

Ad Majorem Dei Gloriam



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*Leadership and the business environment in Central and Eastern Europe at the
end of the 21st century*

DOCTORAL DISSERTATION ABSTRACT

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In view of the chaos theory described by Lorenz, it can probably be stated that that the business environment in CEE in the 90s displayed all three characteristics of a chaotic system: (1) it was topologically mixing; (2) sensitive to existing conditions; and (3) dense, albeit only increasingly so. For the next twenty years, this chaotic environment evolved toward a more predictable condition, as it matured and established as an emerging economy, increasingly stabilizing over time, to offer newfound comfort to the citizens of these states and the possibility of assertion to new capitalists.

A new economic model materialized in the Czech Republic, Poland, Hungary and Slovenia, that was later repeated with distinct characteristics in Romania and Bulgaria. The model seems to propagate today further towards the countries of former Yugoslavia. Wherever states have made efforts to stimulate business creation and facilitate leadership, entrepreneurs responded by contributing to economic growth and vice versa.

At the beginning of the third millennium, the emerging economies of Central and Eastern European countries joined the European Union (EU). To join the EU, these countries had to meet the economic criteria set out in Article 2 of the Treaty on the European Union, along with encapsulating European values. EU enlargement was provided for in Article 49 of the Treaty.

Cyprus, Estonia, Latvia, Lithuania, Malta, Poland, Czech Republic, Slovakia, Slovenia and Hungary joined the EU in 2004; Bulgaria and Romania in 2007; Croatia in 2013.

The state controlled economies of the CEE states at the end of the last century did not allow for their accession to the EU.

These countries were only allowed to join the EU upon satisfying the economic criteria. (A)

Romania is a country that started the race of economic development at the same time and with comparable conditions with other CEE countries, but finished somewhat late.

Keywords: *leadership , leadership , Central and Eastern Europe, accession , the EU business environment , executive , executives , transition, growth, private initiative , economic development, Anderson , Avery, novice, initiator, gnar.*

The fact that CEE countries joined the Union in 14, 21 and 28 years after overturning their political regimes - and therefore their economies - means that they have experienced sufficient economic development during this period to reach a safe threshold to face EU market pressures and compete liberally.

Towards the end of the century, state-controlled firms operated in the CEE. EU accession meant business development was direly needed. State enterprises in CEE rapidly declined. Therefore, they could not sustain the economic growth required to fulfill the accession economic criteria.

Foreign direct investment in CEE, although dramatically amplified from the previous period, had been too timid to support the required level of economic growth.

Economic growth was therefore based on the development of new private companies founded through: privatization, foreign investment and private enterprise.

The private enterprise has been the most dynamic of the categories that supported the economic development in CEE. Unless economic growth was not based on the cognitive effort of the business leaders, it can safely be inferred that the drivers of thus generated growth were most likely the business leadership skills of the private entrepreneur, their drive, resolve and ability to control investment results. (B)

These are the business leaders.

The established leadership literature distinguishes three types of leadership: transactional, transformational tradition.

Based on heuristic analysis of interviews with successful businessmen from Romania, this study identifies three categories of business leaders: the novice, the initiator and the gnar leader (from Latin, *gnarus*). Unless the business leaders in Romania differ fundamentally from those in CEE, the three categories identified in Romania are likely to be similar in CEE as well.

The analysis revealed the following:

(1) motivation, emotional control and inhibition of previously learned responses have been identified as characteristics of the best performing business leaders. These factors seem to manifest with varying degrees of intensity in the three depicted categories.

(2) motivation, emotional control and inhibition are part of the executive functions of the human brain. The executive functions of the prefrontal cortex can be measured by functional magnetic resonance (fMRI).

Therefore, if (1) and (2) are true, then, most likely, the potential performance of business leaders can be measured by fMRI. (C)

If (A), (B) and (C) are true, then, most likely, EU accession was accelerated by the economic growth which stemmed from the cortical skills of CEE private business leaders. These skills are probably measurable by fMRI. The intensity of each of three core factors - motivation, inhibition, control, correlates with the leadership type displayed.

This dissertation is divided into several chapters. Chapter I – Methodology describes our journey from simple observations, the choice of the qualitative analysis method, the questionnaire design and data collection. Further, data collected from ten interviews were coded, labeled and quantified to synthesize results and allow interpretation.

Our motivation for the choice of the research topic, study boundaries and definitions are documented in the Introduction.

Chapter II – Literature, reviews the main theories and trends in the field of study, and delineates current research trends.

Chapter III – Business Environment contextualizes the study by defining the parameters of business environment. This chapter highlights the historical moments crucial to the future economic growth in CEE.

