The Euro Crisis as a Contemporary Phenomenon –
The Impact of Germany's Leadership in the Euro Crisis

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ABSTRACT

The current euro crisis is shaped by urgency and actuality. Since it affects a lot of people and different countries, it is also denoted by transboundary effects. Considering these circumstances, the call for quick crisis solution occurs. Therefore, the aim of this thesis is to investigate the leadership issue during the euro crisis. Based on theoretical principles of crisis leadership, we examine the role and behavior of Germany in the euro crisis. Due to the fact that Germany is currently in a significant position, we narrow down the crisis leadership aspect to this specific view. Providing an overall and thorough picture, we investigate Germany’s leadership in the euro crisis from different perspectives. In order to achieve this purpose, we determine this issue from a political, economical and societal perception, which seem to be the most influencing factors in the case of the euro crisis. By assembling the crucial findings of these separate categories, we gain a broader perspective and hence a generalized evaluation and understanding of the German leadership style.

Keywords: Germany, euro crisis, leadership, crisis leadership, transboundary crisis, leader, euro zone, euro
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LIST OF ABBREVIATIONS

% percent
& and
€ Euro
€/$ Euro per US Dollar
e.g. exempli gratia: for example
ECB European Central Bank
et. al et alii: and other
EU European Union
GDP Gross Domestic Product
GIIPS Greece, Ireland, Italy, Portugal, Spain
i.a inter alia: among other things
IMF International Monetary Fund
IT Information Technology
No. Number
OECD Organisation for Economic Co-operation and Development
p. page
pp. pages
S&P’s Standard & Poor’s
US United States
Vol. Volume
Author's Note:

In this thesis we often use the term leader and refer to this form as a male. This is only due to reasons of simplification, a better comprehensibility, and explicitly no matter of discrimination. Speaking of leaders, we want to mention particularly that we include both male and female and do not mention both genders. The choice of using the male form is simply motivated due to translation related reasons.

To prevent confusion, we also want to mention that considering the issue of crisis leadership, we use only the singular form of the term ‘crisis’. Regarding a crisis in general, in our understanding both, singular and plural form are convenient.
1 INTRODUCTION

This first chapter provides an introduction of our theme in general. The intention of this chapter is to introduce our topic, and to present the reader our research problems. Therefore, we start with an overview and classification of our theme. Following the background of our theme, we introduce our research field more in detail. Furthermore, we enlighten our research question, justify our study as well as the scope and limitations of our work. We conclude this chapter by a structure of our thesis.

1.1 Background

After the Asia Crisis 1997 and the Russian Default Crisis 1998, the world-wide financial crisis in 2007/2008 was the third big financial crisis in the last eleven years. Especially the tremendous implications of the financial crisis lead to the question, if today’s leaders did learn any lessons from the former crisis. Apparently it seems to be not. Otherwise, it could not be possible that the currency of nearly a whole continent is in danger. The main driver of this crisis seems to be the high indebtedness of countries, like for example Greece. Furthermore, also the biggest economy in the world, America, faces increasing pressure concerning the government debts. Latter one was attested a negative future outlook and therefore a possible downgrade of the credit-worthiness (Harding et al. 2011). ‘More than two years after the beginning of the recent crisis, US policymakers have still not agreed on how to reverse recent fiscal deterioration or address longer-term fiscal pressures’ (Harding et al. 2011). Even the current most powerful economic driver, China, struggles with a huge inflation rate which might have a damaging impact on the economy (Barboza 2011). Regarding another world wide important economic area, the euro zone, the signs are even worse. Greece, Ireland, and Portugal were nearly bankrupt and were forced to make use of high financial aid. Additionally, Spain and Italy are also vulnerable because of their high debts. Beyond that, Finland as a stable supporter and contributor to the bailout of other countries (Baker 2010), shows more skepticism concerning the euro zone (Kanter and Saltmarsh 2011).

In contrary to China and the United States of America, the euro zone has no common fiscal policy or economical government (Schmiedel et al 2010). Furthermore, the euro zone consists of different states and therefore different opinions concerning the best leading and the best measures for future prospect. Additionally, the high uncertainty, complexity, and lack of a common government make this crisis a huge challenge to solve. For instance, the Nobel Prize winner Barry Eichengreen stated
already in 2007 that under problematic economic conditions there is the possibility of the breakup of the euro area (Eichengreen 2007)

Therefore, it is in our opinion worth, to investigate how it is possible to solve the euro crisis, how someone leads without a common government, and how to cope with this crisis.

1.2 Research Issue

As already mentioned, there is a crisis in the euro area concerning the maintenance of the euro. The possibility exists that countries of the euro zone abandon the euro. This crisis is characterized by a high complexity and a lot of affected countries. We can divide the involved countries in two different groups. On the one hand the countries that need financial support and are vulnerable, on the other hand the countries that are more stable and provide support for the vulnerable countries. Regarding the high complexity, the crisis implicates a lot of different opinions and interests. Furthermore, the crisis concerns the whole euro zone including different cultures, people and systems. Additionally, the euro zone is in our understanding more a confederation of independent states, than one single federal state. This implies that there is no powerful common government which takes care about common fiscal policy, economical rules as well as common political decisions. However, the euro zone is currently in a crisis and according to Boin et al. (2010) especially in crisis people search for a leader. Leaders should guide and help to solve the crisis. Concerning this issue, the euro zone is shaped by a lack of governmental leadership. This precarious constellation requires a special form of crisis leadership. Moreover, the excessive indebtedness of some countries makes this crisis of even worse (Welfens 2010). Thus, this aggravation of the euro crisis can be seen as a rising urgency for a leader.

Because of the fact, that Germany is currently the strongest economy in the euro zone, it is therefore also highly involved in the crisis of the euro zone. This implies, that considering the high indebtedness of some countries, for instance Greece, Germany is meant to provide financial aid. Hence, there are widespread expectations that Germany should take the lead in the euro crisis (Theil 2011, Kulish 2010). Regarding the urgency of the crisis, the need for a leader, and the expectation that Germany fulfills this task, leadership in the euro crisis is a rewarding issue to examine. Consequently, grounded on our contemplations, the research issue of our work evolves as follows. In our research we want to examine the euro crisis from a leadership perspective with the special focus on the German attitude. This directs us to the research questions of our thesis.
1.3 Introducing the Research Question

Derived from our understanding of our research issue, our research questions can be divided into the following:

*How is Germany’s leadership perceived in the euro crisis and how it can be evaluated based on the principles of crisis leadership?*

To answer this question, we also have to clarify the question what crisis leadership is and what the causes and the background of the euro crisis are.

Concretizing the question of the evaluation of Germany’s leadership in the euro crisis, we intend to investigate this theme from different angles. In order to achieve the most objective result as possible, a further issue in this context is what kind of perspectives we are going to examine and in what way they are related to the German leadership style. We hope that with our thesis we can make a contribution to explain the complexity of the euro crisis.

1.4 Purpose and Objective of the Study

As we expose in this work, the crisis of today is less and less constraint by national borders. Due to this change of the character of a crisis, a change in handling a crisis might be also necessary. Hence, our work contributes to this issue by introducing the principle of crisis leadership based on the example of the current euro crisis. In our thesis we use the existing traditional theoretical assumptions of leadership as a frame of reference and transfer it to the current problems. The main intention of our study is to describe and explain the euro crisis and the leadership in the latter one. As a result, we use the theoretical aspects of crisis leadership only as a basis and not as the major subject of our thesis. Therefore, we do not investigate the principles of crisis leadership in such detail and scope. We regard our work as an attempt to provide an explanation for decisions, reactions, interdependencies as well as different perceptions in the euro crisis. Thus, our work can be interpreted as an explanation to provide a more holistic view of the issue that we discuss to the readers and facilitate a broader understanding of the euro crisis and its implications. Considering Germany in the euro crisis, with our research we intend to contribute to the comprehension of Germany’s leadership and behavior. In our understanding, it seems that the euro crisis is shaped by uncertainty, incomprehension as well as by emotional barriers. Thus, we aim to create an explanation for the crisis and the decisions made by leaders. Due to the fact, that most people in the euro zone are affected by the decisions made by the leaders, our work might be useful for leaders to improve their crisis leadership skills.
However, aside from the general utility of our thesis, we think that this research has also an importance for us personally. First of all, after one year of studying mainly the theoretical principles of leadership, we also see this thesis as a chance to take the next step and deepen our understanding of leadership with practical insights. Moreover, in transferring leadership principles to the current euro crisis, we also want to develop our cognitive maps and train our out-of-the-box thinking. By investigating and evaluating the leadership of Germany in the euro crisis, we apply a theoretical issue to a practical and real example. Due to the fact, that we as researchers are both rooted in the financial academia, it is important for us to broaden perspectives. For instance, regarding economical concerns, this implies that there is not only one perception, but rather an integration of different views. Hence, the example of the euro crisis implies that leadership and finance is interrelated. Furthermore, it is a challenge for us to investigate an obviously financial related issue like the euro crisis, from another perspective. A further point is that we as potential future leaders probably face crises in our future career. Hence, the investigation and evaluation of leadership in the euro crisis might support our ability to deal with and solve future crises and challenges.

Additionally, we want to stress the point that in our study we consider the euro crisis as an autonomous event. We are aware of the connection between the financial crisis and the current euro crisis, but we decided to concentrate only on the euro crisis. For that reason, the financial aspects of the crisis are not the main part of our work, but rather a side issue.

1.5 Justification of our Work

After explaining the purpose and the objective of our thesis, we underline now the justification and importance of our topic. Considering the choice of our theme, we can outline three major issues: crisis, leadership and the German perspective.

Regarding the justification for the investigation of crisis, we chose this theme because the euro crisis is a current theme and affects a lot of people. The high relevance is mainly based on the appearance in political controversies and decisions, its presence in the media, and its impact on societal concerns. Moreover, also the whole future European economy seems to be affected by the outcome of the crisis. Beside the actuality and urgency, we also have to state that in our opinion a crisis can and will happen all the time. Additionally, the current crisis concerns all the countries in the euro zone and therefore also the majority of the European population. It is the first crisis the common European currency has to face since its introduction. Thus, it is interesting to examine this challenge, because the outcome of the euro crisis seems to determine the direction of the future development of Europe.
Following the justification of the crisis issue, the next aspect of our topic is leadership in the euro crisis. Especially in a crisis, which is shaped by a high uncertainty, people seek for guidance and thus for a leader (Boin et al 2010). Beside the fact that several independent states use the euro as a common currency, the euro zone has no clear defined leader like a legitimated government. From a leadership perspective, it is worth to investigate a situation which is shaped by an absence of a leader. Therefore, the leadership issue in the euro crisis seems to be an appropriate research subject. Beyond that, crisis leadership is a special form of the universal term of leadership (Klann 2003). Hence, from a researcher’s perspective it is worthwhile to examine a crisis from a leadership point of view because in that case, the researcher can distinguish between effective and ineffective leadership. Considering the fast changing and interrelated world, in our opinion also the characteristics of today’s crisis change rapidly. For that reason, a further point which is rewarding for us as researchers is how leaders deal with these shifting circumstances. Like we already mentioned above, the euro crisis affects the majority of the European population. Thus, we can deduce that also the leadership in the euro crisis affects the population and the European societies.

Concerning our last aspect, we want to justify the German perspective under the aspect of leadership in the euro crisis. The decision for Germany was not randomly chosen, but is rather based on the following reasons. First of all, Germany is currently the strongest economy in the euro zone. Since the important aspect of indebtedness in the euro crisis, the financial and economical power of Germany might support the idea of a leadership position. Furthermore, we can state that without the financial aid of Germany the euro crisis could hardly be solved (Barroso 2010). However, Germany’s strong current position depends mostly on its export-related economy. For that reason, Germany is also dependent on the Euro and therefore has an incentive to commit to solve the crisis. Concluding the justification of the choice of Germany’s leadership in the euro crisis, we can state that Germany has the power and possibility as well as the incentive to lead out of the crisis which is in our opinion worth to investigate.

1.6 Limitations

As we already mentioned, the euro crisis is still an ongoing process and the outcome is unclear. The crisis is also shaped by a high complexity, a high number of involved parties as well as plenty of different perceptions. Due to that reason, it is necessary to constrain the investigated scope of our work and therefore to establish limitations.

First of all, we want to stress the point that this thesis is a desk research. Thus, we only include data from secondary sources like newspapers, journals, and books instead of using interviews and surveys. This step is reasoned by the fact that current information concerning the euro crisis is exchanged in newspapers and journals. Furthermore, getting expert interviews with people who are
directly involved in the process of the crisis, for example heads of a state is hardly possible. Additionally, such an interview would not gain unpublished insights and therefore this option is neither logical nor efficient. Since we gain current information mainly from newspapers and journals, another restriction of our work comprises the issue of the objectivity of these data. Contributing to this issue, a further limitation might be that the used information is originally gathered in a different context. Due the nature of secondary data, it is hardly possible to examine latter in terms of substance. Since every author also includes his own opinion and is also guided by his own assumptions, we only can verify the data through a plausibility check.

Another restriction we want to mention is that the crisis is still in progress. Hence, the necessity arises that the part of the data collection, which serve as a basis for the analysis in our thesis, only takes into account information till the first of March 2011. Due to the fact that in a crisis changes can happen every day, a cut off data collection is necessary to maintain the structure and thematic compactness of our thesis.

Because of the complexity, multilayeredness, and wide range of the whole thematic, a further critic of our work entails that the different views presented in our study cover only the most important issues of leadership. Hence, we disregard aspects which in our opinion appear only as peripheral matters. Therefore, we decided to focus in the evaluation of the leadership of Germany in the euro crisis on three major issues. Despite the strong connection between the euro crisis and financial factors, in this work we mainly focus on the leadership aspect.

An additional restriction of the study comprises the difficulty that leadership cannot be expressed by numbers. Also the findings regarding the leadership issue in this study cannot be expressed by clear measurements. Moreover, we transfer classic theoretical principles of crisis leadership to the current euro crisis. According to Smircich and Stubbart (1985) as well as Weick (2001) this transformation can restrict the sensemaking if the original frames of references do not fit to the actual situation. In our case, this restriction might lead to a misinterpretation and contorted results.

The last critics we want to mention, is that our work concentrates mainly on countries which already needed financial help and are affected in a serious matter. An example for that are Greece, Portugal and Ireland. We are aware of the fact, that there are also other countries like Spain or Italy, which are threatened by the crisis, but due to the limited time we decided not to investigate these countries more in detail. Besides, we only examine the leadership aspect in the euro crisis from the perception of one country, Germany. Because of the limited space and time, we do not investigate the leadership aspect from a further country’s perception.
1.7 Disposition of our Thesis

Concerning the disposition of our thesis, we can state that our study consists of four parts. The first one comprises introduction and methodology. This part is dedicated to introduce the reader into the topic and our approach of doing research. Consequently, it includes general matters concerning background information about the topic and the problematization of our research. Moreover, this part entails information about our view on methodology and chosen approach to write our work.

The second part contains the theoretical framework of our thesis which is written in chapter 3. The concepts we illustrate, compromise mainly the issue of leadership and crisis leadership, the effectiveness aspect as well as several key elements. This chapter is shaped by its necessity for the further chapters of the thesis. Besides, it provides the reader with worthwhile information about crisis leadership and serves as a fundamental basis and refreshment of the principles of leadership in general.

Following this theoretical framework, the next part of our thesis consists of the euro crisis and its relation to leadership. Chapter 4 is dedicated to provide the reader with a general explanation of the euro crisis as well as the causes and background. By designing a broad picture of the euro crisis we support the reader’s ability to create his own meaning. Additionally, a broad comprehension of the development of the crisis, circumstances and interrelation of the stated events is highly relevant for the following analysis, which we deal with in chapter 5. Consequently, in this chapter we explain the leadership approach of Germany in the euro crisis. This entails the issue how Germany perceives the euro and its interrelation to the euro crisis in general. Moreover, this also includes the analysis and evaluation of Germany’s leadership in the euro crisis from different angels in order to achieve a maximum of objectivity and a broad picture.

Regarding the last part in our thesis, we depict a conclusion and summary of the findings of the thesis. Besides, we also shine a light on future interesting aspects of our research area as well as what-if scenarios in order to provide several possibilities for the future process and outcome of the euro crisis.

The structure of our thesis emerged from our understanding of a clear thesis structure. This depicted structure is shaped by logic and rationalism. According to Aristotle (cited in Kennedy 1991) beside pathos and ethos, the principle of logos is a powerful way to support the message of an author. Hence, we start with the reasoning of our work, go on with a wider perspective of our thesis, narrow down our research topic during the whole chapters and draw a closure.
Following this introduction to our research topic and the disposition of our thesis, we go on in the next chapter with a description of the used methodology and how the methodology influences our work.
2 METHODOLOGY

This chapter is designed to illustrate the reader which methodology we applied in our thesis. It aims to provide the reader a deep insight in our used approach and also our way to collect data. Furthermore, it includes also a view on our understanding on methodology. Moreover, this chapter also provides knowledge about our choice of data and the validity and reliability of our data.

With this chapter, we intend to show the methodological approach of our work. It is divided into four different parts. First of all, we want to show our view on methodology, how we perceive the methodology, and its importance for scientific work. Following this, the second part deals with the different methodological views and we discuss the view we applied in our thesis. The third part shows the chosen research approach in a more practical light. The fourth and last part explains how we intend to collect data and deals also with the justification of our methodology.

