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**Research Report**

## Selected papers from the VIII Chemnitz East Forum "Cooperation between East and West: Westernization of the East or Easternization of the West?"

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# **Schriften zur Organisationswissenschaft**

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**Selected papers from the VIII Chemnitz East Forum  
„Cooperation between East and West: Westernization of the East  
or Easternization of the West?“**

Rainhart Lang / Ingo Winkler (Eds.)

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## Contents

<b>Lang, R., Winkler, I.</b> Preface.....	1
<b>Alas, R., Tafel, K.</b> Corporate Governance in Estonia.....	4
<b>Bakacsi, Gy., Lázár, E., Sánduly, E</b> Relations between societal and organizational culture variables of Romania and economic development indicators at regional level .....	17
<b>Bibu, N., Petrisor, I., Ionescu, G., Cazan, E., Bizoi, G., Saratean, E., Vlad, S.</b> Romanian Societal Culture: A culture towards Westernization? .....	52
<b>Čater, T.</b> The Analysis of Knowledge-related Competitive Advantages in Slovenian Firms.....	74
<b>Ciucan-Rusu, L.</b> Organizational Culture and Management Behaviour in Romanian Companies.....	102
<b>Jasaityte, N., Lang, R.</b> Influence of Foreign Investments on the Structure, Organizational Culture and Leadership of Lithuanian Enterprises .....	116
<b>Pučko, D.,</b> The Choise of the One-Tier or Two-Tier Corporate Governance Model in the CEE Countries .....	140
<b>Zashev, P., Kamenev, D.</b> Market Entry of German Small and Medium Business in Russia: Challenges and Strategies....	162



The Faculty of Economics and Business Administration of the Chemnitz University of Technology organized the VIII Chemnitz East Forum, lead by Prof Rainhart Lang, from September, 13<sup>th</sup> to September, 15<sup>th</sup> 2007. Present and future themes of research on transformations in the Middle and Eastern European countries were subject of the international conference named “Cooperation between East and West: Westernization of the East or Easternization of the West?”

This event is to enable an intensive exchange of knowledge and experiences between academics of Eastern and Western Europe on the one hand, and to develop research cooperations on the other hand. Furthermore universities of Eastern and Western Europe shall be able to establish or expand contacts with each other in the interdisciplinary symposium. So, scientists of different fields congregated in this forum: economic and management scientists, educationalists and sociologists.

The VIII Chemnitz East Forum was a meeting of leading European researchers working in the area of organizational changes in transforming societies. 26 scientists of 13 countries discussed previous and present research topics. They also initiated new corporate projects. Up-and-coming young scientists working on themes of transformation took part, too.

Current fields of transformation scientific research were treated at the conference, addressing following aspects:

- Enlargement of Western and Eastern methods of management in Central and Eastern European (CEE) countries,
- Transfer of methods of human resource management and organizational structures between East and West,
- Leadership in international cooperations, East-West joint ventures as well as enterprises in MEE with Western management,
- Internationalization strategies of Central and Western European enterprises,
- Cooperate governance and board of management structures of CEE enterprises as well as joint ventures,
- Developing organizational forms of East-West cooperation and
- Ethical aspects of East-West cooperations.

The presentations dealt with aspects of organizational change and cooperation between organizations in Middle and Eastern European countries as well as Western Europe and Northern America. Especially results of theoretically based empiric researches were lectured. Based on the lectures, presented discussions followed enabling an extensive exchange of ideas.

Lectures and discussions made clear that East-West cooperations, in particular caused by differences in power, are still especially marked by a transfer from West to East. Detailed studies and closed examinations however show that this process is not a simple transfer of solutions. Furthermore, local players develop differing strategies of adaptation and further development of transferred institutions, elements, concepts, and solutions. The role of national, regional or organizational cultures behind the influences of the “old” system was notably emphasized. In addition, not only the influence of lines of business with their special conditions and sometimes very different integration in local or global markets but also chosen strategies and ways of implementation of Western management concepts and instruments were of importance. In the end, specific conditions lead to a change in meaning concerning transferred institutions in the Central and Eastern European context, and are partly reflected in changed identities of organizations in CEE countries. While the conference mainly looked at the very differentiated process of the partial ‘Westernization’ of the East, the reversed process of has just begun.

One result of the discussions is that theoretically founded analyses are required concerning the development of scientific research approaches. “Multi-theory-approaches” may be suitable because of the complexity of processes but request a meta-theoretical frame or at least sufficient consistency between the used theories. Beside quantitative analyses qualitative researches are still of importance. Concerning the scientists’ role in this process the significance of a critical approach was emphasized. This approach is to avoid one-sided partisanship and examine problems in the process of cooperation and mutual transfer. A positive statement of the discussion was that scientific cooperations between colleagues from Central and Eastern European countries, like GLOBE-Romania, bear first fruits.

Status and problems of abstract publications about management in Central and Eastern Europe, published in leading management papers, were compared to articles of the Journal for East European Management Studies (JEEMS) in a pre-conference-workshop. The bigger part of publications about management in Central and Eastern Europe were written by Western researchers, but in JEEMS the number of regional authors and institutions was significantly higher.

We would like to thank the numerous sponsors and supporters, especially the Friedrich Ebert Foundation, German Research Foundation, Chemnitz University of Technology, Daimler-

Chrysler-Fonds, Association of Friends of the Chemnitz University of Technology, envia Mitteldeutsche Energie AG, Stadtwerke Chemnitz, NILES-SIMMONS Industrieanlagen GmbH as well as Lichtenauer Mineralquellen. They enabled us to organize another high quality conference, that - with dignity - gets into line with Eastern public discussions and enlarges the role of the Chemnitz University of Technology Commitment as hub of East-West-relations.



**Abstract**

*The last dozen years Corporate Governance (CG) has become an important subject in many countries around the world. Although it has been admitted that governance models vary greatly between different countries and that there is no single ideal model of governance (Mygind 1998), Turnbull (1997, 185) argues, most research about theory and practice of corporate governance has been heavily focused on English speaking countries, particularly on the US. Also Klijnsmit (2001, 25-26) claims that the issues in corporate governance (CG) have primarily been in Anglo-Saxon countries which are the centre of attention.*

*The corporate governance problems as known in a market economy arose in CEE countries in connection with the privatization of large enterprises at the beginning of the 1990s, and to a large degree even afterwards. The emerging pattern of CG is quite difficult to interpret according to the traditional Western models and varies greatly from country to country, because various institutions and the environment as a whole do not work or at least do not work fully in the case of transition countries (Tafel et al, 2006). Therefore, CEE countries represent a very good testing ground for Corporate Governance (CG) related research.*

*This paper studies forms of corporate governance in foreign owned companies in Estonia: co operations between owners, council, and board in Estonian companies.*

## **Theoretical background**

Corporate governance has been defined as coordination mechanisms of different stakeholders to produce and distribute the output of an enterprise (Mygind 1999, 2).

Babic (2003) points out, although there are considerable differences between Anglo-American, German, and Japanese corporate governance systems, that all of them share the luxury of defining the subject of corporate governance within the context of functioning market systems and highly developed legal institutions while many developing and emerging economies (at the same time) lack or are only in the process of developing the most basic market institutions.

Changes in the economic environment and related institutional and social environment occur faster in CEE countries than in other groups of countries — in countries with a developed economy and in the developing countries. Trying to develop a system of good corporate governance in these countries is made difficult by problems such as complex corporate ownership structures, vague and confusing relationships between the state and financial sectors, weak legal and judicial systems, absent or underdeveloped institutions, and scarce human resource capabilities (Tafel et al, 2006).

Kuznetsov and Kuznetsova (2003, 244, 245) claim that the Anglo-American theory of corporate governance, which concentrates mostly on problems of stock ownership, is not exactly adequate in a situation where the ownership structure is in rapid transition and where ownership concentration as well as increases in foreign ownership is in progress. As far as one particular context or rather its scale is concerned, the US capital market for example cannot be compared to that of a small European country.

Babic (2003) raises two problems at once: whether the CG system working in developed economies could be adapted to transition countries at all and whether it would be a good solution.

Nuti (1997) has noted that depending on a country's legislation a post-socialist country was oriented on and privatisation schemes it used, the development of different types of corporate governance models could be observed in various countries, for example, in Poland the German type and in Russia the Anglo-American type. In reality, Slovenian enterprises adopted the

German model of CG (Rozman 2006), as did Czech enterprises (Maly 2006). In the German model, governance is assigned to two boards: supervisory board and the management board.

One of the key problems is the role of the supervisory board in relations to the management board (Rozman 2006). Also the daily practices of CG in Estonia have been influenced by conflicts between shareholders, the supervisory boards, and management (Vaks 2006). The general agreement is that supervisory boards should not be involved in operative and tactical decisions (Rozman 2006).

Ownership structure is determined by several enterprise and country level factors, as size of enterprise, its need for capital and specificity of capital, economic, institutional, and cultural environment (Jones and Mygind 2004; Demsetz and Lehn 1985).

The board of directors is fundamentally a decision making body (Harper 2005: 7). Boards should carefully define their own objectives and make a plan for how they can be best carried out (Carter and Lorsh 2004). The stage of a company's development dictates which roles and responsibilities should have the most attention (Conger et al 2001). The rowing burden of legal duties and responsibilities is being placed upon the shoulders of directors (Coulson-Thomas 1993).

To explore knowledge about corporate governance in different environments, an empirical study was conducted in Estonian enterprises.

### **Empirical study in Estonian enterprises**

Small-scale privatisation in Estonia began in early 1991. In 1992, it was decided to implement the 'Treuhand' model for accelerating the process of large-scale privatisation and a special body – the Estonian Privatization Enterprise - was established (Kein & Tali, 1995, 143). Privatisation was launched in the form of international tenders giving equal access to all bidders, including foreign investors. This means that enterprises were sold to either Estonian or foreign buyers on the condition that the buyers would be able to guarantee a certain amount of investments during a fixed period of time and to maintain a certain number of jobs (Hannula 2006, 80-81).

The ownership structures of Estonian enterprises are very concentrated, whilst at the time of privatisation a market for shares did not exist and enterprises or individuals could not buy the shares of enterprises as they could in Western countries. This makes the Estonian case different from the so-called Anglo-American system, where ownership is more diffused, and also from the

so-called German system, where the role of banks is very high, as the participation of institutional investors (banks and other financial institutions, including pension funds) in share trading has also been very low. It is more similar to the Italian model, as many enterprises are family-owned, but the concentration of domestic outsiders and foreign investors is also high (Hannula 2006, 81).

The aim of the empirical study is to explore which forms of corporate governance exist in foreign owned companies situated in Estonia in 2007.

The questionnaire used for the research was originally composed by the German researcher Thomas Steger and it has already been carried out in East Germany. The questionnaire has been applied for Estonian conditions and a survey was carried out by the Estonian Business School (EBS) in cooperation with the Estonian Institute for Future Studies.

The companies were randomly selected by the Estonian Statistics Bureau. The survey was done in 373 Estonian companies from January to February 2007. The respondents' rate was 31,4%, this means we got valid responses back from 117 companies. In this sample 55 of the companies were foreign owned and 62 domestic. 40 companies had more than 100 employees and are considered as big in this paper and 77 had 50 to 99 employees and are considered as medium.

## **Results**

### ***General characteristics***

Most of the enterprises were established in the middle of the 1990s (75%), only 25% were already operating before 1991, during the Soviet era. Only 10 companies, all foreign owned, were listed companies.

On the basis of turnover, medium-sized enterprises had an average turnover of 8,5 million Euros in 2006. Large enterprises had 4 times more turnover (33,3 million Euros). One third of all enterprises experienced a rapid increase in turnover in the last 5 years (33,3%), 50,4% evaluated the increase in their turnover as being moderate, in 12% of the companies the turnover was stable and 3,5% of the companies the turnover decreased.

The comparison in Figure 1 indicates that domestic firms have experienced a more rapid increase in turnover.

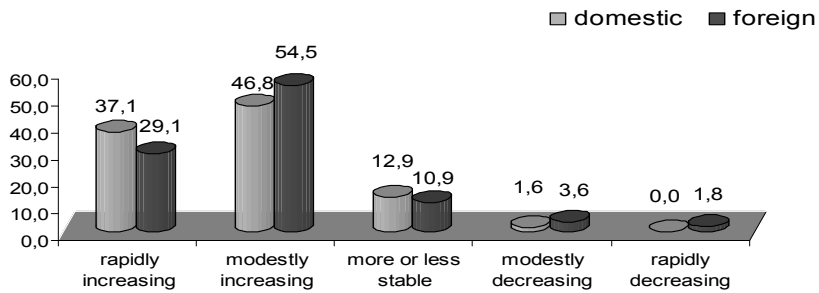


Figure 1. Turnover increases during last 5 years on the basis of ownership (%)

Rapid increases in turnover took place more often in medium-sized compared to large enterprises (Figure 2).

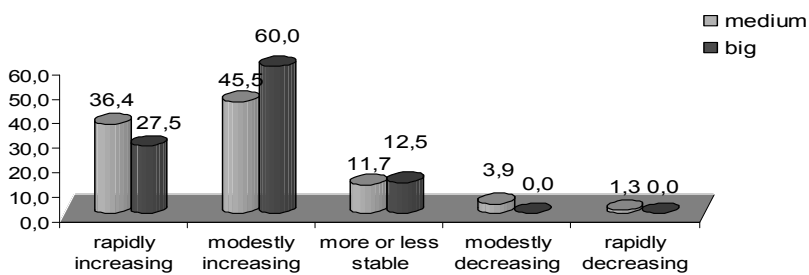


Figure 2. Turnover increases in the last 5 years on the basis of company size (%)

Ownership data indicates that in one third of all domestic companies, the company belongs 100% to the CEO or top management team and their closest family.

According to the data in Figure 3 about being part of a larger group, 4 out of 5 foreign enterprises belong to a larger corporation or conglomerate.

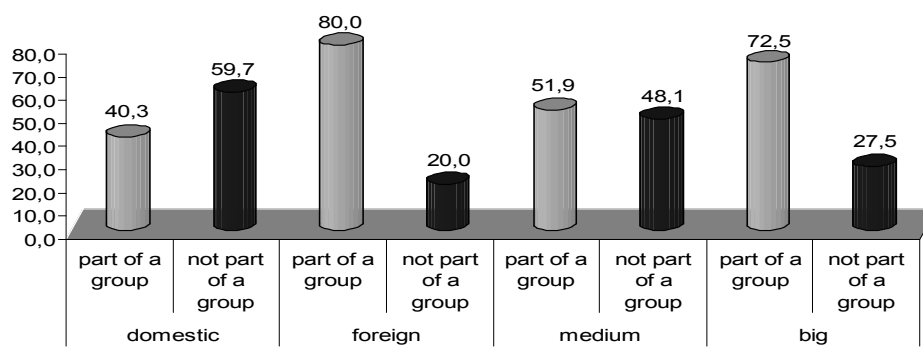


Figure 3. Belonging to larger concerns (%)

### ***Top Management***

In most firms, the top manager is also the CEO. Most top management teams have 1 or 2 members (38,5% and 22,2% respectively), 14,5% had 3 members and 10,3%, 4 members. Finally, 23% of the members of the top management were female.

The average tenure for CEOs is 7 years. Only 8% of CEOs were remunerated with stock options.

Most top management teams meet 1 or 2 times per month, on average 1.5 times per month. Only 14% of companies change their external auditor regularly. The average time between each change is 4 years. The top management has to report to the supervisory board on average 4 times per year.

The CEO of a company or other top management members attend meetings of the supervisory board quite often (Figure 4). There is difference between CEO and other members of the top management team. If a company has a CEO and a managing director, the CEO participates on board meetings only in 29% of companies.

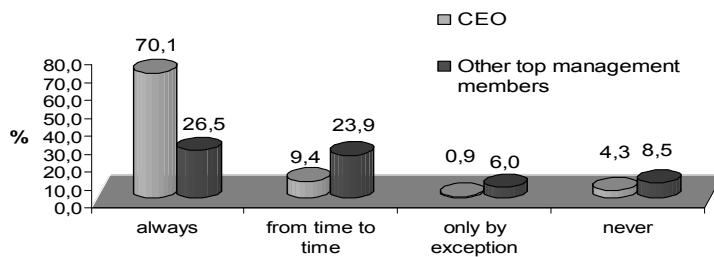


Figure 4. How often the CEO and other members of the top management attend supervisory board meetings (%).

### ***Supervisory Board***

As much as 44% of the enterprises have 3 members that possess voting power on the supervisory board. Only 13% of the members of the boards were female and 11% were elected by employees. In foreign firms most of the board members are foreign.

On the basis of background, 37% of the supervisory board members are also CEO or similar top executive in other companies, 10% are a CEO or similar top executive in the same firm, 9% are blue-collar workers in the company and 7% are state representatives.

