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# The entanglement of intercultural conflicts and “bad” leadership in SMEs<sup>1</sup>



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Destruktive Führung, Führung in KMU, organisationale Struktur, negative Attribution, interkulturelle Zusammenarbeit, interkulturelle Konfliktpotentiale, teilnehmende Beobachtung

*“Bad” leadership, leadership in SME, organizational structure, negative attribution, intercultural collaboration, intercultural conflict potentials, participant observation*



Sowohl destruktive Führung als auch interkulturelle Konflikte wurden intensiv analysiert. Allerdings wurde dem Ineinandergreifen der beiden Phänomene bislang keine Aufmerksamkeit geschenkt. In diesem Artikel werden die Daten einer teilnehmenden Beobachtung im Rahmen einer intensiven Einzelfallanalyse vorgelegt: In einem kleinen, produzierenden Unternehmen wurde beobachtet, dass interkulturelle Konflikte als Grund für eine schlechte Arbeitsleistung gedeutet werden und so die eigentlichen Ursache, nämlich destruktive Führung, verdeckt wird. Obwohl die Führungsproblematik lösbar wäre, wird durch den Fokus auf interkulturelle Konflikte eine effektive Bearbeitung dieser Probleme verhindert.

*While both “bad” leadership and intercultural conflict are extensively studied, the entanglement between those two phenomena is to date relatively unexplored. In this article the data of a participant observation in the context of an intensive single case-study is presented: In a small, manufacturing organization it was observed that intercultural conflicts were used as an alibi for poor performance, masking the actual reason, namely destructive leadership. Although the leadership issues observed in this company could easily be addressed, the focus on intercultural conflicts impedes an effective approach to the leadership problems.*

## 1. Introduction

Demographic changes in combination with the already existing skills shortage in high-tech industries are forcing organizations in the German-speaking part of Europe (Austria, Germany, and Switzerland) to expand their recruitment efforts to foreign countries in order to stay competitive in a global economy. This development leads to an increasingly diverse workforce, which presents new challenges for organizations. These circumstances hold true not only for big companies but also for small and medium-sized enterprises (SMEs),

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which are of substantial importance to the Austrian, German, and Swiss economy. The resulting cultural diversity poses a challenge for the SMEs' often less formal management.

The case that we present in this article analyzes this issue and seeks to develop strategies for SMEs that are coping with problems resulting from demographic changes, including the challenge of a culturally diverse workforce. In the course of a project that examines how SMEs cope with demographic change and related diversity issues, we<sup>2</sup> conducted an open participant observation in a small, product-oriented and owner-managed high-tech organization in Germany that reported extensive diversity-related problems with its workforce, which consisted of German, Russian, and Vietnamese staff. According to the owners, intercultural conflicts were significantly impeding the work processes and the overall performance of the firm especially by delaying orders which subsequently caused the company to lose clients. However, our observation revealed an unexpected situation: Whereas the potential for intercultural conflict was present, no open intercultural conflict was apparent and the diverse workforce seemed cohesive. Rather, the problems the owners described appeared to be the result of "bad" leadership. However, the owners perceived and presented the difficulties with their staff as an intercultural problem, masking the fundamental cause. A similar phenomenon was observed by *Vaara et al.* (2013) when analyzing the success and failure of mergers and acquisitions. According to their findings, managers tend to attribute failures to cultural differences, rather than to their own actions using cultural differences as "easy explanations".

In reflecting on this unexpected result and after thoroughly discussing it with other researchers and practitioners, we realized that while our observation is consistent with other observations related to leadership problems within SMEs, particularly those with a strong production orientation, the phenomenon of "bad" leadership could be found in contexts without any potential for intercultural conflicts. The following research question emerged: To what extent does the entanglement of intercultural conflicts and "bad" leadership have the potential to disguise essentially solvable problems within an SME?

In the following sections, we present the relevant literature related to diversity and leadership comprising both more conventional approaches like transformational leadership and new developments like "bad" or destructive leadership. We then outline the case study method, which is designed to capture the complexity of a single case, and introduce our particular case. We present the results of the observation and discuss them in light of the theory presented in the literature review. We close with a brief summary, an acknowledgement of some limitations, and an outline of support measures for SMEs.

## 2. Diversity and leadership: A literature review

Recent works have resulted in a common understanding that culture has a significant influence on an individual's values, thinking, and behavior (*Hall* 2003; *Hofstede et al.* 2010; *Trompenaars/Hampden-Turner* 2011). These findings, coupled with increasing diversity in the workforce, have resulted in an immense number of studies analyzing intercultural collaboration in an organizational context. Considering an economic approach, combining workers from different cultures is only beneficial for a company, if the underlying costs are compensated by additional positive effects on productivity (*Lazear* 1999). Significant costs can be imposed on the firm because diversity holds the potential for conflict

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2 The observation was conducted by one of the authors while the other served as "sounding board".

owing to the clash of different values and behaviors. On the other hand diversity serves as a source for creativity and innovation owing to the existence of disjoint information, diverse approaches to work or problems, and different views in general, which are examples for such positive effects on productivity (Pelled *et al.* 1999; Ostergaard *et al.* 2011; Shin *et al.* 2012). However, for an organization to tap the full potential of its diverse employees, its management must be attuned to the varied demands a diverse workforce presents and create an integrative environment – that is, implement diversity management (Thomas 1990).