2.1 On Methodology

According to Arbnor and Bjerke (2009), there are a lot of different perceptions and views about methodology. Thus, we decided to explain first of all our understanding of methodology in order to build a basis for the reader to comprehend how we applied the methodology in our thesis. In our understanding, methodology is the process how the authors of scientific papers intend to do their research. One important point to consider in this context is, that in business research there are different approaches how to use methods and how these methods are interpreted (Arbnor and Bjerke 2009). Important aspects concerning this statement are ultimate presumptions, which are made by every researcher above all (Arbnor and Bjerke 2009). These assumptions influence our observations, statements as well as our perception of problems and therefore also our research. Arbnor and Bjerke (2009) state it in their words as, ‘the way a problem appears to an author is intimately related to his or her view for his or her reflection’ (Arbnor and Bjerke 2009, p. 8). In our opinion, methodology describes the researchers’ view on their topic and on which assumptions their research is based on. It is a framework of how the researchers perceive things, and how this view influences the work. In other words, what they regard as ‘personally important’ (Arbnor and Bjerke 2009, p. 7) when researchers are doing their research. So, methodology has to clarify the different methods, techniques as well as problem formulations in order to understand the whole work. Therefore, by writing a scientific work it is important to consider the methodology of the study. By doing so, the researcher can explain the reader how he intends to structure his work, collecting data,
which approach he chooses to write his work as well as how he perceives the topic. It is important that the researchers do not only write methodology because it is demanded or obligatory, but rather because it provides the reader with crucial information about the view and assumptions of the researcher.

Based on this view, we are aware of the fact that a work is always influenced by the side or the methodology a researcher chooses. In other words, the methodology a researcher chooses influences the whole outcome of the work because it is influenced by the ultimate assumptions and the perception of the researcher’s problem (Arbnor and Bjerke 2009). Furthermore, the methodology is also important for the researcher because it provides a course for the work. There are so many facts, statements, and also assumptions a researcher has to consider in his work, without a methodology there might be no direction and the researcher could be lost. To sum up, methodology is important because it influences the work and provides central information for the reader and supports the researcher in the development of a direction for the work and his own role in the research topic.

After clarifying our understanding, a general understanding of methodology, and also the importance of methodology we go on now with the explanation of different methodological views.

2.2 Methodological Views

With reference to Arbnor and Bjerke (2009) there are three existing methodological views, the analytical view, the systems view, and the actors view. In the next paragraphs we provide a short description of these three views and explain which one we see as appropriate for our work.

2.2.1 The analytical View

The analytical view comprises objective and subjective facts which are not dependent. These facts can be explained through hypotheses which can be verified or falsified by the researcher. Concerning the outcome of this view, the researcher should aim to achieve cause-effect relations and also models based on logic. The intention of the analytical view is to explain the reality through these relations. One critic of this view is that in the aggregation process knowledge can be lost since data is modified and reduced to the desired degree of codification. Another point of critic considers the fact that the analytical view is based on already existing data. Hence, a conclusion regarding possible future developments is reckless. A typical example for an analytical view is a statistical analysis of a study.

2.2.2 The systems View

The systems view perceives the reality as a construct of systems. In other words, the objective and subjective facts are seen as interdependent and understood as whole systems in which the
relationship between the components of the system has to be considered. Furthermore, ‘the whole differs from the sum of its parts’ (Arbnor and Bjerke 2009, p. 53). The outcome of the systems view is the classification of interpretations. A possible point of critics of this view is, that the researcher focuses too much on the interdependencies and the system and does not see ‘the trees for the forest’ (Arbnor and Bjerke 2009, p. 335).

2.2.3 The actors View

In comparison to the already stated views, the researcher in the actors view is more focused on understanding than on explanations. In the authors view, the reality is perceived as socially constructed and also based on the actors subjective meaning. In the actors view only the members of organization can act, but not the organization as a whole. The outcome of the actors view is a ‘descriptive language, ideal typified language,’ and an ‘emancipator interactive action’ (Bjerke 2011). A possible point of critics of this view is that it focuses too much on details, or in other words, ‘cannot see the forest for the trees’ (Arbnor and Bjerke 2009, p. 338). A further point of critics is that in this view no clear conclusion can be drawn and the outcome is only subjective knowledge (Arbnor and Bjerke 2009).

2.2.4 Applied View in our Thesis

In the following paragraph, we want to show which view we apply in our thesis and also the motivation of our choice. Concerning the applied view in our thesis, we decided to take the systems view, because in our opinion it is the appropriate one for the kind of research we want to do. We intend to investigate the euro crisis and the leadership during this crisis. Therefore, we consider the euro crisis as a construct of systems and all the different aspects of these systems are interdependent. Although it is possible to divide the different aspects, it is not possible to explain them fully without generating the whole picture. Furthermore, in the euro crisis there are also subjective and objective facts which are interdependent and we think the whole differs from the sum of the parts. The combination of all findings results in the emergence of an additional value. A further reason for the choice of the systems view is that the outcome of our thesis will not be a logic model which is able to be verified or falsified. The intention of our thesis is to provide the reader a profound explanation of the entire topic and the different reasons which influence the system. Therefore, we think that the systems view is the most appropriate view for our work.

Following this theoretical view concerning our thesis, we intend now to go more in detail with the approach we use to gain our data and to do our research in general.
2.3  Research Approach in our Work

First of all, we illustrate the two different ways which are common in doing research. Consequently, we explain our applied research approach and go on with an explanation about the collected data. The first approach is called quantitative research and is associated with phrases like experimental, empirical, or statistical. Data is collected through, for instance scales, tests, or questionnaires and the outcome should be precise and numerical. The analysis of the data should be deductive. Concerning the goal of investigation, the quantitative research focuses inter alia on control, description, and hypothesis testing (Merrian 1998). The second approach we want to mention is called the qualitative research approach and is associated with the phrases of ethnographic and naturalistic. In this approach data is collected through the researcher as the driving force, through observations, and documents (Merrian 2009). One of the main characteristics of qualitative research is that the researchers are interested in an examination how people have constructed meaning. Another characteristic is, like we already mentioned, that the ‘researcher is the primary instrument for data collection and analysis’ (Merrian 1998, p. 7). A further aspect of qualitative research is that it ‘usually involves fieldwork’ (Merrian 1998, p. 7), but there are also studies which are using only documents. The last characteristics of qualitative research, we want to mention, are that the researcher builds concepts and abstractions instead of testing some theory which already exists (Merrian 1998). The goal of the investigation in the qualitative research is description, discovery, and generating a hypothesis.

Due to the fact that we do not intend to falsify statistically our hypothesis, we do not think that our outcome can be quantified through numerical and precise measurements. Thus, we decided to choose the qualitative approach because it is worthwhile to investigate the meaning making of people.

To sum up, we see us researchers as the driving force, which collect the data as primary instrument. Additionally, the key element of our thesis is leadership which is hardly possible to express and measure through numbers. Hence, we choose the qualitative instead of the quantitative approach. We are not going to use statistical methods to investigate the leadership style. Following this explanation of the two main approaches, we want to show different possibilities to investigate the leadership issue in the euro crisis and then clarify our approach.

One opportunity would be to do a survey in Germany and other European countries how the society perceives the leadership of Germany during the crisis. A disadvantage of this approach is the limited amount of time and also the high costs of the survey. Another possibility would be to interview different leaders of countries of the euro zone to get a profound image of their perception of the German leadership during the crisis. An obstacle of this approach would be the accessibility
to interview leaders or heads of governments. A further negative point of both of these approaches would be that they investigate the leadership style either from a side of a leader or from the side of the society. Hence, we decided to investigate the leadership in a different way. To provide a broad and widespread picture of the German leadership and also the crisis in general, we decided to examine the leadership style of Germany based on a theoretical chapter which contains basic approaches of effective crisis leadership. Following this chapter, we investigate first the crisis in general, the causes and background in order to explain the complexity of the crisis for the reader. Subsequently, we narrow down this issue to the aspect of Germany’s leadership during the crisis. Finally, we evaluate this leadership from different perspectives. In order to achieve this evaluation, our work is hereby based on a qualitative approach because we are focusing on indirect data such as articles, books, journals, and newspapers. We are aware that ‘empirical research is the dominant paradigm in business and management research’ (Remenyi et al. 1998, p.44) and that it is not common to do only theoretical research in social sciences. Nevertheless, we decided not to include interviews with heads of government or other people who may have an influence on the process of the crisis. Firstly, these leaders would probably express their personal view which is already available in the media. Secondly, it is unlikely that they would share confidential insights with us as researchers. Thirdly, the gained information of these interviews probably would be biased by the partial attitude of these leaders. Hence, we decided to focus only on theoretical research which is also possible (Merrian 1998).

In order to evaluate our data and explain the choice of our sources more in detail we go on now with an investigation of how we intend to collect data.

2.4 Collecting Data and Justification of our Methodology

In this chapter we intend to include information about the type of sources, we use to procure useful data for our work. To achieve our intention, we discuss the advantages of primary and secondary data, the motivation of our choice as well as the validity and reliability of our data.

2.4.1 Primary and Secondary Data

Primary data is directly collected through the researcher through direct observations, face to face interviews in the study area, and experiments (Arbnor and Bjerke 2009). Due to the fact that this data is gained especially for the underlying research issue it has a high reliability and therefore enhances the credibility (Maylor and Blackmon 2005). However, a possible disadvantage of primary data is the high cost and the high amount of time which is necessary to gain primary data. Secondary data on the other side can provide data with a high quality, allows more time for the analysis of the data, and provides data which is difficult to access. Concerning the latter point, secondary data might be easier to acquire than primary data, because it is published and thus available. Secondary
data is all data which is collected by other people for their purposes, for instance data from other studies, articles in journals or already published polls (Maylor and Blackmon 2005). Using this data which is generated in another context, might result in a bias of the outcome. Other disadvantages of secondary data could be the complex kind of data sets, the lack of control over the quality of the data, the risk that this kind of data may not answer our research question, or that this data can be regarded as not being trustworthy (Maylor and Blackmon 2005, Arbnor and Bjerke 2009).

After clarifying the two different kinds of data in the next paragraph we illustrate which kind of data we choose.

2.4.2 Choice of our Data

Concerning the choice of our data we choose principally secondary data. Despite the disadvantages of secondary data which we mentioned before, we still think that this kind of data is appropriate for our research and we are going to explain the motivation of our choice in the following.

The decision of choosing mainly secondary data instead of primary data collection is due to the fact that in our research area it is quite difficult to get reliable and useful direct facts. Our theme concerns ‘The Euro Crisis as a Contemporary Phenomenon - The Impact of Germany’s Leadership in the Euro Crisis’ therefore, our chosen main subjects are the euro crisis in general and evaluation of the leadership of Germany during the crisis. With reference to the first part of our theme, one of our main parts is to explain the process of the euro crisis and provide general as well as actual information about this process. Consequently, the issue for this kind of data is actuality and accessibility. Both issues can be fully achieved through secondary data, because we think that articles and papers in newspapers cover this issue quite well. Concerning our main issue, the investigation of the leadership style of Germany, we decided also to focus on secondary data because, as we already mentioned, in our case it is inefficient and inappropriate to use primary data. For example, it is nearly impossible to get a useful interview or a conversation with a head of a state. Additionally, the possible results would be biased by a partial opinion of the German leadership, for instance due to domestic policy issues. Hence, we concentrate on subsidiary data like for instance research journals or newspapers. Concerning their objectivity, we think if we consider different newspapers and articles from different countries and authors, we minimize the degree of subjectivity and create a broader picture. As we stated before, we don’t focus so much on personal opinions or judgments of experts, because in our opinion it is even more desirable to adopt and to transform general principles of leadership to the current crisis and consequently deduce results. Moreover, like we mentioned above, we think that the opinion of experts would be subjective due to the fact that everybody has ultimate assumptions and a different view on what he regards as effective leadership. Additionally, the people and especially experts would also regard the leadership of Germany from
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their point of view and evaluate it in their personal context. For example, people or rather experts in Greece might perceive the leadership style of Germany different than people in Germany.

Thus, we concentrate in our work more on secondary data like books, articles in newspapers, as well as journals. Concerning the choice of books, we want to use them as an approved and confidential source to serve as a frame of reference or basis for a later explanation. With this theoretical basis, we intend to create a broader insight and also give a practical evaluation of the leadership in the euro crisis, based on the results of these models. Therefore, our purpose is to choose books and articles in journals dealing with the subject of leadership and crisis leadership. Furthermore, we link the theories of these books to the leadership style of Germany during the euro crisis in order to investigate it and also to enrich our understanding of effective crisis leadership and crisis in general.

Due to the actuality and the fast-shifting character of our theme, we also want to include newspapers as well as articles and papers. Especially articles and journals constitute the main part of the scientific exchange in the euro crisis. With reference to the choice of the newspapers, we decided to use newspapers of different countries, for instance, The Wall Street Journal, Spiegel Online, Financial Times, The Economist, The Guardian, Bloomberg, CNN, Reuters, or Newsweek. The variety of our sources enables and enhances a broad picture about the process of the euro crisis and the perception of the leadership during the crisis. Concerning the choice of our articles and papers we use writings from think thanks like the Brussels’ institution Bruegel which sees itself as contributing ‘to European and global economic policy-making through open, fact-based and policy-relevant research, analysis and debate’ (Bruegel 2011). A further example is the Carnegie Endowment for International Peace, a think tank which is located in Washington D.C and addresses foreign policy.

Following the choice of our data, we want to investigate in the following paragraph the validity and reliability of our data more in detail.

2.4.3 Validity and Reliability of our Data

We are aware of the fact that our data has to be valid in order to measure the quality of our research. Clarification of the validity of our data is achieved by reflecting the subject from as many different perspectives as possible. Especially in our chosen view, the systems view, according to Arbnor and Bjerke (2009) it is important to consider as many as possible different perspectives and as many as possible secondary information. Therefore, as stated above, we want to use as much articles, books, and journals from different countries and perspectives as possible to ensure the validity of our data. Regarding the selection of our books, the validity is based on that the authors’ renown acknowledgement and expertise in their domains. Thus, the topic of the chosen book has to be compatible to our subject. The journals and articles we use are obtained of well-reputed sources
which we listed above. With reference to our outcome, we also hope to achieve results, which are useful when applied in practice. Because we intend to imply the systems view for our work, the concept of reliability is rarely used in this view (Arbnor and Bjerke 2009).

To sum up, by using these mentioned sources, we think we can provide a clear picture of the euro crisis in general and also of the leadership style of Germany during the crisis from a political, economical, and societal perspective. In order to achieve this, we use the systems view and mainly secondary data. The framework of our study is based on theory we gain from books. Instead of using expert interviews or surveys, we gain our information from newspapers, journals, and articles.
3 CRISIS AND CRISIS LEADERSHIP

For a better understanding of our topic, we want to provide theoretical knowledge in order to create a theoretical framework serving as a profound basis of our thesis. Therefore, we start with a theoretical definition of a crisis. Subsequently, we examine the phases of a crisis and show the difference between a usual and a transboundary crisis. After clarifying these subjects, we give an overall picture about leadership and leadership in a crisis. In this connection we present the key challenges of leadership and conclude by relating our findings to the current crisis.

3.1 Theoretical Definition and Framework

If we consider the earthquake in Japan, the 11th September 2001, the disaster of the BP oil platform Deepwater Horizon or the current euro crisis, we can conclude ‘that a crisis can occur today with little or no warning, anywhere, anytime’ (Fink 1986, p. 1). Thus, we can assume that even in a well developed and high-technologized world, whole countries and confederation of states can be threatened by a crisis. As our examples show in the beginning, a crisis probably occurs in many different manifestations. Hence, giving a general and consistent definition of a crisis seems to be difficult and consequently a definition depends on the related issue.

3.1.1 Definition of a Crisis

The word crisis in Chinese is wei-ji, which is ‘a combination of two words, “danger” and “opportunity” ’ (Fink 1986 p. 1). This inherent paradox makes a general definition difficult. We are aware that a crisis also can be seen as a starting point for change and can be regarded therefore positively. Despite this possibility, in our understanding and related to the leadership issue of our work, we consider a crisis in the following as a threat and thus in a negative way, because in our perception the possible negative impact prevails.

A crisis can be defined as ‘a high degree of instability and carries the potential for negative results that can endanger the continuity of the organization’ (Klann 2003, p. 4) or in other words, a crisis is a status of threat, urgency, and uncertainty (Boin 2009). In our understanding, the previous definitions of a crisis can be interpreted as a surprising and dramatic change, a turning point which determines the future of the organization. Due to the nature of organizations, humans seem to be the crucial factor for success or failure. Consequently, the creation of uncertainty, anxiety, confusion, and distraction has huge influence on the members of an organization. As a result, these factors are important to consider if we investigate a crisis in general. (Klann 2003)
Michael Bland’s (1998) understanding of a crisis focuses more on the affected people instead of the appearance of a crisis as such. Regarding his view, the scope of crisis mainly depends on how many people are affected, the degree to which people are threatened, and how much of these people know about the fact that they are threatened.

Despite the fact that each crisis seems to be unique and each can be distinguished from another (Bland 1998, Darling 1994), it is important to categorize and simplify a crisis, in order to gain a general understanding. Thus, from a theoretical point of view, a crisis can be divided in several phases. (Fink 1986)

3.1.2 Phases of a Crisis

One of the leading researchers regarding the theoretical conceptualization of a crisis is Steven Fink; therefore in this study his four phases-model is used to specify the explanation of a crisis. Based on his book ‘Crisis Management: Planning for the Inevitable’ (Fink 1986) he divides a crisis into prodromal crisis stage, acute crisis stage, chronic crisis stage, and crisis resolution stage. The first one, the prodromal stage, is the warning stage. This stage can be seen as the most important because it is a turning point if a crisis breaks out or not. In this stage evidence concretize that a crisis might occur, which does not necessarily mean that it actually does. There is still space for actions in order to prepare for a possible worsening of the situation, the acute stage. For instance,

sailors at sea who spot the ominous prodrome of fast-gathering storm clouds off in the horizon have no power to stop the acute storm. But knowing what is about to happen gives them the opportunity to batten down the hatches, head for shore, and just generally brace themselves and their ship for the inevitable acute crisis. (Fink 1986, p. 22)

The second crisis stage is the acute crisis stage. At that point, no return is possible anymore and some damage is going to happen. The extent of the damage depends on the taken actions. The common or public understanding of a crisis in general is equalized with the acute stage. Damage containment is the most important issue in this stage. Regarding the sailor example,

if they realize that they cannot make it back to shore before the storm hits, they will be in the most advantageous position to weather the storm intact. Perhaps they are too close to hidden reefs and they fear the raging storm may dash their ship against some rocks. They have the opportunity and the time to the open sea, if they calculate that as their best alternative. (Fink 1986, p. 22)

The following stage is the chronic crisis stage, in which the peak of the crisis has already been weathered. This phase is shaped by cleaning up, recovery, self-analysis, and the planning for future crisis management. (Fink 1986) Concerning the sailor example in that stage, the weather conditions are getting better, the storm calms down, damages are identified, and are under repair.

