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"The role of decision-maker preferences in tenancy selection of CBD office accommodation – preliminary literature review."

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Abstract:

The literature and anecdotal evidence suggests that that there is more to tenancy selection (firm location) than the profit maximisation drive that traditional neo-classical economic location theory suggests.

In the first instance these models assume property markets are rational and perfectly competitive; the CBD office market is clearly neither rational nor perfectly competitive. This fact alone relegates such models to the margins of usefulness for an industry that seeks to satisfy tenant demand in order to optimise returns on capital invested.

Acknowledgment of property market imperfections are universally accepted to the extent that all contemporary texts discuss the lack of a coherent centralised market place and incomplete and poorly disseminated information processes as fundamental inadequacies which characterise the property market inefficiencies. Less well researched are the facets of the market which allow the observer to determine market activity to be significantly irrational.

One such facet is that of 'decision maker preferences'. The decision to locate a business operation at one location as opposed to another seems ostensibly a routine choice based on short, medium and long term business objectives. These objectives are derived from a process of strategic planning by one or more individuals whose goal is held to be to optimise outcomes which benefit the business (and presumably those employed within it). However the decision making processes appear bounded by how firms function, the institutional context in which they operate, as well as by opportunistic behaviour by individual decision makers who allow personal preferences to infiltrate and 'corrupt' the process. In this way, history, culture, geography, as well as institutions all become significant to the extent that these influence and shape individual behaviour which in turn determine the morphology of individual preferences, as well as providing a conduit for them to take effect.

This paper exams historical and current literature on the impact of individual behaviour in the decision making process within organisations as a precursor to an investigation of the tenancy decision making process within the CBD office market. Literature on the topic falls within a number of research disciplines, philosophy, psychology and economics to name a few. Here, the

author limits the review to writings which fall within the remit of *strategic management and strategic leadership theory*. Subsequent reviews will explore other areas to complete the picture.

Keywords: decision making, behavioural economics, organisation economics, strategic management, opportunistic behaviour, bounded rationality, transaction cost economics, agency theory.

Introduction

Neo-classical economic research which seek to model the process by which organisations choose to establish their business operations, assume that markets are both *rational* and *perfectly competitive* and those firms make decisions based upon their unwavering determination to *maximise profits*.

The CBD office market is clearly *neither rational nor perfectly competitive*. Similarly decisions leading to sub-optimal behaviour (Smith 1981) must occur in a market where the vast array of information needed to *'maximise'* is absent (North 1990).

Neo-classical models are therefore of limited use for a proper analysis and understanding of those factors which influence a tenant to select one tenancy in preference to another (firm location).

A more representative model can be created if we *strip away* the competitive and maximising assumptions. The resultant model allows us to take account of a clearly observable characteristic of the decision making process wherein the firm's (individuals or group) decision makers adopt *'strategic behaviour'* in an effort to achieve *'abnormal profits'* (additional advantage) from the selection process. In this way *individuals* within firms (individually or jointly) can exercise (to some degree) *their own preferences and beliefs* even where these may be in conflict with the stated (and agreed) objectives of the organisation. Hence decision makers (individuals or groups) may be seen to adopt *'opportunistic behaviour'* to achieve satisfaction of their own preferences at the expense of the organisation (Ball, Lizieri and MacGregor 1998).

Once *'strategic behaviour'* is imported into the modelling process, other factors, *history, geography, culture, education and institutions* (practices, customs and networks) and in particular *individual behaviour and the institutional context in which decisions are made*, become important to the extent that these influence decision maker preferences and therefore the tenancy selection process. Under these circumstances knowledge and reactions to it (decisions) are *'bounded'* by external and internal conditioning which may limit the number of decisions which can ever be based on the kind of rational maximising criteria assumed under traditional modelling assumptions.

Tenancy selection is just one decision in an array of decisions made by company executives in the course of their tenure. Unlike day to day operational decisions however where a company should locate and the type of accommodation needed is a *strategic* decision. To begin to understand the process therefore requires an understanding of the *'firm' and the strategic management and decision making apparatus which exist and those factors which influence it.* It is to the strategic management literature therefore that we turn to begin our understanding.

