the main impact on the Swedish banks is also the increased funding cost, which implies a liquidity problem.

“The funding and margin situation between the state bonds and bank bonds was rising. Every bank had difficulties in funding themselves.” (Patrik Andersson, personal communication, 2009-05-04)

“We have liquidity problems that we had to deal with which has led to a higher funding cost for our money and our clients. The funding has been more expensive. On general basis, we have more defenses in our credit policies. In our branch, our funding cost goes up, we are afraid of credit losses. Therefore, we focus more on the core business.” (Ulrika Sjören, personal communication, 2009-05-15)

“Every big commercial bank in Sweden has a larger portfolio lost comparing to savings. Most of European commercial banks have bigger credits than savings such as pension
funds. They have difficulties in bringing liquidity to the market.” (Patrik Andersson, personal communication, 2009-05-04)

7.1.2 Customer

The crisis impact on customers of the financial institutions has also resulted in a certain impact on the financial institutions. Many managers that we interviewed mentioned that it is important to focus as much as on the customers and take care of them during this difficult time. The managers further explained that banks’ revenue has been affected because their customers are afraid to carry out investment activities in the crisis situation. Moreover, the buyers’ strike in the investment of commercial paper market has also damaged the liquidity held by banks as banks rely on the commercial paper market for short-term funds (Coy, 2008).

“From my point of view, it has affected customers’ assets and investment activities in the market. Our financial revenues have got down. The problem is that the wealth of our customers has dropped significantly. Therefore, the customers don’t want to do any investment activity. When our customers’ activities dropped, our revenues of Company H dropped as well.” (Ulrika Sjörén, personal communication, 2009-05-15)

On the other hand, one of the most common choices for companies to acquire external financial resources is bank loans (Bettignies & Brander, 2007). Banks have tightened credit standards to avoid bad loans ever since the financial crisis started. However, the global financial crisis has diminished the general demand of consumptions, which escalated the possibility of an earnings crisis where profit goals are not met for corporations (Blitz, Kraus, & Hagan, 2006). This results in that many corporations which obtained bank loans previously have been struggling with the repayments of bank loans during the crisis. It is likely to become a loss for the banks if the corporations default their loans. Therefore, in order to maintain the liquidity banks not only take the measures of tightening its credit but also try to help the borrowers to deal with the crisis.

“Our main focus is on our customers to help our corporate and private clients to make decisions in the difficulty time. Perhaps they have difficulties to repay the loans.” (Patrik Andersson, personal communication, 2009-05-04)

“From our bank’s perspective, we needed to find the way to avoid insolvency. We are focusing on insolvency problem at the moment.” (Kang Sea Chang, personal communication, 2009-05-11)

“The most difficult thing is to try to locate the customers that are going to have problem in the future. To find the solutions, talk to them and locate the customers is difficult.” (Ulrika Sjörén, personal communication, 2009-05-15)
7.2 Leadership in response to the crisis

Result of the interviews has provided information on which dimension of the leadership has been used mostly among the 12 different middle managers. Among the dimension of transformational leadership, inspirational motivation, charisma/idealized influence and individual consideration were emphasized while intellectual stimulation was hesitated to be used due to the circumstances of company. The following diagram is to show, how each detail characters are focused and derived from each dimension.

Figure 2. Overview of Transformational Leadership Dimension

7.2.1 Inspirational Motivation

The characteristic of inspirational motivation leaders were as following: (1) making an articulate vision to motivate followers, (2) handling the crisis with confidence, (3) expressing his/her confidence or compliment towards goals, (4) talking optimistically about the future, (5) displaying extraordinary talent and competence in whatever he/she decides, (6) desiring to be as a symbol of success and accomplishment, (7) emphasizing values, ideals, and aspirations which are shared in common and (8) providing advice when it is needed (Bass, 1998).

Among these features, emphasizing values, ideals and aspirations that are shared in common, providing articulate vision & motivation and talking optimistically about the future were distinctively showed from the personal interviews with middle managers in the financial sector.
7.2.1.1 Shared values

In order to be able to inspire optimism, providing clear meaning of common values is needed to lead followers (Bass, 1998). In the interviews, all the managers were active to share their company’s value and common shared goals. They also told us the importance of the value and goals to their companies, which imply that value, ideals and goals are seriously and importantly taken by them during the financial crisis. Ulrika Sjören (personal communication, 2009-05-15) explained that the reason they could work same way every since 1973 is because they share common values. The common values could help Company H reduce communication problems among branches as there are many branches of Company H all over the world. Moreover, Hong sun ho (personal communication, 2009-04-30) addressed that when the whole group of people get together and try to work, the role of each individual becomes essential to the work performance. In order to move into same direction, it is important to have one big shared common value, otherwise confusion will emerge among employees and it will waste a lot of time both for individual and the company to clear the confusion (Hong Sun ho, personal communication, 2009-04-30)

In addition to the education from headquarters, some managers have their unique technique to emphasize common value and share common value with subordinates. For example, Jin Taeho (Personal communication, 2009-04-30) stated that in his company, four different departments hold meetings every month so that they can discuss their problems and try to draw a big picture for the company. This was not only the idea from managers but also requested from subordinates who like to see the big picture of the company. Park Chul Kyu (personal communication, 2009-05-08) is in charge of many training programs of the company. In the training programs, the held values and vision are repeatedly mentioned so that the employees would be aware of the held values and vision of the company.

Only one manager responded that he does not emphasize on common value, but this is because employees are already exposed to an environment with a common value everywhere such as computer screens, walls and their training programs. The manager does not want to put pressure on his subordinates by repeating the common value. He also believes that all the employees in Company K are professional and often bear the common value in mind, so that it is unnecessary for him to confirm the common value of the company (Kang Sae Chang, personal communication, 2009-05-11).

7.2.1.2 Optimistic thinking

The importance of optimistic thinking has been mentioned by Bass (1985). Transformational leaders provide an optimistic future for followers by using inspirational motivation (Avolio, 1999). The reason why optimism thinking is essential has also been addressed by Goleman, Boyatzis & Mckee (2004) that managers’ optimistic attitude is helpful for subordinates to feel more confident and optimistic about their ability to achieve a goal.

