

LEADERSHIP AS A DOMINANT FACTOR IN DRIVING ORGANIZATION TO PROSPERITY

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Abstract

Leadership is perceived as a concept significantly contributing to prosperity of an organization. Typical features which characterize leadership are often confused. Neither are there any formalized procedures to measure effects of leadership in the organization nor metrics to be implemented for the sake of leadership impact evaluation. In as much as leadership is a powerful crisis management tool it is worth examining how leadership affects company performance in the current financial crisis. Authors test whether leadership plays even more important role as compared to pre-crisis period.

The article identifies building blocks which company leadership is composed of. For this purpose a questionnaire survey in companies has been performed. It was aimed at finding out in what extent companies have already applied leadership. As a next step assessment of consequences of leadership application has been conducted. Financial as well as non-financial criteria were used for this assessment. All data collected are subjected to statistical testing to prove whether there is a statistical dependence between company performance and leadership establishment.

Leadership is not separable from its holder and companies should strive to retain key leaders' tenure in the company. Another problem which is worth mentioning is the interference of individual leader's impact on company performance where either synergic or annihilating effects may come into existence.

The implication is that leadership boosts company performance effectiveness by means of enhancing employees' engagement in a company.

Key words: leadership, shared vision, leadership theory, leader.

JEL Classification: M00, M1, M19

1. Introduction

Leadership is usually understood as the process of social influence in which one person is able to enlist the aid and support of others in the accomplishment of a common task. There are a lot of definitions of the term leadership. As an example the most common definitions posted by Clark (2005) can be cited: "*Leadership is a process by which a person*

influences others to accomplish an objective and directs the organization in a way that makes it more cohesive and coherent". Similarly Seyranian (2009, p. 5) introduced a bit more abbreviated definition, the meaning of which is almost the same: "*Leadership is a process whereby an individual influences a group of individuals to achieve a common goal*". Jago (1982) broke down leadership into two categories to be designed as *Process leadership* and *Trait leadership*. The former carries out the process by applying leadership knowledge and skills while the latter is rather inclined to consider leadership as a trait of character which is prevalently inborn. In this context skills and knowledge directly contribute and enrich process leadership while other features like beliefs, values, ethics and character give the leaders certain characteristics which make the leader unique.

Leadership phenomenon was also addressed by great many of politicians one of them was 33rd US President Harry S. Truman: "*A leader is a man who has the ability to get other people to do what they don't want to do and like it*". A definition more inclusive of followers comes from Alan Keith of Genentech who said "*Leadership is ultimately about creating a way for people to contribute to making something extraordinary happen*." Leadership is an impact, art or process of influencing people in the way, that they strive with enthusiasm and maximum effort to accomplish their goals. Leadership creates the systems that managers manage and changes them in fundamental ways to take advantage of opportunities and to avoid hazards. It consists in creating vision and strategy, communicating and setting direction, motivating action, aligning people, creating systems that managers can manage and transforming them when needed to allow for growth, evolution, opportunities, and hazard avoidance (Kotter, 1999). One of the newest definitions of the leader mentioned by Scherr and Jensen (2007) points out that "*the leader is an ordinary human being with both a commitment to produce a result whose realisation would be extraordinary given the current circumstances as seen by participants, and the integrity to see this commitment through to its realization*". He is a person endowed with charisma and therefore he is inspiring and worth imitating for other people. Leader works with vision and idea and thus he must be considerably strategically oriented. He possesses interdisciplinary competencies and is inclined to systemic and contextual way of thinking. Basically leaders are those people who are able to change business environment by means of making other people change their preferences, setting up new standards, coming out with bright new (sometimes „crazy“) ideas to be transformed into products, changing life style of generations of mankind expressing a social part of their personality through helping socially disqualified people (Bill Gates Foundation). As a matter of fact good leaders are made, not born. On the background of

becoming a good leader is desire and willpower. Good leaders are developed through never ending process of self-study, education, training and experience (Jago, 1982). A great many of managerial practices which are now used in practice come from experience of real leaders. According to Bass and Bass (2008) there are three basic ways which explain how people become leaders:

1. A crisis or an important event may cause a person to rise to occasion, which brings extraordinary leadership qualities in an ordinary person. This is also called *Great Man Theory*.
2. Some personality traits may lead people naturally into leadership roles (*Trait theory of leadership*).
3. People can choose to become leaders and can learn leadership skills (*Process theory of leadership*).

Contemplating on leadership gave rise at least two questions asking for both the traits which distinguish leaders from other people and the extent of that difference. Another question may refer to mediation of leadership impact on followers which is conditional for effective leadership. A great many of tools can intensify the influence of leaders on their followers like leaders' beliefs, ethics, value systems or even storytelling (Mládková, 2013).