The evolution of Strategic Management and Leadership Theory – an Overview

The studies of strategic management and strategic leadership theory have progressed side by side since the early 1960's. Seminal works building on the corporate structure and executive management writings of researchers such as Barnard (1938), by Chandler (1962), Ansoff (1965) and Andrews (1971) provided the foundation for the development of what has become the expanding field of strategic management.

During the same period a number of organisational theories began to emerge. These stressed the influence of the 'situation' (the context in which the decision is made) as a determinant of

managerial behaviours and organisational outcomes (Thompson, 1967; Jensen and Meckling, 1976; Hannan and Freeman, 1977; Meyer and Rowan, 1977; Williamson, 1979).

The significance of personality and its interface with 'situation' also began to generate thought. Simon, (1945) and Cyert and March, (1963) developed their behavioural perspectives by emphasising internal processes and characteristics such as decision making processes, information processing limitations, power and coalitions, and hierarchical structures. While researchers like Selznick (1957) and Penrose (1959) brought forward the notions of 'distinctive competencies' and leadership as fundamental internal resources needed for corporate growth and diversification.

The early emphasis of strategic management and leadership research focused therefore on events and interactions from inside the corporate 'black box'. The internal strengths and managerial capabilities of firms and how these affected performance were considered paramount.

In an attempt to introduce academic rigour, researchers of the late 1970's and early 1980's began to move away from the normative, 'best practice' approach offered by the likes of Ansoff and Andrews. The mathematical modelling methods of microeconomics provided the impetus and the pursuit of neat scientific theory became the goal. This movement in methodology heralded the era of *industrial organisation economics* .With its emphasis on quantitative methods industrial organisation economics gravitated towards industry structure and competitive position in the industry. The focus at this stage had moved almost exclusively to consider issues outside the 'black box' as analysis of the internal workings of the firm took a backseat to those external issues which lent themselves more readily to the 'new science' and the mathematical modelling it favoured.

While to some the 'new science' seemed incongruous in its dealings with the firm and the human condition which was so much a part of its structure, and which sought rationality where there was none, there were, nonetheless, a number of notable works arising from this era. Probably the most influential was Porter (1980, 1985). Porter developed a structural analytical framework (Five Forces Model) that provided an understanding of the structure of an industry. Using his model he was able to determine that the ability of a firm to gain competitive advantage rests with how well it positions and differentiates itself from its competitors. The concept of competitive advantage and differentiation within an industry was a significant one as it marked a major move away from the microeconomic concept of industry as a homogenous group differentiated only on the basis of market share, and provided the theoretical framework for the concept of heterogenous strategic groupings within an industry.

The strategic groupings concept fitted well a corporate environment typified by rapid economic expansion and the globalisation of world markets which was now well established, at least in the west. It was an environment of developing free markets and intense competition. Under these conditions only those companies whose structures were suitably adaptive and were able to accommodate the 'new competitive dynamics' would survive and prosper. The fact that some firms prospered while other failed in this new environment was testament to the obvious fact that heterogenous strategic groupings within industry was a reality. Porter's work allowed theory to catch-up with reality in a clear and significantly meaningful way.

Competitive dynamics and developing work on boundary relationships between the firm and its environment (Karnani and Wernerfelt , 1985) began to focus strategic management research back to internal firm characteristics – back inside the 'black box' allowing *organisational economic theory* to emerge as the dominant force in organisation research. *Transaction cost analysis* (Williamson, 1975, 1985) and *agency theory* (Jensen and Meckling 1976) were seminal works during this period. These theories examine the firm through a contractual or exchange-based approach and suggest that firms may be viewed as a 'nexus of contracts'. In tandem these theories have been the stimulus for much of the work which has followed; firm boundaries and market hierarchies (Hoskisson, Hill and Kim, 1993), vertical integration and strategic alliances (Kogut,

1988) and corporate governance (Eisenhardt, 1989, Hoskisson and Turk, 1990). Though 25 years have passed since they were first brought to prominence their influence still pervades and they provide fertile ground for contemporary researchers of strategic management (Ooi, 2000*, Managerial opportunism*; Rutledge & Karim, 1999, *self-interest*; Salter & Sharp, 2001, *Agency effects*; Scott, 2002, *Dominant preferences*).