In 48% of all cases, the members of boards of directors are also members of boards in other firms, but 65% of board members had *no business ties to the firm*. Only in 13% of the companies there are family ties between the CEO and the *supervisory board members*.

The average that the present chairperson has held his/her position was 6 years. Before becoming CEO the same person was a top manager in the same firm in 20% of the companies.

Board meetings take place 4 times a year on average. Quite often, formal board decisions are made outside board meetings (e.g. via phone meetings, e-mails, fax, etc). Only in 15% of the cases, special preparatory meetings (e.g. of the supervisory board members elected by shareholders and by employees) take place before the ordinary board meeting.

In 11% of the cases, the *supervisory board formed a special committee* for dealing with issues such as *compensation or remuneration* for members of the top management team, strategy,

and finances, issues connected with purchasing raw materials, investments, evaluating assets, as well as changing top managers.

The *job descriptions* for top manager positions are confirmed by 58% of CEOs. In 45% of all cases, the board regularly evaluates the performance of the top management team. In 33% of the firms, such an evaluation does not take place. A self-evaluation by the supervisory board was carried out in only 15% of the companies.

Only 15% had rules for compensating the work of the board members. In 35%, their work was compensated and in 49% it was not compensated.

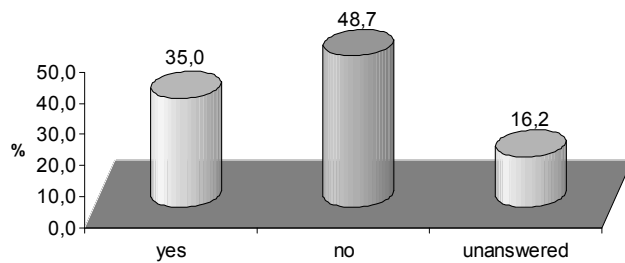


Figure 5. Compensating the work of board members (%)

There were several types of conflicts in the supervisory board (Figure 6).

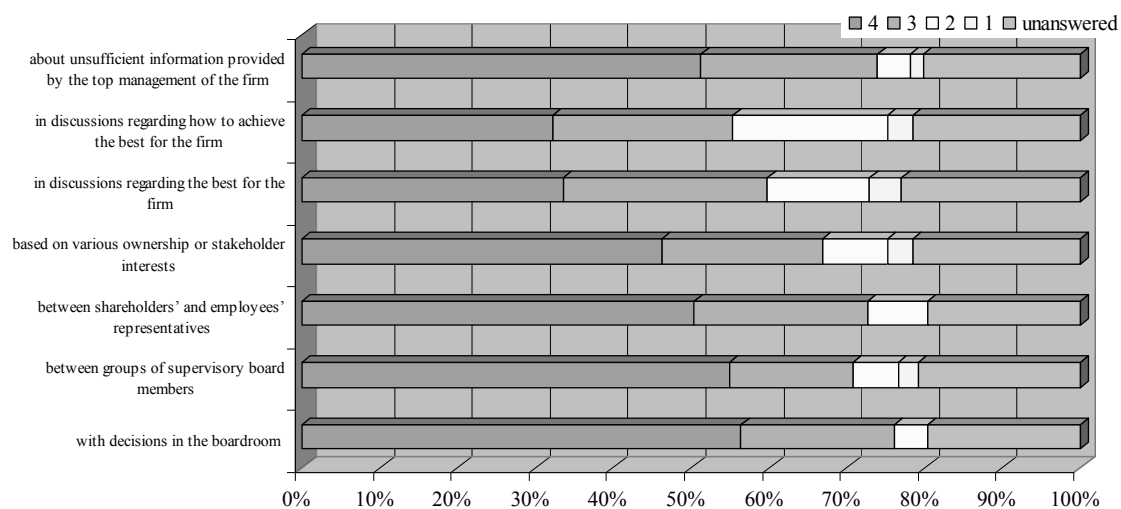


Figure 6. Types of conflicts in the supervisory board; 1 = yes and 4 = no.



According to these results, conflicts arise most often in discussions about what is best for the firm, but also in discussions about how to achieve the best for the firm.

Figure 7 indicates the contribution made by the supervisory board to different issues. Most attention was paid to the firm's business results, next came business decisions, and then replacing the top management.

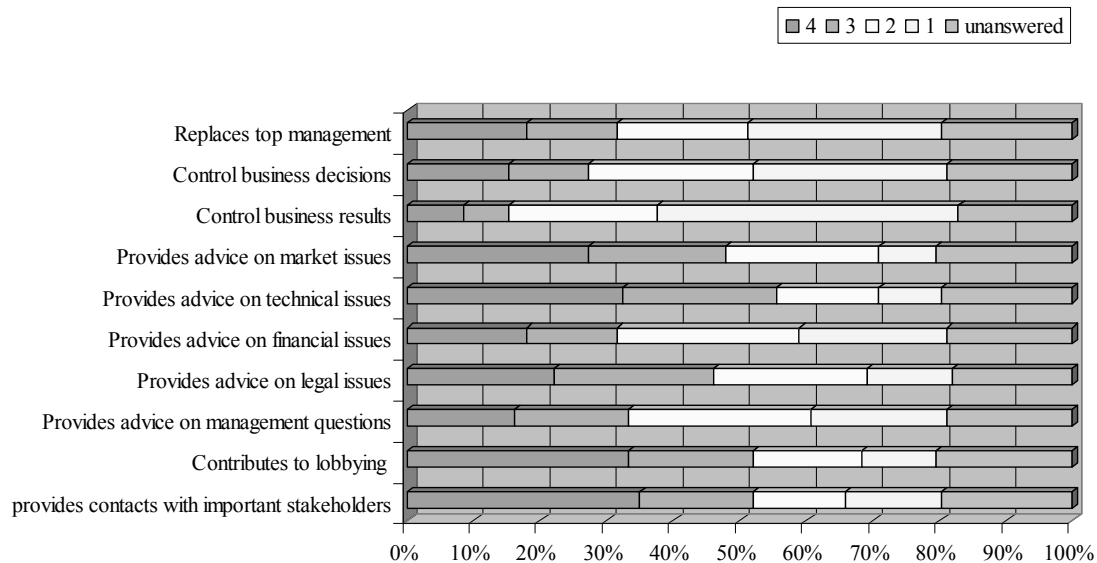


Figure 7. Contributions by the supervisory board to different issues; 1 = significant contribution and 4 = does not deal with this

There were statistically significant correlations at level 0,01 between all areas the board deals with.

### Stakeholders

There were three questions connected with stakeholders: which stakeholders influence the company's corporate governance; does *the company have signed an agreement with trade unions*; does the company have a relationship with suppliers of debt capital.

Figure 8 indicates the influence that stakeholders have on the company's corporate governance.

The most influential stakeholders are the customers (33%) followed by employees and suppliers. The influence of banks, the media, and local municipalities are all at a similar level.

Trade unions and external auditors have the lowest influence. Only 15% of organizations have signed agreements with trade unions.

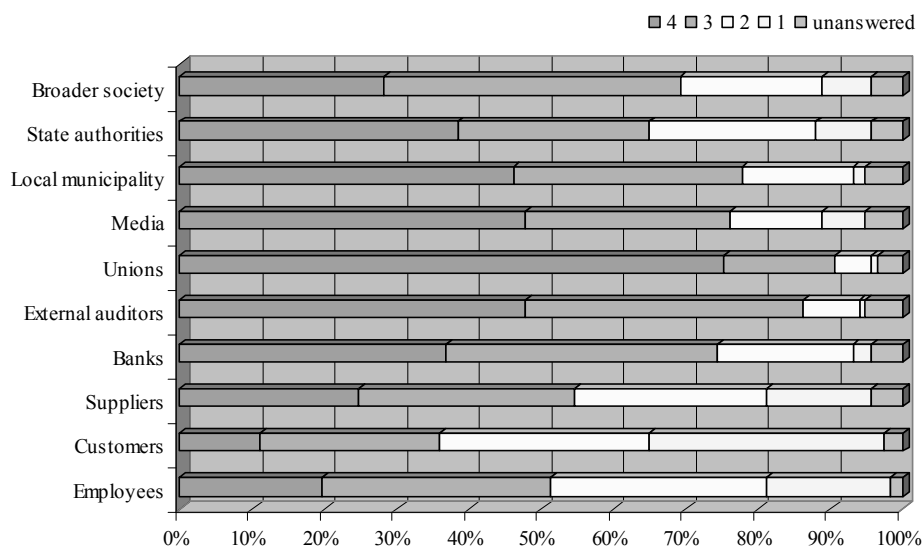


Figure 8. Stakeholder influence on company corporate governance; 1 = significant influence and 4 = no influence.

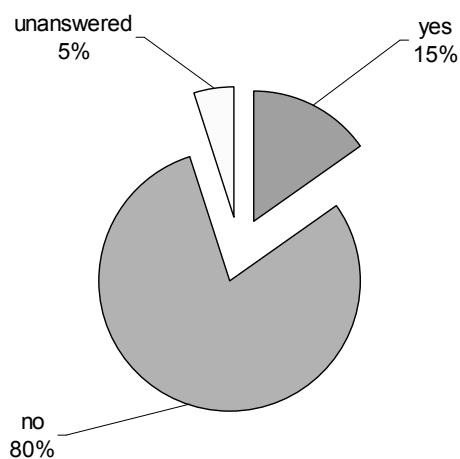


Figure 9 indicates the relationship with suppliers of debt capital. The strongest ties are with commercial banks (30% had very strong ties). The second strongest ties are with investment banks.

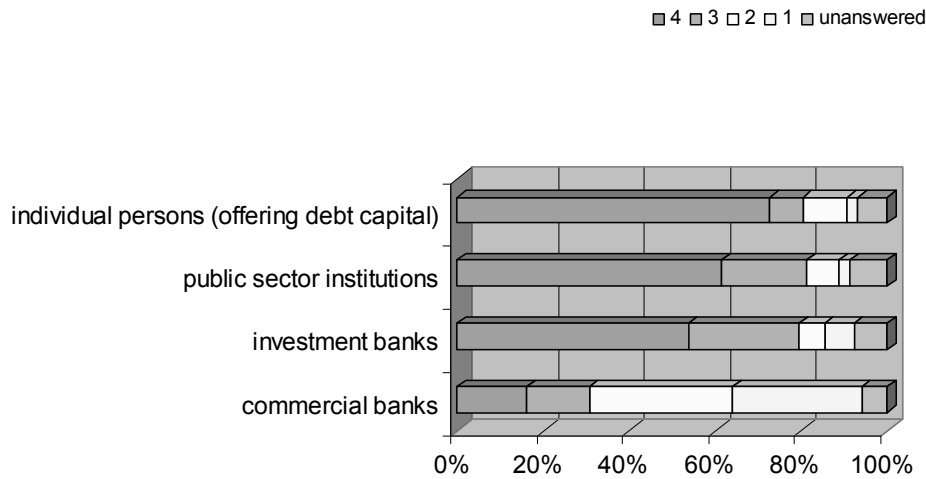


Figure 9. Relationship with suppliers of debt capital; 1 = very strong relationship and 4 = no relationship

## Conclusions

The current study was the first attempt to study corporate governance in Estonian companies by using quantitative methods. Results indicate that the average number of members in supervisory boards and top management boards is low. Almost half of the supervisory boards have 3 members and most top management teams consist of 1 or 2 members.

According to the current study, management boards meet 1 or 2 times per month. Board meetings in Estonian companies take place 4 times a year on average. Stiles and Taylor (2002) have found that the role of the board has indeed far more potential for active involvement in running an organization than they actually use. This is also true in Estonian companies. The small number of members of both boards raises the question if Estonian companies really need two boards.

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**Relations between societal and organizational culture variables of Romania and economic development indicators at regional level**

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**Abstract**

*With the contribution of representatives of 12 universities from Romania an empirical study has been carried out in order to extend the Global Leadership and Organizational Behaviour Effectiveness Research Program (GLOBE), an existing research program with 62 particular participating cultures to Romania. GLOBE is directed towards the development of systematic knowledge concerning how cultures affect leadership and organizational practises in different nations. The first result of the research presents variables of societal culture of Romania according to the culture variable definition of GLOBE (House et al., 2004) and position of Romania in a world rank and into county groups; it also presents variables of organizational culture of Romania.*

*Our paper aims to study the relation between the variables of societal culture of Romania (according to the GLOBE definition) and economic development indicators at regional level in Romania. The paper proposes to conclude on the strength and direction of relation between different culture variables and economic performance indicators at regional level in Romania. Concerning cultural measures, we rely on data base of GLOBE and GLOBE-Romania and present relationships (correlations) of GLOBE cultural dimensions and different indices of economic development.*

## **Introduction – culture and economic development**

All centuries had their dominant theories. These usually do not come from the middle of nowhere; they have their antecedents in the mental sphere. It is the challenges of the given ages that put them into the centre of public thinking. We may not be wrong pointing out that one of the dominant theoretical strata on the turn of the 21st century is cultural ground of social-economic phenomena.

As an anti-thesis towards a cultural melting-pot of the world-economy and the dominant economic role of multi-national companies, cultural identities are e more and more considered consciously by people world-wide. In the new world order, culture becomes increasingly important: previously, the ideological watersheds had broken up the world, nowadays, the cultural differences in the world seem to take over this role. As Samuel P. Huntington, professor of Harvard (Department of Government) puts it: “It is my hypothesis that the fundamental source of conflict in this new world will not be primarily ideological or primarily economic. The great divisions among humankind and the dominating source of conflict will be cultural. Nation states will remain the most powerful actors in world affairs, but the principal conflicts of global politics will occur between nations and groups of different civilizations. The clash of civilizations will dominate global politics.” (Huntington, 1993, p. 22.)

Not even Huntington had foreseen the disputation generated by his theorem<sup>1</sup> of cultural determinism of social-economic growth and development and economic competition. Although it applied to practically all historical periods, it is true to an increased degree for the “new world”: nations are managing their conflicts by mostly and primarily economic means. If the message of Huntington is taken seriously, the study of cultures is not a subject of scholars in social sciences anymore, but it should be more integrated into the interpretation and explanation of economic phenomena and to the instruments of (micro)economic success. And we should raise the question: is there a *pattern* of beliefs on economy and business in the narrower sense, and on nature, society, and man in a broader sense that increases our chances in contest and competition nowadays or are there patterns that depress and limit our competitiveness.

Most research on culture explores cultural patterns on a basic research base and rarely undertakes the risk of a cause-effect analysis of exploring and analyzing the *impact of culture* on social-economic growth and development. However, the relationship and cause-effect connection of (social-)economic development and culture has been a long time ago teasing issue in the echelons of social-economic scientists. One might find arguments for cultural determinism of economic development, but similarly numerous scholars trace back cultural development to

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<sup>1</sup> Fully elaborated in a pivotal book (Huntington, 1996) following the first article

economic roots. The summary of mutually contradictory arguments in literature is hardly anything else than mutual determinism and cause-effect relationship of culture and economy.

Social sciences literature discusses among the explanatory factors of economic growth and development both the given makings of culture and economy. Both factors seem to be important, however, before having reliable quantitative cross-cultural measures and data this relationship could be observed only speculatively and hypothesis based on those speculations could not be tested empirically

Culture is defined as mutually shared values and beliefs, having a deterministic role in shaping behaviour of collectives. In pre-industrial societies culture mostly materialized as religious systems and was difficult and slow to change or modify. With industrialization and social-economic modernization, this religious worldview has become more secular, rationalized, and more open to changes. The major change in values regards the pivotal values of modernization are growth, accession, and achievement-orientation. However, within the post-modern (post-materialistic) societies a kind of re-spiritualization emerges and (although on a high level of social-economic development) instead of growing by all means, re-orientation towards quality of life and re-distribution of goods along with a different logic took over.

Granato et al. writes: „In most pre-industrial societies are hostile to social mobility and individual economic accumulation. Thus, both medieval Christianity and traditional Confucian culture stigmatized profit-making and entrepreneurship. But, (as Weber argues) a Protestant version of Christianity played a key role in the rise of capitalism - and much later – a modernized version of Confucian society encourages economic growth, through its support of education and achievement.” (Granato-Inglehart-Leblang, 1996; p. 608.).

A 43 nations study based on 350 survey items of Ronald Inglehart (representing and covering 70% of world population, longitudinally repeating a 1981 study of 22 countries) tried to find an explanation for the connection between changes of social-economic systems, value systems and world-view of cultures.



