

## **An acquisition of leadership: Cultural differences and difficulties**

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### **ABSTRACT**

With the dissolution of East Germany and the Soviet Union, Eastern Europe moved from economies dominated by the state to privatization free from strict government regulation. It is generally agreed that foreign direct investment plays a vital role in the revitalization of Eastern Europe. Leaders in the region must find ways to draw, and keep, multinational companies. One of many difficulties such leaders face is a stark contrast in preferred leadership styles between themselves and the managers of the multinational companies they are trying to attract. One such difference in leadership style is that Eastern European leaders/followers prefer an autonomous leadership style, a style that most Western leaders view negatively (Dorfman, Hanges, & Brodbeck, 2004). As well, Westerners tend to have a high performance and future orientation; Eastern Europeans tend to rank low on these scales. Societal culture has a strong impact on leadership style which in turn influences organizational culture (Dorfman, 2004). People within these cultures get used to these schemas, not even realizing that there are other ways of perceiving their environment. The leaders within these cultures are no different; they take on personalities and leadership styles that reflect their culture.

This case centers on the relationship between two such leaders, Eastern European and American. It highlights the painful differences in style that lead to business problems and dichotomous organizational cultures. It allows students to role play the case, illustrates the need for cross-cultural leadership training, and provides opportunity to discover how to reconcile innate differences in leadership.

Keywords: cultural leadership, organizational culture, cultural leadership training

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## INTRODUCTION - THE INSURANCE INDUSTRY

In the emerging markets of Eastern Europe, the increasing wealth of large populations has resulted in a higher demand for insurance products. According to a report prepared by Baur, Birkmaier, and Rüstmann (2001) to the United Nations, insurance has three roles in economic development: risk transfer, informational, and a capital markets role. A developed insurance industry promotes economic growth by encouraging domestic production, innovation and trade. Considering the need of infrastructure investments such as power plants, airports, railways etc. in emerging economies, risk transfer is a crucial element in attracting foreign investments. Insurance facilitates the flow of information in an economy by helping companies to assess risk and return profiles. Finally, insurance companies are long-term institutional investors. They collect premiums and invest in capital markets (Heineman Jr, & Davis, 2011).

Despite the necessity of a strong insurance industry, insurance penetration, which is measured by the share of the income spent on insurance, in Central and Eastern Europe is significantly lower than in Western Europe. Premiums as a percentage of GDP account for only 1.7% in non-life business. This is almost half of the average level in Western Europe (Statistics C. E. A., 2011).

In this context, Skipper (1997) summarizes the benefits of liberalization of the insurance industry in emerging markets as follows: Foreign insurance companies increase the efficiency of local insurance markets by providing superior customer service, introducing new products and technology and bringing managerial know-how. Moreover, due to their international operations and strong financial structures, foreign insurers possess superior risk diversification capabilities.

## BACKGROUND—TWO COMPANIES FROM DIFFERENT WORLDS

Company A is a U.S. based insurance company with a heritage spanning more than 40 years. Ranked among the top 20 insurance companies in the world, Company A has chosen to concentrate its business activities in North America, Europe and Asia, which together make up the largest share of the global insurance market. Company A provides auto, home, boat, non-life and life coverage to over 22 million customers around the world. They distribute their services through a range of channels including brokers, IFAs (International Franchise Association), intermediaries, affinity partners and the Internet, as well as various wholly or partially-owned companies. Company A operates successful partnerships in Belgium, UK, Luxembourg, Italy, Portugal, Turkey, China, Malaysia, India and Thailand and has subsidiaries in France, Germany, Hong Kong and UK. It is the market leader in four countries for *individual life* and *employee benefits*, as well as a leading *non-life* player, and in two countries it has a strong presence as the second largest player in private car insurance.

Company A's unique and innovative multi-distribution capability enables them to deliver products face-to-face, by phone, over the Internet and via SMS technology. Company A is extremely flexible in aligning their business activities with their partners' general insurance strategies. Thus, they offer end-to-end white label capabilities in product development, marketing, campaign management, sales, fulfillment and claims. In this respect, they are very successful in providing a seamless integration with partner brands.

Company A has high standards of customer service. Their successful customer-focused strategy is founded on aligning activities to how customers want to buy insurance to meet individual needs. They are committed to delivering high quality products at competitive costs

and to respond quickly and pro-actively. As a corporate policy, Company A values accountability, honesty and transparency. It employs more than 20,000 people and last year they posted a gross inflow of \$ 35.5 billion, and a net profit of \$ 440 million. The insurance activities had a solvency ratio of 195%.