Transaction cost economics and agency theory have refocused research back to the inner workings of the firm. They have allowed researches to revisit the work of pioneers such as Penrose (1959) and have lead to the emergence of the contemporary *resource* and *knowledge-based* views of the firm which have proved fruitful research areas (Kogut and Zander 1992). Furthermore the re-emergence of internal 'black box' issues such as *behaviour*, *relationships*, *leadership styles* and so forth, has brought with it a new acceptance of *qualitative* research methods which has allowed a legitimate expansion of research into real world issues within the firm (Cannella and Monroe, 1997).

Major Theoretical Contributions - a detailed review

Industrial Organisation Theory

Economic theories of the firm, particularly industrial organisation theories (Tirole,1988) have viewed the firm as a profit-maximising production 'black box' with output decisions based on assumptions about human behaviour which largely ignore contemporary psychological research (Wakeley, 1997) and which treat decision makers as an homogenous group of depersonalised profit maximisers (Boone et al, 1998) that behave in exactly the same way when confronted with the same decision environment (Boone et al, 1999).

A failure of industrial organisation theory to take account of the internal workings of the 'black box' and in particular its treatment of decision makers as abstract homogenous profit maximisers render IO theory of limited use in our proposed research. An examination of individual preferences implicitly assumes heterogeneity among decision makers. Without this assumption all tenants, given the same set of conditions, would arrive at the same conclusions regarding their tenancy needs. Were this the case the market would demonstrate considerably less complexity and considerably more predictability that it clearly does.

Organisational EconomicTheory

Organisational theory goes some way to correcting the deficiencies of industrial organisation theory in that it ventures back into the 'black box' in an attempt to understand an organisation's structure and function. Its contribution stems from two principal subset theories; *transaction cost economics* and *agency theory*.

Transaction Costs Economics

Williamson's (1975, 1985) formulation of *transaction costs economics* seeks to explain why organisations exist. The basic premise is that markets and hierarchies are alternative governance mechanisms for completing transactions.

Transaction cost economics establishes a set of assumptions about human behaviour and attributes of transactions that affect dealings between two firms (Hoskisson, Hitt, Wan and Yiu, 1999). The two central behavioural assumptions are *bounded rationality* and *opportunism* (Foss and Koch, 1996); uncertainty, small numbers, and asset specificity are further integral assumptions (Williamson, 1975, 1985). The unit of measure is the firm level transaction wherein the minimisation of transaction costs is the efficient outcome; bounded decisions and opportunistic behaviour by decision makers are held to lead to (high) transaction cost inefficiencies and adverse performance outcomes.

The foundations of the concept of _bounded rationality_ are generally attributed to Herbert Simon (1945) in his seminal work '*Administrative Behaviour'* and developed further in his 1955 paper '*A behavioural theory of rational choice'*.

Traditional microeconomic theory simplifies the decision making process by assuming that a substantially rational choice can be made without cost (Pringle, 1997). Under this assumption economic man is 'unboundedly rational'. This assumption however is clearly unrealistic. Based upon the work of the Carnegie School (Cyert and March, 1963; March and Simon, 1958), the contrary view, the view that decisions in organisations are taken by _boundedly rational_ people has become an integral assumption in the field of organisational economics.

According to the Carnegie School decision makers' rationality is bounded by the limited ability of individuals to process all information relevant for taking decisions in complex environments. In order to cope with this information overload decision makers process only part of the relevant information and filter information according to their own cognitive base. This base comprises assumptions concerning future events, knowledge of alternatives and the consequences of alternatives if acted upon (March and Simon, 1958). An individual's personal cognitive base is formed by their life experiences, including formal training and work experiences. It is argued therefore that a decision maker's perception of, and response to, environmental stimuli will be partly shaped by their individual demography.