From the interviews we found that most of middle managers are optimistic about the future in this crisis. The managers indicated that having positive thinking in the situation of this financial crisis is important because it leads to a way out for the future. In order to be optimistic about the crisis situation, leaders need to accurately recognize the problems caused by the crisis. Without the recognition of crisis situation, leaders would be nervous or uncomfortable as well as not be able to find solutions and even lead subordi-
nates to go through this crisis (Jin Taeho & Hong Sun Ho, personal interviews, 2009-04-30). It is easier to have negative thoughts during crisis time (Patrik Andersson, personal communication, 2009-05-04). However, there comes the sun after the rain. Leaders need to lead their subordinates with a positive and optimistic mindset instead of burying themselves in bad thoughts in this difficult time. It is because positive thoughts might influence not only colleagues and subordinates in a good way but also customers (Park Chul Kyu, personal communication, 2009-05-08).

In addition to having positive mind, inspiring others to be positive also enacts a critical role as a leader (Bass, 1985). The manager in Company H said that explaining to subordinates or colleagues what is going on in the company and furthermore guiding them to be positive with a hope during the financial crisis is essential because trust can be built stronger through the communication. On the other hand, Bae Won Hee (personal communication, 2009-04-30) mentioned that he encourages his senior subordinates to be positive by telling them that a crisis could mean an opportunity for the company as well as for individuals in terms of promotion. This is because during the crisis seniors are more possible to get layoff than juniors, hence the crisis might be a good chance for seniors to get promoted by showing their talent and individual value to the company (Kang Sae Change, 2009-05-11, Bae Won Hee, 2009-04-30, personal communication).

Nevertheless, there was one manager indicating that he would rather focuses on the problems and be a little pessimistic than be too optimistic because he thinks that the problems will be taken more carefully and solved more carefully from a pessimistic view under crisis condition. Therefore, he emphasizes the negative aspects during the crisis (Kim Ju Shin, personal communication, 2009-04-30).

7.2.1.3 Vision & direction

Inspirational motivation also involves providing inspiring vision (Judge & Bono, 2000). In order to foster inspirational motivation, it is important for leaders to provide vision and inspire followers towards the vision (King, 2002). Moreover, leaders may stimulate the need for growth and provide direction through a vision for the future (Avolio & Bass, 1995). Most of managers indicated that providing vision and direction enact the most important role for leaders to mitigate chaos during the crisis. ‘I believe that as a leader, you should show the big picture and guide them to achieve the goal instead of telling them what to do.’ (Kim Kang Ouk, personal communication, 2009-04-29) The importance of providing vision and using right way to motivate subordinates were explained by Kang Sae Chang (personal communication, 2009-05-11). From his 9 years work experiences as a middle manager, he believes that forcing subordinates to do things does not work because it often results in bad performance due to too much pressure and stress on subordinates. Therefore it is better to provide vision and guide the way for them to achieve the goal.

Once the vision has been shown, leaders (middle managers) need to have clear direction and guideline which subordinates are able to follow without confusion. Directions involve with the meaning and reasons of tasks, and explanation of the goals towards vision (Bass, 1998). Managers addressed that one of their jobs during the difficult time is to show the direction.

‘Clear direction should be shared between leaders and subordinates, and then pay attention to what is the role of individuals in the task.’ (Hong Sun Ho, personal communication, 2009-04-30).
“Leadership for me is to set up goals together, talk about how to reach the goals, and help followers to reach the goals.” (Ulrika Sjörén, personal communication, 2009-05-15)

Moreover, some managers claim that setting direction can help their subordinates achieve the goals more efficiently because there would be less anxiety and stress caused by unknown and more confidence in their work (Kang Sae Chang, personal communication, 2009-05-11).

‘Setting direction is actually to make easier for the subordinate to work and avoid making mistakes, and therefore leaders must set direction.’ (Kang chang-Kyu, personal communication, 2009-04-30)

After vision and direction have been clearly delivered, motivating or encouraging subordinates are also important in the inspirational motivation. Motivating subordinates can be performed by emphasizing the reasons and the value of tasks.

“I make clear that why they need to do this work, the position of the work, what’s their task, and how it is related to the company. Providing vision is very important. Afterward I tell them what I expect from them” (Jin Taeho, personal communication, 2009-04-30).

7.2.2 Charisma/ Idealized Influence

Characters of Charisma/ Idealized Influence were emphasize on (1) trust, (2) having self-sacrificial behaviors and (3) being able to control emotions. In this section, among these features, controlling emotions was found as well as role modeling in order to be a role model to provide direction and guideline to subordinates (Bass, 1998).

7.2.2.1 Role model

Role modeling is one of the components in idealized influence (Judge & Bono, 2000). Followers are able to satisfy needs and desire for role models from whom to learn (Conger, 1999). In the interviews, role modeling was often stated by the managers that the best and most efficient way to provide direction and teach subordinates is to become a role model because what role models do is watched and learned by followers without any speaking. The role model’s behavior can be served as a kind of guideline for subordinates to follow.

“I think leaders should think themselves as a role model. For example, one has to come to work early and leave work latest to show that the leader works hard for the company, so that employees would follow the leader to work hard and learn the way which the leader works. This is because of the characteristic of your generation that they do not work in the way which they are told to. You have to show the way of work to them by yourselves, which implies that nowadays in order to be persuasive, leaders should also make an effort on being a role model to followers” (Kim Ju Shin, personal communication, 2009-04-30).

The reason why managers choose to be role model is to gain credibility, reliability, and consistency which make them easier to persuade subordinates and earn support from the subordinates at the same time.
“Through showing that leaders is being a role model, subordinates would feel that they are going into right direction when they follower the leader.” (Jin Taeho, personal communication, 2009-04-30).