The fourth and last crisis stage is the crisis resolution stage. At this stage, in the model of Steven Fink (1986), the situation returns to normal conditions and the impact of the previous crisis is not present anymore. However,
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crisis evolve in cyclical fashion, and a crisis suffer almost never has the luxury of dealing exclusively with one crisis at the time, crisis can come in pairs. Or bunches, or thundering herds. A crisis, like life itself, is almost never cut and dried; it is never black and white. (Fink 1986, p. 28)

Nonetheless, the model of Steven Fink provides a basic understanding of the process of crises and can be seen therefore as a useful and profound theoretical concept.

According to Christophe Roux-Dufort (2007), the described process of a crisis is defined as a processual approach. This implies that a triggering event ‘is considered as the point of arrival of a destabilizing process’ (Roux-Dufort 2007, p. 5). As opposed to this, in an ‘event-centered approach […] the triggering event is seen as the starting point’ (Roux-Dufort 2007, p. 5).

Furthermore, according to Fink (1986), a crisis cannot be seen as a single independent event. Additionally to this issue, boarders between countries dissolve more and more, due to globalization and internationalization (Klann 2003). Therefore, also a crisis of today has no boarders or boundaries and thus ‘the world of crises and disasters is shifting’. (Boin 2009, p. 367) This phenomenon of trans-border crises is going to be explained in our next point.

3.1.3 Transboundary Crisis as a Global Phenomenon

As mentioned before, due to the globalization, the world is more connected than before. Consequently, crises are not constraint on a specific range but ‘are becoming more complex in nature, they are increasingly transboundary and interconnected.’ (Boin & Lagadec 2000, p. 185) A crisis can therefore be defined as transboudary when, ‘the functioning of multiple, life-sustaining systems, functions, or infrastructures is acutely threatened and the cause of failure or courses of redress remain unclear’ (Boin 2009, p. 367). In our interpretation this definition builds upon the general definition of a crisis and the assumption that the modern world is characterized by multiple organizations and systems which are globally connected. Based on this world wide complexity, modern crises are characterized by instability, intricacy as well as uncertainty, a high degree of threat, widespread impact, and a high speed. (Boin & Ekengren 2009)

Considering the current euro crisis, transboundary crises seem to attract more and more attention. The latter is a descriptive instance of this kind of new and complex crisis. Based on the findings of Boin and Lagadec (2000) we want to stress this assertion by relating the characteristics of this modern crisis with some manifestation of the euro crisis. One characteristic of a transboundary crisis is that it has huge impact and numerous people are affected. Regarding this issue in the euro crisis, it affects the population of the 17 countries in the euro zone and probably also further nations and currencies. Additionally to these characteristics, a transboundary crisis is also denoted by a huge number of involved active actors and also difficulties in communication within e.g. ‘the responsible organizations, with the public, the media, and the victims’ (Boin & Lagadec 2000, p. 186). In the euro crisis the involved governments seem to have difficulties to agree quickly on a common
solution approach. A further characteristic of the transboundary crisis is that there are high economic costs, which we can also observe in the euro crisis. For instance the costs of the rescue parachute account for 750 billion euro (Behr et al. 2010). The last characteristic of transboundary crisis we want to mention is the snowball-like dynamic. Regarding the euro crisis, this difficulty is stressed by the interrelation between Portugal and Spain. Due to reason that the Spanish banking system is highly involved in the Portuguese government bond market, a possible bankruptcy of Portugal probably would have long-range consequences for the Spanish banking system and thus for the Spanish governmental household. Because of the importance of Spain in the euro zone, a financially stricken household of Spain would also affect other nations (Rachman 2010).

As stated above, the occurrence and the characteristics of crises have changed to a more global and more complex issue. Based on Ian Mitroff’s assumption (2004), this change of crises has also an impact on the way of handling a crisis. Thus, classic crisis management is obsolete because it implies acting after the crisis occurs. Therefore, he suggests crisis leadership as a proactive way of handling or preventing a crisis. Before we want to stress the issue of leadership in a crisis, we want to go in more in detail into the principles of leadership at first. Latter is necessary, because it serves as theoretical background for the following investigation of crisis leadership.

3.2 The Theoretical Concept of Leadership

Looking back in the past, it shows that history always was shaped by remarkable leaders. Also today, the concept of leadership is still current and important. (Bennis and Nanus 2007) As mentioned before, the modern world is characterized by complexity and speed, changing values, and therefore a shift in crises. Due to this, principles of leadership are not obsolete, but seem to be highly essential and contemporary. In order to point out the theoretical concept of leadership, we start with a definition of leadership, followed by, selected, essential aspects of leadership.

Agreeing with Alan Bryman (1997), leadership is a widespread field and therefore not easy to define. According to Lundgren (2010), leadership is a process containing three factors. On the one hand leaders, on the other hand followers, and the interaction between these two factors. Considering this understanding of leadership, in the following we investigate these three different angles. Speaking of a leader, want to stress the point, that designation “leader” does explicitly not imply any inferences considering the gender. It is merely a simplification of our thesis.

The first angle we investigate is the leader’s point of view. In this sense, leaders can be defined as ‘persons who, by word and/or personal example, markedly influence the behavior, thoughts, and/or feelings of a significant number of their fellow beings (Gardner 1996, p. 8). Considering Carl Weick (1995), a leader is involved in sense-giving activities regarding his followers, which means that the
leader influences the thinking of a follower towards a special direction. In the words of Smircich and Morgan (1982), ‘effective leadership depends upon the extent to which the leader’s definition of the situation...serves as a basis for action by others.’ Therefore, ‘the key challenge for a leader is to manage meaning in such a way that individuals orient themselves to the achievement of desirable ends’ (Smircich and Morgan 1982 p. 262). This can also be explained that sensegiving is the art of influencing followers to make them wanting what the leader wants. It only happens, if the follower can make sense out of it. (Weick 1995)

Consequently, the second angle investigates the sensemaking of the followers. According to Weick (1995), followers make sense out of events based on experiences and interpretations, serving as frames of references. In this sensemaking process they are influenced by the sensegiving of the leader and also their own understanding.

As we have seen in the previous two paragraphs, the sensegiving attitude of leaders and the sensemaking process of followers are directly interrelated and can be seen as a process of interdependency. This leads us to our third angle, the relationship between leader and follower. It is important to notice, that leadership is an ongoing process of sensegiving and sensemaking between leader and follower (Gioia and Chittipeddi 1991). Concluding with our understanding of leadership, a leader cannot be without a follower and follower cannot be without a leader.

After explaining in short the basic theoretical framework of leadership, we want to clarify the issue of how a leader combines sensegiving and sensemaking in order to influence his followers. The crucial relevance of this leadership task is the reason for the following investigation of how and in what way a leader leads.

In order to influence followers, one important mean is to create a vision. ‘A vision articulates a view of a realistic, credible, attractive future for the organization, a condition that is better in some important way than what now exists’ (Bennis and Nanus 2007, p. 82). Creating a vision can be seen as setting a direction and therefore sharing the future. Due to that, people feel empowered and participated in the organization, hence followers feel important and appreciated in the organization. Creating a vision can be understood as attempt to give sense to the followers to take part in the organization and make sense out of the actions of the leader. (Bennis and Nanus 2007)

Transmitting the message of the sensegiving and to articulate his vision, a leader has to communicate with the followers and vice versa. Regarding this point, we want to stress that communication is a profound necessity because even the best vision is useless if a leader is not able to communicate it. To convey the vision, a leader can use different possibilities in transmitting his message. This includes for instance speeches, embodiment of the message, and symbolic actions.
The latter concern leads us to the last point we want to stress, the creation of trust. (Bennis and Nanus 2007)

As mentioned above, sensemaking and sensegiving is essential for leaders. In addition to that, establishing trust can be regarded as a support for a leader in establishing confidence in his leadership. Therefore, it has a huge impact on the sensegiving and sensemaking process of leader and followers, because a trustworthy leader is more persuasive. This has consequently a facilitating and enabling influence on the sensegiving and sensemaking process. By clear positioning, a trustworthy leader can also point a direction and serve as symbol of security in uncertain circumstances. Especially in threatening and unsecure situations, for instance crises, the trustworthiness of a leader can help to overcome this challenge. Hence, it is important for a leader to create trust through his behavior and personality. (Bennis and Nanus 2007)

After introducing the concept of crisis in general, the concept of leadership and how a leader influences his followers we go on now, with the investigation how the concept of crisis and leadership is connected.

3.3 Leadership in a Crisis

Due to the fact that, ‘people experiences crisis as episodes of threat and uncertainty, a grave predicament requiring urgent action/authors, it is a natural inclination in such situations to look to leaders to do something’ (Boin and `t Hart 2003, p. 544). In a crisis, people expect leaders to take the initiative, reduce the uncertainty, and lead out of the crisis (Boin et. al 2010). As a result, ‘crises and Leadership are closely intertwined phenomena’ (Boin and `t Hart 2003, p. 544) Because of the mentioned reasons, in this chapter we clarify the term of crisis leadership and explain the different phases of crisis leadership. Additionally, we investigate possible challenges, issues, and tasks in crisis leadership.

3.3.1 What is Crisis Leadership?

Answering the question of what crisis leadership is, we first have to examine if there is a difference between crisis leadership and usual leadership. According to Gene Klann (2003), leadership skills in a crisis are basically the same than normal leadership skills. The big difference consists of the circumstances. Like we already mentioned in chapter 3.1, a crisis is shaped by a high degree of threat, urgency, and a high level of uncertainty. Therefore, crisis leadership can be interpreted as usual leadership with special focus on effectiveness to handle these circumstances. Due to the extensive impact of a crisis, a possible misleading in that situation would have tremendous consequences. According to Ian Mitroff (2004), crisis leadership is based on dealing with the unthinkable and unexpected. Thus, crisis leadership also requires the ability of out-of-the-box
thinking. This implies the property of a leader to create a broader picture and to widen the own horizon. As stated above, the modern crisis becomes more and more transboundary and complex. Consequently, leadership requires the ability to deal with unpredictable events and demands an integrated view of the whole issue. Once more, crisis leadership skills are quite similar to leadership in general. Hence, key issues of leading in a crisis are also communication, creating a vision as well as caring and trust. Because of the fact that these elements are already described in chapter 3.2, we concentrate in the following mainly on the detailed implementation of these key elements.

Communicating entails a clear articulation of the leader for example in ‘tone, voice, choice of words, and tempo of speed’ (Klann 2003 p.13). Beside these examples of rhetorical skills, also story telling can be seen as an effective way of expression (Gardner 1996). For the reason that communication contains at least two partners, leaders could use on the one hand such rhetorical techniques to convey their message. On the other hand, they also need to control some listening techniques to lead effectively. In the consequence of the high threat a crisis implies, a leader has to engage in full communication. Otherwise actions of an effective response to a crisis cannot be coordinated. (Bland 1998)

The next key element of crisis leadership is to provide a clear vision. Especially in a crisis pointing a direction, sharing the future, and therefore sharing the vision is a crucial factor in effective crisis leadership, because ‘vision animates, inspirits, transforms purpose into action’ (Bennis and Nanus 2007, p. 29). According to the general idea of handling a crisis, taking quick action is one of the most crucial points (Klann 2003, Mitroff 2004, George 2010). Due to the fact that a vision can trigger quick action, creating a vision is an important tool of crisis leadership. Moreover, as already mentioned above, a vision facilitates the sensemaking and sensegiving process in a crisis.

The last key element of crisis leadership we want to investigate is the concept of caring or trust. Caring about people and being a trustful leader can give the followers the feeling of being part of the group and being needed. This can lead to a reduction of fear, a creation of a common identity, and solidarity which might has a weakening effect on the high uncertainty, urgency, and threat which is highly caused by a crisis. Concluding this last element, the attitude of caring and trust is highly related to the character of a leader. Thus, especially in a crisis a leader should behave as an inspiring and competent model which embodies courage, integrity, decisiveness as well as values. (Klann 2003, Boin et. al 2010)

3.3.2 Phases in Crisis Leadership

After clarifying crisis leadership key elements, we go on now with a three-phases-approach from Gene Klann (2003). We depict the approach of Klann to connect phases and the process of a crisis with key issues of leadership, because he focuses on the leadership aspect of a crisis. In the contrary,
the model of Steven Fink (1986), which we introduced in chapter 3.1, emphasizes only the description and definition of phases of crises, regardless of the aspect of leadership. Moreover, due to the high complexity of leadership in a crisis, we prefer fewer phases and a simpler categorization. Therefore, we decided to use and introduce the model of Gene Klann (2003) in the following. Regarding his model, Gene Klann (2003) categorizes a crisis into three steps and connects each of them with the issues of communication, vision as well as caring and trust. The classification of a crisis in this approach is divided in a before-, during- and after-categorization.

3.3.2.1 Before-crisis Stage

In order to be prepared for a possible crisis, a leader should force the effort to establish communication culture in the organization. In case a crisis occurs, the exchange of information can be accelerated which is crucial for a quick crisis response. Furthermore, a fluent communication is necessary to overcome fear, anxiety, and doubt. (Klann 2003) An important point in this context is to figure out the way how a leader should communicate. This issue implies the question with whom the leader is communicating. According to Mikael Lundgren (2011), it is essential for a leader to know his audience. These aspects are necessary to ensure that the message of the leader is conveyed to the right people. It is also important for a leader to know what his possible communication channels are (Bland 2003). Concerning the vision and values of an organization, the leader should establish a clear vision and credible values at any time, in order to make the whole organization standing in one line. Hence, in the case of an occurrence of a crisis, concerted actions as well as a common attitude can be achieved. In order to create a good connection between leader and follower it is also important to show that the leader cares permanently about his followers. This can facilitate the creation of trust, loyalty, and support. Practicing the principle of an ongoing caring might ease a handling of a possible crisis. (Klann 2003)

3.3.2.2 During-crisis Stage

During a crisis, ‘a key to crisis leadership is anticipating this chain of events and leading in such a way as to return balance to others in the organization’ (Klann 2003, p. 42). Like we already mentioned before, the period during a crisis is shaped by emotions for instance, threat, uncertainty, and urgency. To reduce these emotions and feelings, a clear and permanent communication should be practiced as a key issue of crisis leadership. This implies that communication channels should be open in order to guarantee that everybody in the organization is well informed. Hence, misinterpretation of circumstances as well as gossiping can be avoided. Otherwise this would have an intensifying influence on a crisis because it can raise uncertainty. Furthermore, the explanation of situations, causes, and taken steps as well as a possible future outlook might lead to support and restore of trust and faith. (Klann 2003) Another important issue is that through the right communication in a crisis, leaders help followers to create meaning and thus reduce the uncertainty
Concerning visions and values during the crisis, the leader functions as an example. He should be visible and show responsibility. If he stays true to his vision and values, he can function as symbol for his followers. Even though a leader is also affected by fear and uncertainty, he should act and ray out control and confidence. The key element of caring is crucial in that way that if a leader meets the needs of the organization’s members, he tightens the relationship to his followers which is a basis for common action. (Klann 2003, Bennis and Nanus 2007) In our understanding, the distinction between the before-crisis period and during-crisis period is that in the latter case a leader put special focus on the element of caring and trustworthiness of his leadership.

### 3.3.2.3 After-crisis Stage

As mentioned before, this stage is characterized by the fact that the crisis is over and the organization returns to routine. Pursuant the term ‘After the crisis is before the crisis’ (Freytag and Pehnelt, 2008 p.1), the after-crisis period is shaped by on the one hand rebuilding and on the other hand by preparation for the next crisis. Concerning the latter aspect and our key elements communication, vision and values, as well as caring and trust, we can conclude, that the leadership tasks are the same as we stated in the before-crisis stage. This is also mentioned by Steven Fink (1986), who states that a crisis is an ongoing circle. Relating to the rebuilding aspect in this stage, a leader should seek feedback concerning his crisis leadership skills and how the organization has dealt with the crisis. He also should investigate the causes and roots of the crisis, not only to prevent a further crisis but also to satisfy the followers. Hence, possible improvements might be also considered as a consequence of the crisis. (Klann, 2003)

Regarding the choice of our key elements, a well reputable consultancy firm confirmed their importance by their findings in an online survey (McKinsey2009). Consequently, the mentioned aspects of leadership are not only theoretical related, but also highly relevant in practice.

Following this investigation of key leadership elements in different phases of crisis, in our next chapter we intend to summarize our previous findings and complement them. Additionally, we relate our findings regarding crises and crisis leadership to the main part of our thesis.

### 3.3.3 Complements and Conclusion

In the previous paragraphs we have shown the most valuable elements of crisis leadership in general. These can be reduced, to the principle of communication, creating a vision as well as caring and trust. Concerning a well organized communication, a leader is able to respond effectively to a crisis. Because of the emotional effects caused by a crisis, establishing a viable vision is an important tool to stabilize and encourage the behavior of the organization members. Hence, creating a vision has a calming effect on the shattered organization and provides a direction in the crisis. The positive
impact of caring and establishing trust enables an atmosphere of more security and we-can-handle-it mentality.