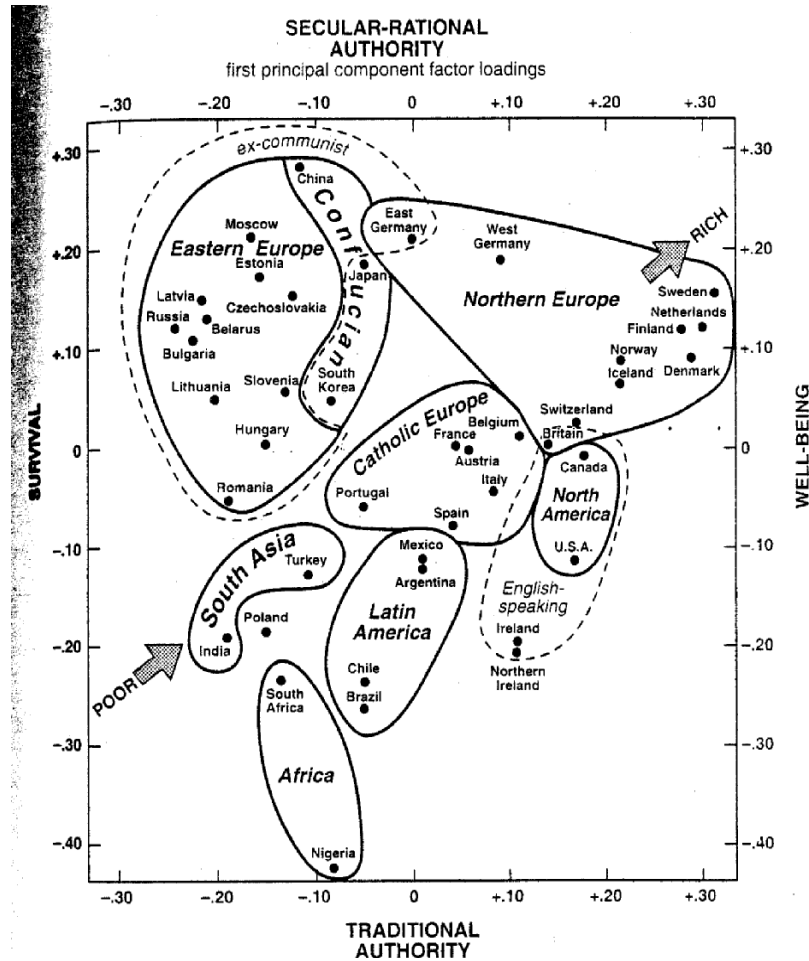


Figure 1. Inglehart's cultural map; Source: Inglehart (1997), p. 93.

As having data of 22 nations after 10 years (1980 to 1990), the importance of the World Values Survey (WVS) is that it makes it possible to follow a change of values. One of the key messages of that research (crystallizing into theoretical concept) is that both in developing and developed countries a change of values and world-view occurred in the context of social-economic environment. Inglehart positions societies on a two dimension world map of cultures (see Figure 1.), on which Romania can be found in the Eastern European cluster with medium score on the Traditional vs. Secular-Rational authority axis, and closer to the Survival edge on the Survival – Well-being axis. It is worthwhile to notice that on this map one can easily identify the well-known cultural clusters (Anglo, Germanic, Nordic, Latin-European, Latin-American, Asian, and African (see: Ronen-Shenkar, 1985).

Concerning the role of shared values on the micro (company) level, culture became a pivotal control mechanism (clan control). Jack Welch pointed out in an interview:

„And we remove people who don't have those values, even when they post great results. Even senior people with good results, doing great jobs in terms of numbers but not walking the talk, have to be removed to support our values. We have to part company.” (Meiland, 1997)

This provoking quote reflects a very consequent application of a management approach based on acceptance of organizational values. Following the logic of clan control, if performance and value driven behaviour confront each other, clearly the latter one is chosen. If somebody undermines the core control mechanism, it is regarded as negative from the organizational point of view, regardless of the actual achievement – resulting in dismissal.

### **GLOBE definitions of culture**

Although GLOBE research is becoming more and more well-known in academic circles, we shortly summarize the basic definitions behind our empirical study.

For the GLOBE project, culture is defined as *shared motives, values, beliefs, identities, and interpretations or meanings of significant events that result from common experiences of members of collectives that are transmitted across generations. It is important to note that these are psychological attributes and that this definition can be applied at both the societal and organizational levels of analysis.*” (House et al., 2004, p. 15)

The GLOBE-community differentiates between normative (should be, values) and descriptive (as is, practices) approaches and definitions of culture.

Our study focuses on the practices (descriptive approach, as it is), so we refer only to related definitions:

“Cultures are distinctive environments of collectivities about which members share meaning and values, resulting in a compelling model pattern of common affective, attitudinal, and behavioral orientation that is transmitted across generations and that differentiate collectivities from each other.” (House-Wright-Aditya, 1997, p.540.)

This approach is also called theory-in-use by Argyris (1992).

The definitions of the nine cultural variables are as follows (House et al., 2004, pp. 11-12.):

- Power Distance is the degree to which members of an organization or society expect and agree that power should be stratified and concentrated at higher levels of an organization or government.
- Uncertainty Avoidance is the extent to which members of an organization or society strive to avoid uncertainty by relying on established social norms, rituals, and bureaucratic practices.

- Collectivism I. (Institutional Collectivism) is the degree to which organizational and societal institutional practices encourage and reward collective distribution of resources and collective action.
- Collectivism II. – In-Group Collectivism is the degree to which individuals express pride, loyalty, and cohesiveness in their organizations or families.
- Gender egalitarianism is the degree to which an organization or a society minimizes gender role differences while promoting gender equality.
- Assertiveness is the degree to which individuals in organizations or society are assertive, confrontational, and aggressive in social relationships.
- Performance orientation is the degree to which an organization or society encourages and rewards group members for performance improvement and excellence.
- Future orientation is the degree to which individuals in organizations or societies engage in future oriented behaviors such as planning, investing in the future, and delaying individual or collective gratification.
- Humane orientation is the degree to which individuals in organizations or society encourages and rewards individuals for being fair, altruistic, friendly, generous, caring, and kind to others.

### **Literature review**

The GLOBE monograph tried to identify relationship between the cultural variables and different measures of social-economic development. Research evidence shows, that a general pattern can be recognized while computing correlations between 62 nations data on cultural differences and respective development measures: Performance orientation, Future orientation, and Uncertainty avoidance are the most important predictors of development and competitiveness, besides, Institutional collectivism has also positive correlations with most of economic development indices. However, research results confirm, that strong Group Collectivism and high Power distance are negative predictors (impede) of economic development and competitiveness. (House et al. 2004. pp. 38-41.)

In Tables 1 and 2 includes the findings. Please, refer to the monograph for sources, composition, and description of the different development measures used. (House et al. 2004. pp. 38-41.)

Analyzing Table 1., it is noticeable, that:

- Economic productivity does not seem to show any relationship with Societal Cultural Practices
- All the other three indexes seem to have strong positive correlation with the same three Cultural Practice variable (Uncertainty Avoidance, Performance Orientation, Future Orientation) and strong negative correlation with Power distance. These cultural variables are therefore predictive to Economic Health.
- Institutional Collectivism seem to correlate positively with three indexes (Economic Prosperity, Government Support for Prosperity, and World Competitiveness Index),
- In-Group Collectivism, however, negatively correlate with the same three indexes.

	Economic Prosperity	Economic productivity	Government Support for Prosperity	Societal Support for Competitiveness	World Competitiveness Index
N=GLOBE sub sample	n=57		n=40	n=40	n=41
Uncertainty Avoidance	0,60**		0,74**	0,44**	0,60**
Future Orientation	0,54**		0,63**	0,48**	0,62**
Performance orientation	0,29*		0,50**	0,58**	0,61**
Power distance	-0,53**		-0,65**	-0,47**	-0,53**
Humane orientation					
Assertiveness					
Institutional Collectivism	0,33*		0,36*		0,40**
In-Group Collectivism	-0,78**		-0,67**		-0,45**
Gender egalitarianism					

p < 0,05, \*\* p < 0,01 (Only significant correlations are reported)

Table 1. Relationship between Economic Health and GLOBE Cultural (Societal) Practices  
(Source: House et al. 2004. pp. 38-41.)

	Societal Health	Human Health	Life Expectancy	General Satisfaction	Psychological Health	Human Development Index (HDI)
N=GLOBE sub sample	n=40		n=56	n=38		
Uncertainty Avoidance	0,76**		0,28*	0,63**		0,28*
Future Orientation	0,70**			0,56**		
Performance orientation	0,53**			0,40*		
Power distance	-0,62**		-0,33**	-0,48**		-0,36**
Humane orientation			-0,35**			-0,37**
Assertiveness						
Institutional Collectivism						
In-Group Collectivism	-0,60**		-0,45**	-0,69**		-0,56**
Gender egalitarianism						0,29*

p < 0,05, \*\* p < 0,01 (Only significant correlations are reported)

Table 2. Relationship between Human Condition and GLOBE Cultural (Societal) Practices  
(Source: House et al., 2004. pp. 38-41.)

Reading Table 2, it is striking, that:

- Neither Human Health, nor Psychological Health has no strong correlation with any of the Societal practices.
- Societal Health and General Satisfaction seem exactly the same pattern, as it was described in the case of Economic Health: strong positive correlation with Uncertainty Avoidance, Performance Orientation, and Future Orientation, and strong negative correlation with Power distance, while Life expectancy and HDI index are predicted by moderate positive correlation with Uncertainty Avoidance, and moderate negative correlation with Power distance.
- Strange enough, that Humane orientation is a moderate negative (!) predictor of Life expectancy and HDI index.
- Finally, In-Group Collectivism is strong negative predictor of four Human Condition indexes (Societal Health, Life Expectancy, General Satisfaction, HDI index).

On the Societal culture level Bakacsi (2006) presented extended research results focusing on relationship between cultural practice dimensions and GDP, Corruption Perception Index (CPI), and World Competitiveness Index components, practically reproducing the cultural influence pattern above. (See Tables 3 and 4.)

GLOBE	GDP 1995	Corruption Perception Index (1995-2005)
Uncertainty Avoidance	0,603**	
Future Orientation	0,523**	
Performance orientation	0,301*	
Power distance	-0,422**	
Humane orientation	-0,31*	
Assertiveness		
Institutional Collectivism		
In-Group Collectivism	-0,74**	-0,44**
Gender egalitarianism		

$p < 0,05$ , \*\*  $p < 0,01$  (Only significant correlations are reported)

Table 3. Relationship between GDP (1995), CPI index (1995-2005) and GLOBE Cultural (Societal) Practices. (n=60) (Source: Bakacsi, 2006)

	WCI	WCI 1 Economic Performance	WCI 2 Government Efficiency	WCI 3 Business Efficiency	WCI 4 Infrastruc- ture
Uncertainty Avoidance	0,69**	0,59**	0,70**	0,56**	0,59**
Future Orientation	0,66**	0,46**	0,60**	0,64**	0,50**
Performance orientation	0,57**	0,56**	0,60**	0,56**	
Power distance	-0,62**	-0,36*	-0,62**	-0,57**	-0,51**
Humane orientation					
Assertiveness					
Institutional Collectivism	0,35*		0,45**	0,36*	
In-Group Collectivism			-0,46**	-0,45**	-0,69**
Gender egalitarianism					

$p < 0,05$ , \*\*  $p < 0,01$  (Only significant correlations are reported)

Table 4. Relationship between World Competitiveness Index components (2005) and GLOBE Societal cultural practices (n=44) (Source: Bakacsi, 2006)

Uncertainty Avoidance, Future Orientation, and Performance orientation of societal practices are strong positive while Power distance and In-Group Collectivism are strong negative predictors of GDP. In the case of CPI, the only strong predictor is In-Group Collectivism: the stronger the In-Group Collectivism is the higher is the corruption in society.

If we look behind the four components of the WCI, all indexes are composites of five sub-scales. (For the sake of clarification, these second-level composites are also composed of further scales,

but it is beyond the scope of this paper to go further in presenting culture-competitiveness relationship in depth).

For the correlations of Economic Performance (WC-1) composites and Societal cultural practices see Table 5. It seems that in the case of the macro level indexes we can basically identify the pattern described above while the exceptions deserve some attention. Prices do not seem to show any relation with societal practices, so does International trade (but strong positive correlation with Uncertainty Avoidance). There is also a weak relationship with societal practices and International Investment (only Power distance and In-Group Collectivism are moderate negative predictors). However, in the case of Domestic economy and Employment, we can identify the same type of relationship (pattern) with societal practices: Uncertainty Avoidance, Performance and Future Orientation are positive, while Power Distance is a negative predictor.

	WCI 1 Economic Performanc e	WCI 1-1 Domestic Economy	WCI 1-2 Internati onal Trade	WCI 1-3 Internation al Investment	WCI 1-4 Employment	WCI 1-5 Prices
Uncertainty Avoidance	0,59**	0,41**	0,39**		0,38*	
Future Orientation	0,46**	0,32*			0,37*	
Performance orientation	0,56**				0,57**	
Power distance	-0,36*	-0,31*		-0,33*		
Humane orientation					0,39*	
Assertiveness						
Institutional Collectivism					0,35*	
In-Group Collectivism				-0,32*		
Gender egalitarianism						

$p < 0,05$ , \*\*  $p < 0,01$  (Only significant correlations are reported)

Table 5. Relationship between WCI-1: Economic performance (2005) composites and GLOBE Societal cultural practices (n=44) (Source: Bakacsi, 2006)

It is exciting to study Table 6. presenting relationship between Government efficiency composites and societal practices

Public Finance, Institutional Frame-work, Business Legislation, and Societal Framework practically reproduces the pattern above, this time again, it is interesting to notice the “out-of-pattern” composites. In the case of Fiscal Policy Uncertainty Avoidance and Future Orientation are not, but Performance Orientation is a positive predictor, besides Humane Orientation, and both Institutional and In-Group Collectivism (!) positively correlate.

	WCI 2 Government Efficiency	WCI 2- 1 Public Finance	WCI 2-2 Fiscal Policy	WCI 2-3 Institutional Frame-work	WCI 2-4 Business Legislation	WCI 2- 5 Societal frame- work
Uncertainty Avoidance	0,70**	0,41**		0,67**	0,59**	0,71**
Future Orientation	0,60**			0,61**	0,54**	0,49**
Performance orientation	0,60**	0,41**	0,56**	0,49**	0,46**	0,32*
Power distance	-0,62**	-0,42**		-0,57**	-0,55**	-0,54**
Humane orientation			0,47**			
Assertiveness						
Institutional Collectivism	0,45**	0,47**	0,39**	0,38*		
In-Group Collectivism	-0,46**		0,31*	-0,48**	-0,54**	-0,66**
Gender egalitarianism						

p < 0,05, \*\* p < 0,01 (Only significant correlations are reported)

Table 6. Relationship between WCI-2: Government efficiency (2005) composites and GLOBE Societal cultural practices (n=44) (Source: Bakacsi, 2006)

Continuing now with the composites of Business efficiency (see Table 7.) the basic pattern also clearly comes out, so we focus only on the exceptions, “out-of-patterns”:

- It may make us think, that surprisingly Performance orientation is *not* predictor of Productivity.
- Power Distance is *not* negative predictor of Labor Market.
- It is not so much surprising anyway, but out-of-pattern, that Humane orientation is positive predictor of Attitudes and Values, but only this cultural practice variable.



	WCI 3 Business Efficiency	WCI 3-1 Productivity and Efficiency	WCI 3- 2 Labor Market	WCI 3-3 Finance	WCI 3-4 Management Practices	WCI 3-5 Attitudes and Values
Uncertainty Avoidance	0,56**	0,51**	0,21*	0,67**	0,54**	0,38*
Future Orientation	0,64**	0,42**	0,33**	0,66**	0,61**	0,52**
Performance orientation	0,56**		0,41**	0,50**	0,52**	0,56**
Power distance	-0,57**	-0,50**		-0,62**	-0,62**	-0,49**
Humane orientation						0,36*
Assertiveness						
Institutional Collectivism	0,36*		0,25*		0,35*	0,43**
In-Group Collectivism	-0,45**	-0,57**		-0,67**	-0,56**	
Gender egalitarianism						

p < 0,05, \*\* p < 0,01 (Only significant correlations are reported)

Table 7. Relationship between WCI-3: Business efficiency (2005) composites and GLOBE Societal cultural practices (n=44) (Source: Bakacsi, 2006)

Finally, let's conclude with the composites of Infrastructure (see Table 8.).

Again, we lay stress upon the exceptions:

- It seems to confirm widely shared stereotypes, that Performance Orientation (positive correlation with most competitiveness composites) is not positive predictor in the case of two big social systems, health-environment and education.
- Institutional Collectivism, mostly positively predicting competitiveness composites, has positive correlation only with one of the big social infrastructure systems, namely with technology.
- It is a surprising fact, that Humane Oriented societal practice has a *negative correlation* with Health and Environment.