7.2.2.2 Emotional control
In spite of possible culture differences, most of middle managers showed strong dimensions of idealized influence and inspirational motivation when it comes to controlling emotions. Pescosolido (2002) indicates that one of common ways that leaders manage emotions is to develop an emotional response and then model the appropriate emotions to match a group’s needs. Moreover, Huy (2002) also proved that emotional balancing of middle managers is beneficial to organizational outcomes.

"Leader has to be calm. They should listen to other people’s ideas instead of talking too much." (Bae Won Hee, personal communication, 2009-04-30).

“Sometimes I suddenly find that the emotion that I display is not appropriate. Especially I have many female subordinate, so I need to be softer and have empathy to understand their feelings” (Bae Won Hee, personal communication, 2009-04-30).

The reason why they emphasized the importance of emotional control is that they perceive that showing emotions especially negative emotions to subordinates or clients is unprofessional. Most of middle managers stated that calmness and stability during the crisis is extremely essential.

Some managers suggested some measures that they use to control emotions. For example, Christian Pennert (personal communication, 2009-05-15) suggested that planning things as many as possible ahead, so that everything is more likely to be under control. It is also easier for managers to be prepared for different kind of situations. Kim Kang Ouk (personal communication, 2009-04-29) said that doing exercising is helpful for emotional control and reducing stress.

7.2.3 Intellectual Stimulation
Judge and Piccolo (2004) indicate that intellectual stimulation is that leaders challenge the status quo, take risks, and foster follower’s creativity. However, this dimension was found to be not applicable by middle managers in the crisis situation.

7.2.3.1 Risk taking
Risk taking is the degree to which an individual challenge the status quo at the risk of no return or a failure (Dubinsky, Yammarino & Jolson, 1995). However, in our interviews most of the managers responded that they tend to minimize the risks during the crisis because they think being united, going in the same direction steadily, and managing the resources carefully are more needed rather than taking risks of deteriorating the status quo in the difficult time. Once goal is set, individual risk taking would cause confusion in the company (Park Chul Kyu, personal communication, 2009-05-08)

Judge and Piccolo (2004) indicate that intellectual stimulation is that leaders challenge the status quo, take risks, and foster follower’s creativity.

7.2.3.2 Creativity
Creativity is an important element to transformational leadership (Judge & Bono, 2000). Transformational leaders foster use of intelligence and encourage followers to think
creatively (Dubinsky, Yammarino & Jolson, 1995). This topic was answered differently depending on the countries where the interviews were conducted. The reason of this situation might be cultural differences.

The managers that we interviewed in Sweden mostly said they still encourage their subordinates to have creative thinking and be responsible for the decision even though there are strict regulations for banks in Sweden. Ulrika Sjörén (personal communication, 2009-05-15) mentioned that ‘Think by yourself’ is in the guideline of Company H, which implies that employees have freedom to have creative ideas because creativity is an activator for banks to make progress. On the other hand, most of the managers who we interviewed in Korea said that they either do not encourage or cannot encourage due to the regulations in the company because creativity might put their career at risk too much. Although the managers’ opinions about creativity are various in Sweden and in Korea, one common point is that all the managers have agreed that the creative thinking must be under control of the system regardless of whether they encourage creativity or not. This is because financial institutions are highly regulated; any creative idea needs to be made complied with regulations and examined carefully.

7.2.3.3 Providing autonomy

Transformational leaders think that a high degree of autonomy can create more opportunities and chances for employees (Sarros & Santora, 2001). Dvir, Avolio, & Shamir (2002) stated that transformational leaders tend to encourage followers to think on their own, develop new and creative ideas, and question existing rules by providing autonomy. However, from the answers about autonomy in the interviews we found out that the managers tend to provide less autonomy during the crisis time because quick response is needed during the crisis. Autonomy might take too much time for organizations to make decisions in response to the crisis.

“Response to the crisis has to be quick because there is no time to give them autonomy. Therefore people have to work according to how leaders want it to be done. If it is not in a crisis, I could give them autonomy, but not during the crisis. (Kim Ju Shin, personal communication, 2009-04-30)”

“In the bad times, perhaps we have more control on which clients we do business with and how much we charge the client.” (Ulrika Sjörén, personal communication, 2009-05-15)

Not only the situation but also the structure of an organization is possible to influence the degree of autonomy in the organization. Some Korean managers mentioned that there is one strong power of control from the head quarter on all the branches in some international companies, which results in a low degree of autonomy in the organization.

“We cannot have too much autonomy. The work in my branch has to be done by following directions (Park Chul Kyu, personal communication, 2009-05-08).” Moreover, Kim Kang Ouk (personal communication, 2009-04-29) stated that neither middle managers nor their subordinates have much autonomy in Korea due to the hierarchy structure of the companies. There is another reason that argued by Kim Kang Ouk that providing autonomy might cause confusion.

“We have internet broadcast inside company. Through this, the CEO explains which direction we should be going to let all the employees understand. If we get all the indi-
individual opinions involved, it will cause much confusion. As a middle manager, I have to make sure that my subordinates understand the situation and principles without providing too much autonomy.” (Kim Kang Ouk , personal communication, 2009-04-29)

7.2.4 Individualized Consideration

Based on theory of Bass and MLQ, detailed characteristic of individualized consideration are; (1) treats subordinates individually rather than just a group member, (2) treat individual differently base on their needs, abilities, (3) spend time on teaching and coaching, (4) listening to subordinates concerns and (5) try to fulfill employee’s needs and wants. Interestingly except for fulfilling subordinate’s need and wants, all the detailed features were heavily discussed from interviews.

7.2.4.1 Mentoring

As it was previously mentioned in the dimension of leadership, leaders who involve with individualized consideration enact a role as a coach or a mentor that make followers feel supported, respected, trusted and be loyal to their leader (Politis, 2002; Dubinsky, Yammarino, & Jolson, 1995). Transformational leaders can be seen as a coach or a mentor to pay attention to each follower’s needs and provide opportunities to make use of his/her competencies (Bass, 1998).