Considering the choice of these key elements in leadership, we are aware of the issue that our notions do not cover the whole range of crisis leadership. Thus, in order to bridge this gap we introduce further significant aspects of crisis leadership.

The first challenge we want to address, is that a leader in a crisis should face reality (George, 2010). This is crucial because ‘the crisis isn’t going to fix itself, so denying its existence can only make things worse – much worse’ (George 2010, p. 25). Thus, facing and accepting a crisis is a first step in handling a crisis. As a consequence, a leader also has to call for quick reaction, to prohibit further escalation and contagion (Klann 2003). Additionally, quick reaction implies also that a leader is able to make hard calls. For that reason, decisiveness and the willingness to make unpopular decisions should be an essential characteristic of a leader in a crisis (Boin et al. 2010). As mentioned in the beginning of this chapter, a crisis can be seen as a threat or as an opportunity at the same time. Seeing a crisis as a chance, a leader might be perceived more convincing in his actions and that he is able to handle the crisis. Furthermore, ‘leaders who do not take advantage of crisis to make long-term changes not only waste their opportunities, but also sow the seeds for a repeat experience’ (George 2010, p.25). Another challenge for a leader during a crisis is the handling of the media. This is also connected to the communication term we explained above. Nowadays the media is on the one hand of profound importance in order to deliver quick, worldwide information. On the other hand, the media have a tremendous impact on the way information is perceived and interpreted. Therefore, the media can also support scaremongering and speculation (Mitroff 2004, Klann 2003). As mentioned before, quick actions in terms of handling the crisis can also be related to the issue of dealing with the media. By taking action and explaining issues to the media, a leader can serve as a primary source of information for them. Thus, a leader can avoid misinterpretation and misinformation which might contain the crisis (Klann 2003).

To sum up, as we can see in the media, the current euro crisis is still an ongoing process. Due to its impact on financial markets, social problems, multilateral tensions as well as the public, the euro crisis can be perceived as transboundary. We are confronted with impressions of citizens demonstrating against austerity measures, disputing politicians, and volatile currency exchange rates as well as permanent meetings of European heads of government. As a result, we can observe how multilayered and complex the current crisis is. Because of the high complexity and the multiple dimensions of the euro crisis, it is crucial to provide a common general understanding of a crisis. This includes theoretical concepts of crisis, leadership, and key elements of leading in a crisis. In this
chapter we convey these essential basics in order to create a basis for the following chapters of our thesis.

In chapter 4 we want to investigate the question what the euro crisis is and how it can be perceived. This implies an examination how the euro crisis emerged and occurred as well as the role of the financial system, the political system, and socio-economical issues. Additionally in chapter 5, we investigate the leadership of Angela Merkel in Germany as well as of Germany as a country in the euro zone. Due to the financial and economical power of Germany, the German government seems to play an important role in the European Union and especially in the euro zone. Therefore, based on our theoretical findings in chapter 3, we want to examine the leadership role of Germany. Especially the theoretical basis regarding leadership in a crisis is useful to explain and to investigate the leadership behavior in the euro crisis.
4 THE EURO CRISIS AS A DEBT CRISIS?

In this chapter, we intend to establish a profound basis about the emergence, roots as well as the causes of the euro crisis. It serves as a basis to class the role of Germany and the leadership style of the German chancellor, which we present and analyze in chapter 5, with an overall picture of the crisis. In order to achieve this knowledge, we start the chapter with a timeline to illustrate how the crisis occurred. The presented events of the euro crisis are selected in such way to provide a basic overview and are also chosen regarding their utility for the leadership analysis in the next chapter. Thus, the timeline includes events which are in our opinion suitable for the understanding of the crisis and for our work. Subsequently, we investigate the causes and roots of the crisis. Following the causes and background, we illustrate the special case of Ireland in the euro crisis and conclude this chapter by investigating the role of rating agencies in the financial sector.

4.1 Emergence of the Euro Crisis: A Timeline full of Threat

In order to provide a general and clear timeline, we decided to divide our timeline into months. By stating only the most important events in the crisis, we also intend to prevent confusion. Like we already mentioned in our limitations, we decided to constrain our investigation despite the crisis is still ongoing. Concerning the term of our timeline, we therefore decided to focus on the period between October 2009 and the end of February 2011, since this can be seen in our opinion as a part of the acute crisis stage.

October 2009

The new elected government in Greece confesses a budget deficit of 12.5 % of the GDP for 2009 (Focus 2010). That is twice as much as assumed and the public debt of Greece totals 262 billion euro (Wearden 2010). Concerning the amount of the deficit, it corresponds more than 110% of the GDP. (Reuters 2010) Due to this revelation, the first rating agency, Fitch downgrades the credit rating of Greece. That implies that Greece has to pay higher interest rates to absorb fresh capital. (Focus 2010)

December 2009

Moody’s, Fitch as well as S&P’s, the three big rating agencies downgrade the rating of Greece’s government bonds once again. In the same month, France confirms the solidarity of the euro zone for Greece in case they are in trouble, whereas the German Finance Minister Schäuble states that the Germans cannot pay the debts of Greece. (Focus 2010, Gilbert 2009, Batzoglu and Höges 2009)
Moreover, the Greek government announces radical reforms to cut the government deficit in order to avoid bankruptcy (Wearden 2010). The stated downgrade took place from the so-called A- rating down to BBB+ (Schmiedel et al. 2010). This deterioration can also be understood as a worsening of the credit-worthiness. Due to that circumstance, Greece was facing higher refinancing premiums because of the risen credit risks.

February/March 2010

The government of Greece announces another austerity program in the amount of 4.8 billion euro to cut the debts although there are already the first strikes in Greece against cost-cutting measures (Focus 2010). The EU Commission President José Manuel Barroso urges the member of the EU to help Greece with its financial problem, but especially Germany depicts still reluctance (Tagesschau 2010a, The Local 2010). Following a weak respond to a bond sale, Greece struggles and is nearly bankrupt (Wearden 2010). In order to prevent the smashup, the countries of the euro zone – also including Germany – agree on a rescue package for Greece (Focus 2010). Due to the high indebtedness, the worsening of the rating and as a consequence the rising interest rates, Greece had to face greater burden to pay back the interest. In order to follow the claims related to the rescue package and also in order to contain and to re-improve the rating, the Greek government decided to decrease expenses and to raise income (Dadusch et al. 2010).

April 2010

The three big rating agencies downgrade Greece government bonds once again (Wall Street Journal 2010). Preventing a bankruptcy the finance ministers of the euro zone approve a 30 billion rescue package for Greece (Tagesschau 2010b). At the end of the month, Greek’s prime minister appeals officially for a bailout and Greece uses 45 billions of EU and IMF loans (Wearden 2010). Concerning the drawdown of the loan and the German contribution, there are domestic politic discussions in Germany (Tagesschau 2010b). Also in April downgrades of the credit ranking of Portugal and Spain occur (Wall Street Journal 2010).

Considering that Spain and Portugal had to face similar problems, e.g. a high level of indebtedness, mismanagement of the household, and structural issues, a downgrade was a logical consequence (Dadusch et al. 2010). As a result, Greece had to pay more than twice for the interest rate for a 10-year bond in comparison to Germany (Schmiedel et al. 2010).

May 2010

Following hectic negotiations, Greece, the International Monetary Fund as well as other European Countries agreed on a total bailout of Greece. The decided rescue package has the amount of estimated 110 billion and is dimensioned for three years. (Wall Street Journal 2010) In order to
receive the money, Greece has to establish a strict budget, although there are again strikes and demonstrations against the austerity measures (Tagesschau 2010c). The German Parliament approves also in May the guarantees of 28.4 billion for the bailout of Greece (Wall Street Journal 2010). Furthermore, the EU and the IMF decide a plan for a 750 billion package to countries that get into financial trouble (Tagesschau 2010c).

Considering the vicious circle of high indebtedness, household mismanagement, a following deterioration of rating, and credit-worthiness, a higher interest rate payment, and as a consequence further burdens of debts, the countries of the euro zone had to act.

July / August 2010

Due to the fact that the banking sector of the euro zone is highly involved and interrelated with the sovereign debt market, a possible bankruptcy of a small country like Greece might have had a tremendous impact on the balance sheets of the European banks and consequently for the domestic and national economy of each country. (Dadusch et al. 2010, Schmiedel et al. 2010)

In order to establish trust in the banking system, the EU introduced stress test for banks to control if the banks are able to weather bad conditions. The results of these tests are released in July (Wall Street Journal 2010). Furthermore, the credit status of Ireland and Portugal is downgraded by the rating agency Moody’s. (Wall Street Journal 2010)

Due to the good applying of reformations, the EU approves the second tranche of the rescue package for Greece. (Tagesschau 2010d)

September / October 2010

The government credit rating of Ireland is again downgraded by Fitch (Wall Street Journal 2010). In order to rescue their banks, Ireland has to expend the budget deficit to 32 % of the GDP (Telegraph 2010).

November / December 2010

Ireland requests as the first country help from the 750 billion bailout package of the EU. Due to this reason, the EU finance ministers approve a bailout package for Ireland in the amount of 85 billion. In order to receive the money Ireland adopts an austerity package to cut its deficit.

The proposal of Luxemburg to use common government bonds is denied by the German finance minister Schäuble. Nevertheless, agree the heads of state and the heads of the government on the EU summit on changes in the Lisboan treaty, in order to establish a permanent rescue parachute for endangered countries. (Tagesschau 2010e)
January 2011

Germany announces despite the crisis, that the economic growth 2010 reached a maximum since the German reunification. The finance ministers of the EU were not able to compromise on an expansion of the existing rescue parachute. Nevertheless, declaimed Nicholas Sarkozy, the president of France, on the continued existing of the Euro on the World Economic Forum in Davos. (Tagesschau 2011a)

February 2011

In order to reduce imbalances between the nations and to overcome the euro crisis, Germany and France proposed a competitiveness pact for the euro zone. This can be understood as an adaption and coordinating of fiscal policy and economic issues on a common European level (Reuters 2010). Because of the austerity sanctions applied by the Greek government, there were again general strikes and demonstrations in Greece. (Tagesschau 2011b)

4.2 Causes and Background of the Euro Crisis

After clarifying the timeline of the current euro crisis, now we intend to go more in detail and investigate the deeper causes of the euro crises. Thus, we examine the role of public deficit, the different economic requirements of the countries in the Euro zone, the absence of an economic European government, as well as possible interdependencies between the public and the private sector. Because of the high complexity and the controversial discussions about the causes of the euro crisis, in the following we want to enquire into different perspectives concerning this topic.

In order to get a basic understanding of the causes of the crisis, we have to examine the period before the introduction of the euro. The countries most affected by the crisis, Greece, Ireland, Italy, Portugal and Spain (GIIPS) had, with the exception of Ireland, already a poor economic performance even before the euro was introduced. In the case of Greece, the ‘annual inflation was one of the highest in the region; the Greek government paid the highest borrowing premium; and GDP growth was the slowest in Europe’ (Dadush et al. 2010, p. 25). Due to the introduction of the euro, the interest rates of GIIPS converged from a high level to a low interest level, nearly to those of more stable countries like Austria or Germany. Therefore, GIIPS were able to refinance the public household with less financial spending than before. Beside the governmental household, the low interest rates had also a positive influence on private households as well as on the economy. (Dadush et al. 2010, Lapavitsas et al. 2010, Sinn 2010) The lower interest rates resulted in cheaper conditions on the credit market. Therefore, the incentive to get into debts might be perceived as higher. Due to improved confidence and lower interest rates, domestic demand in these countries increased and the government, investors, and consumers were encouraged to spend more money.
This led to rise of debts (Dadush et al. 2010). ‘GIIPS, especially Greece, Ireland, and Spain, saw an increase in domestic spending accompanied by deteriorating current account balances and rising private debt’ (Dadush et al. 2010, p. 11). As a first consequence, the increasing domestic consumption led to higher prices and higher wages. For instance, in the period between 2000 and 2009 the unit labor costs of GIIPS increased by 31%. In comparison, the increase in Germany was only 7% in the same time period (Dadush et al. 2010, Eurostat 2011a). This implies that the production of goods and services became more and more expensive for GIIPS. Thus, the prices of goods produced in GIIPS were generally higher than in other European regions. As a result, the competitiveness of GIIPS declined considerably in comparison to other European countries (Dadush et al. 2010, Darvas et al. 2011). As the opposite, in Germany for instance, the wages and labor costs grew moderate due to structural reforms, less economic growth, as well narrow domestic demand (Lapavitsas et al. 2010).

Beside the loss of competitiveness and lower interest rates, a second consequence of the adoption of the euro is that ‘in all of GIIPS, lower borrowing costs and the expansion of domestic demand boosted tax revenues and tempted governments to expand spending as well’ (Dadush et al. 2010, p. 14). Instead of using the additional tax revenues to diminish the burden of debts, a lot of governments, decided to reinvest and therefore to sustain their economic growth (Dadush et al 2010). Hence, the governments constantly violated the rules of the stability growth pact established in the Lisbon treaty (Lisbon Treaty 2008, Eurostat 2011b). Regarding this agreement, the annual deficit should not be higher than three percent of the Grand Domestic Product (GDP) (Schmiedel et al. 2010). However, for instance Greece had in the period between 2000 and 2009 an average deficit of 6.82% of the GDP (Eurostat 2011b). In addition,

the global financial crisis fully exposed the flaws of GIIPS post-euro growth model. Tax revenues collapsed as output growth slowed, revealing that the expanded state sector was unaffordable. The housing bubbles in Ireland and Spain burst, putting additional strain on government budgets. (Dadush et al. 2010, p. 14/15)

Besides, also the economic downturns lead to lower taxes and lower public revenue. As mentioned above, GIIPS profited a lot from the low interest rates and therefore built up huge amounts of debts. In addition to lower taxes and incomes, the banking sector in the Euro zone had to face tremendous liquidity problems. Thus, many institutions disinvested from GIIPS in order to bolster liquidity. (Lapavitsas et al. 2010) In order to support their economies, all GIIPS countries and also all the other members of the Euro zone were supposed to stabilize the domestic economy by increasing government spending through economic stimulus packages and banking rescue parachutes (Dadush et al. 2010). Additionally to the existing high level of debt, the impact of the financial and global economic crisis led to this extent of indebtedness. Concerning the debt oriented
The Euro Crisis as a Debt Crisis?

angle of the euro crisis and its causes, Greece and Ireland had serious solvency problems and were forced to request international help from the European Union (Labanyi 2010, Schmiedel et al. 2010).

Investigating the causes of the euro crisis, a further point we have to consider is the organizational structure in the euro zone. Like we mentioned above, one of the main causes of current euro crisis roots in the loss of competitiveness of GIIPS. Usually, in order to restore competitiveness, an established procedure is the principle of devaluation of the own currency. The main effect is, that the own currency depreciates in comparison to other currencies. Consequently, the domestic products can be sold cheaper on the world market, which contribute to an improvement of the competitiveness. (Whelan 2010, Schmiedel et al. 2010) Hence, cheaper products lead to higher exports and ‘the […] effects of devaluation can contribute to growth in nominal tax revenues, which can boost the solvency of the state’ (Whelan 2010, p. 2). Concerning the fact, that the euro is a common currency, countries of the euro zone do not have the possibility to devaluate their currency. In former times, for example Greece was able to devaluate their Drachma in comparison to the Deutsche Mark in order to sustain their competitiveness. (Whelan 2010)

Beside this issue of a common currency, the absence of a European economic government might be an additional cause of the extent of the crisis. A European economic government would include for instance a common fiscal policy, stabilization methods or a common tax policy, in order to response effectively to a possible crisis. (Schmiedel et al. 2010) A further point we have to consider is that there are different requirements regarding i. a. competitiveness, economical structure, and welfare system between the different countries. Regarding the unequal conditions in the different countries of the euro zone, a further issue is that there is only one single monetary policy provided by the ECB, which does not fit if countries develop in different directions (Boll and O'Quinn, 2010). So ‘the single European monetary policy was too loose for the rapidly growing GIIPS […] and too tight for Germany, whose domestic demand and wages grew very slowly compared to the European average. This reinforced the loss of competitiveness in GIIPS’ (Dadush et al. 2010, p. 8).

Considering the view that the euro crisis might be seen as a banking crisis, we also want to examine the role of the financial sector and its importance in the crisis. Some researchers, for example Ronald Janssen (2010), see in the euro crisis mainly a banking crisis. Janssen (2010) claims, that the main aim of rescuing Greece has been the protection of the financial system of the euro zone, because a possible collapse of Greece would have extent impact on the European banking system. This assumption is mainly based on the fact that European banks are highly involved in lending to GIIPS. Also Hans Werner Sinn (2010) agrees that the euro was not in economic danger. If the euro as a currency would be in danger, a tremendous devaluation would be the consequence. Quite the contrary is the case. Considering the development of the Euro/US-Dollar exchange rate, the value
of the euro at lowest point in March 2010 was with 1.19 € per US-Dollar still higher than at the introduction, when it was 0, 84 €/$ (Sinn 2010, Handelsblatt 2011) Sinn states, that the bailout package for Greece was mainly established because of the high involvement of for instance French banks. They solely invested 52 billion euro in Greece government bonds. The German involvement was with 32 billion euro also considerable (Sinn 2010). Regarding this huge involvement of European – not only French and German – banks, a possible default of Greece or other threatened countries could lead to huge losses in the balance sheets of the banks. Like we have already observed in the financial crisis, huge losses of big banks can cause problems for entire states. As stated above, a huge number of European banks are highly involved in GIIPS, thus possible defaults of sovereign states could lead to contagion of the whole European banking system Janssen (2010).