Consequently, one could assume a positive relationship between diversity and performance if intercultural conflicts are mitigated by diversity management measures. However, the effect of cultural diversity on team performance has been extensively researched, with conflicting results. While some studies found no significant relationship between cultural diversity and team performance, other studies discovered a positive effect of cultural diversity on performance resulting from the availability of different ways of thinking. Still other investigations found a negative effect owing to an amplified potential for conflict.<sup>3</sup> Notably, the research designs that resulted in these contradictory outputs fail to consider the organizational and external contexts and often use simplified models not reflecting reality without proper theoretical foundation (Van Knippenberg/Schippers 2007).

Understanding the dynamics of team diversity requires that the organizational context be taken into account (Williams/O'Reilly 1998; Jackson *et al.* 2003). Accordingly, investigators have included factors like organizational culture (Jehn/Bezrukova 2004) and task interdependence (Campion *et al.* 1993) into the data interpretation process. However, “contextual factors have less often been incorporated in hypothesis development or in study design” (Joshi/Roh 2009, 599). In addition, while leadership has been widely recognized as an important factor of group and firm performance and has been extensively researched (Ellemers *et al.* 2004), the entanglement of leadership and intercultural conflicts has been generally neglected (Lau Chin 2010; Stentz *et al.* 2012).

Most commonly, leadership is understood as the intentional influence a leader exerts on subordinates to guarantee a smooth workflow. This influence relates to activities such as setting goals or determining guidelines. However, leadership is considered to be a highly complex phenomenon that is still not fully understood and sufficiently researched. Yet, as leadership is a significant factor for the performance of organizations, these complexities need to be embraced and included in research (Gardner *et al.* 2010). Leadership is described from a number of different perspectives, which testifies to the multifaceted nature of the phenomenon but also causes ambiguities resulting from the lack of congruity of the diverse theories. This disparity reflects a “deep disagreement about identification of leaders and leadership processes” (Yukl 2010, 21).

Several scholars have attempted to organize the major theories of leadership (Northouse 2007; Yukl 2010; Stentz *et al.* 2012). One elemental theory relies on the behavioral approach, which concentrates on identifying and determining effective activity patterns of leaders. In line with the initial theory, four different leadership styles can be distinguished (House 1996): supportive (considering the needs of subordinates), directive (communicating rules and procedures), participative (including subordinates in the decision-making process) and achievement-oriented (setting goals). While early research established several

3 For an overview, see van Knippenberg *et al.* 2004 or Joshi/Roh 2009.

frameworks (e.g., task-oriented behavior, relationship-oriented behavior, and participative behavior) with the intention of studying the relationship between leader behavior and performance (Likert 1967), the classification of leader behavior as transactional and transformational is most influential today (e.g., Tejeda *et al.* 2001; Judge/Piccolo 2004; Grant 2012).

Transformational leadership differs considerably from transactional leadership (Burns 1978). Transactional leadership is characterized by clear rules and standards, which the leader implements and communicates to protect the status quo. Rules and standards are enforced and encouraged by punishment and rewards, which are directed at the extrinsic motivation of subordinates (House 1977, Ensley *et al.* 2006). In contrast, the transformational leader motivates subordinates by setting an example of dedication, by encouraging and coaching individual subordinates, and by providing intellectual stimulation to inspire them to higher goals. Transformational leadership plays an important role in realizing the positive effects of a diverse workforce while at the same time reducing the disadvantage of heterogeneity (Kearny/Gebert 2009). However, no leadership approach is effective, if it is not embedded in the organizational structure of the company (Bavelas 1960; Hollander/J Julian 1969). In addition, the quality of the organizational structure can essentially influence a company's success, no matter how effective the leadership approach is (Davis 1968; Organ/Greene 1981).

Another important aspect of leadership is the relationship between the leader and the subordinates. Leadership behavior depends strongly on the leader's relationship with the subordinates (Yukl 2010). Consistent with attribution theory, leaders attribute competencies or deficiencies to subordinates as the cause for effective or ineffective performance. Relationships form on the basis of these attributes, triggering different behaviors (Eberly *et al.* 2011). That is, leaders act differently toward a subordinate to whom they ascribe loyalty and skills than toward one to whom they ascribe untrustworthiness and incompetence. According to the most influential authors on attribution theory regarding leadership (Green/Mitchell 1979), leaders' reactions to poor performance – for example, in the form of disciplinary actions and training decisions – depend on the attributions they ascribe to the subordinate.

Leaders' attributions generally fall into two categories: internal attributions, such as incompetence or lack of effort, and external attributions, such as lack of resources. However, subordinates also make attributions on the basis of a leader's actions and behaviors (Gardner/Martinko 1987), and make assumptions about a leader's intentions and competencies. These assumptions are influenced by previous interactions between the leader and subordinates. While negative attributions lower the quality of the leader-subordinate relationship, positive attributions result in a higher quality relationship, and the nature of the relationship leads to further negative or positive attributions (Dasborough/Ashkanasy 2002).