The definition of coaching is a relationship between an executive and a consultant in short to medium period to improve executive performance (Feldman & Lankau, 2005). However, there is no external consultant for the middle managers that we interviewed. In the interviews, many managers mentioned that they play the role of a mentor. According to the definition made by Feldman & Lankau (2005), mentoring involves with a senior or a person who has more relative experiences helps juniors or employees with less experience in the company. The mentoring for learning and development is possible to be carried out in professional and personal ways (Sosik, Godshalk & Yammarino, 2004). What a mentor does is to listen and help juniors not only in work life but also in personal life to develop self confidence and personal identity (Sosik, Godshalk & Yammarino, 2004).

“We have a mentoring program. The mentoring program involves with not only official work but also personal things. We have 1 to 1 mentoring as well as group mentoring. I think the mentoring program has generated great impact on work performance” (Kim Kang Ouk, personal communication, 2009-04-29).

“Juniors need a senior as a mentor to develop work ability. I encourage them to actively participate in activities of the mentoring program” (Yang Jong Suk, personal communication, 2009-04-30).

The value of mentoring is to develop personal learning and support others to accomplish tasks (Sosik, Godshalk & Yammarino, 2004). “I think the role of a mentor is very important. I do lots of 1:1 mentoring to help the person to have good performance”. (Jin Taeho, personal communication, 2009-04-30).

7.2.4.2 Different treatment

Individual consideration happens when a leader recognizes the differences between each individual and develops a suitable way of motivating for each individual (Rafferty & Griffin, 2006). As theory supports, a majority of the interviewees responded that middle
managers treat their respective subordinates differently because every individual have different roles, traits, needs, abilities and personalities. From the answers in the interviews, we found that managers treat their subordinates differently in various ways.

For example, when a manager treats subordinates differently based on work distribution. By knowing differences of each individual’s ability, middle managers can distribute the work more efficiently and result in the best result. “I treat them differently. There is differences of individual ability, thinking and value, so that appropriate work load is distributed based on the differences” (Kim Ju Shin, personal communication, 2009-04-30), “They have different skills and roles, so I treat them differently” (Hong Sun Ho, personal communication, 2009-04-30). Moreover, some managers indicated the way to distribute work is also various based on the personality of their subordinates.

“I treat them differently especially when I give work to them. Some people does not like me to track their work too much, however, some like to be checked. Therefore, I treat them differently according to their personality” (Kang Sae Chang, personal communication, 2009-05-11). Some other managers treat their subordinates differently based on their age, experiences, and uniqueness.

“I treat everyone differently. It depends on their ability and experience. We have junior workers who don’t have much experience, so I have to tell them what they should do. For the experienced senior workers, I can treat them in another way. This makes everybody get opportunity to grow.” (Ulrika Sjörén, personal communication, 2009-05-15)

By knowing the differences between each subordinate, it is easier for leaders to motivate the subordinates and convey belief to make high levels of performance with lower levels of resistance (Rafferty & Griffin, 2006).

7.2.4.3 Listening to subordinates concern

Individual consideration is performed when leaders pay attention to their subordinates’ concerns and needs (Dubinsky, Yammarino & Jolson, 1995). The leaders motivate subordinates based on their concerns and needs (Avolio & Bass, 1995). A majority of middle managers interviewed in this study answered that they listen to subordinates’ concerns even during the busy and difficult times. All of the managers claimed that subordinates’ emotional affects work performance. Therefore, if they do not know what is going on with each employee, they cannot lead them efficiently.

“I do it because it’s important to know what they think, how they feel, and if they have any problem. I hope it affects their work in a good way” (Ulrika Sjörén, personal communication, 2009-05-15)

“If I don’t listen to my subordinates, I can’t lead this organization. I think all leaders have feelings for the difficult situation, so if I don’t listen to them, I can’t lead.” (Patrik Andersson, personal communication, 2009-05-04)

According to (Avolio & Bass, 1995), transformational leaders listen to subordinates’ concerns to maintain a good relationship with their subordinates and achieve higher levels of performance. Moreover, listening to subordinates’ concerns is likely to smooth the emotional exhaustion generated in work environment (Wesolowski & Mossholder, 1997). Therefore, it is essential for leaders to pay attention to subordinates’ concerns due to the fact that emotional exhaustion is found to be a primary factor of work burnout and loosing passion for work (Wesolowski & Mossholder, 1997).
However, we found out that few of interviewed managers passively listen to their subordinates’ concerns in a passive way. They wait until subordinates come to them and express their concerns rather than encourage subordinates to talk about their concerns.

“I try to listen a lot. I respect people when they try to talk to me. However, I do not motivate them to talk to me, but if they decide to talk to me, then I am ready and open for them. This result increase of credibility rather than familiarity, and surely performance of the work increase” (Jin Taeho, personal communication, 2009-04-29).

Some of managers explained that their position is distant from some of their subordinates, which makes it difficult to listen. However, they still manage to hear all the information and concerns from subordinates whose position is closer to them.

“I do not really listen to them. Since I am in a higher position, I am not able to listen to all of my subordinates. I let team leaders or project managers to listen to them and report to me if necessary” (Kim Ju Shin, personal communication, 2009-04-30).

“Due to my position, people do not come to me directly, but I try to get to hear their concerns. Most of time team leaders tell me if someone is having trouble or problems. Because I have been a middle manager for a long time, I can tell if someone is in trouble or in bad mood from his/her face, way of walking, and so on. I ask people around to help me to see whether I should help him/her or not” (Kang Sae Chang, personal communication, 2009-05-11).

7.2.4.4 Communication

In order to perform individualized consideration, communication is one of most important factor. Communication is the central activity for leaders who aim both to empower and to accomplish tasks (Conger, 1999). Moreover, transformational leaders set are good at communication and individually interact with their subordiantes (Dubinsky, Yammarino & Jolson, 1995). The importance of communication and its impact was emphasized by the interviewed middle managers. Park Chul Kyu (personal communication, 2009-05-08) stated that communication plays the role of a bridge to connect between leaders and their subordinates. Through the clear communication, middle managers could listen to the concerns of subordinates, receive real information from individuals and apply to them through mentoring and motivating.