To sum up, we can state that the current crisis might also be perceived as a threat of the European banking system, and hence a banking crisis. Nevertheless, due to the system-relevance of big banks, the countries and consequently the whole euro zone is also threatened. According to the claim of Janssen (2010) that the current crisis is mainly a banking crisis, we can conclude that his assertion doesn’t explain the extent and the causes of the euro crisis completely. So we can state that his assumption is justified but incomplete. In order to illustrate this impact of threatened banks for countries, we examine the special case of Ireland in the euro crisis. The intention is not only to highlight the relevance of banks for the whole system, but also the special case of Ireland compared the other countries affected by the euro crisis.

### 4.3 Ireland in the Euro Crisis: Not a normal Country

In comparison to other threatened countries like Greece, Italy, Portugal and Spain, the crisis in Ireland has different roots. Latter ones were mainly shaped by ‘labor inflexibility, high-spending, and lost competitiveness’ (Dadush et al. 2010, p. 43). Further, due to the low interest rates, a high indebtedness in these countries was an additional problem. The mentioned issues led to the current situation mainly exacerbated and accelerated by the financial crisis. Ireland on the other hand was a ‘flexible, parsimonious, competitive’ (Dadush et al. 2010, p. 43) economy. In the contrary to Greece, Italy, Spain, and Portugal, Ireland demonstrated a low fiscal deficit and a high growth of GDP already before the introduction of the Euro (Eurostat 2011b, Dadush et al 2010). With the introduction of the euro, GIIPS including Ireland, the countries develop similar positively concerning for instance the growth of GDP, booming sectors, and higher wages. Through the introduction, the already strong economy of Ireland got an additional accelerator. The main difference between Ireland and the other GIIPS was that it had a strong economic growth without high government debts. Instead, the success of the Irish economy was mainly based on the tremendous leveraging of the Irish banking sector (Dadush et al. 2010).
As a consequence, the question arises why Ireland currently has such a high level of debt and is forced to use the rescue package of the European Union (Labanyi 2010). Like in Spain and Portugal, another effect of the booming industry was the emergence of a real estate bubble in Ireland. During the financial crisis 2008 the real estate bubble burst, domestic demand collapsed, and the whole banking sector was faced with substantial losses (Dadush et al. 2010). In order to save the banks, the government of Ireland was forced to accept high indebtedness to rescue latter. Referring to the development of Greece, Ireland also reached a critical level of debts. As stated in chapter 4.1 this huge burden obliged the government of Ireland to call for international help.

To sum up, we can state that the current crisis has different roots and causes. Nevertheless, the main issue in this context still remains the huge indebtedness of several countries of the euro zone. According to Setty and Dodd (2003), a crucial indicator for rating the credibility of countries is i. a. indebtedness, monetary stability as well as liquidity. Facing a rising level of debt, the height of interest rates and thus the role of rating agencies become more and more crucial. Due to this fact, we investigate in the next paragraph the role of rating agencies in the euro crisis and in the financial system in general.

### 4.4 Excursus: Rating Agencies, a shadow Player with huge Impact

A main contributor and still an often unspecified player in the euro crisis or rather the whole financial system are rating agencies. In order to explain their special role in the crisis we decided to include this paragraph about rating agencies.

Rating agencies are private companies who earn money by evaluating the creditworthiness of a debtor by a team of analysts (Setty and Dodd 2003). The task of rating agencies is to ‘express opinions about the ability and willingness of an issuer, such as a corporation, state or city government, to meet its financial obligations in accordance with the terms of those obligations. Credit ratings are also opinions about the credit quality of an issue, such as a bond or other debt obligation, and the relative likelihood that it may default’ (Standard & Poors 2011). In other words, based on the probability of default, rating agencies create a scale to determine to what extent a government is able to refund its debts. Therefore, a low probability of default leads to a higher and better grade in the ranking. Due to the fact, that the height of an interest rate reflects the risk that the creditor can lose money, the ranking determines the height of the interest rate of a loan. For instance, if a country has a good ranking it has to pay less interest than a country with a bad ranking. (Borrus et al. 2002, Favero and Missale 2010) There are three major agencies, Standard and Poors, Fitch Ratings and Moody’s Investor Services and some small agencies which cannot compete with the three major agencies.
In order to explain the ranking we mentioned above, we exemplarily use the rating scale of Standard & Poor’s (S&P’s). Regarding the scales of the two other major agencies, we can state that the notations are very similar. Using the S&P’s ranking system, AAA symbolizes the best creditworthiness while, D stands for the weakest. The ranking system is based on the gradation of the alphabet whereas for example an AAA reflects relatively lower credit risk compared to an AA credit ranking. For instance A stands for a ‘strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances’, whereby BBB only convey ‘adequate capacity to meet financial commitments, but more subject to adverse economic conditions’ (Standard & Poor’s 2011). To be more specified and to clarify a relative distinction between two similar assets, the ratings between AA and CCC can be altered with a plus or a minus. Regarding TABLE 1, we can also mention that the ranking can be roughly divided into investment grade and speculative grade. The ranking is used by investors, to categorize and evaluate an asset in an easy way if it is creditworthy or not. As a result of the distinction in investment grade and speculative grade, there might be a black and white thinking. Thus, devaluation from BBB- to the one step lower BB+ might have long-range consequences because this implies a change from investment grade to speculative grade (Standard & Poors 2011, Setty and Dodd 2003). As a result of this development a lot of institutions and investors like insurance institutions or pension funds invest only in investment grade (Welfens 2010). Because of their management policy, a downgrade from investment grade to speculative grade often leads to an obligatory sale (Hawley and Walker 1993, Naspa 2011).
### Opinions Reflected by S&P’s Ratings

<table>
<thead>
<tr>
<th>Investment Grade</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>‘AAA’</td>
<td>Extremely strong capacity to meet financial commitments, Highest Rating</td>
</tr>
<tr>
<td>‘AA’</td>
<td>Very strong capacity to meet financial commitments</td>
</tr>
<tr>
<td>‘A’</td>
<td>Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances</td>
</tr>
<tr>
<td>‘BBB’</td>
<td>Adequate capacity to meet financial commitments, but more subject to adverse economic conditions</td>
</tr>
<tr>
<td>‘BBB-‘</td>
<td>Considered lowest investment grade by market participants</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Speculative Grade</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>‘BB+’</td>
<td>Considered highest speculative grade by market participants</td>
</tr>
<tr>
<td>‘BB’</td>
<td>Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions</td>
</tr>
<tr>
<td>‘B’</td>
<td>More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments</td>
</tr>
<tr>
<td>‘CCC’</td>
<td>Currently vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments</td>
</tr>
<tr>
<td>‘CC’</td>
<td>Currently highly vulnerable</td>
</tr>
<tr>
<td>‘C’</td>
<td>A bankruptcy petition has been filed on similar action taken, but payments of financial commitments are continued</td>
</tr>
<tr>
<td>‘D’</td>
<td>Payment default on financial commitments</td>
</tr>
</tbody>
</table>

Table 4.1: S&P’s Rating Webpage
Source: Standard & Poor’s
*Ratings from AA to CCC may be modified by the addition of a plus + or minus - sign to show relative standing within the major rating categories*
After clarifying the task and the ranking of rating agencies, we go on now with the utility of rating agencies and the high influence an agency can have on the financial market. Because of the impression that the world is getting more complex and fast-changing, also the financial system seems to become more sophisticated. Due to their expertise and their actuality of information, rating agencies are very useful as a decision support for investors in this complex world. Providing a profound knowledge about the markets, agencies additionally simplify difficult processes to one single notation. In their decision making they integrate a huge amount of risks and aspects, like political risk, economic structure, growth prospects, fiscal flexibility, and debts (Setty and Dodd 2003).

As stated above, the ranking and the analysis have a major impact on the height of the interest rate a debtor has to pay (Borrus et al. 2002, Voigt 2010). Because of the high influence of the rating agencies and their uniqueness of expertise as well as their oligopoly-like market position, the perception of any kind of debt is mainly based on their analysis and results. The danger of rating agencies is that they claim themselves only as advisers but have often a big impact on investments and economy (Setty and Dodd 2003). For instance Voigt (2010) states, that ‘investors are addicted to rating agencies’ (Voigt 2010). Due to the high influence of rating agencies, they are often blamed to accelerate current trends. Especially in a crisis, the influence of the rating has long-range consequences for the whole process (Voigt 2010). Hence, a possible downgrading of the creditworthiness of a country leads probably to a higher interest rate which results in an increasing burden of debts. As an outcome of these rising debts, a worsening of the rating might follow. This vicious circle can be observed by the current situation of Greece.

As we stated above, rating agencies are paid by the debtors to get a rating. Therefore, another problem of these rating agencies might be their principal agent relationship. These interdependencies between agency and debtor might be perceived as an interest conflict between the objectivity of the assessment and customer satisfaction. (Labaton 2009) We can conclude that rating agencies play a major role in the financial system. They are an important part for the investors of today, to facilitate their investment decisions. As a result, they have a huge impact and are sometimes not only advisers but rather the crucial factor in the decision making process. Furthermore, we can state that the rating process and mechanism are not observable for externs. This leads to a minor level of transparency and might lead to a loss of confidence. Nevertheless, rating agencies remain essential for all kind of investment decisions.

Summing up this chapter, we draw a selected timeline about the main events of the crisis, from October 2009 until the end of February 2011. Examining the causes and background of the euro crisis, it turns out that there are different issues. Therefore, we investigate different angles for
instance the role of competitiveness, indebtedness, policy of the ECB as well as the angle that the euro crisis is seen as a banking crisis. Furthermore, we illustrate the special case of Ireland in comparison to Greece, Spain, Italy and Portugal. The latter section in this chapter is dedicated to the influence of rating agencies.

Considering the question if the euro crisis is a debt crisis, we can conclude that the current crisis is shaped by several causes, factors, and characteristics. Hence, in our opinion the crisis is an accumulation of debt-, competitive-, financial-, and political-related issues. Due to this multilayeredness, it is a challenge to gain a full understanding of the euro crisis. Thus, one intention of this chapter is to reduce the complexity of this theme by presenting selected key issues of the euro crisis. Beside the purpose to provide a general understanding, another issue of this chapter is to stress the character and the dimension of this crisis. As we mentioned in chapter 3, a crisis of today becomes increasingly transboundary. So, a further intention of this chapter is to convey an impression about how a transboundary crisis can look like. Latter is shaped i. a. by high complexity, uncertainty, as well as a high degree of speed and dynamic. (Boin & Ekengren 2009) Hence, pointing out the causes and circumstances, as well as different angles, issues, and challenges, we also want describe transboundary crises by the example of the euro crisis. Furthermore, regarding our findings in chapter 3, the change of crises to more trans-border crises requires also a change in leadership. Consequently, there is also a need for crisis leadership in the euro crisis. Regarding this necessity, the following chapter investigates the leadership aspect in the euro crisis.
5 LEADERSHIP OF GERMANY IN THE EURO CRISIS

This chapter shall provide knowledge about the leadership of Germany in the euro crisis. First of all, in this chapter we will clarify the issue of factors which might determine the German behavior in the euro crisis which serves as a basis for a further understanding of the leadership during the crisis and justify the choice of Germany. Therefore, we point out the German attitude towards the euro as a common currency and hence also towards the construct of the euro zone. Besides, in this chapter we also reflect a possible impact of the euro crisis on Germany and examine how the euro crisis is experienced and perceived. Moreover, due to the high complexity of the crisis and the purpose of the highest possible objectivity, we investigate and explain the German leadership style from different angles. Based on these categories, we separately examine the German leadership and evaluate it on the basis of the findings of chapter 3.

The main reason why we examine Germany’s leadership in the euro crisis depends mainly on the perception that currently Germany seems to be the economical and also political power in the euro zone. The real source of Germany’s current political clout is that it’s the spider in the web that holds Europe’s single currency together. Decisions on whether the economies of Greece, Ireland, Portugal, and Spain survive or collapse—indeed, decisions about the future of the euro itself—are made in Berlin more than ever’ (Theil 2011) Based on this statement, it seems to be that Germany is in a powerful position, from a economical perspective as well as from an political perspective. The German economy has currently the highest growth rate, 3.5% of GDP in 2010 (OECD 2011a), of all Western states (Mayer 2010). Additionally, the unemployment rate is at the lowest level since 19 years (Theil 2011). The exports are booming and the German economy is currently as strong as it was not for a long time. Also the future outlook regarding budget deficit, economic growth as well as unemployment rate is rather positive. In comparison, the second strongest economy in the euro zone, France, had 2010 a growth rate of 1.6% of GDP (OECD 2011b). Therefore, Germany from an economical point of view is perceived in a leading position in the euro zone. As Daniel Gros, the director of the Centrum for European Policy Studies (in Kulish 2010), states, Germany has to take the leaders role, ‘they are the only ones with deep enough pockets’ (Kulish 2010). Beside the currently strongest economical position in Europe, also the AAA rating of Germany is the most reliable of the euro zone which can be interpreted as a high level of creditworthiness and trustworthiness at the financial markets (Theil 2011). Hence, considering financial help or guarantees, vulnerable countries like Greece or Ireland are highly dependent on the decisions made by the German government.
As we stated in chapter 4, the financial markets have a huge impact on the indebtedness of GIIPS. Thus, the German creditworthiness has a calming effect on the financial markets regarding the euro zone (Kulish 2010). Because of the need for financial stability in the euro zone, decisions made by the Germany government have a huge effect on all the countries of the euro zone. Due to that reason, Germany might be seen not only as an economic leader but also as a political leader. This can be underlined by the fact that the German Chancellor Angela Merkel coordinates upon the way forward for the help of Greece (Proissl 2010). Another example is the meeting between Angela Merkel and the European Commission President José Manuel Barroso about a long term solution approach for the euro crisis (Beeseley 2011, Brown 2011).

According to the fact that Germany is the biggest contributor to the bailout of Greece and to the permanent euro rescue plan (Donovan et al 2010, Parkin 2010), we can link this to the well known proverb: ‘money makes the world go round’. Also regarding this principle, Germany is in a political powerful position and is able to influence the decision making process in the euro zone as reward for the payment of the rescue package (Bittner 2010, Traynor 2010).

To sum up, we can claim that Germany basically has the requirements to lead the countries of the euro zone. Due to its strong position, there are widespread expectations that Germany fulfills this role as a leader. (Schuman 2010, Steinmeier and Steinbrück 2010)

Following this investigation of the expectation if Germany should lead in the euro crisis, we want to illustrate in chapter 5 the issue if and how Germany discharges the expected leadership. However initially, we intend to scrutinize the meaning of the euro for Germany to explain the reactions and positioning of Germany during the crisis.

5.1 Germany and the Euro as a Currency

In order to investigate the relationship between Germany, the Germans, and the euro, we also have to consider the introduction of the euro because it influences how the Germans perceive the euro. According to Joffe (2010), the German reunification was tied to the agreement that Germany gives up the strong Deutsche Mark and introduces the euro (Joffe 2010). Otherwise France would not have confirmed the permission to reunite Germany. The intention was to bind Germany and its power closer to Europe (Morisse-Schilbach 2010, Joffe 2010). That perception might imply that the Germans did not want the Euro and the introduction was only a political decision (Barysch 2010). This impression is enhanced by Sinn (2010), who states that Germany suffered a period of stagnation because of the introduction of the euro. Hence, the euro in general was not as beneficial for the German people as it was promised by their politicians (Peterson 2011, cited in Theil 2011).
Additionally, a lot of Germans preferred the Deutschmark because of the high stability. Regarding latter one, Germans also expected the same from the euro. (Barysch 2010)

On the other side, Germany has always been an export-related economy (Stancil 2010, Statistisches Bundesamt Deutschland 2011b). Therefore, the world trade, but especially the inner-European trade, was facilitated by the introduction of the euro because of a risen stability and the absence of exchange costs (Sinn 2010). Furthermore, as we already stated in chapter 4, with the introduction of the euro, other euro zone countries are not able to devaluate their currency to strengthen their competitiveness compared to Germany (Barysch 2010, Dadush 2010). For instance, in 2010 60% of Germany's exports went to countries of the European Union, whereas the countries of the euro zone like France, the Netherlands, Italy and Belgium made up the largest part (Statistisches Bundesamt Deutschland 2011a). Due to this fact, we can state that the euro is important for the German economy (Wolf 2010). A further aspect is that during the introduction of the euro, the then German chancellor Helmut Kohl ignored the fact that most Germans did not want to give up the Deutschmark for the euro. For him, his neighbours’ consent to reunification weighed more heavily than domestic sentiment. (Barysch 2010, p. 4)

As a result, the introduction of the euro in Germany was a political decision and not totally accepted by the population.

To sum up, we can state that the euro has a high positive influence on the German economy. Thus, Germany and its success are highly interrelated with the whole euro zone. Besides, there are still tendencies in the German population which reject the euro. After clarifying the relationship between Germany and the euro, we go on now with the examination of how Germany is affected by the crisis.

5.2 Germany affected by the Euro Crisis

Like we mentioned above, it is crucial to investigate the issue if and how Germany is affected by the crisis. A different perception of the euro crisis and its urgency might have an influence on the willingness to take action and to lead, because facing reality is a crucial factor in leading in a crisis. (Klann 2003) For instance, a society which does not note the urgency or threat of a crisis might be unwilling to accept future burdens.

As Peterson (in Theil 2011) claims, the average German does not notice the euro crisis as such. Compared to Greece or Ireland, Germany is not affected by hard austerity measures, huge tax raises or over-indebtedness. In the contrary the German economy is growing, unemployment rate is shrinking, and the confidence of the Germans is prospering (Theil 2011, Fool 2010). Moreover,
parts of the German population still show reluctance concerning the euro which might have an influence on the acceptance of a leadership position to save the euro (Sinn 2010).