	WCI 4 Infrastructure	WCI 4-1 Basic Infrastructure	WCI 4 2 Techno- logical Infrastructure	WCI 4-3 Scientific Infrastructure	WCI 4-4 Health and Environment	WCI 4-5 Education
Uncertainty Avoidance	0,59**	0,59**	0,52**	0,57**	0,64**	0,44**
Future Orientation	0,50**	0,49**	0,58**	0,47**	0,47**	0,34*
Performance orientation		0,41**	0,48**	0,30*		
Power distance	-0,51**	-0,44**	-0,48**	-0,46**	-0,46**	-0,55**
Humane orientation					-0,32*	
Assertiveness						
Institutional Collectivism			0,32*			
In-Group Collectivism	-0,69**	-0,56**	-0,53**	-0,63**	-0,76**	-0,67**
Gender egalitarianism						

p < 0,05, \*\* p < 0,01 (Only significant correlations are reported)

Table 7. Relationship between WCI-4: Infrastructure (2005) composites and GLOBE Societal cultural practices (n=44) (Source: Bakacsi, 2006)

To summarize, we can conclude that the following quite characteristic (meta-level) basic cultural pattern has an impact on practically all competitiveness composites. The more a society is performance and future oriented, and the more it strives to control uncertainty with social institutions, the lower is the power distance. In addition, the more collective strategies dominate social relations, the more the society tends to be competitive. However, the more the collective strategies are limited to closer communities, the more competitiveness suffers. Worthwhile to notice is that the two widespread and traditional cultural measures (gender egalitarianism and Humane orientation) have hardly any impact on competitiveness. This will be called *THE PATTERN* in this paper.

The GLOBE cultural variables do not seem to be fully independent. For identification of second order factors of the societal cultural practice variables, we ran a factor analysis on the data base of 62 nations. The results of the factor analysis are shown in Table 8.

The three second order factors (explaining a cumulative 72% of variance) can be interpreted as follows:

**Rotated Component Matrix(a)**

	Raw Component			Rescaled Component		
	1	2	3	1	2	3
Uncertainty Avoidance	,566			,936		
Future Orientation	,409		,055	,884		,118
Performance-orientation	,293	,075	,191	,717	,183	,467
Power Distance	-,241	-,131	,163	-,591	-,321	,400
Human Orientation		,404	,128		,857	,271
Assertiveness		-,258	,128		-,695	,344
Institutional Collectivism	,200	,291		,471	,687	
In-Group Collectivism	-,467	,142	,518	-,640	,195	,710
Gender egalitarianism	,049		,216	,134		,587

Table 8. Factor analysis result of GLOBE Societal practice variables

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.

(a) Rotation converged in 5 iterations.

- **1<sup>st</sup> secondary factor:** composite variables: Performance Orientation, Future Orientation, Uncertainty Avoidance, Power distance (negatively loaded). We may label this second order factor as *Status Quo – Development*. Societies scoring high on Performance and Future Orientation, being Uncertainty Avoiding, and low on Power distance tend to be Development oriented. Societies scoring low on Performance and Future Orientation, experiencing uncertainty (scoring low on Uncertainty Avoidance), and high on Power distance tend to be Status Quo oriented. It is worthwhile to notice that In-Group Collectivism (negatively loading on this factor) loads to the 1<sup>st</sup> major factor almost as strongly as to the 3<sup>rd</sup> one. Similarly, Institutional Collectivism (positively loading on this factor) also quite strongly loads to another (2<sup>nd</sup>) factor. The connotation to this factor concerns the fact that Development oriented societies (cultures) tend to be collectivistic on

institutional (broader community) level, and less collectivistic in their immediate closer community. In contrast, Status Quo oriented societies (cultures) tend to be collectivistic in their immediate closer community and less collectivistic on institutional (broader community) level.

- **2<sup>nd</sup> secondary factor:** : composite variables: Institutional Collectivism, Assertiveness (negatively loaded), and Human Orientation. We may label this second order factor as *Competition – Cooperation*. Societies being collectivistic on institutional (broader community) level, non-assertive (tender), and humane oriented tend to be Cooperative (win/win). Societies being individualistic on institutional (broader community) level, assertive, and non-humane tend to be Competitive (win/loose).
- **3<sup>rd</sup> secondary factor:** composite variables: In-Group Collectivism and Gender egalitarianism. Societies being cohesive in their immediate community seem to be rather feminine, whereas those societies scoring relatively low on In-Group collectivism tend to be more masculine. We may label this second order factor as *Personal* (mutual dependence, high context) – *Neutral* (Independence, low context).

Referring now back to meta-level *PATTERN*, as it was elaborated above, but applying the newly developed second order factors (labels), we may say that Development orientation tends to be a strong positive predictor of economic development and competitiveness. Concerning the other two factors we may consider much more conscious relationships. By just looking at the numbers (correlations) it seems that it is rather the cooperation than competition, on the one hand, and the Personal than the Independent, on the other hand, that predict better wealth and development. However, as Bakacsi pointed out, “clusters (and countries) may be economically effective and competitive with relatively different cultural characteristics. There is no one single “success-recipe”: nobody can tell that the Eastern (Asian) pattern is more or less effective than the Western pattern....” (Bakacsi, 2003, p. 43.).

It is exciting, however, to compare the “success recipe” of two most competitive economic centres of the world with the Central-Eastern European societies (for details see. Bakacsi et al, 2002).

Central-Eastern European societies (Romania clearly fits to this cluster – see: Bakacsi-Catana-Catana et al, 2006, p. 16.) tends to be personal, status quo-driven, and to solve their conflicts in a self-interest driven (competitive, win/loose) way.

	Independent – Personal	Status- Development	Competition – Cooperation
<b>Western</b> (Anglo-Saxon, German, Nordic-Europe)	Independent	Development	Competition
<b>East-Europe</b>	Personal	Status	Competition
<b>Eastern</b> (Southern- Asia, Confucian Asia)	Personal	Development	Cooperation

Table 9. Success pattern of different cultural clusters; Source: (Bakacsi, 2005, modified)

The societal culture practice scores of Romania are presented in Table 10.

GLOBE Societal practice variables	N	Mini- mum	Maxi- mum	Mean	Std. Deviation	Rank in GLOBE 62	Band
Power Distance	355	3.40	7.00	5.6263	.8079	3 <sup>rd</sup>	A (highest)
Uncertainty Avoidance	355	1.00	6.25	3.6601	.9601	44 <sup>th</sup>	C (relatively low)
Institutional Collectivism (Coll.1.)	355	1.50	5.75	3.7484	.8481	54 <sup>th</sup>	C (relatively low)
In-Group Collectivism (Coll.2)	355	2.67	7.00	5.4322	.8025	25 <sup>th</sup>	A (highest)
Gender Egalitarianism	355	1.60	5.80	3.8815	.7085	9 <sup>th</sup>	A (highest)
Assertiveness	355	1.50	6.75	4.1396	.8160	31 <sup>st</sup>	B (middle)
Humane Orientation	355	1.00	7.00	4.0938	.9343	24 <sup>th</sup>	B (relatively high)
Performance Orientation	355	1.00	7.00	3.5080	1.0719	56 <sup>th</sup>	C (lowest)
Future Orientation	355	1.00	5.60	3.3280	.8755	52 <sup>nd</sup>	C (relatively low)

Table 10. Romanian societal practice scores (n=355); Source: Bakacsi-Catana-Catana et al, 2006., p. 14

Table 10. scores seem to prove, that Romania (just like practically all Central-Eastern –European countries) is

- Status quo driven – scoring and ranking in the lowest band on Performance and Future orientation, Uncertainty bearing (C), and high Power Distance (A).
- Somewhat competing (win/loose) – scoring and ranking in the lowest band on Institutional Collectivism (C) and middle band on Assertiveness and Humane orientation (B).
- Personal (mutually dependent, high context) – scoring high on both Gender egalitarianism (e.g. feminine) and In-Group collectivism (A)

### Cultural patterns and regional development in Romania

In our paper, we try to test whether the above patterns and relationships also apply to the regional level and whether cultural differences of Romanian regions influence somewhat the economic development and societal health indicators of the same regions. As the whole methodology of GLOBE (cross-cultural, measuring psychometric properties) is shaped (developed and validated) to capture cultural *differences*, our assumption (Hypothesis) is that

- if we take one single country (Romania),
- measure cultural profile of different regions in the country,
- we will recognize that there are significant cultural differences in those profiles,

and that the meta-level PATTERN identified and described above would apply (or at least somewhat applies) to the cross-region level as well.

In this paper we rely on data collected by consortial cooperation of 12 Universities in Romania (participants, and their academic affiliation see Appendix 1.). For the regional composition of the data base see Table 11. All data used with the courtesy of GLOBE-Romania community.

	REGION				Total
	Muntenia-Oltenia	Transylvania	Banat-Crisana	Moldova	
1 Cluj		64			64
2 Craiova	22				22
3 Galati				39	39
4 Iasi				34	34
5 M-Ciuc		30			30
6 Oradea			27		27
7 Pitesti	16				16
8 Sibiu		15			15
9 Tg-Mures		42			42
10 Timisoara			68		68
11 Ploiesti	8				8
Total	46	151	95	73	365

Table 11. Geographic composition of the GLOBE-Romania sample (n=365); Source: Bakacsi-Catana-Catana et al., 2006

Firstly, we try to present and prove that there are significant regional differences among the regions in Romania. In our previous paper (Bakacsi-Catana-Catana et al., 2006) in which we compared four major geographic regions of Romania, we managed to identify cultural differences. In this paper, we followed a more aggregated geographic region pattern (four major regions: Moldova, Muntenia-Oltenia, Banat-Crisana, and Transylvania). The official regions (see Figure 1.) consist of 7 plus the capital (Bucuresti).<sup>2</sup> For practical reasons, we dropped Bucuresti from this study (since we do not have cultural data from the capital, and the development measures of the capital heavily deviates from any other part of Romania, causing extreme development differences compared to the other regions).



Figure 1. Geographic regions of Romania

The official regions of Romania were founded on the basis of the legal framework established by the Law nr. 151/1998 concerning regional development in Romania. It was a result of the

<sup>2</sup> Comparing the two regional pattern the overlaps are the following: (a) Moldova is Region 1 (North-East) and Region 2 (South-East), (b) Muntenia-Oltenia is Region 3 (South) and Region 4 (South-West), (c) Banat-Crisana is Region 5 (West) and Region 6 (North-West), and (d) Transylvania is Region 7 (Central).

innovative regionalization processes which started in 1990 and was supported by the European Union after the pre-accession negotiations had been started with Romania.

These official regions have been established by the free association of the counties of Romania, although they followed the proposal of the Green Paper – Regional Development Policy in Romania, elaborated with international expertise by the Government of Romania and the European Commission in 1997. They are not administrative units and do not have juridical personality. Each region is governed by a Regional Development Council and formed by representatives of member counties. The decisions are implemented by Regional Development Agencies.

In the period of 1998-2007, the regions elaborated regional development plans for different periods (1998-2000, 2000-2007, 2007-2013) on the basis of the regional development plans the National Development Plan have been elaborated with special programs for the diminishing of regional discrepancies.

The highest regional discrepancies were registered between Bucuresti and other regions as Bucuresti presented considerably higher levels at the most socio-economic development indicators than other regions. If we exclude Bucuresti, the more developed regions are Region 5 (West) and Region 6 (North-West) considered Banat-Crisana in this paper, followed by Region 7 (Central), considered Transylvania in this paper, and the less developed regions are Region 1 (Nord-East) and Region 2 (South-East), considered Moldova region in this paper.

		EU-regions of Romania							Total
		1 North- East	2 South- East	3 South	4 South- West	5 West	6 North- West	7 Centre	
Consortial Universities	1 Cluj						73		73
	2 Craiova				22				22
	3 Galati		39						39
	4 Iasi	34							34
	5 M-Ciuc							30	30
	6 Oradea						27		27
	7 Pitesti			16					16
	8 Sibiu							15	15
	9 Tg-Mures							42	42
	10 Timisoara					68			68
	11 Ploiesti			8					8
	Total	34	39	24	22	68	100	87	374



Table 12. Composition of the GLOBE-Romania sample by EU-regions

The regional differences in perception of societal practice are presented in Table 13. and Figure 2.

Regional means	Uncertainty Avoidance**	Performance Orientation	Future Orientation*	Power Distance	Gender Egalitarianism	In-Group Collectivism	Institutional Collectivism	Human Orientation	Assertiveness*
Romania	3,66	3,51	3,33	5,62	3,88	5,43	3,75	4,09	4,14
Moldova	4,02	3,60	3,28	5,77	3,88	5,58	3,74	4,22	4,03
Muntenia-Oltenia	3,65	3,76	3,67	5,51	3,90	5,47	3,86	4,15	4,13
Banat-Crisana	3,58	3,31	3,32	5,54	3,96	5,43	3,85	4,12	4,36
Transylvania	3,54	3,49	3,25	5,65	3,83	5,35	3,66	4,00	4,07
	Regional differences to the Romanian grand-mean								
Moldova	0,36	0,09	-0,05	0,15	0,00	0,15	0,00	0,13	-0,11
Muntenia-Oltenia	-0,01	0,25	0,34	-0,11	0,02	0,04	0,11	0,06	-0,01
Banat-Crisana	-0,08	-0,20	-0,01	-0,08	0,08	0,00	0,10	0,03	0,22
Transylvania	-0,12	-0,02	-0,08	0,03	-0,05	-0,08	-0,09	-0,10	-0,07

\*\* = regional differences are significant on <.01 level, tested with F-test

\* = regional differences are significant on <.05 level, tested with F-test

Table 13: Societal values scores of four large geographic regions (n=354); Source: Bakacsi-Catana-Catana et al, 2006., p. 20

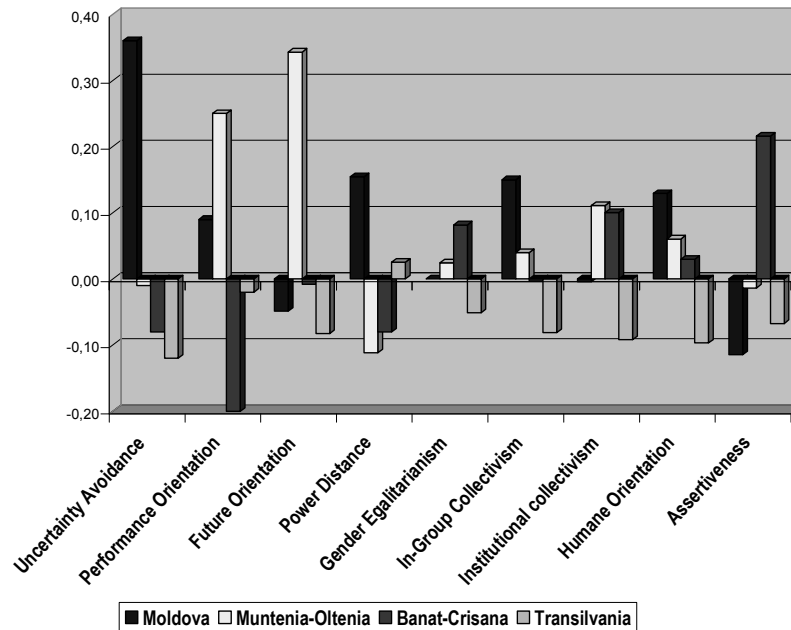


Figure 2. Cultural differences in the main geographic regions in Romania<sup>3</sup> Source: Bakacsi-Catana-Catana et al, 2006., p. 20

Our earlier research results showed that the main geographic regions show significant differences in Uncertainty avoidance, Future orientation, and in Assertiveness. (see Bakacsi-Catana-Catana et al., 2006).

- Concerning Uncertainty avoidance, Moldova seems to be the most Uncertainty avoiding (4,02), and Transylvania (3,54) the most Uncertainty baring region. The confidence interval of the two regions do not overlap at all and Banat-Crisana (3,58) seems also to be significantly different from that of Moldova. The difference is significant on a <0.01 level (F=4,39).
- Concerning Future orientation, Muntenia-Oltenia is the most Future oriented (3,67) and Transylvania seems to have the shortest perspective (3,26). The confidence interval of the two regions do not overlap at all and future orientation of both Banat-Crisana (3,32) and Moldova (3,28) seem also to be significantly different from that of Moldova. The difference is significant on a <0.05 level (F=3,02)
- Concerning Assertiveness, Banat-Crisana tends to be the most Assertive (4,36) and Moldova the most tender (4,03). The confidence interval of the two regions do not overlap at all, and tenderness of Transylvania (4,07) seems also to be significantly different from that of Banat-Crisana. The difference is significant on a <0.05 level (F=2,88). (Bakacsi-Catana-Catana et al., 2006, p. 21.)

<sup>3</sup> Please, notice that 0,00 of the scale is equal the Romanian grand-mean, and the charts represent the respective regional differences compared to the societal average.

It is interesting to notice that Uncertainty Avoidance and Future Orientation are societal practices that measures important predictors of social-economic development. So, having significant differences within the four major regions make it possible to expect differences in development measures, as a consequence.

Table 14. presents the societal practice scores of the 7 EU-Regions.