2. Techniques and methods used

Methods to be used for exploring the role of leadership in surmounting financial crisis consisted in structured questionnaire interviewed to be performed by an agency where top company executives and specialists indicated standards in which respective company fulfilled pre-defined leadership criteria. All the data collected were subject to both qualitative and quantitative assessment. This research was complemented on by personal experience of the authors of this paper. Recently published scientific papers were also a source of information which provided authors with valuable, sometimes even contradictory, professional information on leadership application in business or non-business sphere. Finally, opinions on leadership practice elicited from leaders and managers who ran companies in the Czech Republic were collected through in-depth interview. These findings were further classified into several categories as presented.

3. Leadership as a state of art

Leadership is a discipline which finds itself on the border of management and psychology or sociology and refers to influencing people to do voluntarily things requested by leaders. Several leadership theories have come into light over past decades. One classic approach that gained prominence during 1970s and 1980s is *Contingency Theory of Leadership* (Seyranian, 2009). The nature of this theory is that the leadership effectiveness depends on the interaction of two factors: the leader's task or relations motivations and aspects of the situation. This approach emphasizes potentially critical role of the situational context in linking leadership behaviours or traits to effective outcomes. Contingency theory of leadership then expanded into more complex *Path-Goal Theory* which was postulated by House (1996). This theory is based on assumption that the leader should help elucidate the path for followers to achieve group goals. The leader uses certain type of behaviour in specific situations to increase follower satisfaction and motivate efforts towards task accomplishment. This theory also identifies four types of the leader behaviour which encompasses *supportive, directive, achievement oriented and participative* behaviour. Path-goal theory has made an important contribution in highlighting potential influence of leaders on followers' motivation and performance. Meaningful contribution to leadership theory represents *Situational Leadership Theory* posted by Hersey and Blanchard (1969) as well. The core of this theory consists in idea that leadership effectiveness depends on the leader's ability to tailor his behaviour to actual demands and conditions of the situation, especially to subordinate's level of maturity. The authors of the theory discovered four different types of leadership behaviour which are based on the combination of directive and supportive behaviour like *telling* (high directive-low supportive), *selling* (high directive-high supportive), *participating* (low directive-high supportive) and *delegating* (low directive-low supportive). Leader's role is to cautiously and continually evaluate and adapt his behaviour to each follower's task maturity and psychological maturity.

Kennemer (2008) put spotlight on potential leadership ineffectiveness when indicating situations where leadership can work improperly. The first point is the complacency of the leader. When leadership decisions are guided by "*what's in it for me?*" it means that the leader lost sight of long term company prosperity and turned attention to own benefits. The second point is the lack of communication. If the leader is unwilling to communicate clearly and explicitly it goes without saying that the leader conceals some bad news from employees. If this is the case employees frequently opt for exit strategy. The third point refers to bully

practices which are certain to poison atmosphere in the company. If executives bully subordinates they are becoming physically and mentally destroyed. The fourth one is the lack of vision. Capability to both set up company vision and induce employees to share this vision is one of inherent parts in leadership practice. It is worth mentioning that incapability of leaders to adequately explain company vision and mission disqualifies them from leadership status. The last point is employees' need for physical presence of the leader. If the leader walks rarely around the company to take interest in workers' daily work then hardly did company employees put trust in him.

Trust and confidence in top leadership is considered the most reliable predictor of employee satisfaction in the organization. In addition effective communication by leadership in three areas like helping employees understand business strategy; understanding the way how they contribute to meeting key business objectives as well as sharing information on company or division performance also create part of employees' satisfaction (Lamb and McKee 2004).

Similar opinion shares Studer (2008) when pointing out that chronic secretive behaviour from leaders and lots of behind-closed-door meetings harm morale in any economy. Quite a new model of leadership was introduced by Scherr and Jensen (2007). Their model consists of four overlapping aspects like *vision, enrolment, breakdown and managing breakdown*. A successful leader will create an environment or culture in which the four aspects of leadership are highly valued and therefore nurtured, created, applied and effectively implemented.

4. Leadership as a powerful tool in company management

In order to create picture about up-to date leadership in companies it was necessary to commence with own experience and managerial practice of the author which was further confronted by opinions of other leaders. It was not surprising that the findings, opinions and recommendations to be collected across variety of companies, didn't differ so much. Opinions and standpoints of leaders were bundled into several topics relating to the role of leadership in leading people, corporate strategic planning, change management, crisis management and management of innovation.