Chapter IV – Analysis of the link between business environment and leadership details the research steps performed at four levels namely: macro – accession to the European Union; molar – economic growth and transition to a market economy; micro: entrepreneurship and the creation of privately-owned companies; and the fourth level: nano – the individual leadership, specifically the executive functions of the prefrontal cortex of the business leader.

Chapters V and VI summarize the results and conclusions of the research, define three types of leaders identified in CEE and compare them with the reviewed literature.

Lastly, three executive functions are described in terms of the human brain, with different intensities considered for each type.

The conducted interviews are presented along with the developed questionnaire and bibliographic sources.

Interviews were conducted with business leaders from Romania concurrently with interviews previously published in the national press. Some interviewees agreed with the disclosure of their names, others are considered they would be more relaxed revealing their experiences anonymously. Based on this preference, we opted to label all subjects alphabetically. Wherever subjects agreed, we referenced them nominally in the text.

The aim of the research was defined as:

- (1) To develop a model that does not take into account the peculiarities of any commercial business, regardless of industry, but applicable to any organization. Therefore, industry related variables were eliminated and disregarded.
- (2) To identify of leadership skills measuring tool that would be free of does not errors of interpretation and would not require a considerable effort for application and interpretation.

The research topic

The business environment is influenced by several variables described in this study. We considered pivotal moments and factors that shaped the business environment in Central and Eastern Europe to identify common aspects of economic development in post-communist period.

We found a direct determinism between the nature of economic players of a state and type of business leaders that appear and evolve in that state. We found, however, that the type of economic institutions catalyzed by the economic policies implemented by the state would stimulate or hinder entrepreneurial activity. If the former, the state would indirectly may facilitate or encourage leaders. As Acemoglu and Robinson argued, wherever states further 'inclusive' state institutions, private enterprises prosper and social welfare increases. Businesses do not thrive by themselves, nor do they bloom by the direct intervention of economic institutions but are influenced by the nature of the leadership of the state.

In Central and Eastern Europe, countries that have opted for ‘inclusivist’ institutions are: the Czech Republic, Poland, Hungary, Slovenia, Estonia, Latvia and Lithuania. These are countries that were the fastest to fill the gap between the state of their economies and the ones of developed countries.

In Romania and Bulgaria, central economic institutions were more ‘extractive’, as pointed by Acemoglu, as they extracted wealth from the population, thereby hindering entrepreneurship and leadership. Business leaders from these states would still emerge and develop, but in a less favorable climate, as compared to countries where the institutions were more inclusive. Notably, that the newly incorporated private enterprises in these countries followed similar development curves due to the comparable environments in which they emerged.

Every organization in the world today wants leaders. Any job ad contains direct or indirect references to the leadership qualities of the recruit. Soon job ads will simply read "leader wanted".

There seems to be widespread consensus that leaders are critical to the survival and prosperity of any organization. But not everyone agrees with the skills set that these should have and how these leaders should behave. Particularly, not everyone agrees with how to detect and measure said leadership skills. Instruments and existing definitions are cumbersome, complicated and time consuming to learn and implement.

Therefore, we wanted to know what would be a simple and fast method to measure these skills or differences that characterize leaders and their work. As noted, the business leaders studied here were private sector issue. We avoided possibly controversial personalities. History, however, is crowded with positive and negative leadership examples. It only follows naturally that leadership need not necessarily be a positive trait to flaunt, but merely a skill like any other and it is the way it is employed that would define it as good or bad.

Theories on the art and science of leadership explore various angles of the topic, depicting either the leaders, or their followers, or the circumstances in which they rise and manifest, or a combination thereof. Each theory is heavily anchored and thus limited by the area and in which it was originally tested, i.e. sociology, psychology, history and management. Some theories have long been abandoned we

only documented them for as historical research effort, others have seen a revival in the past ten years, depending on how they played out in practice.

One of the most puzzling outstanding issues, still unresolved by the efforts of researchers in this field is the ‘mysterious factor’.

The "it factor", "leadership mystique", "control factor", "right stuff" are just some of the names that industry operates with describing the elusive quality that leaders seem to have, but seems to have evaded the scrutiny and demonstrations of the researchers. These names that leadership qualities is known for, are merely a palliative until they will be scientifically identified and do not have anything to do with black magic, as it would misleadingly appear.

While leadership researchers disagree in many respects, as each considers a different factor as important or essential in a leader, they all agree that there is a mysterious factor that has not yet been defined. It is very noticeable how this factor acts in mysterious ways: it distinguishes leaders from norms. It is clear to all scholars that every leader has, to a greater or lesser extent, manifested such distinct quality. No leadership skills measurement tool but can currently universally identify it. It’s simply below the radar, for now.