While most studies have focused on effective leadership, a new research stream has recently emerged, examining “bad” or destructive leadership and its consequences. However, no consensus exists concerning this concept or even term to describe the “bad” leadership phenomenon. Some researchers hold that leadership can only be positive, thus rejecting the idea of destructive leadership and advocating the use of terms like supervision (Shyns/Schilling 2013). On the other hand, other studies recognize “bad” leadership and emphasize the importance of analyzing it, as its existence has been observed frequently

and its effects can be extensive (Alvesson/Sveningsson 2003; Ann/Carr 2010; Dong *et al.* 2012). Several investigators have attempted to define “bad” leadership.<sup>4</sup> Abusive supervision is the “sustained display of hostile verbal and nonverbal behaviors, excluding physical contact” (Tepper 2000, 178) as perceived by the subordinates. From this perspective, leadership behavior can only be considered destructive if the subordinates perceive it as such. Abusive behaviors include yelling at subordinates, humiliating and intimidating them, and attributing poor performance solely to subordinates’ personal factors (Don *et al.* 2012). Furthermore, to qualify as destructive, the leader’s negative behavior must be frequent, since a good leader can behave appropriately on a regular basis and still have “a bad day”, taking out the mood on subordinates. However, temporary conflict should be considered as different from on-going, permanent destructive leadership (Tepper 2007).

According to prior research, two motives induce destructive leadership: the desire to promote performance and the wish to cause injury (Tepper 2007). While on the one hand leaders may engage in abusive behavior to motivate subordinates and improve their performance, on the other hand leaders may mistreat subordinates for the sole purpose of harming and humiliating them. However, that destructive leadership has ample negative effects is clear. These effects include poor performance (Tepper *et al.* 2011), resistance in the form of counterproductive behaviors such as sabotage (Detert/Trevino 2007), lower job dedication and motivation (Rafferty/Restubog 2011), or subordinates’ stress (Carlson *et al.* 2012). Furthermore, as a psychological phenomenon, negative experiences tend to be more influential, making abusive behavior a significant factor in considering subordinates’ attitudes and reactions toward abusive leaders (Baumeister *et al.* 2001). Consequently, even though leaders may intentionally apply measures considered characteristic of destructive leadership, owing to a lack of leadership expertise they may do so with the intention of raising performance.

A further aspect of destructive leadership is unsupportive behavior, such as communication of disinterest in the subordinates or overall lack of support (Skogstad *et al.* 2007). While unsupportive behavior can take various forms, two prominent types are apathy and untrustworthiness. Apathy encompasses showing a lack of interest in the subordinates’ work or disregarding difficulties inherent in the work, and untrustworthiness involves destabilizing an employee’s trust in the leader, for example by taking credit for an employee’s work or breaking promises and undermining the employee through humiliation and actions that degrade subordinates (Rooney/Gottlieb 2007). Unsupportive behavior is also associated with lower job satisfaction and job strain on the part of the employee.

A severe limitation of previously conducted studies is the focus on large companies (Dasborough/Ashkanasy 2002). SMEs play a major role in the Austrian, German, and Swiss economy and present leaders with different challenges owing to their contextual conditions. In contrast to large companies, SMEs tend to have flatter hierarchies and to concentrate leadership and decision-making control into one position (Daily/Dalton 1992). Another significant contextual factor of SMEs is the often under-staffed human resource management department, if one exists at all, resulting in less formalized human resource strategies and measures (Mugler 1993). In owner-managed SMEs, often the owner – that is, the leader – takes on the task of human resources management, directly interacting with the subordinates. However, SME owners often lack the business education re-

4 For an overview see Shyns/Schilling 2013.

quired to successfully manage their personnel (*Chandler/Jansen 1992*). Furthermore, SME owners and their actions are characterized by “an antipathy against external interference and are skeptical about employees’ participation in decision-making” (*Wang/Poutziouris 2010, 333*). Owner-managers with this attitude tend to display directive leadership characteristics, for example focusing on communication of rules and giving detailed directions. However, if the firm grows, to prevent the firm’s demise the leader will need to delegate some power to first-line managers and subordinates (*Whisler 1988*). This need conflicts with the owner-manager’s reluctance to even partially surrender power (*Chell/Tracey 2005*). Thus, the question arises as to how structural conditions and “bad” leadership of owner-managed SMEs and intercultural conflicts are entangled, potentially obscuring essentially solvable problems.

To conclude, the studies summarized above are subject to two significant limitations. First, while extensive research has examined diversity in an organizational context, these investigations have mostly disregarded contextual factors. In particular, the entanglement of “bad” or destructive leadership and intercultural conflicts has to our knowledge not yet been studied. Second, prior studies focus solely on large companies, even though leadership and diversity research considers the size of an organization to be a relevant factor.

### **3. Method and Data**

This study’s research topic relates to two large and established literature streams – leadership and diversity – which have applied a wide variety of methods to study both areas. However, the diversity and leadership literatures both rely primarily on quantitative measures,<sup>5</sup> even though qualitative approaches are advocated by scholars in either literature stream (*Teagarden et al. 1995; Stahl et al. 2010; Yukl 2010*), and for research in general (*Bansal/Corley 2011*). The complexity of both phenomena calls for the use of both quantitative and qualitative methods (*Stentz et al. 2012*). As the review of the literature demonstrated, neither leadership nor diversity is yet fully understood, and this complexity has led investigators to offer a multitude of different theories. Therefore, and since the combination of destructive leadership and intercultural conflict has not yet been researched, an intensive single-case study approach makes a suitable contribution.