	N=	Uncertainty Avoidance	Future Oriented	Power Distance	Collectivism 1	Humane Orientation	Performance Orientation	Collectivism 2	Gender Egalitarianism	Assertiveness
North-East	31	4,01	3,28	6,06	3,74	4,34	3,74	5,76	3,63	3,91
South-East	39	4,03	3,28	5,54	3,75	4,13	3,50	5,44	4,08	4,12
South	29	3,59	3,54	5,42	3,69	3,94	3,61	5,26	4,01	4,16
South-West	19	3,74	3,86	5,64	4,12	4,48	4,00	5,80	3,74	4,08
West	66	3,56	3,36	5,53	3,80	3,93	3,39	5,20	3,98	4,36
North-West	86	3,48	3,13	5,71	3,75	4,26	3,24	5,58	3,77	4,33
Central	85	3,63	3,36	5,57	3,65	3,91	3,65	5,32	3,91	3,88
Total	355	3,66	3,33	5,63	3,75	4,09	3,51	5,43	3,88	4,14

Table 14. Societal practices scores of the 7 EU-regions (n=355)

So based on three Premises and one Precondition and we developed the following Hypothesis:

**Premise 1.:** recognizing the aforementioned meta-pattern on the societal level, and

**Premise 2.:** assuming, that impact of that pattern applies to various development measures

**Premise 3.:** recognizing significant regional cultural differences in the geographic regions in Romania, (especially by Uncertainty Avoidance, Future orientation, and Assertiveness)

**Precondition 1.:** understanding, that development measures are not equal with the indexes used for identification of the above correlations

**Hypothesis 1.:** the meta-pattern identified on societal level (based on cross-cultural comparison) applies to regional level (based on cross-regional comparison)

Concerning measures on social-economic development, we relied on data available from official statistical sources<sup>4</sup> and (as it is stated in Precondition 1.) these are not necessarily identical with measures used to compare countries development.

The data we used on measuring developmental differences, are as follows:

- GDP (of the region)
- Macro economic data (like proportion from national FDI, value added)
- Demographic and employment / labor market data
- Retail bank market data (loans, deposits)
- Household data
- Economic sectors data (agriculture, industry, services)

For the raw data used see Appendix 2.

We have correlated the regional aggregate societal practice measures with the regional development figures. For the result see Tables 15-17.

Societal Practices	Macro		Employment / labor market						
	FDI %	Value added Lei	Employment (regional %)	Nr. Of clerks thousand	Rate of clerks	Unemployment rate (2007)	Unemployment rate (2004)	Employment rate in agriculture	Employment rate in industry and construction
Uncertainty Avoidance									
Future Oriented									
Performance Orientation						0,87*			
Power Distance									
Institutional Collectivism		-0,87*		<b>-0,93**</b>					
Humane Orientation	-0,77*		0,82*		-0,81*			0,84*	-0,82*
Assertiveness									
In-Group Collectivism	-0,81*		0,78*		-0,77*			0,78*	-0,83*
Gender Egalitarianism	0,84*						0,87*		

p < 0,05, \*\* p < 0,01 (Only significant correlations are reported)

Table 15.: Relationship between social-economic development data (macro, employment) and societal practices in the 7 EU-Regions of Romania

<sup>4</sup> Institut National de Statistica din Romania - Romanian National Institute of Statistics: [www.insse.ro](http://www.insse.ro)  
Bank Nationale Romania – Romanian National Bank: [www.bnr.ro](http://www.bnr.ro)

		Retail banking markets							
		Deposits in foreign currency RON	Average credit/bank customers RON	Average credit/ capita RON	Mortgage loans mRON	rate in Mortgage loans (%)	Deposits in Lei RON	Deposits in foreign currency RON	Average deposits / bank customer RON
Societal Practices									
Uncertainty Avoidance									
Future Oriented					-0,82*	-0,84*		<b>-0,94**</b>	-0,86*
Performance Orientation		-0,83*	-0,75*	-0,77*	-0,80*	<b>-0,93**</b>			
Power Distance									
Institutional Collectivism							-0,78	-0,76*	-0,82*
Humane Orientation									
Assertiveness									
In-Group Collectivism									
Gender Egalitarianism									

p < 0,05, \*\* p < 0,01 (Only significant correlations are reported)

Table 16. Relationship between social-economic development data (financial markets) and societal practices in the 7 EU-Regions of Romania

		Agriculture		Industry			Edu- cation	Households data		
		Nr. of tractors	Nr. of tractors / hectare	Nr. of enterprises	Total income of enterprises bn Lei	Gross investment	Nr. Of university students	Total area of new flats thousand m2	Nr. of new flats / person	Wired telephone subscriptions
Societal Practices										
Uncertainty Avoidance		-0,87*	-0,78*						-0,81*	
Future Oriented				-0,82*			-0,78*			
Performance Orientation										
Power Distance										
Institutional Collectivism				-0,77*	-0,80*	-0,87*		<b>-0,92*</b>		-0,87*
Humane Orientation						-0,80*				
Assertiveness										
In-Group Collectivism						-0,77*				
Gender Egalitarianism										

p < 0,05, \*\* p < 0,01 (Only significant correlations are reported)

Table 17. Relationship between social-economic development data (economic sectors, and housing) and societal practices in the 7 EU-Regions of Romania

Before analyzing and discussing the results, we should clearly point out that in this paper *it is not our goal* to go into depth of individual development measure analysis (more exactly the correlation of individual measures)<sup>5</sup>. In this paper, we aim only to prove or reject the Hypothesis formulated. From this respect, the results are more than surprising and we should conclude to clearly reject the Hypothesis:

- The great majority of significant correlations are *negative!*
- The “Uncertainty Avoidance – Performance orientation – Future orientation positively predict the great majority of development measures” pattern turns upside-down. On the one hand, we can see only (but one) negative correlations that are even strong and significant, or no significant correlations at all. So it seems that Performance orientation and Future orientation have no positive prediction power to the development measures on our sample!
- Furthermore, in the case of Retail banking measures, we can see *strong negative correlations*. We cannot read this otherwise but as the follows: “the more a region in Romania is Performance and Future oriented, the less are the credits / deposits (in RON or foreign currency).
- Interestingly enough, the one single positive correlation of Performance orientation suggests that in the Romanian cross-regional comparison Performance orientation is the best (and only) predictor of year 2007 unemployment rate.
- Power distance has no significant relation to any of the development measures (neither positive, nor negative).
- The “according-to-the-pattern” otherwise positive predictor Institutional collectivism has only negative correlations as well.

To conclude. we cannot just recognize the PATTERN in the cross-regional comparison in Romania, but we can see a somewhat opposite picture.

As the limited number of regions studied (7) may result in artificially high correlation figures, we have also calculated the same correlations on individual level (meaning that regional development measures have been added to individual culture records, the same development vector to each respondent belonging to the same region. Results are presented in Tables 18-22.

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<sup>5</sup> In depth analysis, conclusions and proposals can be subject of further paper.

Correlations	Macroeconomic data			Demography
	GDP / capita Euro	Regional distribution of FDI %	Value added (Lei)	Population (th people)
Societal practices (N=348) Pearson correlation, Sig. (2-tailed)				
Uncertainty Avoidance	-0,13*			
Future Oriented				
Performance Orientation				
Power Distance		<b>-0,17**</b>		
Collectivism 1				
Humane Orientation	<b>-0,15**</b>	<b>-0,15**</b>		
Assertiveness			-0,12*	
Collectivism 2	<b>-0,18**</b>	<b>-0,18**</b>		<b>0,14**</b>
Gender Egalitarianism		<b>0,16**</b>		

p < 0,05, \*\* p < 0,01 (Only significant correlations are reported)

Table 18. Relationship between social-economic development data (macro, demography and societal practices in the 7 EU-Regions of Romania, individual level

Correlations	Employment / labour market								
	Nr. of employees (thousand person)	Rate of employees	Nr. of clerks thousand	Rate of clerks	Unemployed rate (2007)	Unemployed rate (2004)	Employment rate in agriculture	Employment rate in industry and construction	Employment rate in service
Societal practices (N=348) Pearson correlation, Sig. (2-tailed)									
Uncertainty Avoidance					<b>0,16</b>				
Future Oriented			-0,12		0,14				
Performance Orientation					<b>0,18</b>				
Power Distance		0,12		-0,11		<b>-0,16</b>		<b>-0,14</b>	
Collectivism 1									
Humane Orientation		<b>0,15</b>		<b>-0,18</b>		<b>-0,14</b>	<b>0,18</b>	<b>-0,17</b>	<b>-0,16</b>
Assertiveness					<b>-0,18</b>	-0,12			
Collectivism 2	0,14	<b>0,16</b>		<b>-0,20</b>		<b>-0,15</b>	<b>0,20</b>	<b>-0,20</b>	<b>-0,18</b>
Gender Egalitarianism						<b>0,16</b>		<b>0,14</b>	

p < 0,05, \*\* p < 0,01 (Only significant correlations are reported)

Table 19. Relationship between social-economic development data (Employment) and societal practices in the 7 EU-Regions of Romania, individual level

Correlations	Retail bank financial markets													
	Nr. of bank customers	Rate of customers/population	Total credits in Lei Mron	Total credits in foreign currency Mron	Rate of total credit/customers RON	Rate of total credit/customers RON	Regional distribution of total credit %	Consumer credit mRON	Mortgage loans mRON	Mortgage loans rate %	Deposits in Lei RON	Deposits in foreign currency RON	Deposits / customer RON	Deposits / population RON
Societal practices (N=348) Pearson correlation, Sig. (2-tailed)														
Uncertainty Avoidance		-0,11			-0,11	<b>-0,15</b>								
Future Oriented				<b>-0,17</b>	<b>-0,15</b>	-0,13			<b>-0,17</b>	<b>-0,15</b>		<b>-0,19</b>	<b>-0,16</b>	-0,11
Performance Orientation				<b>-0,15</b>	<b>-0,16</b>	<b>-0,15</b>			<b>-0,15</b>	<b>-0,18</b>		-0,11		
Power Distance												0,13		
Collectivism 1														
Humane Orientation		<b>-0,15</b>						0,11						-0,13
Assertiveness	<b>-0,15</b>		-0,11		0,11		-0,11			<b>0,17</b>	<b>-0,14</b>			
Collectivism 2		<b>-0,18</b>	0,14				0,13	<b>0,15</b>						-0,13
Gender Egalitarianism														

$p < 0,05$ , \*\*  $p < 0,01$  (Only significant correlations are reported)

Table 20. Relationship between social-economic development data (Retail bank financial markets) and societal practices in the 7 EU-Regions of Romania, individual level

Correlations	Household data													
	Nr. of flats	Total area of flats thousand m2	Nr. of flats / person	Area / person	New flats	New flats built by private sector	Total area of new flats thousand m2	Nr. of new flats / person	Area of new flats / person	Consumer water consumption m3	consumption / person m3	Consumer gas consumption m4	Wired telephone subscriptions	subscriptions / nr. households
Societal practices (N=348) Pearson correlation, Sig. (2-tailed)														
Uncertainty Avoidance			<b>-0,15</b>	<b>-0,14</b>										
Future Oriented		-0,13							-0,14	<b>0,14</b>				
Performance Orientation														
Power Distance			-0,12	-0,11	0,11	0,12	0,11	0,11		-0,12				
Collectivism 1														
Humane Orientation				-0,12		0,13	0,11	0,13						<b>-0,15</b>
Assertiveness			0,13	0,13							-0,11		-0,13	
Collectivism 2	<b>0,14</b>		<b>-0,14</b>	<b>-0,17</b>	0,12	<b>0,17</b>	<b>0,16</b>	<b>0,17</b>	0,13					<b>-0,17</b>
Gender Egalitarianism														

$p < 0,05$ , \*\*  $p < 0,01$  (Only significant correlations are reported)

Table 21. Relationship between social-economic development data (Household data) and societal practices in the 7 EU-Regions of Romania, individual level



Correlations	Income	Agriculture				Industry				
		Net income Lei	mLei	Agrarian area ha	mLei/ha	Nr. of tractors	agrarian area	Nr. of enterprises	Average turnover	Gross investment
Societal practices (N=348) Pearson correlation, Sig. (2-tailed)										
Uncertainty Avoidance		0,11	0,12		<b>-0,17</b>	<b>-0,15</b>				
Future Oriented	0,11						<b>-0,16</b>	<b>0,16</b>		
Performance Orientation					<b>-0,14</b>			0,12		
Power Distance	-0,11							<b>-0,14</b>	-0,13	
Collectivism 1										
Humane Orientation										<b>-0,14</b>
Assertiveness	0,12			-0,11	<b>0,19</b>					
Collectivism 2										<b>-0,16</b>
Gender Egalitarianism								0,14	0,13	

$p < 0,05$ , \*\*  $p < 0,01$  (Only significant correlations are reported)

Table 21. Relationship between social-economic development data (incomes, industries) and societal practices in the 7 EU-Regions of Romania, individual level

Correlations	R + D		Health	Education		
	Employed in innovation / 10.000 employed	Innovation expenditure Lei		Nr. of hospital beds	Nr. of students	Nr. of university students
Societal practices (N=348) Pearson correlation, Sig. (2-tailed)						
Uncertainty Avoidance					-0,11	<b>-0,15</b>
Future Oriented	0,11	0,13	-0,13		-0,16	
Performance Orientation					<b>-0,14</b>	<b>-0,14</b>
Power Distance		-0,11	<b>0,15</b>	<b>0,15</b>	0,13	
Collectivism 1						
Humane Orientation				0,11		
Assertiveness						<b>0,14</b>
Collectivism 2	-0,13		0,13	<b>0,17</b>		
Gender Egalitarianism			-0,13	-0,11	-0,13	

$p < 0,05$ , \*\*  $p < 0,01$  (Only significant correlations are reported)

Table 19. Relationship between social-economic development data (R+D, Health, Education) and societal practices in the 7 EU-Regions of Romania, individual level

Again, not going into detail and explaining the correlations of individual measures, we may confirm the existence of the same “reversed” pattern. The correlations are weaker (due to the

wider range of deviation of individual cultural differences), but the significant correlation seem to replicate the above controversial pattern.

Although the aim of this paper was purely exploratory – to prove or reject the hypothesized pattern, we try to finish our manuscript with some concluding remarks that may serve as initial hypothesis of further research:

- The reversed pattern proved that cross-national pattern can not be applied to the level of cross-regional comparisons.
- The reason behind the reverse pattern is the fact that Romania belongs to the Status quo oriented cultures, and those cultures have different patterns. (This hypothesis can be tested by running the same type of research with regions of other “Status quo” cultures. Development oriented cultures may serve as control samples).