In their work towards the formation of upper echelon theory, Hambrick and Mason (1984) demonstrated the potency of demographic variables such as age and gender, and the individual's functional, educational and socio-economic background on the executive team's organisational decisions (Boone, van Olffen and Witteloostuijin, 1998). The upper echelon model determined two classes of managerial characteristics which served to bound the decision making process of managers; one observable, including personal and group dynamic variables, and one psychological, including the individual's cognitive base and values. In combination these are held to shape the strategic choices managers make and ultimately the performance outcomes of the organisation.

The study of _opportunistic behaviour_ has become integral to our understanding of organisational behaviour (Foss and Koch, 1996; Boone and van Witteloostuijin, 1999; Nagin,Rebitzer, Sanders and Taylor, 2002) In particular it holds pre-eminent positions in the areas of agency theory (Jensen & Meckling, 1976: Fama & Jensen, 1983) , work on executive pay and incentives (eg Kunz and Pfaff, 2002), cognitive moral development and intrinsic motivation (Rutledge and Karim, 1999; Kunz and Pfaff, 2002) as well as transaction cost economics.

Models based upon opportunistic behaviour take a cynical view of human nature. In a managerial context they assume managers make decisions which are ultimately self-serving even where these may result in sub-optimal organisational performance outcomes. On occasions these decision may even be in conflict with stated organisational aims and objectives.

Nagin et al, (2002) provide a useful overview of the primary opportunistic models; *the rational cheater model, the conscience model*, and *the impulse control model*. Nagin and his co-authors note that while these models have distinctive empirical predictions they are neither competing nor mutually exclusive explanations of opportunistic behaviour.

Williamson (1985, p.47) described opportunism as '…self-interest seeking with guile.' Lying, stealing and cheating were not considered beyond the remit of opportunistic behaviour among mangers and employees. However more subtle misdemeanours were also consider to be representative of opportunistic, self-serving behaviour; incomplete or distorted disclosure of information, especially where these acts were associated with calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse their principals, shareholders or fellow managers and employees, are held to be equally valid examples of opportunistic behaviour.

While this appears a damning view of human nature, and while opportunistic behaviour remains a central behavioural assumption of organisational economics, Williamson (1981) himself notes that not all economic agents behave in this way. Instead he clearly holds that it is sufficient that *some* agents behave in this fashion for significant transaction cost inefficiencies to arise. Foss and Koch (1996) developed this idea further and observed that the notion of opportunistic behaviour is hard to repudiate because within any organisation it is unlikely that there will be no individuals behaving opportunistically, and secondly, that opportunistic individuals are hard to distinguish from the non-opportunists. This gives principals a dilemma, seek out and remove the opportunist (if they can be found) or allow them to continue with increased corporate governance; either strategy may have significant transaction cost and performance implications.

Agency Theory

Agency theory has emerged as an integral part of the financial economics literature (Jensen & Meckling, 1976: Fama & Jensen, 1983) and has become a key area of research in the area of strategic management over the last two decades (Hoskisson, Hitt, Wan & Yiu, 1999). Primarily drawing on the property rights literature (Alchian & Demsetz, 1972) and transaction cost economics (Williamson 1975, 1985), agency theory posits that due to the separation of ownership and control in modern corporations, there is often a divergence of interests between shareholders (the owners) and managers (the agents of the owners). Similar to transaction cost theory, agency theory assumes that human beings are boundedly rational, self-interested, and opportunistic (Eisenhardt, 1989), and therefore that managers will seek to maximise their own interests even at the expense of the shareholders or non-managing owners.

In terms of organisation theory, the benefit of agency theory to this study, is that it seeks to enter the 'black box' and examine the causes and consequences of agency conflict between owners and managers within organisations. It is held that this conflict may have short to medium term sub-optimal performance outcomes where tenancy selection is based on decision makers' preferences rather than business imperatives.