A single-case study is a vital method for capturing new theoretical relationships and new phenomena that current theory has not yet detected (*Eisenhardt 1989; Dyer/Wilkins 1991; Eisenhardt 1991*). Single-case studies focus on giving a deep insight into a phenomenon by describing it in as much detail as possible, including its particular context (*Van Maanen 1979*). This in-depth analysis facilitates more accurate inductive theory building (*Dyer/Wilkins 1991; Teagarden et al. 1995*). On this basis, an exploratory participant observation is an adequate starting point for a single-case study. We oriented our approach to *Prasad (1993)* and *Silva (2004)* who conducted a single case study based on an observation. Although a more common approach is to select the case for analysis of a predetermined question, the opposite situation is not uncommon – that is, “the case selects the researcher” (*Dubois/Gadde 2013, 4*). Empirical findings can be the basis for the composition of a study, especially if the research task is reformulated late in the process (*Alvesson/Sandberg 2011*). The advantage of this approach is that new areas can be dis-

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<sup>5</sup> For an overview of research concerning diversity, see *Joshi/Rob 2009* or *Stahl et al. 2010*, concerning destructive/bad leadership, see *Tepper 2007; Stentz et al. 2012* or *Schyns/Schilling 2013*.

covered. This approach applies to this study, since discovery of a new phenomenon led to reformulation of the research question.

The data were collected by using the method of an open participant observation, which aims to gain a close familiarity with a given group of individuals (Glaser/Strauss 1967). In accordance with the appeal for “more disclosure of the authors’ biases and involvement with a particular setting” (Dyer/Wilkins 1991, 618), before describing the case, we outline our involvement in it.

The authors and the top management are connected via a project that deals with the question of how SMEs cope with the effects of demographic change with a focus on diversity issues. Both authors had previous personal contact with the SME’s top management, consisting of the CEO and deputy CEO, but the observation was conducted by only one of the authors.<sup>6</sup> In several meetings, the SME’s management reported incidents of intercultural conflicts, which sometimes stopped production for over an hour. Mainly conflicts between Russian and Vietnamese staff were described, although in one department, in which all three cultures were represented, the collaboration presumably failed continuously owing to disputes and a complete lack of cooperation among the workers. According to the management’s account, work-related information transfer between the cultures was limited in all five production departments. However, the managers positively pointed out that the personnel organized their shifts themselves and noted that this worked well without any support from their side. In production-related areas, however, the staff did not make any decisions on their own, which impedes an efficient and fluent work flow. For example, every time a mistake occurred in the production process and resulted in a flawed product, one of the managers would be consulted as to whether to restart the process. Another issue the managers raised was that the first-line manager, who was mainly responsible for quality management and supervision of the production, did not assume a leadership role. Finally, the managers remarked that at the moment no problems existed with the administration, the technical staff, and the R&D department, since their members all shared one culture. These conversations with management gave the observer relatively detailed information about the management’s impression of the current situation in the company.

The firm that was the subject of the open participant observation is a German SME that is a component supplier for the high-tech industry. The firm is 25 years old and still managed by the founders. The workforce (23 employees in total) consists of Vietnamese, German, and Russian staff, approximately equally distributed. The production process comprises five small departments with a maximum of four members each. Four of the production departments constitute the production process, which the product passes through while recurrently being examined after each work step in the fifth department, the control department. The company’s structure is displayed in the following *table 1*, *figure 1* and *figure 2*.

<sup>6</sup> The observer is an educated specialist in international culture and business studies with focus on intercultural collaboration.

Company Data	Key Activities	Unique Activities	Market
<ul style="list-style-type: none"> <li>▪ Founded in 1988 as a one-man business</li> <li>▪ Industry: High-technology-sector – Sensor technology</li> <li>▪ Strategic position: Variety-based positioning<sup>7</sup></li> <li>▪ Employees 2013: 23</li> <li>▪ Total Revenue 2011: 2,6 Mio €</li> <li>▪ Orders: Approximately 5000 per year</li> <li>▪ Customer range: Europe</li> </ul>	<ul style="list-style-type: none"> <li>▪ Production of high-tech components, labor intensive, only partially automatable production processes</li> <li>▪ Research and Development of customized high-tech components and new production techniques</li> <li>▪ Sales</li> </ul>	<ul style="list-style-type: none"> <li>▪ Customized production</li> <li>▪ Limited-lot production</li> <li>▪ Unique mix of production techniques</li> <li>▪ Research and Development of new products and production techniques in collaboration with customer</li> <li>▪ Express-service</li> </ul>	<p>Hardly competition in Europe owing to specialization and express-service. However, strong competition from other countries, e.g. USA and China, for non-express-orders.</p>