So we can assume that Germany is not affected directly by the crisis, but in an indirect way. Like we already mentioned above, it is expected that Germany takes responsibility and leadership in the euro crisis. Thus, Germany has to face high political pressure to take charge during the crisis (Traynor 2010). For instance, the French President Nicolas Sarkozy as well as Spain and Italy contacted Merkel and indicated the urgency of the rescue of Greece in May 2010 (Viscusi and Sills 2010).

Beside the foreign policy, also inner German politics might have an influence on how Germany is affected by the crisis. Due to the huge German contribution to the bail out of Greece and the rescue package, the main burden bears on the German taxpayers. Therefore, despite the fact that the German population is not affected direct by the crisis, they are still indirectly involved. (Proissl 2010, Fool 2010)

As mentioned before, a further point is that Germany was and still is highly dependent on the export (Stancil 2010, Statistisches Bundesamt Deutschland 2011b). Thus, all developments in the euro crisis have influence on the exchange rate of the euro and consequently for the exports of the German economy (Dadush 2010).

To conclude, Germany and the German population is not directly affected by the crisis, but it is involved by a lot of indirect factors like political, economical, and social factors. As a result, also the German leadership and the taken actions might be primarily influenced by these three terms. For that reason, we investigate in the following paragraphs the influencing role of political, economical, and social determinants on the German leadership style and also how the German leadership style influences these factors.

5.3 Influencing Factors for the German Leadership

As we mentioned above, the leadership style is determined to a high degree by political, economical, and social issues. Concerning the interdependencies of these points we can assume that the German leadership is shaped by a high complexity. For instance, there might be a conflict of interests between the economy and the population regarding the rescuing of other European countries. In order to reduce this complexity, we decided to investigate the principle of the German leadership style from different angles. As already described, Germany is affected mainly by indirect factors. Therefore, the chosen perspectives we are going to examine are political, economical, and social angles. We are aware of the fact, that beside these three factors other influencing factors exist. Nonetheless, in our opinion the chosen factors cover our research question in a sufficient way. Additionally, due to high complexity we want to keep our investigation as comprehensible as
possible. The aim of this chapter is to justify the choice of the investigated angles and to picture different influences on the German leadership. Moreover, we want to clarify interrelations between political, economical as well as societal issues and provide a deeper understanding of Germany’s leadership from these selected angles. Our findings serve as a basis for the following evaluation of Germany’s leadership style in chapter 5.4.

5.3.1 Political Interrelation

In the following paragraph we investigate which political factors might have a mutual influence on the leadership of Germany and of its chancellor Angela Merkel. We can divide the factors in domestic policy factors and foreign policy factors.

Concerning the domestic policy, in our opinion the most important issue are elections. From the political-related leadership perspective, a stable environment and aspiration for power might be seen as the most crucial issue in politics. Thus, elections are the significant factor in order to sustain political power and stability. Due to the reason that politicians are dependent on elections in order to preserve their power and leading position, this might influence their leadership style. Considering the need for political stability, a possible change of the government might also lead to a change of the leadership direction of a country. For instance, if a new elected government is more Euro-skeptic than the old one, this might be result in an exacerbating of the euro crisis. (The Economist 2010c, Healy et al. 2009)

Another point which can influence the leadership of Germany regarding the domestic policy is the influence of other politicians. This includes on the one hand the coalition and on the other hand the opposition. To enact a political decision, a leader in a democracy usually needs the parliamentarian majority. Therefore, his leadership style might be also influenced by the attempt to get support from the coalition partner and the opposition. (Erlanger 2010)

Beside the domestic policy, also the foreign policy has a mutual impact on the leadership style of Germany. Firstly, Germany is a member of the European Union and as such committed to support other countries. Secondly, Germany is member of the euro zone wherefore Germany is even closer tied to other European nations. Thirdly, Germany as a big country and a strong economy should have a special responsibility based on the principle of solidarity (The Economist 2010a, Spiegel 2010). Fourthly, decisions, for example by the EU, might influence the leadership of Germany.

Beside the political factors, there are also economical factors which can be interrelated with the leadership style of Germany.
5.3.2 Economical Interrelation

As stated above, the success of the German economy is highly dependent on exports. Therefore, the German decisions in the euro crisis can be also related to a protection of the own economy. According to the proverb that you should not bite the hand that feeds you, the interests of the economy might also have an impact on Germany’s leadership. (Morisse-Schilbach 2011)

Another economical factor that might influence the leadership style of Germany during the crisis can be seen in the whole financial sector. According to The Post (2011), financial markets are of profound importance. Without them, probably no country nowadays could exist, because of the need for money (The Post 2011). Following this argumentation, we can deduce that countries should accept the rules of the financial markets. Thus, in order to solve the crisis, the markets have to be stimulated and calmed. To achieve this, leaders should consider the underlying principles in their actions or in their kind of leadership. This impact of the financial markets on leadership is, in fact, passive but significant. (Welfens 2010, The Post 2011) Moreover, banks in Germany, as a part of the financial system, are also highly involved in the real economy by business credits and loans (Sinn 2010). Hence, not only the export might have a huge impact on decision making in Germany, but also the system-relevance of the banks for the German economy can affect the leadership of Germany. Another important economical factor is the influence of rating agencies on leadership whose special role we introduced already in chapter 4.4. As described before, one of the main problems in this crisis is the creditworthiness of some countries. Due to this reason, we also have to consider the impact of the rating and consequently the impact of rating agencies on leadership.

Beside the economical perspective, the third angle which might affect the leadership of Germany is the societal aspect.

5.3.3 Societal Interrelation

Like already described above, elections have a huge influence on political decisions and therefore also for the leadership of Germany. Regarding this issue, the impact of voters on the German leadership is the point we intend to investigate in this paragraph. In this political case, the voters are equaled with the society, which express their position by electing. Of course on the other side, also leadership influences the decisions of the voters. For instance, decisions like the bailout of Greece might be unpopular and shape the opinion and emotions in the society. Following this chain of argumentation, one conclusion might be that German decisions concerning the euro crisis are influenced by opinion, emotions, and needs of the voters. (Barysch 2010, Healy et al. 2009)

Investigating the influence of voters for leadership, one important aspect is to illustrate the issue how voters and their decision making processes are influenced. Based on our interpretation and the statement of Agner Fog (2004), media has a huge influence on how voters perceive political
decisions because ‘the media are supplying the political information that voters base their decisions on’ (Fog 2004, p. 1). We can therefore assume that the German leadership is indirectly influenced by the media. Beside the opinion-forming influence of media, also other factors might influence societal behavior (Barysch 2010) and consequently the leadership of Germany. According to Healy et al. (2009), a further influencing factor for the German decision making is the ‘inability of voters to separate their personal emotions from political cognition’ (Healy et al. 2009, p. 24). One important point concerning this emotional issue, is the population’s expectation of safety (Boin and ‘t Hart 2003). Regarding the current euro crisis, this issue can also be perceived as a need for financial stability and safety.

To conclude, we can state that the German leadership style is influenced by several factors. Moreover, an additional result of this chapter is that each of the analyzed perspectives also consists of further sub dimensions which are also related to each other. As a consequence, it turns out that the euro crisis from a leadership perspective is a complex and multi-layered theme. Thus, it makes sense to categorize the issue and investigate it from different angles in order to reduce this complexity. Furthermore, this chapter illustrates that especially these investigated factors are highly interrelated and therefore determine the leadership of Germany. This justification as well as the deeper understanding of these three angles serves as a basis for the following evaluation of Germany’s leadership in the euro crisis.

5.4 Germany’s Response to the Euro Crisis from a Leadership Perspective

In the last paragraph we investigated the factors which might have an influence on the German leadership style and how the German leadership style might influence political, societal, and economical factors. The following examination is based on the different events of our timeline in chapter 4.1, because these happenings seem to be appropriate for the analysis of the German leadership style. Regarding the basic principle of leadership, we want to stress the point that leadership is mainly about the mutual influence of a leader and his followers. Hence, we examine not only the impact of a leader on his followers but also possible effects of the followers on a leader. Considering the examination of the leadership, we use the theoretical background which we presented in chapter 3. Despite the interrelation and multilayeredness of political, economical as well as societal factors, we intend to examine the leadership issue from these angles. We want to stress that latter ones are not independent from each other, but for a better understanding of our work we want to reduce the complexity. Based on that, the deduced results are combined for an integrated an integrated evaluation. Furthermore, we have to state that not each of the described events of the timeline (chapter 4.1) is worthwhile for the analysis. Thus, in the following we use only extractions of the timeline which are valuable.
5.4.1 German Leadership and its Relation to Politics

Considering the political relation to German leadership, we distinguish our investigation in a domestic-related and foreign-related politic view.

The first event we decided to choose to illustrate how politics can influence the German leadership in the euro crisis is, when France confirmed the solidarity of the euro zone for Greece when they were in trouble in December 2009 (Focus 2010). At the same time, the German finance minister showed reluctance to pay the debts of Greece (Gilbert 2009, Batzoglu and Höges 2009). The clear pro-positioning of France can be interpreted as a sign of solidarity and commitment. However, the German reluctance symbolizes the opposite. Moreover, the contrary attitude in this case might also increase pressure on Germany. Based on our findings, from a leadership perspective we can deduce a lesser degree of solidarity and contradicts the crisis leadership principle of caring which we introduced in chapter 3. Stressing the positioning of Germany compared to France, this contrast can be seen as reinforcing carelessness and low solidarity. The consequence of the leadership of Germany from a European point of view can enforce uncertainty and contradicts the crisis leadership principle of crisis containment (Morisse-Schilbach 2011, Welfens 2010).

On the other side, the German position can also be investigated from a German domestic policy point of view. Hence, a possible commitment probably would have implied financial burden for the German society. From a leadership point of view, we can relate this clear position in favor of the German taxpayers as caring for the people and establishing trust. As we already stated in chapter 3, both factors are important in effective crisis leadership.

Following the timeline of chapter 4, the next event we want to examine concerns the insistence of José Manuel Barroso, the current President of the European Commission, for helping Greece with its financial problems. However, in February/March 2010 Germany still depicts reluctance (Tagesschau 2010a, Dailymail 2010). From an international point of view, the unchanged attitude of Germany might have an ongoing and enforcing negative impact on the leadership issues of caring, trust and solidarity. Moreover, crisis leadership requires quick actions in order to contain a crisis (Klann 2003, Mitroff 2004). Considering the idea of a strong and united Europe, in our opinion these points can be seen as crucial elements of this idea. As far as we can see, by disregarding these influencing factors, a credible vision of a united Europe is probably less achievable.

However, from a domestic policy point of view of Germany’s leadership, we can state that this attitude towards Greece can be seen as a mean to be perceived as trustworthy and caring by the voters. As mentioned in chapter 3, caring and the establishment of trust are basic key factors in crisis leadership. (Klann 2003, Bennis and Nanus 2007)
In April 2010, the finance ministers of the euro zone agreed on a rescue package for Greece. This turnaround of Germany was mainly influenced by high international pressure (Viscusi and Sills 2010). As we mentioned in chapter 5.3.1, in this context international pressure can have impact on the leadership. From a leadership point of view, the pro-Greece decision implies a sense of facing reality, willingness to contain the crisis and solidarity. These aspects might illustrate that Germany is aware of the risks and the urgency, the need for taking action as well as their commitment as a member of the euro zone. Latter ones are indeed considered as important elements of crisis leadership (Klann 2003, Mitroff 2004). Beside these positive leadership aspects, the transition of Germany on the other side can also be interpreted negatively as a lack of vision and a reduction of trust. According to Bennis and Nanus (2007), establishing trust is one of the most important leadership issues. Thus, showing a direction or communicating a vision is crucial. The significant factor is clearness about the position of the leader. Hence, changing positions can be interpreted as a reinforcement of uncertainty. For that reason, respective the reversal of the German policy, the leadership issue of establishing trust as well as clearness about the vision probably have an impairing effect.

Concerning the domestic policy, the German leadership has also influence on the opposition as well as the parliament. The turnaround of the German position and the lack of communicating this step might lead to a loss of trust in the leadership ability. The shift of a contra-Greece and therefore pro-taxpayer policy to a pro-Greece position might also result into a damage of trustworthiness and vision. (Proissl 2010)

In May 2010, the agreement about the amount of the Greek bailout package, the related austerity measures, and the establishing of a permanent rescue mechanism was determined. (Wall Street Journal 2010, Tagesschau 2010c) These decisions might influence the German leadership style concerning politics as well as vice versa. From a domestic policy point of view, the initial reluctance of Germany to the total bailout of Greece might have been influenced by basic legal restrictions. Because of the fact that every political adoption in Germany must be conform to the constitution, it was not sure if the bailout of Greece would be legal (Poissl 2010). Thus, regarding the scope of the German leadership and the need for quick decisions might be constrained by the Federal Constitutional Court (Peel 2010, Proissl 2010, Barysch 2010). This can result in an uncertainty at the leader as well as at the follower. Secondly, the former reluctance of Germany might have been influenced also by upcoming elections in North Rhine-Westphalia, the biggest federal state (Parkin 2010). However, the decision for the bailout of Greece and the ‘reversal on aid for Greece’ (Parkin 2010) influenced the election in which the governmental party lost its majority. Regarding this electoral defeat, the governmental party lost its majority in the Federal Council which has a tremendous influence on the ability to make decisions. So, the election is influenced by the German
Leadership and also the future leadership is influenced by the elections. (Parkin 2010, The Economist 2010b)

The next event we want to relate to the German leadership related to political issues is when Wolfgang Schäuble, the German Finance Minister, rejected the proposal of Luxembourg to use common government bonds in December 2010. Due to the fact, that this ‘euro-bond’ is created by weak countries as well as strong countries, it would decrease the capital borrowing costs of weak countries and increase the borrowing costs of strong countries. Furthermore, it would help to prevent speculative attacks against the euro as a currency. (Kirschbaum 2010, Dempsey 2010). For instance, the borrowing costs of Germany would raise in the amount of 17 billion. Based on the results of the last election, this decision might be influenced by the voters-driven opinion. (Kirschbaum 2010). As before, from a leadership point of view, we can divide the implications of this decision in a foreign-policy view and a domestic-policy view.

The first one shows again the ambiguity of the German position which implies two possible consequences. Firstly, the zig-zag-course of the German government can create uncertainty and a lack of vision, respectively a weak communication of a vision. Secondly, the further rejection of financial aid might be perceived as a strong negative positioning. The latter can induce in other countries a feeling of absent caring and trust, a weak sense for solidarity as well as difficulties in crisis containment (Kirschbaum 2010, Dempsey 2010). For instance, the veteran chairman of the single currency area’s finance ministers Jean-Claude Juncker states that the German rejection shows a sense of ‘being un-European’ (Dempsey 2010).

However, regarding the domestic policy, the German rejection can be seen as the apprehension of a further loss of power due to the following elections. From a leadership point of view, this decision can be perceived as a try to reestablish trust in the German population as well as to preserve the interests of the German taxpayers (Spiegel Staff 2010).

The next event and its implication for German leadership we want investigate, is the speech of Angela Merkel and Nicolas Sarkozy on the World Economic Forum in Davos when they stated a continuing existence of the Euro and possibilities to overcome the crisis. Both expressed explicitly that the euro as a symbol for a united Europe would never go down. (Merkel 2011, Sarkozy 2011) For instance, Merkel stated: ‘We will therefore defend the euro – there’s no doubt about that’ (Merkel 2011). Regarding domestic as well as a foreign policy, this can be interpreted as a try to establish trust, an attempt to reduce uncertainty and also to show a sense of caring (Klann 2003, Bennis and Nanus 2007). It might be an attempt to show the ability to control the crisis and signal of solidarity. The clear standing for the euro and its future can also be regarded as a symbol for a common European vision. (Dadush et al. 2010, Bennis and Nanus 2007)
Furthermore, in February 2011, Germany and France proposed a pact for competitiveness for the euro zone. Hence, ‘Germany and France were setting out proposals for tighter European economic and fiscal coordination’. (Reuters 2011) Concerning leadership issues, this can be regarded as continuance of the direction, established at World Economic Forum in Davos. Additionally, this long term perspective of the euro zone can also be interpreted as an out-of-the-box thinking and implementation of a direction as well as clear communication of the united Europe vision. (Dadush et al. 2010, Mitroff 2004)

To conclude the political influence on leadership, we can distinguish between foreign policy and domestic policy. Following our investigation of the euro crisis timeline, we can state that in most of the cases the leadership effects of foreign policy and domestic policy are in a contrary relationship. For example, rising financial burdens for the stability of the euro have a positive influence on leadership regarding the foreign perspective but a negative on the domestic or taxpayer’s perception. Especially in this crisis, it seems to be difficult to bridge this paradox and to find a common leadership approach. Beyond that, this contradiction might lead to serious problems because on the one hand Germany is committed to Europe and on the other hand politicians are dependent on the favor of voters. These findings are going to be used as a basis for the total evaluation of Germany’s leadership in chapter 5.4.4. As stated above, in order to reduce the complexity we want to examine Germany’s leadership role form political, economical and societal angels. Thus, following the political perspective, in the next chapter we intend to investigate the German leadership style considering economical issues.

5.4.2 German Leadership and its Relation to Economic

Following the examination of the German leadership style from the political angle, we intend to continue with the economical perspective and its relation to leadership. Based on the timeline of the euro zone in chapter 4.1, we investigate if and to what extent the listed events are related to this issue. As mentioned in chapter 5.3, leadership is a two sided relationship between the leader and the follower. For example, voters can directly influence the leadership style of a country by elections and are mutually influenced by the leader’s decisions. Compared to this example, from the economical perspective the influence of leadership might be more indirect. Especially in the euro crisis, the already vulnerable financial system might have an influence on leadership decisions. Hence, it seems that leadership has more influence on the economy than reverse. However, due to the export relation of Germany the German economy is highly related on its European neighbors as well as on the euro as a common currency. One steadily factor of the euro crisis timeline, which is in our opinion related to economical aspects, is the role of rating agencies. Due to the reason that we are investigating the economical related influence on leadership, beside export and banks, we also want
to illustrate the interrelation between rating agencies and the leadership of Germany in the euro crisis.