It is easier and more efficient for managers to understand their subordinates’ problems and get to know their needs through clear communication rather than discover problems from the results in the end especially during the crisis time. On the other hand, the subordinates can express their opinions and difficulties, and moreover ask for help from their leaders through the communication if it is needed.

The ways of carrying out communication are various between Swedish and Korean managers. Formal meetings are usually held by Swedish managers on a regular basis. In addition to the formal meetings, the Swedish managers often communicate with their subordinates during the work.

“I have a meeting with each of them once a month. I talk to my subordinates all the time during the day. We talk about problems, how to solve the problems, and encourage my subordinates.” (Ulrika Sjörén, personal communication, 2009-05-15)
“I meet them and talk to them every day. We sit down and talk about how work goes, what they need and want.” (Christian Pennert, personal communication, 2009-05-15).

On the other hand, Korean managers emphasized that it is important and useful to set an informal meeting such as going out for drinking or dinner after work, having tea time during the day with subordinates in order to keep good relations with subordinates and communicate with them.

‘I go out and have dinner with my subordinates around 2 times a week to know how they really feel about work and improve both personal and official relationship. If I don’t have customers to meet, I also eat lunch with them.’ (Park Chul Kyu, personal communication, 2009-05-08)

Not only informal meeting but also exercise activities were pointed out in the interview to be a good way for communication. In the exercise activities sports such as hiking or playing sports, all the subordinates can share information more freely as well as build team spirit among them. “I organize hiking. This is good for their health. In addition I think it is easier for me to know their real feeling about their work because of the different environment. Sometimes I let them go home early and ask them to go out for drink sometimes after work” (Bae Won Hee, personal communication, 2009-04-30).

**Figure 3. Overview of Transactional Leadership Dimension**

7.2.5 Contingent Reward

Leaders, who perform contingent reward dimension use an expected reward system, express his/her satisfaction when the performance of others reaches the goal and keeps careful track of mistakes of others.

7.2.5.1 Expected Reward

Contingent reward is one of the dimensions of transactional leadership involving with reward or exchange based in the performance (Bass 1985). Some leaders may focus on transactions or exchanges through contingent reward behavior to satisfy the followers’ current needs (Waldman, Bass & Yammarino, 1990). People expect to obtain tangible, material rewards for their efforts (Sarros & Santora, 2001). In the interviews, we asked
questions concerning with the dimension of contingent reward to see whether the middle manager tended to perform the dimension.

One of the components to determine the contingent reward is that whether leaders make clear what their subordinates can expect to receive when performance goals are achieved (Bass, 1985). The results from the interviews turned out to be less performed by the middle managers. Some managers responded that they cannot provide rewards on their subordinates’ performance even if they want to. Due to the structure and regulation of the companies, middle managers are not in the position where they can decide or promise to offer their subordinates any financial or material reward.

“This is a big international company. All the financial rewards are handled by HR sector. I have no control over any reward system.” (Jin Taeho, personal communication, 2009-04-30).

Moreover, even if they can give, companies have tried to cut cost as much as they can in order to survive in the financial crisis (MacNamara & Cox, 2009). Therefore it would not be logic for subordinates to expect any additional rewards during the crisis. “I cannot promise any reward now. In the past, I can tell them there’s reward if our profit is good, but during the crisis, company try to save resources. Therefore, I cannot promise on this matter” (Kim Ju Shin, personal communication, 2009-04-30).

Furthermore, some managers pointed out negative side of promising expected reward that it is not a good system. “I do not do Give and Take. Resources of company are limited and this approach of giving reward makes employees increase their expectation over and over. I don’t think it is a good idea” (Jin Taeho, personal communication, 2009-04-30).

“Bonus in the Company Has been a problem because it makes people work in the company take more risks. They think I just work here for 5 years, I can get a lot of bonus by taking all the risks to reach an excellent performance during this period, after that period it’s not my problem. It’s short-term, not long-term. In Sweden, we don’t have this bonus system. The banks in Sweden have gone through this financial crisis the best because we see it in a long-term view.” (Christian Pennert, personal communication, 2009-05-15) This statement was proved by Deci (1972) that contingency monetary payment decreases effect on intrinsic motivation of subordinates.

Middle managers seem to find alternatives to displace material rewards. Discussing how subordinates feel about their salaries are also performed by several managers. One thing needed to be noted is that they do not promise higher salary but listen to their subordinates’ concerns about current salaries and see if there is other ways to deal with it.

“We don’t have a bonus system, but in the end of every year, we have salary discussion. It matters what every individual does and how he/she performs because he/she knows what is expected from them, so he/she can choose to do something about that.” (Ulrika Sjören, personal communication, 2009-05-15)

“It is HR part that gives salary that I cannot give economical comment. Instead, I try to talk a lot with subordinates. It is not good situation (crisis) that I try to think company first and talk with them emphasize why their role is important. Sometimes I try to share their lifetime story with some drink. (Hong Sun Ho, personal communication, 2009-04-30)”
However we find that these actions concern more with motivating subordinates rather than providing rewards or any exchange-based behavior. This is because in a reward system, middle managers provide rewards when subordinates achieve high performance, on the other hand, subordinates expect rewards from middle managers when they perform good, which implies a mutual dependency between subordinates and middle managers (Yammarino et al, 1998). We did not see any of these mutual dependencies through the interviews. Therefore, we conclude the dimension of contingent reward in transactional leadership is not performed during the crisis.

7.2.5.2 Express satisfaction

The result from the interview indicates that many of the middle managers express their satisfaction to subordinates. According to Fossum (1979), contingent rewards may improve quality of production and also increase performance. Waldman, Bass & Yammarino (1990) indicate that transaction between leaders and followers involve with not only tangibles but also intangibles such as recognition for goal accomplishment. In our study, the middle managers believed that a small compliment could encourage subordinates to result in better work performance and make them reflect upon themselves.