Strategy researchers have applied agency theory to a number of substantive topics including innovation, corporate governance, and diversification with results that are generally consistent with the prediction of agency theory. In this way managers may, for example, have an incentive to pursue a strategy of diversification especially unrelated diversification, in order to diversify their own employment risk (Hoskisson & Turk 1990) Similarly, because firm size and executive compensation are highly correlated (Tossi & Gomez-Meija, 1989) managers may have an incentive to increase the size of the firm to obtain higher levels of personal remuneration regardless of whether such a decision is ultimately in the best interest of the organisation and the principals.

Work has been done to examine the role of internal and external governance to mitigate agency costs. Board composition (Baysinger, Kosnik and Turk, 1991; Hill and Snell 1988; Zahra and Pearce, 1989), ownership structures (Bethel and Liebeskind,1993; Hill and Snell,1988; Kosnik 1990), and executive compensation (Gomez-Meija, 1994; Hoskisson, Hitt, Turk and Tyler,1989) may be used to mitigate the effects of manager's acting in their own self-interest. External governance mechanisms such as the market become more relevant when internal governance devices are unable to mitigate agency costs (Walsh and Kosnik, 1993; Walsh and Seaward, 1990). However there are no perfect governance devices that fully eliminate agency conflicts and managers often seem able to devise means to reduce the effectiveness of governance devices (Hoskisson, Hitt, Wan & Yiu, 1999).

Agency conflicts may also affect innovation where the manager's own attitude to risk will influence the corporate decision to invest in R&D. This may lead to reduced competitiveness and lower performance.

Kochhar and David (1996) found that firms under institutional ownership tended to invest more in innovation. The authors attribute this to the institutions' ability to ensure that managers

maintain the firm's investment in innovation to enhance competitiveness through strict corporate governance.

Instead of industry structure variables such as market concentration or scale economies that determine firm behaviours and performance as postulated by industrial organisation research, organisational economics see *managerial motives* (opportunism) and *capabilities* (bounded rationality), *information asymmetry*, *contracts enforcement*, *performance evaluation* and *transaction relationships* between the two parties (firms in transaction cost economics, and owners and agents in agency theory) as the main drivers of firm strategy and performance.

A number of researchers have embraced organisational economics over traditional microeconomic analysis on the basis of methodology. Traditional microeconomic analysis of the firm has become increasingly mathematically orientated (Hoskisson, Hitt, Wan & Yiu, 1999; Rumelt et al, 1994) and the move to make research less mathematical and more relevant to actual business has lead strategic management researchers to the filed of organisational economics with its focus on institutional details and human behaviour as exhibited by managers. A similar movement away from a mathematical approach lead early researchers such as Jensen and Meckling (1976) to modify the more mathematical, normative principal-agent theory in favour of the more humanistic approach as exemplified in contemporary positivist agency theory (See Cannella & Monroe 1997 for a broader explanation).

The movement away from the rigorous scientific standard imposed by a mathematically based research method has not however been without its critics. Criticism centres on the significant challenges imposed on both transaction cost theory and agency theory to develop valid empirical research methods to measure the 'unobservables' (such as the key variables of opportunism and the degree of divergent interests) inherent in any humanistic approach to firm analysis (Godfry and Hill, 1995). Hoskisson and Hitt (1990) note that research on the relationship between agency motives and diversification has been limited because managers are unlikely to admit that agency motives are present in decision making and unambiguous indicators of the effects of governance mechanisms on agents' behaviours are difficult to isolate. As a result researchers have to rely on more speculative theory and indirect research on governance mechanisms such as ownership structures and executive compensation.

Other researchers have turned to the field of psychology and the behavioural sciences for more appropriate methodologies and insight into the role of the human condition in the strategic management and decision making processes. Witt (1991) examined the relationship between economics, socio-biology and behavioural psychology on the empirical theory of preferences which he contended was lacking in the traditional economic model of behaviour. Witt concluded that a comprehensive theory of decision making and preferences cannot ignore the influences of innate learning mechanisms in higher order beings and that a proper insight into the occurrence of preferences in the decision making process would have to acknowledge and incorporate behavioural psychology. Later work by Scott A (2002) looking at decision making amongst health care recipients reached similar conclusions. Scott observed that, among other factors, the complexity of choice and an individual's past experiences were dominant factors that influenced the individual's selection of health care options.