According to Welfens (2010), for instance the massive downgrades of Greece would have required quick key decisions of the European governments. As a result of the hesitation of Germany and the postponement of quick key decisions, he claims that the German leadership was inappropriate (Welfens 2010). As we already stated in chapter 4, the euro crisis is highly interrelated with financial markets and as a transboundary crisis, the euro crisis is shaped by a high degree of uncertainty. According to our findings in chapter 3, crisis leadership requires inter alia the establishment of trust in order to reduce uncertainty (Bennis and Nanus 2007, Klann 2003). Therefore in our opinion, leadership should consider the consequences of decisions on the rating of rating agencies as well. This implies that also the decision made by leaders could be influenced by the rating of the rating agencies. For example, other countries are urged to help Greece in order to prevent a further downgrade of rating agencies which probably would worsen the crisis (Horn 2010). This paragraph shows exemplarily the relation between rating agencies and the German leadership. Due to this general issue in the euro crisis, we do not examine each event regarding the special role of rating agencies but rather leave it at that in the current paragraph.

Beside the special role of rating agencies, the general economical issue is going to be examined based on the timeline of chapter 4.1. A further economical issue related to the German leadership is, when Germany agreed after a long time of reluctance to the help for Greece in April 2010. Based on the fact, that German banks are highly involved in Greek government bonds, the hesitation of Germany to bail out Greece lead to a high degree of uncertainty and as a result to an increasing credit risk for the German banking system. Hence, the decision on the financial aid for Greece from the German government had a calming effect on the banking system. Thus, an additional reason for the bailout of Greece might be motivated due to the system relevance of the banks in Germany. (Sinn 2010, New York Times 2010).

The next event which might has an economic relation to the leadership of Germany, is the total bailout of Greece and the simultaneously implementation of austerity measures in May 2010. As already described, the German economy is highly dependent on exports and consequently also on the euro as a common currency. Concerning the total bailout of Greece and the high contribution of Germany, among others the probably most important effect is to calm the markets down and to reduce uncertainty about the future of Greece and also of the euro zone. From a German leadership point of view, this decision might have had a positive effect on the German economy, because ‘letting Greece go bankrupt could send the euro into a tailspin and hurt Germany's own economy’ (Daily Mail 2010). The associated austerity measures which are forced by especially Germany and
France (Willis 2010) may have a long term as well as a short term implication on the German economy. The austerity measures probably lead to a reduced government spending, lower wages, and an increase in productivity in Greece (Dadush et al. 2010). On the long term, this guarantees the stability in the euro zone which is positive for the German export related economy. From a short term perspective the decision of the German government to force Greece to establish austerity measures might have a negative impact on the German economy, because austerity measures cut the Greek government spending. (Dadush et al. 2010) A probable consequence might result in a lower consumption of Greece and therefore a negative impact on the export of Germany. From a leadership point of view, the decisions of Germany might be perceived as the intention to contain the crisis and also to reduce the uncertainty in the markets.

As stated in chapter 5.4.1, a possible issuance of the euro bond would have lead to higher borrowing costs for Germany but on the other side to lower borrowing costs for the vulnerable countries in the euro zone (Favero and Missale 2010). As a consequence, the proposal of Junker in November 2010 was rejected by the German government. From an economical point of view, this might be seen as a negative sign for the financial markets (Favero and Missale 2010). From the perspective of the financial market this rejection might be seen in our opinion as a missed opportunity to contain the crisis and to establish trust in the euro zone. Furthermore, the refusal of the euro bond can also be perceived as an impairment of the European solidarity which can worsen the current uncertainty. In effective crisis leadership one of the tasks is to reduce the uncertainty and contain a crisis, thus this decision of Germany contradicts the principle of crisis leadership (Klann 2003, Boin and Lagadec 2000, Fink 1986).

Concerning the German agreement on the establishment of the permanent rescue fund, statements of Merkel and Sarkozy on the World Economic Forum in Davos as well as the plan for a European competitiveness pact in Winter 2010/2011 is also related to the economical perspective. In our opinion these actions can be perceived as signals of trustworthiness, forming a clear vision, as well as an intention to contain the crisis. Additionally, this behavior might also imply effects of reducing uncertainty and improvement of communication about the future and the vision in the euro zone. Based on our findings of chapter 3, we can conclude that all the recently mentioned aspects of leadership can be perceived as a positive signal for financial markets and the economy.

To conclude, in this chapter we investigated the German leadership related to financial markets, rating agencies, and the German economy in general. According to the relation of leadership and rating agencies, we can state that the German leadership does not influence rating agencies directly, but only in that kind that decisions made by Germany can influence the rating. However, the leadership style of Germany might be influenced by rating agencies. This implies that German
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leaders might consider possible consequences of their decisions concerning the rating. Considering the whole financial sector, we can claim a two sided relationship with the German leadership style. On the one hand, the developments of financial markets probably are influenced by decisions of Germany. On the other hand, processes in financial markets can urge Germany for actions. The export orientation of the German economy might also be seen in a mutual relationship with the German leadership. On one side, the German economy might have an indirect influence on the decisions of Germany. Due to the importance of the export this also has an impact on the international leadership of Germany. On the other side, German decisions considering the progress of the euro crisis, the development of the euro, and the euro zone, probably have an impact on the German economy.

Regarding the German leadership from a general economic perspective, we can mention that the most crucial factors concern about containing the crisis, establishing trust, and reducing the uncertainty. These three mentioned factors will be used as a basis for the evaluation of the German leadership style in chapter 5.4. In the following, we investigate the last issue, how the German leadership is related to societal issues like the voters and taxpayers or the media.

5.4.3 German Leadership and its Relation to societal Issues

In order to complete the investigation of Germany’s leadership regarding our three different issues, go on with the societal perspective. In this perspective, we want to investigate how the German leadership is related to general the sentiment of the German society, the voters and taxpayers, and the role of the media. To illustrate the relation, we choose again different events from our timeline of the euro crisis.

The first event which might be related to societal issues is, when the German Finance Minister Schäuble claimed that Germany cannot pay the debts of Greece in December 2009. This might be influenced by the public opinion because, ‘voters in Germany are in no mood to see their taxpayers money shoveled off to bailout the Greeks […], so there is a limit to how far Merkel can go in using German resources to rescue the rest of Europe’ (Schuman 2010). From a crisis leadership point of view, the reluctance of Germany might be seen as an indicator that the German government knows its audience and its needs (Spiegel Staff 2010). This clear positioning might imply a sense of caring and trust (Bennis and Nanus 2007). Based on our findings of chapter 3 both factors are able to reduce uncertainty in a crisis.

Regarding the maintenance of the German reluctance to bail out Greece in February and March 2010, the societal impact on the German leadership can also be assessed in this case. According to Bennis and Nanus (2007), the establishment of caring and trust has to be developed over a long time. Thus, the hitherto consistent position concerning the bailout of Greece might be seen as an
attempt to achieve this. Moreover, the attitude of the German government can be also interpreted as appreciating the opinion of the German population and as conveying the message of an empowered and participated society.

However, when Germany finally agreed on the amount of the bailout package for Greece, this reversal might have an influence on voters, media, and the emotions of the whole society. Until that moment, the German government was mainly focused on establishing credibility regarding the own society. Due to this turning point in the German policy, this might also have an influence on the German leadership from the societal angle. The political turn from an anti-Greece to a pro-Greece attitude can also be perceived as a contradictory and therefore negative impact on the German crisis leadership. For the voters the credibility and trustworthiness of the German leadership is impaired (Barysch 2010). Moreover, clearness about the German direction seems to be lost which might be perceived as inappropriate leadership. Despite this possible negative influence on leadership, the crucial task is to justify and communicate the changes in the direction (Gioia and Chittipeddi 1991). Therefore, ‘the key challenge for a leader is to manage meaning in such a way that individuals orient themselves to the achievement of desirable ends’ (Smircich and Morgan 1982, p. 262) Regarding this task, the German government was not able to communicate this change of vision and direction (Weiland 2010). Hence, the change of direction, lack of communication, and unclarity about the future direction, might enforce uncertainty in the German population (Weiland 2010).

The relation between the media and leadership are exemplarily expressed by the happenings in April and May 2010, when some media showed a unilateral coverage against the bailout of Greece (Hall 2010, Theil 2011). As we mentioned before, voters have a huge influence on the German leadership (Morisse-Schilbach 2011) and the electoral behavior is influenced by opinions, emotions, and needs of voters (Healy et al. 2009). According to Fog (2004), media influences the opinion and perception of political decisions. Therefore we can state, that the media and their way of coverage have a direct influence on the society. Concerning the lost state election for the governmental party in North-Rhine Westphalia, German politicians claim that this result is highly interrelated by the euro crisis and especially the situation of Greece (Parkin 2010). Hence, the unilateral coverage of some media might have inter alia contributed to this result. To conclude, we can state that media might have indirect influence on German leadership and respectively its perception. However, leaders can influence also the media, for example when Angela Merkel tried to clarify concerns regarding the euro crisis in an interview with the tabloid Bild (Blome and Quoos 2010). As stated in chapter 3, one of the main tasks of a leader during a crisis is communication. This includes inter alia clear and often communication in order to prevent misunderstandings and misinterpretations to contain the crisis. The ability of a leader to handle public media is a further issue which has to be considered in this context. Quick reaction and direct interaction with media can result in a perception of the leader as
the primary source for media. (Klann 2003, Mitroff 2004) In our opinion, the lack of communication with the media might also have had a contribution to the lost election in May 2010. (Weiland 2010)

The last events which can be related to society are, when Angela Merkel proposes the pact for competitiveness and also when Sarkozy and Merkel in Davos declare that they will fully support the continuing existence of the Euro during January and February 2011. Because of the fact that the greatest anxiety of the German population seems to be the financial contribution to stabilize the euro zone (The Economist 2010a), the pact of competitiveness and its implications can be regarded as an attempt to stabilize the euro zone and therefore reduce the uncertainty in the German population. From a leadership point of view, the support for the euro of Merkel and Sarkozy can be interpreted as the attempt for clear positioning and embodiment of a vision of a prospering future of the euro and the euro zone.

To conclude this chapter, we can state that the society, in terms of voters and taxpayers, influences the German decisions in the euro crisis and therefore the German leadership. However, the voters and taxpayers are influenced by emotions and public opinion which is expressed and influenced by the media. Furthermore, leaders also have the chance to influence the voters and taxpayers. But for the most time, this can be achieved by using media as a tool to convey their message. Hence, investigating the German leadership style from a societal point of view, we can claim, that beside leaders, taxpayer and voters, there is a third influencing variable, the media.

Based on the findings of the last three subchapters we intend to reflect in the following the results from the political, economical and societal angle and evaluate the German leadership style in general.

5.4.4 Evaluation of Germany’s Leadership in the Euro Crisis in general

In this chapter we intend to evaluate the leadership of Germany in the euro crisis. In contrary to the paragraphs above, in our evaluation we investigate the leadership during the whole euro crisis. Thus, we treat the timeline of the euro crisis as a single event instead of a sequence of several events in order to be able to create a broad and general picture of Germany’s leadership in the euro crisis. Referred to the often mentioned paradox between the international and national perception of Germany’s leadership, in this paragraph we want to evaluate the German leadership from these two perspectives. Due to the fact that, in a lot of cases the perception of the leadership is contradictory, a consistent appraisal of the German leadership style is hardly possible. The subsequently examination is based on our findings on leadership and crisis leadership in chapter 3. In the following, we start with the evaluation of the German leadership in the euro crisis from an international perspective. Evaluating and describing Germany’s leadership, it is important to know who the audience is and therefore to whom the massages are dedicated to (Aristotle in Kennedy G
A 1991). Referred to the classification in international and national perspective, the audiences for the first category include the international community as well as the German economy and banks in general. Due to the fact, that the German economy and banks act globally, we decided to interpret them as international audience. The audience for the second category includes mainly the German society.

From an international point of view, the reluctance of Germany can be interpreted as a sign of low commitment and thus as less solidarity with the euro zone (Dempsey 2010). It can also be considered as a less sense of caring about the euro zone and its future. Especially from the political point of view, latter one might be interpreted as a lack of vision regarding a unified Europe (Proissl 2010). Hence, a higher uncertainty about the euro crisis in general might be a result. Furthermore, based on these assumptions, the German leadership can also be perceived as poor in containing the crisis. Due to the fact, that this behavior can be observed in several cases, like the bailout of Greece and the rejection of euro bonds, the pattern of the German attitude might reinforce this impression of the German crisis leadership. Considering the principles of effective crisis leadership, which we introduced in chapter 3, establishing trust, signaling sense of caring, and showing solidarity is important to reduce uncertainty. A further important aspect of effective crisis leadership is the containment of the crisis. The latter requires a call for quick reaction in order to prevent the escalation of a crisis (Klann 2003). As a result, the hesitation of Germany to bailout Greece is in a contrary to crisis containment. From an international point of view, comparing the perception of the German behavior with the principles of effective crisis leadership, we can conclude that the leadership of Germany can be evaluated as ineffective.

Another point which might also confirm this conclusion is the repeatedly change of positioning regarding their commitment. Unclear about the position can convey the impression of a missing vision and less sense of solidarity. Latter one is mostly determined by trustworthiness which has to be established over a longer period of time (Bennis and Nanus 2007). By changing position several times, it is barely possible to establish trust and therefore to show a sense of solidarity. Moreover, it is hardly possible to convey a vision. Besides, concerning the sensegiving and sensemaking process, it is a main task of the leader to act authentically and embody his message or vision (Bennis and Nanus 2007, Gardner 1996). Because of the important position of Germany in the euro zone, unclarity and changing of position might also lead to an enforcement of uncertainty in the euro crisis. Since the crisis shows a high urgency, the zic-zac course of the German government might be perceived from an international perspective as a lack in facing the reality. As a result, we can conclude that inter alia, clearness about the positioning, facing reality, and quick decision making are further key elements in effective crisis leadership. Consequently, solely restricted to these points, the German leadership can be seen as unsuccessful crisis leadership.
Leadership of Germany in the Euro Crisis

As we mentioned before the hesitation and the unclarity about the German position can be interpreted as a less sense of solidarity and caring. However, since Germany finally decided to support the bailout of Greece and the permanent rescue mechanism, this contribution can be seen as an expression of solidarity and caring for the euro zone. In our opinion, this attitude and the willingness to protect the euro can also be interpreted that Germany has a vision of a future Europe. This behavior seems to be partly effective crisis leadership. Besides, since the World Economic Forum in Davos and the proposal for a pact of competitiveness in the beginning of 2011, the perception of Germany’s leadership might be changed. Through the symbolic embodiment and positioning, a clear vision is communicated and a future direction out of the crisis is shown. Thus, uncertainty about the euro crisis decreases, which might result in a containment of the crisis. Especially the shared vision of the two most important countries in the euro zone, France and Germany, can be perceived as a sign of European solidarity as well as unity and therefore as a basis for trust. Using our previous findings about crisis in chapter 3, we can conclude, that the key elements of communicating, having a clear vision, and caring and trust is fulfilled to a high extent. Additionally, this new direction, out-of-the-box thinking, and future oriented positioning can be perceived as a pro-active way to solve the crisis. According to Mitroff (2004), being one step ahead of the crisis is a crucial principle of crisis leadership. To sum up, we can conclude, with reference to this change of leadership, Germany’s leadership in the euro crisis has improved.

In the contrary to the international perception of Germany’s leadership, from national point of view, the clear positioning against Greece and the aversion for financial aid might also imply other leadership issues. This contains clearness about the direction of Germany, which can lead to an establishing of caring and trust. The perception of the latter mentioned aspects might be enforced by the attitude during the beginning of the crisis. Considered from this point of view, the German leadership during the crisis can be, based on our findings of chapter 3, described as effective crisis leadership. However, the frequently mentioned change of positioning might lead to an impairment of trustworthiness and credibility. Furthermore, the permanent reversal in the German leadership can be perceived as a lack of vision. Even though, the German government might have a clear vision, it was not communicated in a proper way. The increase of uncertainty in the society is a possible result. Because of these points should be avoided in effective crisis leadership, the German attitude can be regarded as the opposite. Hence, from a crisis leadership perspective the change of the German position can be described as not effective. This argumentation supports also the point that through the change of position, the German government is not able to establish trust over a longer period of time. According to Bennis and Nanus (2003), the establishment of trust is crucial in effective leadership because trust is important that the followers support the vision. Establishing trust can only be achieved through the success in the past.
The uncertainty about the German position and the hesitation might indicate that the German government has an unwillingness to make hard calls at an expense of the German taxpayer. This can result in less decisiveness and inability to make effective and quick decisions. According to Fink (1986) and Klann (2003), the success to contain the crisis is highly dependent on the capability to make quick and effective decisions. As a consequence, from a leadership point of view, decisiveness as well as the ability and willingness to make hard calls in order to prevent a crisis contagion, are very important. On the other side, according to Aristotle (in Kennedy 1991) knowing the feelings and emotions of the audience is of fundamental importance for a leader to influence his followers. Because of the view of the German population is against financial aid for others (Schumann 2010, Theil 2011), the German government might show a sense of caring for the needs of their audience. Considering the international perception of Germany’s leadership style since the beginning of 2011 there are also similar implications for the national perception due to the World Economic Forum and the proposal for a pact of competitiveness. As we already mentioned there is a high uncertainty concerning the euro crisis in general in the German society. Based on the assumption that the most crucial factor for people in Germany is the risk of further financial support (Schumann 2010, Theil 2011), clearness about the direction of German leadership can be perceived as a decrease in uncertainty concerning the risk of further burdens. This strong positioning might imply on the long term a proper vision of stability, growth, and financial security. Hence, this symbolic positioning and the communication of the vision have a huge impact on decreasing uncertainty and can be seen as an attempt to contain and solve the crisis. To conclude, from a national point of view, the German leadership in that case seems to be convenient crisis leadership.