Table 1: Company data and activities

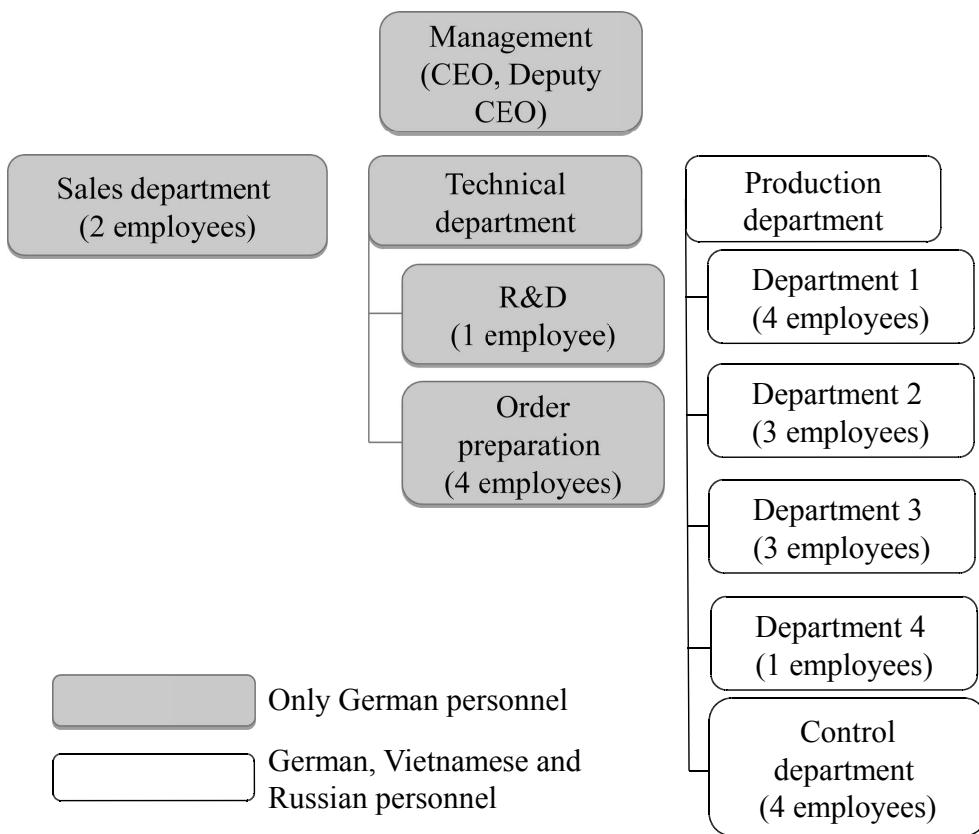


Figure 1: Organizational structure of the manufacturing, small company

<sup>7</sup> “(...) positioning can be based on producing a subset of an industry's products or services (...) it is based on the choice of product or service varieties rather than customer segments. Variety-based positioning makes economic sense when a company can best produce particular products or services using distinctive sets of activities.” (Porter 1996).

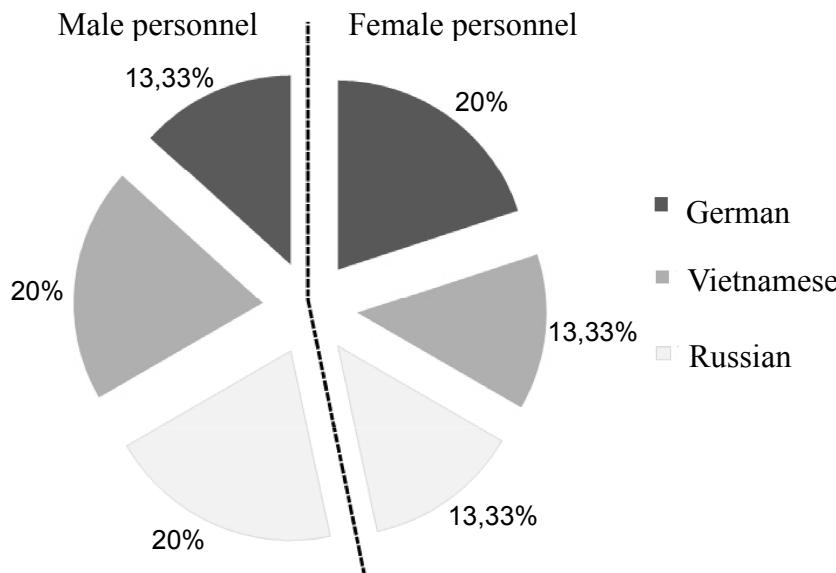


Figure 2: Graphic display of the distribution of nationalities and gender in the production

The observation was overt, as the management permitted access to the observer and announced the observation to the personnel via the internal newsletter. The time agreed upon for the participant observation was two days (taking place in winter 2012), with the prospect of conducting subsequent observations. The main focus of the observation was on production, since the management reported problems mainly with that area of the company. The observer had the authorization to interview the personnel and actively participate in the production while complying with safety regulations. During the two days, the researcher observed informal discussions, everyday work practices, official meetings, and daily routines. At the beginning of the study, the observer took field notes on site. However, after the personnel reacted skeptically and voiced their suspicion of being evaluated, she waited until after the observation to write down the observations and conversations.

#### 4. Results

The observed incidents were analyzed by the authors and summarized into three major categories: intercultural conflict potential, “bad” leadership, and organizational structure. To obtain an external evaluation of the categories, we presented the results to experts in international management, who were not part of the project. After the discussion with the experts, we added a fourth category, “negative attribution”. We discuss the resulting categories individually below, and *table 2* shows the categories, definition, short examples, and theoretical basis.