Methodological problems such as those cited above pose significant challenges to strategic management researchers and create debate among researchers holding different assumptions about the nature of human motives (Cannella and Monroe, 1997). Nonetheless organisational economics continues to lead the charge for a comprehensive understanding of the internal workings or organisations and external consequences of their actions.

While transaction cost theory and agency theory provide substantial frameworks for an understanding of how firms operate, some argue (Barney, 1991; Wernerfelt, 1984) that they fail to reflect adequately the idiosyncratic nature of firms and how this might affect their competitive advantage. These researchers observe that the heterogeneity of firms in differing industry groups

and even within the same industry groups is of importance and stems from differentiation of tangible and intangible resources within firms.

The Resource-based View

Penrose (1959) had considered firms as a collection of productive resources and observed that these resources were sufficiently differentiated so as to be useful to explain the idiosyncratic nature of firms. Subsequent work by Chandler (1962) and Andrews (1972) examined the notion that firm structure and competencies (and competitiveness) were directly related to the availability (or lack thereof) of tangible and intangible resources of the type discussed by Penrose (1959) and the earlier work of Selznick (1957) on the identification of distinctive competencies within firms. The work of these, and other researches, has lead to the formulation of a resource-based view of organisations.

The *resource-based view* is fundamentally concerned with why firms are different and how they achieve and maintain a competitive advantage as a result of those differences. Significant resource sub-sets arising from the resource-based view are strategic leadership and tacit knowledge both of which have provided fertile areas of research (Hoskisson, Hitt, Wan & Yiu, 1999). For Penrose (1959) resources were defined as the physical things a firm buys, leases, or produces for its own use, and the people hired on terms that make them effectively part of the firm. Furthermore Penrose (1959) emphasised the interaction between the material and human resources as being integral to performance.

The resource-based view is therefore distinctly different from the traditional microeconomic view of the firm as a homogenous black box. It recognises resource differences and uses them to explain performance differentiation amongst firms within markets.

The resource-based view has stimulated much research in a variety of resource areas: *the impact of unique business experience* (Huff, 1982; Prahalad and Bettis, 1986); *organisational culture* (Barney, 1986, Fiol, 1991); *organisational learning* (Teece, Pisano and Shuen, 1997), *entrepreneurship* (Nelson, 1991; Remult, 1987), and *human resources* (Amit and Schoemaker, 1993) are some examples.

One seminal work in the area was that of Barney (1991) in which he proposed a measure of resources by virtue of their rareness, value, inimitability and substitutability. However Barney's (1991) work has drawn subsequent criticism (Black and Boal,1994) because of its treatment of resources as separate and distinct factors and not as bundles of resources with specific interrelationships (Grant, 1991) which in combination give rise to a firms individual competencies and competitive advantage.

Strategic Leadership and Strategic Decision Theory

Escalating CEO salaries and the personality cults that develop around leaders of large firms, together with share price fluctuations which occur on appointment or resignations of particular individuals, demonstrate the significance of *strategic leadership* in the minds of the community and the market. To the extent that individual leaders are unique they offer firms a potentially unique resource and may therefore significantly add to differentiation between firms within the market.

Strategic leadership however does not focus solely on the individual. Differing company management structures require a broader approach and strategic leadership considers management teams and other governance bodies, in particular boards of directors, as well as individual CEO, as indicators of how firms operate.

In agency theory top managers are viewed as agents of principals who act with their own self-interest and agendas in mind (Jensen and Meckling 1976; Fama, 1980; Fama and Jensen 1983).However agency theory tends to undervalue the positive aspects of executive leadership

and largely ignores the role of strategic leaders in organisational success. Instead it focuses on the costs associated with the separation of ownership and control (Cannella and Monroe, 1997). Strategic leadership on the other hand postulates that firms are reflections of their top managers (Hambrick and Mason, 1984) and that the specific knowledge, experience, values and preferences of top managers are reflected not only in their decisions but in their assessment of decision situations. This theory was formalised as *upper echelons theory* and later developed into *strategic leadership theory* (Finkelstien and Hambrick, 1996). Strategic leadership theory examines the psychological make-up of top managers to explain their strategic choices and assumes top managers vary on a profile of psychological constructs such as knowledge and experience (see above) to influence the strategic choices they make.