4.1 The role of Leadership in leading people

During the crisis it is inevitable to take care about the most valuable company asset which is company staff. Leaders shall arrange for the retention of especially the most qualified persons who are replaceable with difficulties only. Typically when crisis hits the company the first reaction to stressful situation is people dismissal. If people dismissal represents an inevitable step it should be taken very quickly otherwise the Auschwitz ramp effect¹ may come into being. At these situation leaders shall demonstrate company obligation to meet rescue operations goals without any other shedding jobs. Another accompanying effect is usually salary freeze or even salary cut to which people are highly sensitive. Leaders should set an example in this respect and give up managerial bonuses and perks at maximum possible extent. On the other hand motivation process must still exist even if it operates under changed conditions. It goes without saying that above standard work shall be properly remunerated. Righteousness in employee remuneration is always imperative for managers or leaders but in crisis situation this phenomenon is of critical significance. If employees come to understanding that some of them are treated unevenly their working morale steeply declines. In pushing leadership through, so called *charisma effect* usually plays an important role. Charisma (*donation, demonstration of favour*) is a personal appeal or charm of personality, by which a person is able to affect others. *Charismatic leadership* doesn't have anything in common with formal mandate and its perception is strongly individual. „*Charismatic rule*“ represents the way of governing based on quite exceptional capabilities of the leader and their enthusiastic recognition by the others. After time it is replaced by „*rational rule*“. (Max Weber). For leadership it is typical leading through shared vision. Vision is the image of the future. It shows the direction in which the company should change as well as the principles that employees' behaviour should adhere to. The objective of a company management is to win employees for this vision and with their help to fulfil such a vision. Key element of leading people through shared vision is achieving complete identification of all employees with company vision. Process of identification is contingent upon good information exchange, so called „*open book management*“. Good working with vision is the basic step on the transition from management to leadership approaches. Leaders should also strive for employee job satisfaction which would conversely influence company performance. In this respect Laglera, Collado and de Occa (2013) made an inference that job satisfaction plays a key role as the primary link between transformational leadership and its consequences.

¹ Auschwitz ramp effect is a synonym for the situation when even people who haven't been selected for gas-chamber murdering are paralysed since their turn will come into effect in upcoming future.

4.2 The role of Leadership in corporate strategy planning

Company vision represents future status of the company, i.e. where managers want the company to be over the observed strategic period. Vision must be derived from the evaluation of possibilities of company's external and internal environment. At these circumstances vision is a challenge, fulfilment of which should be a task for all stakeholders. Vision should be initiated either by principals or company top management and should be accepted and shared by all employees of the company. Simultaneously vision should be specific, positive and inspirational to become a challenge for further development of individuals, teams and whole company. Leaders as a priority have to provide a clear vision and prioritise direction to action. Company mission responds to the question of the sense of the existence of the organization. Mission defines what the company should concentrate on and which direction should company follow. In addition it articulates reasons, for which the company exists. Formulation of mission must be for many reasons understandable, memorable and should correspond to ideas of all stakeholders. Corporate strategy should by preference satisfy interests by two main stakeholders: owners and employees. Company mission accounts for one of key indicators, how the company meets requirements of these groups. Frequent feature of the content of mission is definition of company responsibility towards key stakeholders. Consequently all strategic decisions are derived from the company mission.

Actual leaders should be able to think about future in possible scenarios which may come into existence with some probabilities. Moreover they must be capable not only to assume possible future but also to elaborate strategic variants which shall be put into effect when any of assumed scenarios comes into effect. Strategic scenarios, sometimes termed as strategic alternatives, help understand what the relationships between possible strategies and environment are. Variant approach to strategic planning must ensure, that the company is prepared to coping with all situations, which can come into effect. Leaders are therefore able to demonstrate positive future despite current very often problematic situation. Strategic variants must be mutually compatible; it means if necessary, they have to enable switching over from one to another. Strategic variants thus ensure flexibility of the strategy. Strategy is flexible in case, that it enables prompt, quick and effective reaction to changes in factors affecting strategy. The company must economically survive when switching over to another variant. As a matter of principle leaders trigger decision about timely embarking upon different strategic variant which is fundamental either for company sustainable growth or its survival. The leaders have then to present their strategic plans to their sponsors to gain their

support. In addition leaders need to attract followers to share and help fulfil company strategic plan. According to Brumm's research (Brumm and Drury 2013) employee empowerment makes employees more inclined to follow leader's strategic plan. Empowerment is thus a building block of employees' loyalty.