Category	Definition	Examples	Theoretical basis
Intercultural conflict potential	Incidents, in which intercultural conflict potential was observed, that did not take effect in form of an open conflict and thus not noticeably influence the company's performance	Criticism styles: Vietnamese and Russian staff can be offended by the direct, German criticism style. The German staff tries to adapt to this cultural characteristic, though minor tensions between the cultures were still observed  Language: Some of the foreign staff lack the necessary language knowledge to successfully communicate on a professional and private level with other staff. This not only hinders the development of a relationship but also causes stress in work related areas	Criticism and communication style as an intercultural conflict potential is extensively described by <i>Hall</i> (1989), <i>Hofstede</i> (2005), and <i>Trampenau/Hampden-Turner</i> (2007).  The language dependence of the building of trust and relationships is outlined by <i>Henderson</i> (2005); the obstruction of the work process due to language problems is described by <i>Feeley/Harzing</i> (2003).
“Bad” Leadership	Incidents, in which a form of “bad leadership” was observed, like yelling at, display of disinterest or intimidation as a means to raise performance, but which may negatively influence the employees’ performance	Pressure: By raising their voice and threatening the employees the management puts the personnel deliberately under pressure seeking to raise the personnel’s performance  Disinterest: By not keeping the employees informed about the impending short work the management displays a lack of interest in the employees’ situation	Consequences of “bad” leadership in form of depreciation and intimidation are poor performance by lowering job motivation and facilitating resistance as depicted by <i>Tepper</i> (2007) and <i>Dong, et al.</i> (2012).  Unsupportive behavior like displaying disinterest in the subordinates’ work and situation as a catalyst for lower job motivation and poor performance is outlined by <i>Rooney/Gottlieb</i> (2007).
Organizational Structure	Incidents, in which the organizational structure hindered the employees’ and company’s performance	Lack of communication: New procedures or changes are not effectively communicated to all departments, as they are usually just orally communicated  Lack of procedures: There are no formalized procedures for instructing and training of new personnel, or for dealing with standard problems in the production (forwarding obviously faulty products to the control department or redoing it without consultation)	Communication as an essential organizational structure for performance, especially in manufacturing companies is described by <i>Davis</i> (1968).  Formalization and organizational norms as a vital factor for a company’s success by reducing role ambiguity, increasing identification with the organization and structuring job activities is depicted by <i>Organ/Greene</i> (1981).
Negative Attribution	Incidents, in which the employees make negative attributions about the leaders’ actions and behaviors and reversed	Employees’ attributions: The management’s disciplinary approach to leadership is interpreted as disrespect, disinterest and incompetence, damaging the leader-subordinate relationship  Management’s attributions: The employees’ poor performance is attributed with incompetence and sabotage provoking the management to respond to poor performance with disciplinary actions	The negative effect of negative attributions to a leader’s actions on the leader-subordinate relationship is specified by <i>Darborough/Ashkanasy</i> (2002), the dependence of attributions on previous experiences with the leader is outlined by <i>Ferris, et al.</i> (1995).  The relationship between the leader’s reaction to poor performance and the attributions he or she makes is described by <i>Green/Mitchell</i> (1979).

Table 2: Overview of the categories

#### 4.1 Intercultural conflict potential

During the observation period, the researcher observed several incidents that demonstrated that most employees were aware of their cultural differences and had learned to handle the resulting conflict potentials to a certain degree.

One of the production departments was described by the CEOs as very difficult to work with since the members did not collaborate with each other because of intercultural conflicts. On the first day, two relevant incidents were observed in this department, which consists of four male workers: one German, two Vietnamese (one of which was away on leave), and one Russian. During the observation, a custom-built product was ordered that required all three members of this department to decide together how it should be executed. Although the Russian employee speaks German on a basic level, the Vietnamese has serious difficulties with the language. Thus, the German employee needed to explain everything at least three times for his colleagues to understand. Body language and a harsh undertone suggested that all three workers were stressed. At one point, the German raised his voice, asking loudly why they did not understand anything. The other two workers reacted typically for their culture to this open criticism: the Russian acted irritated while the Vietnamese tried to avoid eye contact and smiled. In response, the German visibly tried to pull himself together, took a deep breath, and started to explain again. From this point on, all of them were explicitly friendly to each other. When they reached a conclusion, they separately followed their work routine again.

This incident shows that language offers a major potential for conflict in this department. However, it also demonstrates that even in stressful situations, these workers manage to stay professional and fulfill their workload. Later that same day, a technical problem occurred, leaving one machine unusable and requiring reinstatement of an old machine that none of the workers had used for a year. After a consultation with the CEO, the Russian member of the team was assigned to reactivate and adjust the machine. It took him almost an hour to successfully complete this task. During this time, both of his other colleagues checked with him from time to time and tried to help him. When the machine started to work properly, they laughed together, patting each other on the shoulder. This situation made obvious that although they had experienced some tension earlier that day, they had a good team spirit, helping each other out when necessary. Thus, no intercultural conflicts were observed in this department, despite the potential for conflict because of the language problems and different communication styles. The German employee speaks his mind openly and directly, and his colleagues feel uncomfortable with his style of communication. Yet, the German employee tries to adjust to his colleagues to a certain degree. As to the information transfer between the different cultures, which was reported as a problem by the CEOs, when the arrival of the next shift was observed in any production department, including this one, the newcomer was briefed by another employee, most of the time one with a nationality different from the newcomer's.