Strategic leadership theory therefore incorporates many of the assumptions that serve to limit positive agency theory. It takes account of individual differences by the incorporation of various psychological constructs. Positive agency theory on the other hand only accommodates individual differences in a very general way (Cannella and Monroe, 1997) through managerial self-interest and the principals' desire to maximise wealth; differentiation by reference to psychological constructs is not considered. Furthermore, and contrary to agency theory, strategic leadership theory implies that executives need discretion or freedom in the decision making process to be effective as managers. Agency theory implies that such freedom will only result in decisions designed to further promote the agent's self-interest thereby detracting from the wealth-maximisation aims of their principals (Jensen & Meckling, 1976: Fama & Jensen, 1983).

Mintzberg (1973), Kotter (1982) and Tsui, (1984) categorised the managerial role into three categories: interpersonal, informational and decisional. Early work by March and Simon (1958) proposed that top managers are embedded in a situation of 'ambiguity, complexity, and often information overload. In such circumstances the decision maker's personal frame of reference, experiences, education, functional background and other personal attributes (personality) have significant effects on their decisions and subsequent actions (bounded rationality).

Some empirical studies have directly examined the link between psychological make-up and organisational strategy and these generally support strategic leadership theory. Andrews, 1972 showed that values can affect an executive's selection of strategies. Cognitive structures have been linked to organisational strategies such as joint ventures (Fiol, 1989), breadth of product and service offerings (Day and Lord, 1992) and innovation and growth (Thomas, Clark and Gioia, 1993). Nutt (1986) used Jung's typology of cognitive styles to differentiate *risk propensities* among executives. The *need for achievement* has been linked with organisational structures (Miller and Droge 1986). *Locus of control* has been determined as a predictor of organisational performance and strategy (Miller , Kets de Vries and Toulouse, 1982) while organisational dysfunction has been found to be related to managers' *neuroses* (Kets de Vries and Miller, 1984).

Demographic variables such formal education, training and functional background have been linked to organisational outcomes (Hambrick and Mason 1985; Kotter, 1982). A background in R & D and marketing showed an increased likelihood of success in the implementation of a prospector strategy (seeking out new products and markets) (Miles and Snow, 1978). A background in finance and production was linked to success with defender strategies (Gupta and Givindarajan, 1984). Formal education was linked to a greater propensity for innovative strategies (Kimberly and Evanisko, 1981). While organisational performance has been found to be associated with an executive's past performance record (Pfeffer and Davis-Blake, 1986), and, management team size, composition and tenure (Haleblian and Finkelstein, 1993; Smith et al, 1994).

Later work (Wu, Lin and Lee, 2000) on personal characteristics, decision making patterns and leadership styles among women managers in the USA, Taiwan and Japan, indicated further differentiation based on gender and culture. Salter and Sharp (2001) in a study of culturally similar markets in the USA, Canada and the UK, determined that even small cultural differences were reflected in managers' approach to escalation of support to failing projects. The study

concluded that the more 'individualistic' US managers had a greater tendency to stick with projects to which they has committed even where the chances of success were subsequently determined to be low.

The influence of managers with regard to individual decisions, strategic policy and organisational culture is dependent on the degree to which managers are free to act. In agency theory this freedom is viewed somewhat negatively in that freedom provides opportunities to promote managers' self-interest. Strategic leadership theory takes a somewhat more positive view suggesting that such freedom allows company executives an opportunity to put their mark on the company with potentially positive performance outcomes. Hambrick and Finkelstein (1987) termed this freedom 'managerial discretion'. Empirical attempts have been made to identify high and low discretion industries (Finkelstein and Hambrick, 1990; Haleblian and Finkelstein, 1993; Hambrick and Abrahamson,1995). Managerial discretion which links the individual characteristics of strategic leaders with organisational factors is believed to be a fruitful area for future strategic leadership research (Finkelstein and Hambrick, 1996; Hoskisson, Hitt, Wan and Yu, 1999).