“I think small good words during the day are very important such as you did a great job with that customer. This kind of small words and things give them energy during the day.” (Christian Pennert, personal communication, 2009-05-15)

“I congratulate him/her privately or give compliment. If someone does not work well, I also talk to him/her privately and help him/her to see what is more needed” (Kang Sae Chang, personal communication, 2009-05-11). Moreover, study has found that good feedback indeed increases the effect of intrinsic motivation (Deci, 1972). During the crisis, tangible exchange transaction has been limited or reduced, whereas intangible exchange has been obviously performed.

7.2.6 Management by Exception Active

Bass (1985) characterized transactional leaders as one who try to avoid risk, focus on efficiency, and prefer maintaining control and status quo. The dimension of management by exceptions can be divided into two types such as active and passive types (Judge & Piccolo, 2004). Active leaders who manage by exception usually monitor employees’ behavior in order to predict problems to reduce potential danger or cause of problems. On the other hand, passive leaders who manage by exception would wait till problems have occurred even though potential problems have been observed (Judge & Piccolo, 2004).

An interview result from the middle mangers has shown that they do not show dimension of management by exception both active and passive. One special character by management by exception-Active was discussed why they do not work in this way, but generally, management by exception was not used during the crisis.

7.2.6.1 Dealing with mistakes

When it comes to dealing with mistakes of subordinates, all of managers do not keep track of mistakes of others. All of the studied managers do not keep careful track of thier subordinates’ mistakes. Most of the middle managers we interviewed seem to be kind to subordinates concerning with mistakes. No matter what kind of mistake it is, it seems that for the managers the focus is not on the mistakes but the factors that cause
the mistakes. The managers tend to pay attention to the factors that cause the mistakes and find solutions to ensure that the same mistakes will not be made again.

‘In the stock market, things happen really fast. If you make a mistake, it can cost money both for the customers and for us, so you have to solve it right away and make sure you don’t do it again.’ (Ulrika Sjörén, interviews, 2009-05-08)

“I do not scold them. But I make sure whether that mistake has occurred due to over passion or out of ignorance. I do not talk about what already happened, I rather focus on how to solve the problem efficiently. If someone makes mistakes intentionally, I call that person privately and tell them the problem. (Kang Sae Chang, interviews, 2009-05-11)”

Moreover, from the results of the interviews, there seems to be a culture difference in the way of dealing with mistakes made by subordinates. All the Swedish middle managers tend to communicate with their subordinates to find the problem about the mistakes.

“We sit down and reflect what we can learn from this. In ordinary mistakes, there’s no punishment.” (Patrik Andersson, personal communication, 2009-05-04)

“If the mistake which has been done because they don’t know how things should be done, then we have to teach them and see what’s lacking in their knowledge. If they try to sell something to clients, but no customer buys it, then we have to find out the problems. Perhaps there can be something wrong with their way of telling the good things about the products, then we have to try to find out the problems and teach them the tips.” (Christian Pennert, personal communication, 2009-05-15)

Nevertheless, few of the Korean middle managers would choose the way of scolding their subordinates if they make a mistake which is big and serious.

“Tell right away but not record. Everyone can make mistakes. If same mistakes have been made twice, and then I scold them.” (Kang Chang-Kyu, interview, 2009-04-30)

“In serious cases I scold them hard so that they will never make mistake twice. But that is only big mistakes, with small mistakes I give them several times excuses. (Yang Jong Suk, interview, 2009-04-30)”

7.3 Culture dimension

The interviews were carried out in Sweden and South Korea based on the convenience sampling. Due to the fact that Sweden and South Korea are different countries, cultural factors must be considered in this study, which implies the result from the interviews might be influenced by culture differences between Sweden and South Korea. In the analysis, we have found some dimensions are performed differently by Swedish middle managers and Korean middle managers. The differences are likely caused by the different cultures in two Countries. Therefore, we will study culture factors in this section to explore possible causes of the differences.

According to Hofstede (1983), South Korea is in the category of large power distance and medium to weak uncertainty avoidance, while Sweden has small power distance and weak uncertainty avoidance. This implies that one of the differences between Korea and Sweden is power distance.
Power distance is a degree which the people of a society accept that power is unequally distributed in organizations (Hofstede, 1984). Large power distance society allows strong hierarchy where small power distance society favors equalization and requires rationalization for power inequalities (Hofstede, 1984). This difference of power distance was shown distinctively in the dimension of Intellectual Stimulation under the categories of providing autonomy and encouraging creativity.

From the result of interviews, there is a strong indication that setting the direction for the subordinates is very important to the middle managers. However, the answers are quite different between Swedish managers and Korean managers regarding to the question of whether they gave subordinates autonomy even during the crisis time. Swedish middle manger indicated they would give subordinates autonomy as long as they follow the direction. On the other hand, almost all the Korean managers responded that they cannot provide autonomy to their subordinates due to the crisis circumstances. The cause of the difference might be that the extent of being open to accept opinions or providing autonomy to subordinate is more strict is less in a society with larger power distance such as Korea where their management style in a business organization is generally described as directive, top-down decision making and paternalistic leadership (Swierczek, 1991).

In common with autonomy, creativity is also more constrained in a country with large power distance. Moreover, creativity might be influenced by the culture factor of paternalism as well. While organizations with small power distance encourage independence of subordinate, organizations with large power distance have paternalistic culture which expects loyalty, respect and devotion from subordinates, which is like that parents expect obedience from a child (Hofstede, 1984). Therefore, encouraging creativity in organizations with large power distance can be considered as violating obedience, which makes Korean managers hesitate to encourage creativity especially during the crisis.

Paternalistic management culture can also explain on dealing with mistakes made by subordinates in the dimension of management by exception active. Paternalism refers to the fact that someone can protect the interests and welfare of others, thus depriving their autonomous rights by making decision for them (Tai & Tsai, 2003). All the Swedish and Korean managers answered that they would point out subordinates’ mistakes; several Korean managers specifically mentioned that they would scold their subordinates, while Swedish managers would talk to the subordinates instead. This scolding behavior is possible due to the fact that the relation between superior and subordinates are similar to that parents take care of their child and scold their child to make him/her better (Tai & Tsai, 2003).