Company B is a major insurance provider in an Eastern Europe country. Previously it was an SOE (state owned enterprise), with less than 300 employees. They have no expertise in cooperating with an international company. The products that they offer are limited to compulsory car insurance and house insurance. Company B enjoys a market share of well above 60%, making them a perfect candidate for acquisition.

Last year, Company A proposed an acquisition of Company B. The negotiations proceeded very quickly and the transaction was completed in six months. Company A's motivation to acquire Company B was to gain market access in a country in which they did not have operations, to benefit from local market knowledge/contacts, and utilize the highly skilled human resources of Company B. Company B, on the other hand, gains access to the new technologies (Company A built a computerized insurance system to be used in the local market), superior management skills, and financial resources of an international company.

## **A NEW DIVISION**

Sally Jenkins has been chosen to oversee Eastern European operations, having successfully led Company A's integration into Belgium, running the division for five years. She has been challenged with creating a new Travel Insurance division. With her hands full trying to inject Company A's customer-focused corporate culture into a resistant Eastern European employee base, she has chosen two men to assist her in taking advantage of the virtually non-existent travel insurance market. The new division would be a great asset, to both the company and her career. Lajos Varga is a Hungarian who previously led Company B, having been with them for more than 30 years. She has also hired Phil Shoemaker to co-lead the team, an American with 10 years of insurance experience with Company A; he is fairly young and impressed Jenkins with his knowledge and charisma. She allowed both men to choose twenty people each to fill out the rest of the division. She then arranged a cross-cultural training course for the new division. Such training looks at one specific culture/country and covers areas such as values, morals, ethics, business practices, etiquette, and protocol. The aim of such training is to better equip participants with the key skills that will help in building successful business relationships.

Jenkins was confident that she had chosen the two best men for the job, both well-liked and experienced with excellent performance records. She decided to allow them free reign on assembling the new division. Shoemaker took to the new challenge with enthusiasm, though Varga gave some resistance, complaining that a man of his experience did not need help.

Jenkins set up weekly meetings to monitor the progress of the new division development. In the first two meetings, she noticed tension between the two men and contradictory progress reports. She set up individual meetings with them; Shoemaker complained of Varga's tendency to make independent decisions without consulting him or anyone. Varga complained of Shoemaker's insistence on wasting time with many team meetings. Next, she interviewed the rest of the team members; she quickly noticed two distinct camps—those that Varga had hired completely supported him (all Eastern Europeans from Company B), and those that Shoemaker

brought on completely supported him (all Americans from Company A). Each group claimed that his/her leader was doing well, but was hampered by the inability of the other to lead.

In her interviews, Jenkins quickly put together a picture of each of the two men, as well as their employees. Varga is a man used to running things his own way. His leadership style is quite autonomous, Varga being individualistic and independent by nature. Like many Eastern Europeans, he is quite assertive, though doesn't stress planning and performance in his leadership; he has never seen a need to do so. Further, those team members he brought with him praise his style of leadership. Shoemaker, on the other hand, takes a more participative and team-oriented approach to decision making. He often engages in planning and preaches investment in the future. As well, he encourages and rewards his employees for excellence and performance improvements. His team members describe Shoemaker as an excellent and effective leader.

Based on their differing personalities and leadership styles, Jenkins notices that the travel division also has two distinct personalities. Both camps have cohered to their leader, cooperating well with their peers, though not at all with their foreign co-workers. However employee morale is quickly sinking. She is hearing whispers of employees looking for new jobs; both inside and outside the new division. Productivity is at a standstill in the new division, and has taken a sharp decrease in other key areas as well.

Jenkins' boss has put pressure on her to get the division up and running, as already two months have passed. Jenkins' future with the company and the success of the new Eastern European operations are now at stake.

## DISCUSSION

1. What are some of the challenges Jenkins faces in her new position?
2. As an advisor to Jenkins, what would you suggest? What are her options?
3. How would you describe the corporate culture in Company A? Company B? The new division?
4. What is the key problem here?
5. What do you think the team members are feeling? What about employees not in the new division?
6. Who is a more effective leader, Varga or Shoemaker?
7. As an advisor to Jenkins, what would you suggest? What are her options?
8. What effect does societal culture have on organizational culture?

## KEY LEADERSHIP LESSONS

1. Societal culture has a strong influence on leadership style which, in turn, strongly influences organizational culture.
2. Leadership is complex. Issues such as age, team dynamics, cultural differences, leadership style, and leadership preferences all complicate the leadership process.
3. Implicit leadership theory plays an important role on perceptions of leadership effectiveness, and is influenced by societal culture.
4. Cultural leadership development is an important aspect of global operations. Classical cultural training is insufficient.
5. Effective leadership is a key component of success during organizational change.

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