Knowledge-based view of the firm

The knowledge-based view of the firm is an extension of the resource-based view. Its focus is to conceptualise firms as heterogenous knowledge-bearing entities. It first appeared in the literature in the mid 1960's and is attributed to the work of Polanyi (1966). Polanyi classified knowledge into two categories 1) explicit or codified knowledge which is transmittable in formal, systematic language. 2) tacit knowledge which has a personal quality and is therefore difficult to formalise and communicate. Zander and Kogut (1995) refined the work of Polanyi and developed the construct of knowledge into five dimensions 1)codifiablity 2)teachability 3)complexity 4)system dependence and 5)product observability. Earlier the authors (Kogut and Zander, 1992) had observed that the assumptions of selfishness intrinsic in agency theory, are not necessarily a precursor for 'shirking and dishonesty'. Instead, linking the concept with the knowledge-based view of the firm, they viewed the firm as a repository of capabilities in which individual and social expertise is transformed into economically viable products. In this way the firm formed a social community of voluntaristic action wherein the combined knowledge (explicit and tacit) outperformed the market by providing the firm with a distinct competitive advantage. By definition a firms ability to grow under the knowledge-based view requires that the firm have to the resources to absorb and develop new knowledge and competencies (Nonaka,1994) through the process of meta-learning; the capacity to learn continuously (Lei,Hitt and Bettis, 1996).

Conclusion

Organisational decision making, which forms the nexus of the tenancy selection process, is a significant and well researched area of study. While the review of literature discussed here would appear extensive, it probably only begins to scratch the surface in a field of study which encompasses such a diverse range of disciplines and methodologies. A consistent theme however appears throughout; the need to peer into the 'black-box', to view the internal workings of organisations and the resources (particularly human resources) at its disposal.

The literature supports the contention that neoclassical economic models which emphasize perfect competition and rational behaviour to explain how and why decisions within organisations have been made in the past, and how they may be made in the future, while ignoring the environmental context in which they are made and the socio-psychological propensities and preferences of the decision maker (s), are fundamentally flawed. While these models are attractive for the simplicity they offer, it is this simplicity which limits their usefulness in achieving a reality-based understanding of how decisions, including tenancy decisions, might be made. By ignoring the uncertainties of the human dimension for the certainties of mathematical analysis they effectively destroy their viability as an analysis tool.

The literature clearly determines that any model of the tenancy selection process will be a complex arrangement of many disciplines including philosophy, sociology, psychology, and the behavioural sciences, as well as economics (French, N. and French, S., 1997). Subsets of these, such as ethics (moral hazard, intrinsic motivation), risk taking (in particular, locus of control), leadership style, and organisational and ownership structure, are likely to be influential. Similarly, the effect the domain, or subject matter of the decision problem, more particularly the importance placed on it by the decision maker(s), would also appear significant (Rettinger, 2001). The amount and quality of information, and the time available to analyse it before decisions are required, are further factors which are likely to affect the decision making process and the quality of the outcome. Literature in these areas needs to be sought out and carefully examined.

Our understanding of the factors which influence the decision making processes and their morphology, is fundamental to an understanding of (property) market dynamics. Individual personalities, the dynamic interaction between them, and any preferences that may emerge, are the ‘free radicals’ which make modelling a complex, and some would argue, a speculative process. However “results show that the behavioural rules that dominate consumer’s decision making determine the resulting market dynamics, ……….results also shows the importance of psychological variables like social networks, preferences, and the need for identity to explain the dynamics of the market.”(Janssen and Jager, 2001 p 745). An improved understanding of the CBD office market therefore requires that we understand these complex issues. Such an understanding will assist tenancy providers, property managers and tenants through a process which is fundamental to the well-being of individual businesses, property owners and the national economy.

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