There are two more cultural dimension differences such as individualism vs. collectivism, and masculinity vs. femininity. Referring to Hofstede (1984) explanation, Sweden would be considered as a country with individualism and femininity while Korea is a country with collectivism and masculinity. However, these two cultural dimensions do not affect the leadership dimensions during the crisis in this research.

Although there are cultural differences which might influence answers in the interviews, we will focus on the commonalities in the leadership dimensions performed by the middle managers in the following chapter of conclusion to answer the research questions.
8 Conclusion

The final chapter summarizes the main findings of this study in relation to the proposed research questions and provides the reader with concluding remarks and managerial implications. Limitations concerning the study and suggestions for further research are presented as well.

1. How this 2008 financial crisis has affected the international financial institutions?

After Lehman Brother’s bankruptcy, the wave of financial crisis has initiated (Mollenkamp, Whitehouse & Shah, 2008). The financial crisis that started in the US has become global problems and influenced the economy in both South Korea and Sweden (Fackler, 2008; The Hankyoreh, 2008). The exchange rate and export in Sweden and Korea have been significantly affected by the financial crisis. From the micro perspective, the funding cost has been increased and resulted in a liquidity problem. Many financial institutions were unable to lend money to each other due to a lack of confidence in repayments.

Moreover, impact of the crisis on customers of the financial institutions has also influenced the revenue and liquidity of the financial institutions. The customers of the financial institutions can be large corporations and individual clients. Because the financial crisis decreased purchasing of financial products from the customers, this resulted in a lower revenue of the financial institutions. Therefore, the impacts of the financial crisis on the customers indirectly affected the financial institutions.

From the 12 interviews, all of the managers has admitted that their company is facing financial crisis and they are in the middle of dealing with crisis. However, managers from the banks has showed more seriousness on impact in their companies compare to insurance companies due to its characteristic of company’s role.

2. What leadership dimensions are performed by leaders during the financial crisis?

After analyzing results collected from the interviews, we found out that three dimensions of transformational leadership are strongly performed by the middle managers during the 2008 financial crisis. The three strongly performed dimensions are (1) Inspirational Motivation, (2) Charisma/ Idealized Influence and (3) Individualized consideration.

Firstly, in the dimension of inspirational motivation, common value, clear vision and direction, and positive thinking were considered to be essential during the difficult time in the crisis because these elements lead to a way for the future of the companies.

Secondly, many elements were emphasized in the dimension of individualized consideration such as coaching/mentoring, treat individual differently and listening to subordinates’ concerns. Communication is especially focused by the managers because this is the way for them to carry out individualized consideration, which is also proved in accordance with the importance of middle managers in crisis management.

Lastly, in the dimension of charisma/ idealized influence dimension, role modeling and
controlling emotions during the crisis were considered as important criteria to be a good leader because they think the two elements are possible to influence the professional image of leaders.

3. Which leadership style do leaders tend to rely on in international financial companies during the 2008 financial crisis?

Bass (1998) argues that leaders who often supplement transactional leadership with transformational leadership are more effective, which implies that transformational leadership may not be effective without the foundation of transactional leadership. Nevertheless, in our findings dimensions of transformational leadership are significantly performed by leaders, while the extent of transactional leadership dimensions are relatively much smaller.

4. Why do the leaders tend to rely on the dimensions of transformational leadership or transactional leadership?

The middle managers in this study think that leaders especially in the time of crisis should involve their followers with setting up goals, help them reach the goals through communication, and motivate them with an optimistic view in order to turn this crisis into an opportunity and lead the followers to make a better future for companies and all the employees. This argument is supported by Conger (1999) that crisis can be considered a time for transformational leaders to offer attractive solutions and visions of the future and optimistically turn a crisis into an opportunity.

Moreover, the study also finds dimensions that are not less preferred during the financial crisis. The less performed dimensions are intellectual stimulation and part of contingent reward dimension. All the characters of risk taking, encouraging creativity and providing autonomy were not preferentially used due to the special situation in the crisis. The reward system in contingent reward was unable to be used because limited resources in the crisis makes middle managers difficult to provide reward for subordinates.

5. What are the implications in this study that could lead to future research?

A main contribution of this paper is, we explored that transformational leadership style is mostly performed by middle managers during the financial crisis. The reasons behind each performed dimension are presented in our analysis. Therefore, our findings complement the gap between existing literature on the leadership dimensions of transformational and transactional leadership and crisis management on a certain level.

There are two implications in this research. First, although both middle managers in Sweden and South Korea performed transformational leadership, cultural differences between Sweden and South Korea are discovered in emotional control, creativity and dealing with mistakes. For example, some of South Korea managers might scold their
subordinates if they make the same mistake twice, while Swedish managers would talk and communicate with their subordinates to find out why they make mistakes twice. Second, we found that transformational leadership was significantly performed by the middle managers in the financial crisis. However, the degree of autonomy and risk taking in the dimension of intellectual stimulation is relatively low. This implies that the effectiveness of intellectual stimulation is possible to be on a low level during a crisis, so that this dimension is not preferred by the middle managers. Therefore, an avenue for future research involves examining effectiveness of each dimension during a crisis and provide as a guideline for leaders to perform dimensions in response to crisis.
References


9 Appendices

9.1 Introduction of Company

Company M

Company M is a financial group that divided into four businesses that spread into 7 different countries such as US, Hong Kong, India, UK, Vietnam, Brazil, and Korea. This company is based in Korea, having 301 nationwide branches and 1226 employees. Their main role is insurance business. 5 middle managers from Company M participated in the research.

Company D

D company is an insurance company that is Korean based international company. Company D has 15% of Korean market and acquired credit A (Excellent) from A.M. Best since 2001. There are 4 international branches in China, US, and UK. There are 624 employees in Korea, playing main role as insurance business. One manager from Company D participated in the research.