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## **Appendices**

### Appendix 1. Consortium Participants listed by Alphabetic order

- Senior Associate Professor Dr. Bakacsi Gyula (Sapientia University, Miercurea-Ciuc)
- Professor Dr. Gheorghe Alexandru Catană (Technical University of Cluj-Napoca)
- Professor Dr. Doina Catană (Technical University of Cluj-Napoca)
- Junior Associate Professor Dr. Gheorghe Bălan (Pitești University)
- Assistant Professor Gabriel Bîzoi (The Vest University of Timișoara)
- Professor Dr. Nicolae Bibu Aurelian (The Vest University of Timișoara)
- Professor Dr. Viorel Bucur (Pitești University)
- Junior Associate Professor Casian-Valentin Butaci (Agora University of Oradea)
- Assistant Professor Buzogány Ágnes (Sapientia University, Miercurea-Ciuc)
- Assistant Professor Alexandru Căpățână University "Dunărea de Jos" of Galați)
- Professor Dr. Emil Cazan (The Vest University of Timișoara)
- Senior Associate Professor Dr. Lucian Chiriac (Petru Maior University, Tîrgu-Mureș)
- Junior Associate Professor Liviu Ciucan-Rusu (Petru Maior University, Tîrgu-Mureș)
- Assistant Professor Delia-Ștefania Ciurba (Agora University of Oradea)
- Assistant Professor Cătălin Ioan Clipa ("Alexandru Ioan Cuza" University of Iași)

Assistant Professor Anca Constantinescu- Dobra (Technical University of Cluj-Napoca)  
Junior Associate Professor Dr. Mirela Cristea (University of Craiova)  
Assistant Professor Radu-Cătălin Criveanu (University of Craiova)  
Professor Dr. Ion Criveanu (University of Craiova)  
Professor Dr. Maria Criveanu (University of Craiova)  
Teaching Assistant Csata Andrea (Sapientia University, Miercurea-Ciuc)  
Junior Associate Professor Dr. Raluca Drăcea (University of Craiova)  
Senior Associate Professor Ioan Dzițac (Agora University of Oradea)  
Student Simona-Mirela Dzițac(Agora University of Oradea)  
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Junior Associate Professor Loredana-Florentina Galea (Agora University of Oradea)  
Professor Dr. Gheorghe Ionescu (The Vest University of Timișoara)  
Professor Dr. Ion Iarca (Petroleum-Gas University of Ploiești)  
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Appendix 2. The raw data – social-economic development measures of the 7 regions (2005)  
(sources: Institutul National de Statistica din Romania - Romanian National  
Institute of Statistics, Bank Nationale Romania – Romanian National Bank)

	1 Nord- Est	2 Sud- Est	3 Sud Vest	4 Sud- Vest	5 Vest	6 Nord- Vest	7 Centru
Gross domestic product / capita	1 751	2 073	1 964	2 049	2 733	2 338	2 595

Euro							
Regional distribution of FDI %	1,3	8,4	6,3	3,4	6,8	5,7	7,4
Value added Lei	218 497	197 046	219 932	160 000	177 839	215 010	220 679
Population	3 739	2 850	3 342	2 317	1 939	2 738	2 539
Civil employment (thousand person)	1 253	1 022	1 183	849	818	1 125	1 007
Civil employment (regional %)	45	40	42	45	41	41	39
Nr. of clerks thousand	563	546	571	395	472	576	585
Rate of clerks	0,45	0,53	0,48	0,47	0,58	0,51	0,58
Unemployed rate (2007)	7,8	6,9	7,4	7,5	5,1	4,1	6,2
Unemployed rate (2004)	6,2	9,8	9,5	7,5	8	6,5	9,6
Employment rate in agriculture	42	35	39	42	27	35	26
Employment rate in industry and construction	24	35	30	27	35	30	35
Employment rate in service sector	33	36	31	31	39	35	39
	2 480	2 045		1 665	1 711	2 077	2 159
Nr. of bank customers	319	193	2 271 155	701	344	590	528
Rate of customers/population	66,3	71,8	68	71,9	88,2	75,9	85
Total credits in Lei Mron	5 774	5 121	5 571	4 385	3 626	5 481	5 188
Total credits in foreign currency Mron	3 051	3 645	2 411	1 939	3 199	5 709	4 078
Rate of total credit/customers RON	3 558,0	4 286,1	3 514,5	3 796,6	3 988,1	5 386,0	4 290,8
Rate of total credit/customers RON	2 360,3	3 075,8	2 388,4	2 729,4	3 519,9	4 086,9	3 649,5
Regional distribution of total credit %	11,8	10,4	11,4	8,9	7,4	11,2	10,6
Consumer credit mRON	3 692	3 583	3 625	2 956	2 663	3 563	3 166
Mortgage loans mRON	636	793	490	480	622	1 107	780
Mortgage loans rate %	80	81	76	72	88	86	81
Deposits in Lei RON	2 798	2 801	2 874	1 690	1 704	2 718	2 939
Deposits in foreign currency RON	1 426	1 118	828	521	1 105	1 373	1 294
Deposits / customer RON	1 703,01	1 916,20	1 630,01	1 327,37	1 641,40	1 969,11	1 960,15
Deposits / population RON	1 129,71	1 375,09	1 107,72	954,25	1 448,68	1 494,16	1 667,19
	1 314	1 034				1 030	
Nr. of flats	960	201	1 267 177	915 164	771 194	488	958 451
Total area of flats thousand m2	47 303	39 282	46 356	3 293	31 163	40 177	37 704
Nr. of flats / person	0,35	0,36	0,38	0,39	0,4	0,38	0,38

## Relations between societal and organizational culture variables of Romania

Area / person	0,0127	0,0138	0,0139	0,0142	0,0161	0,0147	0,0148
New flats	6 567	4 616	4 706	239	1 269	4 219	2 842
Private new flats	5 344	3 617	3 970	1 966	1 156	3 867	2 235
Total area of new flats thousand m2	599 235	436 852	481 778	222 679	179 831	522 793	346 491
Nr. of new flats / person	0,0018	0,0016	0,0014	0,001	0,0007	0,0015	0,0011
Area of new flats / person	0,16	0,15	0,14	0,1	0,09	0,19	0,14
Consumer water consumption m3	82 801	90 483	773 578	365 162	67 044	97 319	99 394
Consumer gas consumption / person m3	276 148	202 779	339 786	159 312	239 306	446 795	634 920
Consumer gas consumption m4	0,21	0,2	0,27	0,17	0,31	0,43	0,66
Wired telephone subscriptions	562 759	565 823	539 241	355 340	423 809	524 279	552 375
Wired telephone subscriptions / households	0,43	0,55	0,43	0,39	0,55	0,51	0,58
Employed in innovation / 10.000 employed	25,3	18,8	34,5	33	40,5	20,5	24,9
Innovation expenditure Lei	504 394	303 958	1 344 757	538 936	455 305	325 073	463 290
	5 421	5 827		6 058	5 946	5 553	5 486
Net income Lei	858	400	5 789 398	561	644	915	944
Gross domestic product of agrarian sector mLei	86 615	90 104	102 000	65 268	59 647	74 148	66 649
	951	712	000	691	862	491	182
Agrarian area ha	1 224	1 647		1 197			
	852	073	1 932 176	445	973 373	842 893	606 583
Agrarian productivity mLei/ha	70,72	54,71	52,67	54,51	61,28	87,97	109,88
Nr. of tractors	17 555	20 951	28 463	21 777	27 939	29 577	23 653
Nr. of tractors / ha agrarian area	0,0143	0,0127	0,0147	0,0182	0,0287	0,0351	0,0390
Nr. of enterprises	45 462	49 531	43 083	31 149	37 623	55 545	50 184
Total income of enterprises billion Lei	328 607	397 751	402 284	254 693	296 671	357 302	366 923
Total income / nr. of enterprises	7,23	8,03	9,34	8,18	7,89	6,43	7,31
Gross investment	38 379	47 250	52 813	27 137	42 786	42 649	47 777
Nr. Of hospital beds	21 532	15 761	16 200	13 556	14 300	20 081	18 115
Nr. Of students	789 422	530 449	596 270	452 674	404 191	583 269	512 916
Nr. Of university students	77 266	47 507	39 519	43 819	72 420	90 919	68 746



## Romanian Societal Culture: A culture towards Westernization?

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### Abstract

*The paper aims to identify which cluster Romanian culture currently belongs to and which cluster it aims to belong to in the future. It is based on the findings of the research GLOBE<sup>1</sup> Project Romania. This project was carried out by a consortia cooperation of 12 universities from different regions of Romania in 2006/2007. The purpose was to collect data meeting the GLOBE sampling policy, to present a descriptive statistics of Romanian societal culture, and to compare worldwide data with the position of Romania on the European map of cultures (especially Latin and Eastern Europe). The analysis is based on 362 questionnaires on societal culture (national culture – Beta version).*

*Our paper discusses the score for the Romanian societal practises and values analyzing the main reasons for the given results. Next, we draw a comparison between the Romanian results both practices and values and the Eastern Europe, Latin Europe, German Europe, Nordic Europe, Anglo culture clusters and the world average in order to identify the cluster Romania belongs to using the proximity matrix method.*

*To conclude, Romania is in the process of a slow westernization of its institutions and societal culture. The result for societal practices, 0,879773, indicates that the smallest distance is to The EE cluster and the next to The LE cluster (1.286857). The result for societal culture values, 1.497665, indicates also a proximity to The EE cluster and also to The LE cluster (1.784266), however, being greater than in the previous case. This indicates that Romanian societal culture at values level is differentiating from The EE cluster and to a lesser extent from The LE cluster, too.*

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<sup>1</sup> GLOBE – Global Leadership and Organizational Behavior Effectiveness

The paper aims to identify which cluster Romanian culture currently belongs to and which cluster it aims to belong to in the future. It is based on the findings of the research GLOBE<sup>2</sup> Project Romania. This project was carried out by a consortia cooperation of 12 universities from different regions of Romania in 2006/2007. The purpose was to collect data meeting the GLOBE sampling policy, to present a descriptive statistics of Romanian societal culture, and to compare worldwide data with the position of Romania on the European map of cultures (especially Latin and Eastern Europe). The analysis is based on 362 questionnaires on societal culture (national culture – Beta version).

Those questionnaires include 91 Beta version questionnaires of the food industry (26.69%), 173 of commercial banking (50.73%), 77 of the telecommunication industry (22.58%).

The research methodology was identical with the methodology recommended by House, R.J. (House, R. J. and others (eds.), 2004).

We are addressing the topic of societal culture in Romania based on the statistics of the 9 cultural variables (Power Distance, Uncertainty Avoidance, Institutional Collectivism, In-Group Collectivism, Gender Egalitarianism, Assertiveness, Humane Orientation, Performance Orientation and Future Orientation).

First, we describe the Romanian culture profile. As shown in Table 1, Romania's societal practices in absolute measures are rated as high on Power Distance (5.63), In-Group Collectivism (5.43), and low on Uncertainty avoidance (3.66), Performance orientation (3.51), and Future orientation (3.33). Other cultural dimensions (Institutional collectivism - 3,75, Gender egalitarianism - 3,88, Assertiveness - 4,14, Humane orientation - 4.09) are rated in the mid-range around an average of 4. So, Romania is distinguished as having high power distance (hierarchical), being highly group oriented (cohesive in closer communities), tolerating uncertainty, being low on performance orientation and focusing on the present rather than the future.

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<sup>2</sup> GLOBE – Global Leadership and Organizational Behavior Effectiveness

GLOBE Societal practice variables	N	Minimum	Maximum	Mean	Std. Deviation	Rank in GLOBE 62	Band
Power Distance	355	3.40	7.00	5.6263	.8079	3 <sup>rd</sup>	A(highest)
Uncertainty Avoidance	355	1.00	6.25	3.6601	.9601	44 <sup>th</sup>	C (relatively low)
Institutional Collectivism	355	1.50	5.75	3.7484	.8481	54 <sup>th</sup>	C(relatively
In-Group Collectivism (Coll.2)	355	2.67	7.00	5.4322	.8025	25 <sup>th</sup>	A(highest)
Gender Egalitarianism	355	1.60	5.80	3.8815	.7085	9 <sup>th</sup>	A(highest)
Assertiveness	355	1.50	6.75	4.1396	.8160	31 <sup>st</sup>	B (middle)
Humane Orientation	355	1.00	7.00	4.0938	.9343	24 <sup>th</sup>	B (relatively
Performance Orientation	355	1.00	7.00	3.5080	1.0719	56 <sup>th</sup>	C (lowest)
Future Orientation	355	1.00	5.60	3.3280	.8755	52 <sup>nd</sup>	C (relatively low)

Table 1. Romanian societal practice scores (n=355)

As shown in Table 2, Romania's societal values in absolute measures are rated as medium on Power Distance (score 2,78), high In-Group Collectivism (score 6,12), high on Uncertainty Avoidance (3.66- 5,39), medium Performance Orientation (score 4,92) and relatively high Future Orientation (score 5,56). Other cultural dimensions are rated medium on Institutional Collectivism – score 4,98, Gender Egalitarianism – score 4,63, low to medium on Assertiveness – score 4,53, and on Humane Orientation – score 5,30. So, Romania is distinguished as preferring low power distance (less hierarchical), being highly group oriented (cohesive in closer communities), strongly not tolerating uncertainty, being low on performance orientation, and focusing on the future rather than the present.

GLOBE Societal values variables	N	Minimum	Maximum	Mean	Std. Deviation	Rank in GLOBE 62	Band
Power Distance	354	1.00	5.20	2.7771	0.8835	22	C (medium)
Uncertainty Avoidance	354	2.75	7.00	5.3922	0.8390	3	A (highest)
Institutional Collectivism	353	2.50	7.00	4.9773	0.8673	223	B (relatively high)
In-Group Collectivism	353	3.25	7.00	6.1223	0.8051	5	A (highest)
Gender Egalitarianism	353	2.40	6.20	4.6285	0.6840	30	B (relatively high)
Assertiveness	353			4.5300	0.9000	10	A (high)
Humane Orientation	353	3.00	7.00	5.2958	0.7327	37	C (relatively low)
Performance Orientation	353	2.50	6.33	4.9240	0.6008	60	E (lowest)
Future Orientation	354	2.75	7.00	5.5605	0.8904	32	B (relatively high)

Table 2. Romanian societal values scores (n=354)

Romania's societal values are shown in Table 2 as means.

We will describe each of the nine variables according to the following sequence: firstly, we will define the cultural variable according to the GLOBE monograph (House et al., 2004,12.o.), secondly, present world statistics of the respective variable, both the societal practice (as it is) and the societal value (as it should be). Statistical data are based on questionnaires of more than 17,000 middle managers in 951 organizations in telecommunication, finance, and food processing Industries from 62 societies. (Romanian data is not included yet into the international data base). Next, we will present the Romanian statistics of the respective variable based on the

consortia data and we will position the Romanian data in a world rank (of the 62 GLOBE societies). Based on a so called test banding statistical procedure we also position Romania into country groups with relatively high - medium - low measures on the respective variables.

The first variable, *Power Distance*, represents the degree to which members of an organization or society expect and agree that power should be stratified and concentrated on higher levels of an organization or government (House et al., 2004, p.12.). Higher scores indicate greater power distance.

World statistics on Power distance (House et al., 2004, pp.539-540.) indicate the following:

- Societal practice (as is) :World average score is 5.17, the highest three scores are 5.80 (Morocco), 5.80 (Nigeria), 5.68 (El Salvador) and the lowest three are 4.11 (Netherlands), 4.11 (South Africa black), 3.89 (Denmark) and Standard Deviation is 0.41.
- Societal values (should be): World average score is 2.75, the highest three are: 3.65 (South Africa black), 3.53 (New Zealand), 3.52 (Albania) and the lowest three are: 2.26 (Spain), 2.19 (Finland), 2.04 (Colombia) and standard Deviation 0.35

The Romanian societal practice (as it is) has with  $n = 355$  an average score of 5.63, an Standard Deviation of 0.81. Romanian societal values (as it should be) has with  $n=354$  an average score of 2.78, and an Standard Deviation of 0.81.

With this societal average numbers Romania would rank as the 6<sup>th</sup> highest Power distance societal practice among the 62 GLOBE societies, would belong to band (A) group of countries (High power distance group), and as the 25<sup>th</sup> highest Power distance societal value among the 62 GLOBE societies belonging to band (C) group of countries (Medium expected power distance group).

Romanian middle managers perceive relatively high power distance and would like to substantially reduce this high power distance in their society. One reason is the traditional character of the Romanian culture based on the concentration of power at the top of the society, organizations, villages, family (Ionescu, Toma, 2001). Orthodox religion has been developing a strong cult for hierarchy, obedience, and submission to authorities in charge. It has been accentuated by the strong influence of the Orthodox Church in Romania based on the Christianity of Romanian people 2000 years long. It is known in the traditions of the Orthodox church that one of the twelfth apostles of Jesus Christ, Saint Andrew the First Chosen, has preached the Christian faith to people living in the Eastern part of Romania, called Dobrogea.

Today, most of the Romanian people (87%) declare belonging to the Orthodox Church while the church is the most trusted institution in Romania as 85% of participants responded in polls.

A second reason is the heritage of the communist authoritarian system based on developing a highly centralized society, both in politics and economy. The communist Romania was a dictatorship where a small group of people controlled tightly the reign of power with the support of a mighty secret political police, of a communist party structure that pervaded the whole society, and of an all encompassing central planning system that reinforced tough rules, aimed at destroying individuals, and emphasizing collectivistic approach.

We consider that the pressure of social and political forces, of the European Union and internal to the Romanian society for social and economic change and for democratization of the Romanian society is a major factor for this score. The process is still underway going towards a half-decentralization through a process of power decentralization from the centre of the system towards regions and local level. We appreciate that power is still being perceived as concentrated on the level of people in top position at various levels of the society, and not delegated to the bottom level of individual citizens. The balance of power is still strongly biased towards the upper end of the society. Middle class is still developing although the situation is improving fast. The structure of the management system at societal level is another reason for this result: most top level managers belong to the older generation managing mostly by "experience"; middle level managers are of medium age and young and are possessors of new managerial competences developed in the new market economy. At Front line level, we found mostly very young managers. This managerial system filters the access to power and blocks the hierarchical promotion of new generations due to the conflict between "experience" and "competence" and a source of power.

The second variable, *Uncertainty Avoidance*, is defined as the extent to which members of an organization or society strive to avoid uncertainty by relying on established social norms, rituals, and bureaucratic practices. Higher scores indicate greater uncertainty avoidance and lower scores indicate uncertainty bearing (House et al., 2004, p.12.)

World statistics on Uncertainty avoidance (House et al., 2004, pp.621-623.) indicate the following:

- Societal practice (as is): World average score is 4.16, the highest three scores are 5.37 (Switzerland), 5.32 (Sweden), 5.31 (Singapore) and the lowest three are 3.30 (Guatemala), 3.12 (Hungary), 2.88 (Russia) and Standard Deviation is 0.60.

- Societal values (should be): World average score is 4.62, the highest three: 5.61 (Thailand), 5.60 (Nigeria), 5.37 (Albania) and the lowest three: 3.32 (Germany West), 3.24 (Netherlands), 3.16 (Switzerland) and standard Deviation 0.61.