It is this mysterious factor, as the literature would have it, which needs to be identified and measured. We assume that once identified, this mysterious factor can be measured, that is. Therefore, once identified, leaders can be located and relocated in positions where they can use their special powers more effectively for the benefit of their organization or community.

This dissertation suggests that, by describing and analyzing the relationship between behaviors, business leaders and their results - as reflected the vigor of the economic parameters of a state - we can help identify research galleries which might just lead us to elucidate this mysterious factor and to discover methods of measuring it.

Business leaders from Central and Eastern Europe do not differ fundamentally from the leaders described in the literature. Moreover, the business environment does not appear to determine the emergence of these leaders directly, but has a merely catalytic role, for in the absence of an enabling environment, asserting leadership potential in business seems uncertain.

The reviewed literature describes leaders as transactional, transformational, persuasive, participative, delegating and endowed with emotional intelligence, to summarize some of the most relevant theories in CEE.

We have identified three types: the novice, the initiator and gnar leader. These three types overlap somewhat with classical models.

The novice leader overlaps to some extent with the type of transactional leadership; notable differences are detailed in the following pages.

The model which most closely resembles the transformational-innovative leader is *the initiator*.

The transformational - conservative leader overlaps with *the gnar* leader type.

All three display emotional intelligence namely motivation and emotional control to a greater or lesser extent.

This research sought to explain the relationship between business, leadership and the mysterious factor. After analyzing the data collected and interpreting it, the first and most important conclusion is that mysterious factor is nothing more than a successful combination of cortical executive functions in a way that generates effective results through influencing others. We call this leadership.

Based on our analysis heuristic leadership analysis, the leadership function seems to look like:

Leadership = cortical executive function (inhibition, emotional control, motivation)
= (intensity) (inhibition) + (intensity) (emotional control) + (intensity) (motivation)

$$\mathbf{L = f(inhib, control, motiv) = (int)inhib + (int)control + (int)motiv}$$

1. Leadership is an executive function of the human brain.
2. Leadership consists of a combination of several executive brain functions with varying intensities, i.e. the ability to inhibit learned responses, emotional control and motivation.

3. There are at least three types of combinations of the executive functions of the brain, stemming from the intensity of each of the three variables: learned response inhibition, emotional control, motivation.
4. The three identified types are: the novice, the initiator and the gnar.
5. At least one of the intensities of the brain function that is a variable function of leadership can be measured by functional magnetic resonance imaging.
6. All things equal, it is highly likely that functional magnetic resonance be able to distinguish between intensities and therefore indicate the specific leadership type of an individual leader.

The following is our original contribution and will hopefully be a useful step in the application of the theory developed in this paper that *leadership is a combination of executive brain functions that can be measured by fMRI*.

The three equations that we developed corresponding to the three types of leadership identified:

$$L1 = f(x, y, z) = a1x + B2Y + C1z$$

$$L2 = f(x, y, z) = A3x + B2Y + C1z$$

$$L3 = f(x, y, z) = A2x + + c3z b3y$$

L1 - novice

The novice was thus named not because he is new to his job but because he plays the new card throughout his career, preying on mercy, exhibiting rookie mannerisms regardless of age or experience, and irrespective of the organizational level at which he happens to be employed.

The novice is characterized by significant propensity for conformity, conservatism and rule favoring. The intensity of variable X inhibition is very low for this type of leader. Low inhibitory capacity does not mean that such a leader would be freely and uninhibited just means it has a great appetite for rules and regulations, and do not often resource to wilfully suppress learned responses in favor of creativity.

Simply put, such a leader will comply with the parameters set by others and will not attempt to ever bend said boundaries and will most often comply. Why consider such behavior as pertaining to a leader? Evidently he is leaving the driving to others? We elected to include this leadership type because it conforms to Maxwell's definition that leaders *influence* people. They do not do not 'drive' people.

So how does the leader L1, the novice, influence others? His non-combative attitude, not questioning rules and tasks, wins high favors with supervisors who desire harmony above skill, and is propell them to corproate heights.

Paradoxically, the organization employs and promotes an impressive number of such leaders . This owes to the repeated claim tha organizaitons want a leader with creative vision, an endless and unrealistic list of skills, which often induces the selection and promotions of L1s.