Company I

I company has headquarters in The Netherlands, spread out through 50 different countries. There are 130,000 employees and holds 850,000,00 customers all over the world. Also Company I is the biggest direct bank in the world. Company I’s main role is bank, insurance, and finance, globally, but in Korea, Company I is involved in insurance business. One manager from Company I participated in the research.

Company K

Company K is a financial group that mainly plays as bank business. Company K has been awarded as number 1 in satisfying the customers for last 3 years. Company K has 26000 employees and has branches in Hong Kong, UK, and Cambodia. One manager from Company K participated in the research.

Company S

S company is involved in bank business. Recently company S was rewarded as 'The 2009 World's Best Emerging Market Banks in ASIA'. S company holds 4555 employees and have 13 branches over the world such as UK, Germany, China, Japan, and Canada e.t.c. One manager from Company S participated in the research.
Company H

Company H is an international bank in Sweden. Company H has 461 branches with 10,800 employees in Finland, Norway, Denmark and Great Britain e.t.c. Company H’s operating profit was SEK 15.3bn for the full year 2008. Total assets was SEK 2159bn for the full year 2008. Two managers from Company H participated in the research.

Company W

Company W is an international bank in Sweden. Company W has 907 branches with 21,000 employees in Sweden, Baltic countries, Copenhagen, Helsinki and Tokyo e.t.c. Company W’s total assets was SEK 1,831 billion. One manager from Company W participated in the research.
9.2 Interview Questions (Middle manager)

How leaders tend to rely on transactional or transformational leadership styles in terms of leadership dimensions during the financial crisis in 2008 and the reasons why they do so.

1. How has the financial crisis affected your company?
2. What is the most challenging work for you in response to this financial crisis?
3. How do you lead your subordinates to solve this problem?
   a. Do you motivate/encourage subordinates/co-workers or give them direction or order to do their work? How does it help to overcome crisis and why?
   b. Why do you make clear that what my co-worker/subordinates can expect to receive when performance goals are achieved?
   c. Is it important to make subordinates/co-worker aware of strongly held values, ideals, and aspirations which are shared in common? Why?
4. How do you keep your relations with your subordinates/co-workers? Do you do any special things for them?
   a. Do you try to fulfill employees’ needs and wants?
   b. Do you take your time on coaching or teaching subordinates/co-workers?
   c. Do you treat individuals differently? How does it affect their work?
   d. Do you express your satisfaction and how do you do it?
   e. Why do you listen to your subordinates/co-workers concerns? How does it affect their work?)
5. Do you encourage creativity to solve the problem?
   a. Do you keep track on people’s mistakes? If so, how does it work?
   b. When your co-workers make a mistake, how do you interfere? What kind of feedback do you give?
6. What is important thing that you value in order to solve problem or make things work?
   a. How do you control your emotions and why do you think it is important as being a leader?
   b. Is there a reason why you take risks or challenge the status quo during the crisis time?
   c. Why do you talk optimistically about the future in the crisis situation? How does it help to overcome the crisis?
7. Do you think, there would be other way that could have solved the problem caused by the financial crisis better? If not, why do you think that your way of solving the problem is more effective?
8. During the crisis, what is your opinion on the role of a leader and his/her subordinates?

**9.3 Subordinate survey**

**Name of Company/Department:**

Please fill out each question based on how your leader/manager has reacted as a leader in this financial crisis.

This questionnaire is only used for academic purpose and would be collected anonymously.

Thank you for your cooperation.

1-Not at all, 2- Once in a while, 3- Sometimes, 4- Fairly Often, 5-Frequently, if not, Always

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<th>No</th>
<th>Question</th>
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<td>1</td>
<td>The person that I am rating often talks about how trusting each other at this difficult time can help us overcome the problem</td>
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<td>I think the person that I am rating is confident in handling the crisis</td>
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<td>3</td>
<td>The person that I am rating encourages us to think non-traditional thinking to deal with the problem of the financial crisis</td>
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<td>4</td>
<td>The person that I am rating shows that he or she believes in “If it ain’t broke, don’t fix it.”</td>
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<td>5</td>
<td>The person that I am rating treats me as an individual rather than just a group member</td>
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<td>6</td>
<td>The person that I am rating provides detailed direction or guidelines to achieve goals</td>
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<td>The person that I am rating makes clear what I can expect to receive when performance goals are achieved</td>
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<td>The person that I am rating provides advice when it is needed</td>
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<td>9</td>
<td>The person that I am rating expresses his/her confidence or compliment that we will achieve our goal (that we will overcome this financial crisis)</td>
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<td>10</td>
<td>The person that I am rating treats each individual differently based on his/her needs, abilities and aspirations</td>
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<td>11</td>
<td>The person that I am rating expresses his/her satisfaction when I do a good job.</td>
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<td>12</td>
<td>The person that I am rating have self-sacrificial behaviors when the crisis has occurred</td>
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<td>13</td>
<td>The person that I am rating is a risk taker and he/she often challenges the status quo</td>
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14. The person that I am rating talks optimistically about the future

15. The person that I am rating interferes in every decision making process

16. The person that I am rating spends time on teaching and coaching subordinates

17. Only if problems are chronic and serious will the person that I am rating take action

18. The person that I am rating listens to my concerns even during this difficult time

19. The person that I am rating makes me aware of strongly held values, ideals, and aspirations which are shared in common

20. The person that I am rating has high expectation on employees

21. The person that I am rating encourages me to express my ideas and opinions to solve the problems caused by the financial crisis

22. The person that I am rating is a symbol of success and accomplishment to me

23. I think the person that I am rating can control his/her emotions well

24. The person that I am rating keeps careful track of mistakes of others

25. The person that I am rating tries to fulfill employees needs and wants

26. The person that I am rating focuses attention on irregularities, mistakes, exceptions, and deviations from standards?

27. The person that I am rating shows how to look at problems from different angles

28. The person that I am rating displays extraordinary talent and competence in whatever he/she decides

29. I have complete confidence in the person that I am rating

30. The person that I am rating keeps careful track of mistakes of others