The score for Romanian societal practice (as it is) is with  $n = 355$  3.66 and Romanian societal values (as it should be) is with  $n=354$  5.39. With this societal average numbers, Romania would rank as 17<sup>th</sup> *lowest* (46<sup>th</sup> from the top) Uncertainty avoiding societal practice among the 62 GLOBE societies, would belong to band (C) group of countries (*Relatively low* Uncertainty avoidance group - e.g. uncertainty bearing), and as the 3<sup>rd</sup> *highest* Uncertainty avoiding societal value among the 62 GLOBE societies belonging to band (A) group of countries (High expected Uncertainty avoiding group). That means, Romanian middle managers feel (perceive) relatively high uncertainty in their society and they would like to belong to a society providing much more certainty, and live and work within a more predictable environment. The results obtained for Romania, high uncertainty avoidance and the need for a very stable environment, could be explained by the following reasons:

- One of the most surprising findings of the GLOBE societal cultural results in Eastern Europe is the high uncertainty bearing. All the religious traditions in the region suggest uncertainty avoidance. Hofstede (1993) depicts the Russian cultural heritage as a passivity, uncertainty avoiding tradition. All known measures about the region tend to be rather avoiding than bearing uncertainty positioning Eastern European countries to the uncertainty avoiding half of the world map (Varga, 1986; Hofmeister-Bauer, 1995). However, on GLOBE Uncertainty avoidance practice country rankings, Russia scores the lowest while Hungary is the close second and Georgia, Greece, Kazakhstan, Poland, and Slovenia are all in the last third. The only exception is Albania (14<sup>th</sup> in the world UA rank). Concerning values, all countries but Hungary (37<sup>th</sup>) and Kazakhstan (42<sup>nd</sup>) are in the upper third confirming the common-sense uncertainty avoiding value expectations. (Bakacsi et al., 2002))
- Romanian society is traditional, influenced by religion, and the 45 years of communism have emphasized a highly stable, rigid, and highly protective social environment. The rate of change was controlled. Work and life were controlled while being quite predictable if you were respecting social rules and norms.

After 1989, "a collective cultural shock" happened. People accustomed to stability, rigidity all of a sudden had been confronted with a very high intensity of social, political, economical, legal, and cultural change. That led people to being unable to cope with the magnitude of change, well

beyond their capability to assimilate change. Consequently, their adaptability has been surpassed and their need for stability and uncertainty avoidance remained high. However, the well-known Eastern-European cultural phenomena of "feeling uncertainty" seems to be characteristic to the Romanian culture as well.

The third dimension of the GLOBE model of culture, *Institutional Collectivism* (Collectivism I.), is the degree to which organizational and societal institutional practices encourage and reward collective distribution of resources and collective action (House et al., 2004, p.12.). This variable (as a construct) is identical with the Individualism-Collectivism scales used in the culture literature (for example by Hofstede). A higher score indicates more collectivism.

World statistics on Institutional collectivism (House et al., 2004, pp.467-472.) indicate the following:

- Societal practice (as is): World average score is 4.25, the highest three scores are 5.22 (Sweden), 5.20 (South Korea), 5.19 (Japan) and the lowest three are 3.56 (Germany East), 3.53 (Hungary), 3.25 (Greece) and Standard Deviation is 0.42.
- Societal values (should be): World average score is 4.72, the highest three: 5.65 (El Salvador), 5.62 (Brazil), 5.41 (Iran) and the lowest three: 3.90 (Korea), 3.89 (Russia), 3.83 (Georgia) and standard Deviation 0.49.

The Romanian societal practice (as it is) has with  $n = 355$  an average score of 3.75, an Standard Deviation of 0.85 and Romanian societal values (as it should be) has with  $n=354$  an average score of 4.98, and an Standard Deviation of 0.87. With this societal average numbers, Romania would rank as the 8<sup>th</sup> more individualistic societal practice among the 62 GLOBE societies, and would belong to band (C) group of countries (relatively low institutional collectivism group - e.g. individualistic), and as the 23<sup>rd</sup> highest Institutional collectivism societal value among the 62 GLOBE societies belonging to band (B) group of countries (relatively high expected institutional collectivism group). Hofstede estimated the score and also the findings of "Evolving Values in Europe" in an European cross-cultural research in 1993, indicating collectivism for Romania, as Bibu, 2000 did.

That signifies that Romanian middle managers feel relatively high individualism in society and would like to belong to a more collectivistic society.

One explanation is that the social-economical transition (17 years in Romania) has resulted in a substantial change in people's perception of the current social practices. This process happened in all former communist countries. Eastern European cultures are considered as collectivistic societies. The collectivistic ideology, the religious roots, and the common sense all promote this view. However, none of the Eastern European countries appear in the highest collectivistic group

in GLOBE. Hungary is the most individualistic and the rest is in the medium group. The otherwise collectivistic countries, Russia and Georgia, lead the list of the values ranking on the individualistic edge desiring to be more individualistic even in terms of absolute scores.

This cultural phenomena might be devoted to the collapse of the socialist system and ideology which caused a great sense of energy and arousal on the one hand, and a substantial regression in economic growth, net personal income, living standards, unemployment, inflation, and other important economic indicators on the other. Masses of society members have been losers of the transition period. They lost their jobs while facing increasing (market) prices. The newly introduced taxes and high inflation substantially reduced discretionary income and economic shock therapies replaced the social safety net in the 1990s. The nature and scale of changes in the economy were unprecedented. Changes were forced on Romanian companies because for most of them there was no choice but to change in order to survive. Privatization was in delay and slowly happening until 1997. During this period, state owned enterprises were subject to bad management and abandoned by the state. This processes increased the win/lose pattern and the self-interest driven by (individualistic) behaviour in the transition societies (including Romania). (Bakacsi et al, 2002)

Another likely explanation is the strong influence of western values through transfer by the mass media and by increased exchange of people across frontiers after 1990. Romanians have emigrated and worked in various European Union countries, such as Italy, Spain, Germany, France, Austria, and others. They maintain close contact with their families back in Romania. Some are returning, others are planning to work abroad for a certain period and returning to invest in a personal project or business.

Traditional society and the collectivistic communist systems founded on values and ideology of support and protection have led to institutionalization of the need for social protection at national level. Hence, there is a high expectation to receive something from society and a low propensity to give something to society. Consequently, people perceive the ratio between give and receive as unfair expecting to receive something from society, from others and to give afterwards if they have something to give.

*In-Group Collectivism* (Collectivism II.) is the degree to which individuals express pride, loyalty, and cohesiveness in their organizations or families (House et al., 2004, p.12.). Higher scores indicate greater collectivism.



World statistics on “In-Group collectivism” (House et al., 2004, pp.467-472.) indicate the following:

- Societal practice (as is): World average score is 5.13, the highest three scores are 6.36 (Philippines), 6.19 (Georgia), 6.03 (Iran) and the lowest three are 3.66 (Sweden), 3.67 (New Zealand), 3.83 (Denmark) and Standard Deviation is 0.73.
- Societal values (should be): World average score is 5.66, the highest three: 6.52 (El Salvador), 6.25 (Colombia), 6.21 (New Zealand) and the lowest three: 5.09 (China), 4.99 (South Africa black), 4.94 (Switzerland) and standard Deviation 0.35.

The Romanian societal practice (as it is) has with  $n = 355$  an average score of 5.43, an Standard Deviation of 0.80 and Romanian societal values (as it should be) have with  $n=354$  an average score of 6.12, an Standard Deviation of 0.81. With this societal average numbers, Romania would rank as the 31<sup>st</sup> more collectivistic societal practice among the 62 GLOBE societies, and would belong to band (A) group of countries (High In-Group collectivism group) and the 9<sup>th</sup> highest In Group collectivism societal value among the 62 GLOBE societies belonging to band (A) group of countries (Highest expected In-Group collectivism group).

Romanian middle managers seem to perceive and expect much more collectivism, cohesiveness, and cooperativeness in their closer community (family, or organization) compared to their perception on their broader social environment which they feel more individualistic and competitive.

The main reasons for that are the following:

- Romanian people's cultural traditions, based on the high importance given to family (the extended family type), family values based on intense ties, being much stronger than societal values. (see: Catana-Catana, 1996).
- Changes during the 1990's that led also to weakening and desegregation of groups such as friends, large family, did accentuate the nostalgia for paternalistic values and for the protection once offered by belonging to strong groups.

*Gender Egalitarianism* is the degree to which an organization or a society minimizes gender role differences while promoting gender equality. (House et al., 2004, p.12.) A higher score indicates gender egalitarianism (femininity), a lower score indicates greater male domination (masculinity).

World statistics on Gender egalitarianism (House et al., 2004, pp.362-366.) indicate the following:

- Societal practice (as is): World average score is 3.37, the highest three scores are 4.08 (Hungary), 4.07 (Russia), 4.02 (Poland) and the lowest three are 2.81 (Egypt), 2.58 (Kuwait), 2.50 (South Korea) and Standard Deviation is 0.37.
- Societal values (should be): World average score is 4.51, the highest three 5.17 (England), 5.15 (Sweden), 5.14 (Ireland) and the lowest three: 3.45 (Kuwait), 3.38 (Qatar), 3.18 (Egypt) and standard Deviation 0.48.

The Romanian societal practice (as it is) has with  $n = 355$  an average score of 3.88, an Standard Deviation of 0.71 and Romanian societal values (as it should be) has with  $n=354$  an average score of 4.63, and an Standard Deviation of 0.68.

With this societal average numbers, Romania would rank as the 7<sup>th</sup> more feminine societal practice among the 62 GLOBE societies, and would belong to band (A) group of countries (High Gender egalitarianism group), and the 30<sup>th</sup> more feminine societal value among the 62 GLOBE societies belonging to band (B) group of countries (Relatively High expected Gender egalitarianism group).

Romanian middle managers seem to perceive and expect femininity and gender egalitarianism in the Romanian society in a relatively masculine world.

The results of the research are important for practice while the score is even higher as expected, but coherent with the trend experienced in world average that in a relatively masculine world Romanians would like to belong to a more feminine world. In a traditional orthodox society, the social role of women was to care for the family and children, being the housekeeper. Men were the head of the family, being the masculine type in society. The Romanian communist society changed that through social building in which women were attracted into working to sustain the intensive process of industrialization. In most families, both husband and wife worked, children were cared for by grandparents or specialized institutions, such as nurseries, children, schools. Laws and ideology strongly promoted the equality between man and woman despite the fact that in reality changes were slower than planned. However, things were changing in this direction and continued after the 1989 revolution within a different environment also stimulating this trend towards gender egalitarianism.

The results are aligned with a more general European trend and even at world level towards more equality between men and women mainly determined by the changes of mentality and practices related to the women role in modern society. The number of Romanian women working practically in most of the jobs and professions at every managerial level including women

entrepreneurs has increased. However, the number of women in politics is still quite low compared to other areas of activity.

Changes are slow, only step-by-step, which is also due to cultural characteristics of femininity, and characterized by a low propensity for risk taking, specific for women.

*Assertiveness* is the degree to which individuals in organizations or society are assertive, confrontational, and aggressive in their social relationships. (House et al., 2004, p.12.) A higher score indicates greater assertiveness, lower scores indicate tenderness.

World statistics on Assertiveness (House et al., 2004, pp.409-411.) indicate the following:

- Societal practice (as is): World average score is 4.14, the highest three scores are 4.89 (Albania), 4.79 (Nigeria), 4.79 (Hungary) and the lowest three are 3.47 (Switzerland French), 3.42 (New Zealand), 3.38 (Sweden), standard Deviation is 0.37.
- Societal values (should be): World average score is 3.82, the highest three 5.56 (Japan), 5.44 (China), 5.14 (Philippines) and the lowest three: 2.83 (Russia), 2.81 (Austria), 2.66 (Turkey) and standard Deviation 0.63.

The Romanian societal practice (as it is) has with  $n = 355$  an average score of 4.14, equal to the world average, and the Standard Deviation of 0.82 and Romanian societal values (as it should be) has with  $n=354$  an average score of 4.53, higher than the world score, and an Standard Deviation of 0.90.

With this societal average numbers, Romania would rank as the 30<sup>th</sup> in assertiveness societal practice among the 62 GLOBE societies (practically in the middle), and would belong to band (B) group of countries (Middle Assertiveness group). Romania would rank 10<sup>th</sup> in assertiveness societal value among the 62 GLOBE societies, and would belong to band (A) group of countries (High Assertiveness group). A surprising result because it is the only one in which the Romanian score goes the opposite direction compared to world trends meaning that middle managers would like their societal culture to be more aggressive, of course towards outsiders of the group they belong to.

Romanian culture is at average level for societal practice and equal with world average. Romanian society is perceived as a relatively assertive one, not passive in social confrontation (but not necessarily aggressive) by middle managers. This is suggesting an adaptation of behaviour according to a situation - the win/lose pattern (discussed in the Institutional collectivism section above) may also generate a somewhat assertive behaviour in social relationships. People generally try to be dominant in their relationship to each other.

A possible explanation is that the outcomes are dependent on historical conditions of Romania with respect of the evolution towards democracy. We would point out that Romania was confronted with communism (45 years), military dictatorship for 4 years (General Antonescu), and royal (king Carol the 2<sup>nd</sup>) dictatorship for 3 years, meaning a long line of authoritarian rule of the state between 1938 and 1989. Romania has quite a limited experience with democracy (about 72 years) under a constitutional monarchy from 1866 to 1938. Romania became only a more democratic state after the 1923 constitution, so democracy was quite in its infancy.

*Humane Orientation* is the degree to which individuals encourage and re-ward other people in an organizations or society for being fair, altruistic, friendly, generous, caring, and kind to others. (House et al., 2004, p.12.) A higher score indicates greater humane orientation.

World statistics on Humane Orientation (House et al., 2004, pp.573-574.) indicate the following:

- Societal practice (as is): World average score is 4.09, the highest three scores 5.23 (Zambia), 5.12 (Philippines), 4.96 (Ireland) and the lowest three are 3.34 (Greece), 3.32 (Spain), 3.18 (Germany, West), standard Deviation is 0.47.
- Societal values (should be): World average score is 5.42, the highest three 6.09 (Nigeria), 5.81 (Finland), 5.79 (Singapore) and the lowest three: 5.01 (Thailand), 4.99 (Costa Rica), 4.49 (New Zealand) and standard Deviation 0.25.

The Romanian societal practice (as it is) has with  $n = 355$  an average score of 4.09, which is equal to the world average, and an Standard Deviation of 0.93. The Romanian societal values (as it should be) has with  $n=354$  an average score of 5.30, which is lower than the world score, and an Standard Deviation of 0.73.

With this societal average number, Romania would rank as the 31<sup>st</sup> Humane orientation societal practice among the 62 GLOBE societies, and would belong to band (B) group of countries (Relatively high Humane orientation group), and 42<sup>nd</sup> in Humane orientation societal value among the 62 GLOBE societies belong here to band (C) group of countries (Relatively low expected Humane orientation group).

Romanian middle managers seem to perceive their social environment as being relatively high humane oriented and expect substantial improvement in Humane Orientation. However, these strive for being more Humane oriented is still somewhat behind other countries' improvement expectations in this respect.

Romanian Humane orientation could be explained by the characteristics of Romanian traditional society based on Christian Orthodox values, which are oriented towards family values supporting a specific human profile of being "good people, caring, warm, and good hearted". Also, help and

support for people who are in a position of need are also offered due to Christian values. Still, being under the pressure of the secularism view of the world, one can experience the decreasing trend of faith in God, the strong advances of consumerism on one hand, and on the other one, the desire to preserve what was considered a virtue and a Romanian soul characteristic, the “as it should be”, which increases much, but still lesser than the world average. A possible reason for that development could be that we did not experience the effects of a very low humane orientation society.

*Performance Orientation* is the degree to which an organization or society encourages and rewards group members for performance improvement and excellence. (House et al., 2004, p.12.). A higher score indicates greater performance orientation.

World statistics on Performance orientation (House et al., 2004, pp.249-251.) indicate the following:

- Societal practice (as is): World average score is 4.10, the highest three scores are 4.94 (Switzerland), 4.90 (Singapore), 4.80 (Hong Kong) and the lowest three are 3.39 (Russia), 3.32 (Venezuela), 3.20 (Greece), standard Deviation is 0.41.
- Societal values (should be): World average score is 5.94, the highest three 6.58 (El Salvador), 6.45 (Zimbabwe), 6.42 (Colombia) and the lowest three: 5.25 (South Korea), 5.17 (Japan), 4.92 (South Africa black) and standard Deviation 0.34.

The Romanian societal practice (as it is) has with  $n = 355$  an average score of 3.51 which is lower than the world average, and an Standard Deviation of 0.07. Romanian societal values (as it should be) has with  $n=353$  an average score of 4.92 which is much lower than the world score, and an Standard Deviation of 0.60.