The department with the most potential for intercultural conflict is the control department. After each work step, the product is examined in this department and when flawed turned back to the other departments. Thus, the potential for structural conflict is present, since the members of this department have to point out the mistakes of others, criticize their work, and sometimes report them to management. As already noted, Germans are very direct and open when criticizing, whereas Vietnamese are very sensitive to public criticism. In the Vietnamese culture, criticism is always voiced indirectly and especially not in

front of other people, to avoid a loss of face. However, all members of the control department seemed aware of this characteristic of the Vietnamese culture. When a German employee of this department had to point out a product flaw to a Vietnamese worker, she lamented to her colleagues that you couldn't talk to the Vietnamese because they take everything personally. However, she then tried to be explicitly careful and gentle in explaining to the Vietnamese colleague what was wrong with the product, asking him politely to redo his work. When talking to German colleagues, however, she addressed them and their mistakes directly. During the observation the researcher witnessed several similar situations, which demonstrated that the members of the control department adapted their behavior to the cultural norms of the employee they were talking to. Thus, although the potential for intercultural conflict existed, the personnel exhibited openness to diversity and awareness of the other cultures' practices.

### 4.2 "Bad" leadership

Several incidents of "bad" leadership were observed, of which two are presented here. When the deputy CEO introduced the observer, she asked a Vietnamese employee, who was working in one of the production departments alone at that time, if he had read the newsletter. The employee negated with a shake of his head. The deputy CEO then criticized him aggressively in a loud voice for not reading the newsletter, walked him to his computer, and demanded that he read the newsletter "now." The Vietnamese employee seemed intimidated, slouching his shoulders and avoiding eye contact. As he tried to gain space by taking small steps away, the deputy CEO followed him closely, leaving just a few inches between them. After she left him alone with the observer, he acted embarrassed, smiling and looking at the floor, as is typical for the Vietnamese culture. Undeniably, intercultural elements influenced this situation, since the deputy CEO's direct criticism was in line with her German culture and the Vietnamese employee's reaction was consistent with his culture, in that he was intimidated and embarrassed owing to the loss of face in front of the observer.

This incident was categorized as "bad" or destructive leadership for the following reasons. Although the deputy CEO was not actually yelling at the employee, which as described in the literature review is characteristic of destructive leadership, she deliberately tried to intimidate the employee to make him follow the management's instructions by raising her voice, accusing him in a scathing undertone, and warning him that not reading the newsletter would have consequences. As previously described, destructive leadership does not necessarily come from a leader's intent to harm the employee, as the leader may be trying to raise the employee's performance. In this situation, it can be assumed that the deputy CEO intended to take a firm stand regarding the company's policy about the newsletter and ensure that the employee would read it in the future.

This disciplinary approach was also observed in another situation. A week before the observation, the management announced to the personnel that they would probably have to work short time owing to the critical order situation. During the first day of the observation, two Russian employees asked the first-line manager whether the short time work was still being discussed, as they had not received any information after the announcement. The employees told the observer that they were very anxious for news on that topic, since they were dependent on the money. However, the first-line manager had no information, since he was not present on the day of the announcement and was not informed af-

terwards. In an informal conversation with the observer, the CEOs revealed that they use short time work as a threat or disciplinary measure, to let the personnel know that the company is struggling, induce fear for the company’s situation, and thus encourage the employees to raise their performance.

Two main reactions to this threat and the following days of uncertainty were observed: First, the employees either felt mocked, since they actually collected overtime owing to their workload, or felt scared, because they were dependent on the money and had no knowledge about what would develop. All of the staff, however, felt that the management had disregarded their difficult situation by failing to consider their dependence on the money and the ordeal of not knowing what was going to happen. However, this incident also shows that, contrary to the management’s belief, the workers accept the first-line manager as a leader, since before talking to the CEOs they chose to ask him about this sensitive subject. In addition, all employees seemed united on this subject, talking to each other across nationalities. In conclusion, threatening the employees and displaying a lack of interest in the company’s personnel are typical characteristics of “bad” leadership.

#### 4.3 Organizational structure

Structural problems also influenced the employees’ negative attitude toward the CEOs. Shortly before the observation, the management introduced a new system for production, requiring every step of the production process to be signed on the process sheet by the employee who executed it. However, only half of the staff was informed of the new process, resulting in considerable confusion and causing tension between the employees. When those who did not know about the new system realized they had not been properly informed, they exhibited strong stress, telling the observer that situations like that happened very often.

In addition, since the managers usually were disturbed frequently during the day, they had established a formal consultation hour, during which any production-related question could be asked. The staff was supposed to collect questions and wait for the consultation hour. However, the managers changed the time without communicating the change to the employees. While the observer was in the control department, one of the employees pointed out the sheet with the consultation hours hanging on a wall and told her that the managers should be here now to answer questions, but they weren’t. She stated that this situation was an example of why she was confused about organizational procedures and said that she did not know what she was supposed to do, since if she called one of the CEOs now, the CEO would be angry with her. Another point of criticism the employees mentioned was the lack of organizational procedures, like the training of new personnel, and support with new machines or work processes.