4.3 The role of leadership in change management

Leadership is believed to be inevitable part of any management of change. Thirty years of research by leadership Kotter (2012) have proven that 70% of all major change efforts in organizations fail. Why do they fail? That is why organizations often do not take the holistic (systemic) approach required to see the change through. Kotter elaborated his eight steps model of execution of change in the company which can be applied in crisis situation as well. There are steps that are worth stressing in relation to leadership. First of all it includes creation a sense of urgency. Leaders who understand the importance of a sense of urgency are good at taking the pulse of their company and determining whether the state of the organization is prone to accept change. The next one is creating the guiding coalition. Only those leaders who are persuasive and trustworthy are able to put together the right coalition of people to lead a change initiative which is critical to its success. That coalition must have the right composition, significant level of trust and commonly shared objective. After putting a coalition together, such a coalition should be composed of proven leaders to be able to drive the change process. Emphasis should be placed on developing change vision. Since working with vision is underlying factor of leader's work it is worth considering that the vision should be imaginable, desirable, feasible, focused, flexible and communicable. Leaders shall orient their activities on empowering broad-based action. This could be supported not only by removing as many barriers as possible and unleashing people to do their best work but also by establishment of workable motivation system which would match incentives and performance appraisals . Leaders must be conducive to problems settlement since unsettled problems inevitably prevent from successful accomplishment of change process. Another topic for leaders is ruling out both hidden and apparent resistors who may inspire other neutral employees to join resisting team. Moreover leaders have also to gear up company staff for sustaining agility in accomplishment of change, otherwise this effort gets slack. It is up to leaders to steer the course for the long-term framework. Without sufficient and consistent leadership, the positive change will stall. Finally it is necessary to bear in mind that any change which is not properly anchored in company culture will not probably survive. Leadership thus becomes a tool for fixing new approaches in corporate culture for sustained

change. Leader may affect people to draw attention to beliefs, priorities, and values etc. which are essential for future development of the company. Leader, by means of expression of his emotional attitudes towards these values, beliefs, preferences etc. (positive or negative) may influence other people to make up their minds in requested way.

Standalone guiding coalition is not powerful enough to keep change management results in force no matter how strong the coalition is. It takes the majority of the organization to identify itself with principles and values of new corporate culture and warrant to succeed in the long run. The impact of leadership on effectiveness of change management was also endorsed by Chatman (2014) who described the role of leadership upon creation of a new divisional culture after consolidation of several brands under one divisional umbrella at Genentech Company.

4.4 The role of leadership in crisis management

Crisis management is usually combined with the management of activities during the crisis to proceed at the extent within which these events are manageable (traditional concept). Modern concept of crisis management is based on active anticipation of crisis situations. Crisis management is also a set of provisions aimed at minimizing potential damages which occurred during the crisis. It is frequently effective both upon preventive elimination of upcoming crisis and coping with aftermath of crisis. During the crisis people are appealing to leaders whose ways of action are more sensitively perceived. The higher level of emotion in crises also means that employees will remember what happens then more than at other times. The result is that in a crisis, the leader's actions will be both remembered and also taken to be a truer example of who leaders really are. People listen to leaders and also observe more carefully what leaders actually do. If there is a conflict between words and actions, people are inclined to trust more in their behaviour than words. People also assume the behaviour of leaders is what it is right and will hence imitate them. How leaders behave is how their followers will tend to behave. Especially in crisis situations when the company thinks about situation in terms of “costs cutting and money savings” it is worth considering to pay heed to future company development. Apart from crisis solution leaders shall pay attention to future development which would drive the company to future prosperity. Therefore company should tackle, even though at lower pace, new products development, new quality standards establishment etc to be in advance of competitors when the situation improves. General W. A. Cohen (2002) illustrates the parallel between managing business and military operations. Cohen consolidated his recommendation for *managing crisis situations* into seven points:

1. Quickly define set of goals to be understandable to all (**Planning**).
2. Properly communicate your intentions, procedures and results achieved to managed people and keep their attention (**Communication**).
3. Be bold and courageous! Don't be afraid of substantiable risks (**Implementation**).
4. Be decisive and don't avoid unpopular things! (**Decision making**).
5. Be unyielding and dominate situation! Keep initiative and don't enable situation to seize control over you! (**Leadership**).
6. Set your own behaviour as a pattern and ask people to follow you (**Leading people**).
7. Do not hesitate in the selection of new requested colleagues and dismiss those who are of no avail! Act with forethought to minimize risk of failure (**Recruitment**).