Based on the interviews we conducted , people who are representative of in this group talk about innovation and creativity, but if probed for a creativity aecdote in their repertoire, there's no one at hand, only high praise for the wonderful organizations which promoted them, about how open such organizaitons are to the new and how friendly is the dialogue flies among coworkers. They often withstand conflicting ideas, passions or attitudes.

Creativity, new solutions to problems old and new innovative ideas do not keep pace on L1, two of the three L1s interviewed said "I sleep very well at night". L2s sand L3s confess to harassing thoughts that keep them up at night.

Motivation is low for L1, he must be motivated externally, while the other two types have fire in the belly. The novice rush to accept any position in an organization and are also the only ones who speak of chance. "I had the chance, opportunity, luck " are words we hear every time talking to the L1. Again, in contrast with others who say that, although they were given opportunities, they declined them (L2) or that same chance was available to everyone (L3) .

Interestingly, the novice is the only type of leader who talks about work. In contrast with the other types who believe that work is a hobby or a passion (L2: " I love what I do") or that work is only one factor of production (L3, "everybody works"), L1 believes that he is doing very hard work.

We would like to emphasize here that we do not consider that any of the types L1, L2 or L3 is necessarily beneficial or detrimental to the organization, but rather that recruiting and promoting leaders would be successful if approached from a necessity stance and considers future goals, and consequently taylors selection to need, not preference.

Certainly, for a nuclear reactor or for brain surgery it would be preferable to have a person who religiously complies with prescribed procedures, while the

design of a new nuclear reactor or the discovery of a new neural node would be preferably endeavored by highly creative people.

It cannot be stated, however that recruitment and promotion of L1 types should be employed merely based on convenience and availability. Conversely, if the organization allows the ascension conforming L1s to the next higher level to executives, they may become harmful to the organization due to the concurrent operation of two principles:

"What got you here, won't get you there" (Maxwell)

and

"Incompetence accumulates at the top" (Peter principle)

We have all seen too often these principles in all their splendor to ever ignore them at our own peril.

L1 insists that leaders are born to serve, so it is no surprise that they regard their own stewardship as exhausting. Always complying and obeying rules must be very hard work.

L2 - the initiator

The initiator is turbulent, curious by nature, combative and agitated. His impatience is manifested at school when everything new piques his curiosity. We all know them because they are highly visible. They have a mercurial temperament and not easily subjected to rules and canons.

An initiator speaks like this: "I have a different idea..I've never had the patience, nor the interest to stay in my lane, I want to know what makes the world go round".

For starters, their inhibition ability is quite remarkable. They have unparalleled ability to suppress previously learned responses and unusual propensity to seek new solutions. Novel ideas are very interesting for them, they're easily exalted, not always taking time to weigh which of the ideas are applicable in contrast with L3 who is a realist par excellence.

L2 will work hard for something he really wants, regardless of whether it is a wise choice or not.

For L2, the pleasure found in the work itself seems to be the determining factor.

The initiator that is clearly visible and therefore easy to be recruited. Alas, owing to their trouble making nature, they are less likely to be preferred for promotion within the organization.

L3 - the gnar leader

We chose the latin word for knowledgeable for this leadership type , not necessarily because they have rich experiences but because they appear so. As newcomers, gnars exhibit seasoned professionals behaviors right from the start. They show maximum restraint, making it appear experienced.

In addition to maximum emotional control which L3 revels in, they also display maximum motivation. It is the only type of leader that we identified two variables that at maximum levels: emotional control and motivation.

In terms of receptivity to new ideas, change and innovation, although they scored higher than L1s, the L3 placed lower than L2. This difference is that if L3 had maximum inhibition, they would be perhaps too vehemently defending ideas , as do L2s, and have a low emotional control which would be uncharacteristic for a gnar . However, due to elevated emotional control, L3 are capable of choosing which thought to inhibit, allowing for innovation.

Motivation is extremely strong for L3. L3 speaks like this: "you must believe ... believe strongly in what you do ... I have always believed strongly in ...". L3 is probably closest to the general concept of leadership. It is most difficult to identify with the naked eye because it is effervescent as L2 or obedient as L1. All L3 type respondents said that leaders are likely both to lead and to serve at the same time.

Lastly, we can say that organizations really want to recruit and promote L3, but lack proper identification and measurement instruments. Therefore, they end up hiring L1 and L2, the former because it is convenient, the latter because it is visible, but that then mistakingly promoting L1s and overlook L2 because of their minimal compliance. And organizations do this all the while they intended to recruit and promote the elusive L3.

In reality , every organization needs to consider all three if it wants to survive and prosper, as an organizations needs people need to run things by the book as well as those who suggest the lines in the book, along with the ones who actually write the book.