#### 4.4 Negative attribution

In addition to the incidents described, during the second day of observation the employees gave several personal accounts relating to both CEOs. Notably, after one German employee started to complain about the situation in the company, almost all of the German staff from production and several from administration also wanted to talk to the observer about the CEOs. However, most of the foreign staff was cautious about saying anything that might incriminate them. Still, one female Vietnamese and one female Russian employ-

ee talked relatively openly about how they felt mistreated by the management. According to their accounts, the CEOs frequently insulted and yelled at them. Many of the employees said that no one should talk to a human being like that. They not only felt mistreated, they attributed disrespect and depreciation to the management's actions. They perceived the management's intention of establishing diversity management measures as a mockery, since they contended that they had no problems at all in that area except for the language.

Many of these employees felt that instead of putting effort into aimless measures, the CEOs should change their approach to leadership and modify the company's structure. For example, they felt overstrained and left alone to deal with many problems, like organizing their shifts or learning to work with new technologies. Several reports were very emotional. Notably, however, the employees demonized everything the CEOs did, even if the good intention behind the action was obvious. According to attribution theory, employees interpret every action of the leader on the basis of their prior experience with the leader. Thus, while the CEOs tried to keep their employees in line with a direct and disciplinary leadership style by applying punishments to enforce the rules, the employees interpreted their actions as indifference to the employees and disrespect. However, none of the employees thought that it was the CEOs' intention to harm them.

After the observation on the first day, the CEOs also talked very openly about the company's situation and their personnel. According to the CEOs, the foreign employees were making a lot of mistakes because they did not know the German language and did not follow instructions. As an example, the CEOs adduced again that no one showed up during consultation hours and instead continually interrupted them during their work to ask production-related questions, and they attributed the staff's poor performance to personal incompetence. The CEOs also repeated their assumption that production was frequently obstructed by intercultural conflicts and emotionally expressed their suspicion that the staff purposely sabotaged the production, especially as the day before the observation, the company had lost a customer because it did not meet a deadline as a result of delays in production, despite the product being marked as an urgent order. The management interpreted this poor performance as intentional resistance from their personnel. While many employees stated that they often felt falsely accused for low performance or mistakes, both CEOs remarked that none of the staff would take responsibility for their mistakes. In line with attribution theory, the CEOs chose punishment as a response to poor performance, as they attributed untrustworthiness to the employees' actions.

The volume of negative attributions showed clearly that the quality of the leader-subordinate relationship was damaged. As laid out before, even actions that could be interpreted positively were attributed to negative intentions. This pattern is consistent with attribution theory, as every action is interpreted on the basis of previous interactions.

## 5. Conclusion

The single-case study described here illustrates the potential of the entanglement of intercultural conflicts and “bad” leadership to disguise essentially solvable problems within an SME. This case clearly shows a strong relationship between destructive leadership and intercultural conflicts, but in a surprising fashion. While the initial intention of the observation was to identify intercultural conflicts among employees, none could be detected, as most employees displayed openness and awareness of the other cultures' idiosyncrasies. Instead, the observations and data revealed a conflict of a different nature, in that disci-

plinary approach to leadership and lack of cultural sensitivity resided with the SME’s management and reflected in a number of management actions. The conflict thus was not between employees, as management claimed, but between management and employees. “Bad” leadership practices, in combination with flaws in the organizational structure, produced the conflict overlaying the potential for intercultural conflict. In addition, because of a mutual history of bad experiences, both sides seemed to make only negative attributions about each others’ actions. These attributions are consistent with the predictions of attribution theory, and served to increase the entanglement of leadership with cultural diversity. As observed, the organizational structure and the management practices not only demotivate the employees, impeding the use of the employees’ full potential, but also strongly interfere with the production flow, causing disruptions in the production process and delay of orders. Thus, “bad leadership” imposes considerable costs for the company. In line with Vaara *et al.* (2013), the managers attribute these costs and the failure to meet deadlines and thus retain customers to intercultural conflicts, masking the fundamental cause and inhibiting an effective approach to solve their problems.

For these reasons, a recommendation to the management of this SME would be to change its leadership style to one of transformational leadership, as proposed by several studies presented in the literature review. For such a drastic change in leadership style, external support by experts is indispensable. However, SMEs usually do not have the financial resources to hire such experts. Therefore, it would be advisable for SMEs to form networks or clusters with companies in a similar situation to organize joint training and consultation by experts. Networks also offer the opportunity to exchange views and experiences with people on the same level who share the similar problems and therefore can provide a relevant external perspective, for example on “bad” leadership.

This study has some limitations. Even though single-case studies are recommended for inductive theory building, especially at an early stage, single-case studies limit the generalizability of the conclusions and theories developed. Additionally, without the availability of other cases for comparison, misreading of the data is a potential risk. Thus, for external validity reasons it would be advisable to conduct more observations in similar contexts (Leonard-Barton 1990).

Despite the limitations attaching to case studies, we believe that the surprising findings of this study are useful for future research. In particular, further research considering the entanglement of “bad” leadership and intercultural conflicts should be conducted to establish whether and how these two phenomena influence each other in other contexts. In addition, in light of the sparse research on the consequences of “bad” leadership in SMEs, a deeper understanding of this leadership is required. In a case like the one presented, which consists of a severe conflict between management and personnel, possible strategies need to be analyzed to support both sides in resolving their disputes.

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