There is a lot of discussion about the role of leadership in the company turnaround process. This topic was addressed by Harker and Sharma (2000) who evidenced the role of leadership in company turnaround process on the example of heavy engineering industry companies. He revealed meaningful difference in the way in which successful firms and leaders managed the turnaround as compared to unsuccessful ones. He arrived at conclusion that the leaders gave clear direction to action and amplified their turnaround efforts by encouraging “hidden leaders” throughout the company to develop learning growth and continuous improvement.

4.5 The role of leadership in the management of innovation processes

The role of leadership in management of innovations is multifactor since it covers all the phases of innovation process (Holahan, Sullivan and Markham 2014). The role of leader commences with company strategy concept elaboration which is decisive for embarking upon company innovation process. Moreover the leader should be able not only to execute all managerial function as planning, organizing, leading people, controlling, analysing, decision making and implementing but also to be a generator of innovative ideas which can be further fructified. Many ideas were brought into light by leaders who proved their leadership even in ideation phase. Leadership when supported by high level of technical or professional skills accelerates innovation project since leaders may help surmount temporary failures in innovation projects whatever these failures come from. Strong leadership influences implementation phase of innovation project as well since implementation process is very demanding for activities coordination, pushing people to observe schedules and keep resources spending under control. Innovation projects are closely tight with solution to problems which can be found in technical, personnel and financial sphere. The role of

leadership is also to settle possible problems or disputes which may stall or even destroy the project. Leadership role is certainly essential in situations when viability of innovation project is rightfully questioned and it has become apparent that the project will not pay off. In these situation managers who haven't enough courage still persevere in project because a lot of money has been already spent. They usually feel sorry for squandering money and they have unsubstantiated belief in a final achievement which inevitably won't come true. Leader shall summon courage and explain reasons for premature terminating project because of avoiding further wasting money. In general when strong leadership is missing innovative solution is either protracted, much more expensive or it isn't put in practice at all.

4.6 Critical success factors to effective leadership application

Long term experience with leadership in company practice shows that there are some prerequisites which can be termed as critical success factors to effective leadership execution. Critical success factors (CSF) to leadership application can be viewed in following spheres (Gordon, 2000).

Integrity of leaders which consolidates leader's ethical values, moral and behavioural standards into integrated leader's personality. Since leadership heavily relies on trust it is necessary to build mutual trust among leaders, peers, subordinates and others groups concerned. As soon as leaders deserve commonly accepted trust then they may conduct their leadership in the way which is inspiring for the rest of company staff.

Effective paradoxes treatment is always mentioned to be another CSF. These paradoxes arise from ambiguity of leader position where leaders should avoid "*either-or thinking*" and get inclined to goal-directed activity. Typically leaders are compelled by the situation to be tough but on the other hand they should be hearty. Similar paradoxes may come into effect between ability to be firm and give in; requirements to see reality in entire picture and having sense for details; necessity to delegate authority and checking back; requirement to know but permanently to find out etc.

Hard work begets more hard work which must be fundamentally recognized and accepted by leaders. Otherwise they fail to meet their ambitious goals.

Change is a constant and leaders should execute their leadership under permanently changing environment or even under chaos. Managing company in turbulent or chaotic environment represents challenge for real leaders who can benefit from situations that are obscure for other commonplace managers.

Do not transfer responsibility for decisions to another person. It is vital if other opinions are taken into account. It is the role of leaders to connect unconnectable ideas, tolerate ambiguities, draw out new ideas and combine them with theirs etc. A genuine leader should be capable to make final decision and assume responsibility for it.

Leaders should think ahead or they'll fall behind. There is nothing as important as vital corporate strategy which allows leaders to guide their day-to day actions within pre-set strategic framework. Such a well-designed strategy must fit in both with environment development and company internal potential including availability of sources.

Conclusion

Notwithstanding the fact that leadership may seem to be a fuzzy concept which is partially composed of art, experience, inborn characteristics and acquired skills, it was proven that its role in the accomplishment of successful company performance. This paper deals with the concept of leadership as it was coined by several management authorities. As an introduction several theories dealing with leadership like Contingency Theory of Leadership, Path-Goal Theory and Situational Theory of Leadership are presented. Then typical features of leadership like working with vision, influencing by charisma, motivation by setting own example, employees behaving on the pattern of leaders etc. are addressed in some depth. Base on information collected through in-depth interview with company leaders they are aware of the role which they should play to achieve expected results. Then the leadership is discussed from the standpoint of various managerial categories like corporate strategy, change management, crisis management and innovation management. As it was evidenced leadership proves its worth in all these categories and significantly enhances probability of achievement. Application of leadership mustn't be forcibly executed otherwise the company fails to meet expected results. Selected critical success factors as well as barriers to effective enforcing leadership are also discussed in this paper.

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