To sum up chapter 5, we can conclude, that on the first appearance Germany seems to be the most promising candidate as a leader in the euro crisis. Its large population, as well as economical and political importance in the euro zone underlines this assumption. Especially the economical and thus the financial power is a crucial factor considering the extent and the manifestation of the euro crisis. The role of indebtedness, the impact of financial markets and rating agencies, as well as the billions of euro in the rescue packages support this proposition. Even the second largest economy in the euro zone, France, struggles with financial and economical challenges. Hence, also several experts, politicians as well as media support and urge Germany to accept the leader’s position and thus its inherent duty.

Accepting this important position and the associated responsibility, it arises also the question of how Germany as such is positioned towards the euro and how it perceives the current crisis. Regarding the first issue, we can deduce two different angles. From the societal view, we can conclude that the German population cannot be described as full supporters of the euro. Since its introduction more
than ten years ago, Germany had to face a persistent status of stagnation which did not contribute to the acceptance of the euro. From an economical point of view, the introduction of the euro was and still is of high importance for the export-related German economy. Especially the trading partners within the euro zone and the common currency are essential. Thus, supporting the general idea of the euro and the euro zone was and is not fully committed. Considering the issue of how Germany is affected by the crisis and how it is perceived, we can also impute high relevance of analyzing and evaluating Germany’s leadership in the euro crisis. The average German citizen does not recognize great impacts, neither the economy. Quite the contrary is the case, when over and over new information about the current and expected economic growth positively surprise experts. For instance, comparing the situation with Greece, Germany neither has to face high indebtedness or austerity measures. So, from these perspectives we cannot deduce great and direct impacts of the euro crisis in Germany. However, the rising challenges in other countries and the threat for the whole euro zone probably has an impact in Germany. The possible collapse of the euro zone would likely offset the accompanied economical advantages. Furthermore, solidarity, responsibility as well as international political pressure to act, might be indirect effects of the euro crisis on Germany’s leadership. As it turns out, distinct key factors which might have an influence on Germany’s leadership, occurred persistently when we examined the relation between Germany and the euro crisis. Hence, we can narrow down and distinguish three separate factors: political, economical as well as societal. Each of these key factors has a great influence on the German leadership in the euro crisis and the investigation from different angles provides a broader perspective and rises the degree of objectivity. The findings of each angle are composed to a big picture in order to deduce a general evaluation.

Evaluating the leadership style of Germany in the euro crisis in general, we can conclude that a definite assessment is hardly possible. As it turns out, the Germany’s leadership is shaped by a high degree of complexity, a lot of paradoxes and contradictions. Thus, in our opinion, an objective evaluation requires a profound knowledge about the background and the circumstances of the different decisions. This includes on the one hand the responsibility for Europe as well as for the euro zone, and on the other hand the liability and task to govern a whole country. For instance, decisions to show solidarity, trust, and carrying, are perceived positively by the one party, whereas the same issue is regarded negatively by the opposite party. Considering the most classical literature of leadership and crisis leadership, a leader seems to be a single person. In the case of Germany, we have to stress the point, that Germany as a country can be perceived as a huge organization. Due to the fact, that the evaluation of its leadership is based on the assumptions of such literature, it is essential to mind this issue. Nonetheless, we can conclude the German leadership in the euro crisis is mainly shaped by a lot of changes of directions. In our opinion, this is reasoned by the attempt to
combine the national with the international responsibility. Hence, both issues take place and determine Germany’s leadership in the euro crisis and the evaluation depends on the chosen angle. On the one hand, its leadership style seems to prevent the German and the population’s interest. Hesitating to bail out Greece and the demand for austerity measures are only a few instances. Hence, considering the national responsibility, we can conclude that the German leadership style was appropriate. On the other hand, Germany’s leadership was also shaped by a commitment for Europe and the euro zone. Despite all hesitations and defending national interests, the German government after all shows solidarity and a sense of caring for the euro and its community. As a result, also from an international point of view, the German leadership style in general can be described as sufficient. Regarding the changing positions, we can conclude that it is mostly ineffective. From a national, as well as from an international perspective, this zig-zag-course has a negative impact on leadership key issues like reducing uncertainty, establishing trust, and establishing a clear vision. Hence, in that case the leadership of Germany in the euro crisis is inappropriate. However, according to Gioia and Chittipeddi (1991) changing of directions or position is not necessarily bad leadership but it has to be communicated. The Latter is essentially for the sensegiving as well as for the sensemaking process and therefore for the acceptance of the followers. Considering the issue of communication, we can conclude that the leadership was also unsuccessful. Minding the numerous decisions of the German government, national as well as international reactions were predominantly shaped by a lack of understanding and created meaning. In the end, we can assume, that the communication, and therefore sensemaking and sensegiving of leadership decisions in the euro crisis can be described as less efficient and appropriate.
6 CLOSURE

In this last chapter we are going to conclude our previous findings and relate them to the research issue we mentioned in the first chapter. Besides, we are going to illustrate further findings of our research that are not covered by the research question. Based on our research findings we also intend to give suggestions for future research areas related to our research issue. Moreover, we are also going to give a further outlook as well as we want to depict future directions in the euro crisis. This entails worst case scenarios as well as positive opportunities in the euro crisis. To sum up, the following paragraph serves as the closure of our thesis and intends to complete our thoughts.

6.1 Conclusion

In this thesis the euro crisis and the leadership of Germany during the crisis is investigated. In this work we found out that crisis leadership seems to be a special form of leadership. Based on our theoretical literature crisis leadership depends on a few influencing factors. Hence, crisis leadership mainly depends on key elements of leadership like creating a vision, communicating as well as the establishment of caring and trust. These factors are enhanced by issues which are related to the high degree of uncertainty, complexity, and threat in a crisis. Thus, in a crisis situation like the euro crisis, a leader should also be able to make quick decisions, he has to face reality, and prevent a further escalation and contagiousness of the crisis. Additionally, a leader should not only be able to make quick decisions, but also should embody the capability for hard calls. Especially the euro crisis as an example for transboundary crisis seems to be appropriate to investigate crisis leadership. This crisis affects a lot of countries with large population, a huge number of actors are involved, and there are high economic costs. Furthermore, a transboundary crisis is also shaped by difficulties between the different parties and by the snowball-like dynamic.

Because of the euro crisis seems to be a good example of a transboundary crisis, an additional point which was investigated in this work, are the main causes and the background which could lead to such a worse crisis like the actual one. By investigating these issues, we intend to build a broad picture to explain the leadership aspect in a crisis and the euro crisis in general. In this work, it emerged that the main causes for the worse extent of the crisis can be identified as rooted in the excessive government spending and the high level of public deficit of several countries of the euro zone. Furthermore, also a reason which is identified in this work, is grounded in the different economic requirements and in the absence of a common economic government in the euro zone. A further finding as a reason for the worse extent of the current crisis, are the interdependencies
between the public and the private sector, especially the interrelation between governments’ debts and the banking sector. Due to the fact, that several banks are engaged in government bonds, a bankruptcy of a country would have tremendous impact on the financial and consequently for the whole economical sector. Beside the banking system, a further financial actor turned out to be the rating agencies. Because of the vicious circle of over indebtedness, rising interest rates, and consequently a worsening of the creditworthiness of a country, rating agencies seem to have a huge impact and power, expressed by their rating decisions. As a result of the high indebtedness of several countries, even before the acute crisis stage, several researchers claim that the euro crisis was predictable and hence avoidable (Welfens 2010). Regarding the extent and the threat of the crisis, the question arises how the euro crisis can be handled. With reference to the incentive and the capability to take over the lead in the crisis, our decision for Germany was reasoned due to its economical and therefore political power. Thus, how is Germany’s leadership perceived in the euro crisis?

In order to investigate this question and since our intention is to be as objective as possible in our work, we examined the issue from different angles. Based on our findings, it turned out that mainly political, economical as well as societal factors influence the German leadership style in the euro crisis. Concerning the political perspective, it emerged that there is a huge contrast between national and international perception. The latter one is mainly expressed by financial aid, whereas the first one generally depicts the view of taxpayers who are charged for that additional burden. With reference to the economical influence on Germany’s leadership, we can state that there is an indirect influence due to the high importance of the euro zone for the German economy. Additionally, the societal influence on the leadership implies the fact that in this case decisions are highly influenced by outcome of political elections and therefore by the opinion and emotions of the Germany taxpayers. As a result of this complexity, the German leadership style cannot be simply categorized as good or bad, it depends rather on the angle it is perceived from. However, we can state that one clear pattern evolved. Broadly perceived, the leadership of Germany is denoted by a continual change of position between international solidarity as well as domestic policy concerns. Regarding this aspect, the leadership of Germany in the euro crisis cannot be denoted as effective crisis leadership. Nevertheless, changes in the directions of a leader do not have to be necessarily weak. It depends mainly on how it is communicated in order to create meaning. Also from this point of view, the German leadership can be described as not effective. However, during the process of the euro crisis a further finding is that the Germany leadership tends to pursuit a clearer positioning which results in an improvement of communicating, establishing of trust, and providing a clear vision. Thus, the German leadership can also be described as increasingly appropriate.
As a result, we can state that the perception of Germany’s leadership during the euro crisis depends on the different angles and points of view. Moreover, Germany tries to fulfill its several expectations, responsibilities, and is willing to please everybody. Hence, we claim Germany’s leadership in the euro crisis can be denoted as “multi-dimensional” crisis leadership.

6.2 Future Research

The following paragraph is dedicated to the future of leadership research. As we already emphasized in our work, we can observe a change in the worldwide environment due to globalization and international interconnection. Consequently, from a crisis leadership point of view, there is not only a shift in the character of a crisis like the transfer to a transboundary crisis, but we can also notice a change in composition of the audience. Based on the example of the euro crisis, one can argue that leadership in a transboundary crisis implies also that the audience becomes more and more multilayered. A future research might consist in the challenge how a leader can achieve support and give sense despite the possible and probable different thinking of a heterogeneous audience.

Hence, it might be also worthwhile to investigate the general issue of bridging the paradox of combining contradictions. According to Bennis and Nanus (2007), creating a vision is probably the most powerful way to pursue led to follow. If there are diverse audiences which expresses different meanings and interests, the leader should provide a vision which fits to all of them. Besides, the vision also the communication of latter is crucial in that case. Thus, two questions arise: Firstly, how to choose an appropriate vision and secondly, how to communicate? Due to the heterogeneity, a split and contradictionary audience exacerbates the challenge for a leader to convey his message and create meaning to all the people. Especially in situations when the legitimization of a leader is based on elections of the followers, from a researcher’s point of view it is enriching to examine how the leader deals with this dependence and how he can sustain his position and power. Consequently, based on this issue, it might be also valuable to enlighten the point in the circumstances of a crisis. Leadership in a crisis often requires the ability to make hard calls, facing reality, and decisiveness. Therefore, an elected leader is affected in his actions if he has to make unpopular decisions in a crisis. Hence, future research also implies the issue of giving concrete and practicable answers to the question how to lead effectively especially in a transboundary crisis without losing trustworthiness and the support of the followers.

A further point which might be also investigated in the future, concerns the further development of our study. Since findings are mainly based on theoretical research, it might be worthwhile to regard this issue from an analytical point of view. In detail, this implies surveys in societies, politics, and in the economic sector. These surveys include a huge amount of data, manpower, time, money, and IT capacity. Furthermore, the three angels we investigated in our thesis can be deepened by establishing
sub dimensions, for example the classification of the society in different social classes or
distinguishes the economy in different branches or regions.

The last point we want to mention, which might be profitable to regard more in detail, might be the
containment of a crisis. We already illustrated that the crisis of the future is borderless and
transboundary, thus the containment of a crisis is more and more important. This induces on the
one hand mechanisms to prevent crisis and detect signals and on the other hand the development of
crisis leadership skills in a pre-crisis stage.

6.3 Possible Future Outlook

This last paragraph provides the reader with some possible scenarios about the further development
of the euro crisis and the euro zone in general. By doing so, we want to complement our thesis,
enlarging, and enriching it. Following the illustration of the leadership in the euro crisis, we go on
now by possible implications for the future. As we already mentioned in our work, the crisis is still
ongoing, hence we assume that the status quo of the euro zone will not sustain and the community
is located at a crossroad. There are two possible tendencies regarding the outcome of the euro crisis.
The first one shows in the direction of a break-up of the euro zone, and the second one results in a
tighter consolidation of the euro zone. Concerning the first one, we assume that it is possible that a
country leaves the euro zone if it is not suitable to purchase a continuance in the community with an
excessive price or if it might be better for the country itself. Hence, a possible exit of a country from
the euro zone entails positive as well as negative consequences. Regarding the positive aspect, a
country could reestablish its economical, political, and financial independence and could also reuse
the instrument of a devaluation to gain more competitiveness and thus strengthen the domestic
economy (Starbatty 2010, The Economist 2010d). Hence, from economical point of view, leaving
the euro zone might be a worth-considering aspect. Concerning the negative aspects, we also have
to mention that leaving the euro zone results in a loss of trading advantages and a worsening of the
political relations to other countries, because of the withdraw from the common project (Flanders
2010). As a consequence, a possible quit implies political and legal barriers, and financial costs as
well as a loss of synergistic advantages due to a single currency.

One possible country which could leave the euro zone is Germany (Flanders 2010, Starbatty 2010,
The Economist 2010d). Despite the high relevance of a united euro zone and a common currency
for the German economy and thus the low probability of an exit, of Germany there are still voices
which claim that Germany could leave the euro zone. Considering their argumentation a possible
quit of Germany contains financial and fiscal independence and the absence of financial support for
other countries. However, ‘here would be a big upfront financial and an economic cost of Germany
leaving the single currency- not to mention an enormous political price for walking away from a
Considering the pros and cons of an exit of the euro zone, we have to conclude that this step is related on the one hand with big opportunities for both, weak as well as strong countries of the euro zone. On the other hand, making such a decision entails a great loss of synergetic effects and costs, monetary as well as non monetary. Furthermore, we also have to stress that the possibility of a leaving of the euro zone has to be investigated from a short term as well as from a long term perspective.

Despite a possible breaking up of the euro zone, a further but opposite scenario concerns the tightening of the euro zone. As we stated in our work, one of the main causes of these crisis is the lack and divergence of competitiveness of several countries and the absence of an economic government. Thus, in our opinion the event of the World Economic Forum 2011 in Davos and the agreement on the pact for competitiveness can be understand as a starting point for conducting effective crisis leadership as well as setting a direction for the future of the euro zone. In our opinion, the pact for competitiveness might be seen as a trigger for economical and fiscal harmonization, better international cooperation, and a structural reform of the euro zone. In our opinion, seen on the long term, this tightens the relationship between the countries and strengthens the power of the euro zone and its currency.

Apart from the scenario of the breakup of the euro zone, we also want to mention a more realistic development of the euro zone. As already stated, several countries of the euro zone face high government debts. Additionally, the financial aid of the euro community as well as drawdown of the rescue parachute increases the indebtedness even more. If it occurs that a country is not able to pay back its interests rates and debts, the debtors have to consider the possibility to abandon a part of their claims. This so called debt restructuring provides a possible financial recovery of the affected country (The Economist 2011a). Regarding the scenario of leaving the euro zone or a debt restructuring, we point out that if there is no other way, leaders also have to consider such tremendous steps. This can also be observed in the beginning of May 2011, when the discussion of these two scenarios regarding Greece was in full swing (Lindsey 2011, Reiermann 2011).

With reference to the further process of the euro crisis, we can conclude that beside Greece, Ireland, and Portugal if no further country gets into serious trouble, the euro zone seems to be headed in the right direction to overcome the crisis. However, if another country, for example Spain, gets vulnerable, this would worsen the crisis and it would be hard to handle (Minder 2010). Nevertheless, according to the rating agency S&P's (in Research Recap 2011) Spain still has a highly credible rating which implies a low probability of default. Moreover, we are aware that the crisis is still ongoing.
Hence, the further development is still unpredictable and unstable. Concerning this point, the crisis could also exacerbate if one of the vulnerable countries, for instance Greece, is not able to pay back its debts. Furthermore, in our opinion, we assume that Germany after a period of hesitation and zizzac course is now aware of its responsibility and has accepted its leadership position in the euro crisis. Anyhow, we want to stress the importance of domestic interests of Germany and thus its impact on the leadership.

Moreover, we identify a clear tendency that despite the current crisis, the euro and joining the euro zone is still attractive. The decided admittance of Estonia to the euro area in 2011 as well as the considerations of Swedish politicians to introduce the euro too, can be interpreted as a positive outlook. (Handelsblatt 2010, The Local 2011) On the other side, the election of Finland in 2011 showed rising skepticism towards the euro when the euro skeptic party gained 19% (Kanter and Saltmarsh 2011). However, this result can also be interpreted that still the majority of the Finnish population supports the euro.

Regarding the current critical situation, it is reasonable that there are also euro skeptic opinions but we assume that the euro zone is a successful construction and we believe that the euro crisis implies also an opportunity for a further development and improvement of the euro zone and the euro as a currency. Comparing the euro with other currencies, we assume that it is a stable currency for the future and will sustain this crisis.
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On 1 January 2010 Växjö University and the University of Kalmar merged to form Linnaeus University. This new university is the product of a will to improve the quality, enhance the appeal and boost the development potential of teaching and research, at the same time as it plays a prominent role in working closely together with local society. Linnaeus University offers an attractive knowledge environment characterised by high quality and a competitive portfolio of skills.

Linnaeus University is a modern, international university with the emphasis on the desire for knowledge, creative thinking and practical innovations. For us, the focus is on proximity to our students, but also on the world around us and the future ahead.

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