With this societal average number, Romania would rank as the 6<sup>th</sup> least Performance oriented societal practices among the 62 GLOBE societies, and would belong to band (C) group of countries (*Low* Performance orientation group) and the 2<sup>nd</sup> least Performance oriented societal value among the 62 GLOBE societies, and would belong to band (E) group of countries (*Lowest* expected Performance orientation group). Romanian practice score is one of the lowest in the world (sixth from bottom). The "as it should be" score is much higher, but still much lower than the world average.

Romanian middle managers do not seem to perceive a social environment that encourages and rewards performance, but, although expecting substantial improvement in Performance orientation, this strive for being more performance oriented is still lagging well behind other countries' improvement expectations.

Neither the social environment nor group performance encourages or rewards individuals. On the contrary, the widely accepted belief is still that if you are a rich person you are not fair, honest, or a good person. Reasons for that are firstly, the former communist ideology based on collective property, egalitarianism and interdiction of accumulating wealth which led to the vilification of rich people and destructive envy towards those being better well off. Being rich was not moral and every rich individual was subject to legal prosecution. The law assumed that a rich person has to demonstrate that his or her wealth was due to legal activities because a rich person was guilty of illegal activities by definition. On the other hand, there is a belief that one cannot get a proper and equitable reward according to his or her efforts and dedication. This belief is also maintained by the motivational system that does not reward sustainable performance. Doing things right is an obligation, something normal, so that there is no need for a reward. So, there is no incentive for doing them better. The orthodox faith that preaches and emphasizes modesty, humility, acceptance of one's situation might be another explanation. It has to be said that orthodox faith preaches also working hard, doing things right, and living a moral life.

In sum, Romanian societal culture is not supporting a cult for performance. A tendency of being "easy going" in personal life and taking things as they happen represent other possible explanations for this quite low score. However, we consider that a change is happening while the gap between the current perceived situation and personal expectations is quite significant from a score of 3,52 for societal practice to a score of 4,92 for societal values.

*Future Orientation* is the degree to which individuals in organizations or societies engage in future oriented behaviours such as planning, investing in the future, and delaying individual or collective gratification.(House et al.,2004,p.12.) A higher score indicates greater future orientation.

World statistics on Future orientation (House et al., 2004, pp.303-306.) indicate the following:

- Societal practice (as is): World average score is 3.85, the highest three scores are 5.07 (Singapore), 4.73 (Switzerland), 4.64 (South Africa black) and the lowest three are 3.11 (Poland), 3.08 (Argentina), 2.88 (Russia) standard Deviation is 0.46.
- Societal values (should be): World average score is 5.48, the highest three 6.20 (Thailand), 6.12 (Namibia), 6.07 (Zimbabwe) and the lowest three: 4.79 (Switzerland), 4.73 (China), 4.33 (Denmark) and standard Deviation 0.41.

The Romanian societal practice (as it is) has with  $n = 355$  an average score of 3.33 which is lower than the world average, and an Standard Deviation of 0.96. Romanian societal values (as it

should be) has with n=354 an average score of 5.56, which is higher than the world score, and an Standard Deviation of 0.89.

With this societal average numbers, Romania would rank as the 10<sup>th</sup> least Future oriented societal practice among the 62 GLOBE societies, and would belong to band (C) group of countries (*Relatively low* Future orientation group) and the 32<sup>nd</sup> in Performance oriented societal value (in the middle) among the 62 GLOBE societies, and would belong to band (B) group of countries (*Relatively high* expected Performance orientation group).

Romanian middle managers seem to perceive society rather in the present situation than its planning for the future. However, an substantial improvement in Future orientation of the Romanian society is expected (Petrisor, I., 2007).

The score for „as it should be” is at world average. However, the practice indicates a focus on the present situation, an orientation towards daily problems mainly because they are perceived of being urgent and complex. Today is more certain than tomorrow (future). Uncertainty of the future is little tolerated by Romanians. A strong reason is the fatality of the Christian orthodox religion that states that God's will is greater than one's will, and all the things and events happen because that is the way they should happen.

We undertook a comparison of the societal culture practices and values variables for Romania with European clusters such as the Eastern European (EE) cluster (Bakacs et al., 2002), Latin European (LE) cluster (Jesuino J, (2002), Germanic Europe (GE) cluster (Szabo E.et al., 2002), Nordic Europe cluster and Anglo cluster (Askhanazi et al.,2002) and with the world average scores. Data is presented in appendix 1 and 2. We consider that for Romania, “westernization” means an evolution towards the LE cluster, GE cluster, Nordic European cluster or Anglo cluster, as they are defined by Gupta, Hanges & Dorfman in House et al., 2004. These clusters cover countries from Europe and North America, Australia, New Zealand and South Africa's White population and represent what is usually considered as the Western World.

Proximity Matrix							
	Correlation between Vectors of Values						
	Romania	Eastern Europe	Latin Europe	German Europe	Nordic Europe	Anglo Culture	World Average
Romania	1	<b>0,931239243</b>	0,848702795	0,184071526	-0,180191157	0,462425072	0,852363553
Eastern Europe	0,931239	1	0,829967417	0,106552655	-0,099302122	0,460304441	0,858400081
Latin Europe	0,848703	0,829967417	1	0,626356042	0,196064728	0,808175381	0,966185222
German Europe	0,184072	0,106552655	0,626356042	1	0,490712305	0,740589997	0,522071566
Nordic Europe	-0,18019	-0,099302122	0,196064728	0,490712305	1	0,523227472	0,120300611
Anglo Culture	0,462425	0,460304441	0,808175381	0,740589997	0,523227472	1	0,795023348
World Average	0,852364	0,858400081	0,966185222	0,522071566	0,120300611	0,795023348	1

This is a similarity matrix

Table 3: Proximity matrix (societal culture practices)

Proximity Matrix							
	Correlation between Vectors of Values						
	Romania	Eastern Europe	Latin Europe	German Europe	Nordic Europe	Anglo Culture	World Average
Romania	1	<b>0,863953338</b>	0,826215363	0,652051564	0,722112022	0,764644236	0,853130629
Eastern Europe	0,863953	1	0,956268291	0,856399565	0,90891729	0,937993117	0,982830024
Latin Europe	0,826215	0,956268291	1	0,958415971	0,958627212	0,970126616	0,988254903
German Europe	0,652052	0,856399565	0,958415971	1	0,952102398	0,943211117	0,916361619
Nordic Europe	0,722112	0,90891729	0,958627212	0,952102398	1	0,982091347	0,929719314
Anglo Culture	0,764644	0,937993117	0,970126616	0,943211117	0,982091347	1	0,960375405
World Average	0,853131	0,982830024	0,988254903	0,916361619	0,929719314	0,960375405	1

This is a similarity matrix

Table 4: Proximity matrix (societal culture values)

Proximity Matrix							
	Correlation between Vectors of Values						
	Romania	Eastern Europe	Latin Europe	German Europe	Nordic Europe	Anglo Culture	World Average
Romania	1	0,930127931	0,866503306	0,560919445	0,461091379	0,717359396	0,904799145
Eastern Europe	0,930128	1	0,885058483	0,584775166	0,553968694	0,748861631	0,933973425
Latin Europe	0,866503	0,885058483	1	0,886344961	0,782972906	0,92736494	0,987059935
German Europe	0,560919	0,584775166	0,886344961	1	0,847973385	0,888734471	0,817538339
Nordic Europe	0,461091	0,553968694	0,782972906	0,847973385	1	0,925529616	0,729637957
Anglo Culture	0,717359	0,748861631	0,92736494	0,888734471	0,925529616	1	0,907874729
World Average	0,904799	0,933973425	0,987059935	0,817538339	0,729637957	0,907874729	1

This is a similarity matrix

Table 5. Proximity matrix (the gap between the differences between values and practices at societal culture level)

We used the Proximity matrix and Euclidian distance to analyze the data.

The Proximity Matrix indicates the degree of similarity between Romania and each of the considered clusters. The data is presented in Table 3, 4, and 5. The result for societal culture practices, 0,931239, indicates a very strong similarity to the EE cluster and a less stronger one to the LE cluster. The result for societal culture values, 0,863953, indicates also a strong similarity to the EE cluster, however, it is smaller than in the previous case. In our opinion, this indicates



that Romanian societal culture at values level differentiates from the EE cluster and to a lesser extent from the LE cluster, too. The divergence from the EE cluster is greater than the divergence from the LE cluster in the case of societal values. We conclude that Romanian managers would like their societal culture to evolve from the EE cluster towards the LE cluster and also towards the Anglo cluster. The difference between the Anglo cluster and Romania is reducing dramatically at values level (see table 5). In our opinion, it is a surprising result for Romanian societal culture since it indicates that an old eastern European culture wishes to adopt the Anglo-American model. Some tentative explanations could be the strong influence of American culture in Romania, the intensive transfer of business and management know-how through the US and global multinationals active in Romania, through Business and management schools, and also a fascination of Romanian with the USA.

We have also calculated the Euclidian Distance in order to estimate the real distances between Romania and the considered clusters. The data is presented in Appendix nr. 3. The results of this method strongly support the conclusions formulated above based on the Proximity matrix. We used the Proximity matrix for Euclidian distance to analyze the data and for correlation between vectors of average scores of clusters and of Romania. The Proximity Matrix (Euclidian distance) indicates the real distances between Romania and each of the considered clusters.

The result for societal culture practices, 0,879773, indicates that the smallest distance is to the EE cluster, and next to the LE cluster (1.286857). The result for societal culture values, 1.497665, indicates also a proximity to the EE cluster, and next to the LE cluster (1.784266) However, it is greater than in the previous case. This indicates that Romanian societal culture at values level differentiates from the EE cluster and to a lesser extent from the LE cluster.

The main conclusion is that the societal culture is changing more slowly at societal practice level than the societal values level. The societal practices level is still quite similar to the Eastern European cluster as described by Bakacs (Bakacs et. al., 2002), and the societal values are partially moving from the Eastern European cluster towards the Latin Europe cluster and also towards the Anglo cluster. It has to be noticed that the EE cluster is changing itself meaning that countries belonging to it are changing to some extent towards a more westernized type of culture. The EE cluster's societal practices are characterized by tolerating uncertainty, high group cohesion, hierarchical and gender egalitarian that is also the main profile of Romanian societal practices. The EE cluster's societal values are characterized by much more performance, future orientation, and humanity, as well as a lower level of power differentiation, a higher level of structure (uncertainty avoidance), and a higher level of gender egalitarianism. The profile of Romanian societal values is quite similar to the EE scores with the exception of "Assertiveness",

where Romania scores much higher than the EE average score, and “Performance Orientation”, where the score is much lower. Other cultural researches (Hofstede, 2002), (Bibu, 2000) indicated high power distance, high uncertainty avoidance, collectivism, and feminine type of culture that is common to CEE countries, in Hofstede model (CE I, CE II).

The main explanation resides in the fact that Romania belongs to Central and Eastern Europe sharing with these countries history, geography, civilization, religion, and culture. A distinction, however, resides in Romania’s Latin character of the language, unique in the region. Furthermore, Romania adopted very early Christian faith in the first century AD, and consequently, belongs mostly to the Orthodox Church, and not catholic or protestant religion. Many Romanian historians think that the Latin-based language and Christian orthodox religion contributed decisively to keeping its distinct identity by the Romanian language speaking population in spite of the fact that for centuries they lived in three main political entities, namely Moldova, Walachia, and Transylvania. The political unification process happened between 1859 when Moldavia united with Walachia, and 1918 when Transylvania and other Romanian provinces united to Romania and formed the Kingdom of Romania. The Romanian state is quite young, but the common civilization of Romanians, and subsequently, their culture is two millenniums old.

Romanian managers are aware of the cultural differences between Romania and the European clusters as a reference basis. Therefore, their aspirations are related to the LE cluster and to the Anglo-Saxon cluster than to the perceived existing culture.

Romania is in the process of the westernization of its institutions and societal culture.

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## APPENDIX 1

## Comparison between Romania and other clusters

Societal Variable	Romania	Eastern Europe	Latin Europe	German Europe	Nordic Europe	Anglo culture	World average
<b>As is (Practices)</b>							
1. Power Distance	5.63	5.25	5.21	4.95	4.54	4.97	5.17
2. Uncertainty Avoidance	3.66	3.57	4.18	5.12	5.19	4.42	4.16
3. Institutional Collectivism	3.75	4.08	4.01	4.03	4.88	4.46	4.25
4. In group Collectivism	5.43	5.53	4.80	4.21	3.75	4.30	5.13
5. Gender Egalitarianism	3.88	3.84	3.36	3.14	3.71	3.40	3.37
6. Assertiveness	4.14	3.51	3.99	4.55	3.66	4.14	4.14
7. Humane Orientation	4.09	3.84	3.71	3.55	4.17	4.20	4.09
8. Performance Orientation	3.51	3.71	3.94	4.41	3.92	4.37	4.10
9. Future Orientation	3.33	3.37	3.68	4.40	4.36	4.08	3.85
<b>Should be (Values)</b>							
1. Power Distance	2.78	2.84	2.57	2.51	2.55	2.86	2.75
2. Uncertainty Avoidance	5.39	4.93	4.36	3.46	3.76	4.09	4.62
3. Institutional Collectivism	4.98	4.33	4.84	4.69	4.08	4.32	4.72
4. In group Collectivism	6.12	5.56	5.66	5.16	5.65	5.84	5.66
5. Gender Egalitarianism	4.63	4.46	4.77	4.91	4.82	4.90	4.51
6. Assertiveness	4.53	3.88	3.72	3.07	3.56	3.89	3.82
7. Humane Orientation	5.30	5.41	5.58	5.48	5.64	5.40	5.42
8. Performance Orientation	4.92	5.81	5.94	5.90	5.84	6.03	5.94
9. Future Orientation	5.56	5.37	5.33	5.01	4.76	5.33	5.48

**APPENDIX 2****The gap between Romanian and various clusters at societal culture level**

<b>Societal Variable</b>	<b>Ro / EE</b>	<b>Ro / LE</b>	<b>Ro/ GE</b>	<b>Ro / Nordic</b>	<b>Ro / AC</b>	<b>Minim Distanc e</b>	<b>Maxim Distanc e</b>	<b>Ro / World score</b>
<b>As is (Practices)</b>								
1. Power Distance	0.38	0.42	0.68	1.09	0.66	EE	NE	0.46
2. Uncertainty Avoidance	0.09	-0.52	-1.46	-1.53	-0.76	EE	NE	-0.50
3. Institutional Collectivism	-0.33	-0.26	-0.28	-1.13	-0.71	LE	NE	-0.50
4. In group Collectivism	-0.10	0.63	1.22	1.68	1.13	EE	NE	0.30
5. Gender Egalitarianism	0.04	0.52	0.74	0.17	0.48	EE	GE	0.51
6. Assertiveness	0.63	0.15	-0.41	0.48	0	AC	EE	0.00
7. Humane Orientation	0.25	0.38	0.54	-0.08	-0.11	NE	GE	0.00
8. Performance Orientation	-0.20	0.43	0.90	0.41	0.86	EE	GE	-0.59
9. Future Orientation	-0.04	-0.35	-1.07	-1.03	-0.75	EE	GE	-0.52
<b>Should be (Values)</b>								
1. Power Distance	-0.06	0.21	0.27	0.23	-0.08	EE	GE	0.03
2. Uncertainty Avoidance	0.46	1.03	1.93	1.63	1.30	EE	GE	0.77
3. Institutional Collectivism	0.65	0.14	0.29	0.90	0.66	LE	NE	0.26
4. In group Collectivism	0.56	0.46	0.96	0.47	0.28	AC	GE	-1.02
5. Gender Egalitarianism	0.17	-0.14	-0.28	-0.19	-0.27	LE	GE	0.46
6. Assertiveness	0.65	0.81	1.46	0.97	0.64	AC/EE	GE	0.71
7. Humane Orientation	-0.11	-0.28	-0.18	-0.34	-0.10	AC/EE	NE	-0.12
8. Performance Orientation	-0.89	-1.02	-0.98	-0.92	-1.11	EE	AC	-1.02
9. Future Orientation	0.19	0.23	0.55	0.80	0.23	EE	NE	0.08

### APPENDIX 3

#### Proximity matrix (Euclidian distance)

Proximity Matrix							
	Euclidean Distance						
	Romania	Eastern Europe	Latin Europe	German Europe	Nordic Europe	Anglo Culture	World Average
Romania	0	<b>0.879772698</b>	1.286856635	2.668894902	3.020430433	2.082978636	1.296225289
Eastern Europe	0.879773	0	1.240241912	2.728369476	2.847700827	2.029285589	1.26735946
Latin Europe	1.286857	1.240241912	0	1.557754795	2.057717182	1.08480413	0.6244998
German Europe	2.668895	2.728369476	1.557754795	0	1.688253535	1.202331069	1.666133248
Nordic Europe	3.02043	2.847700827	2.057717182	1.688253535	0	1.365650028	2.098570942
Anglo Culture	2.082979	2.029285589	1.08480413	1.202331069	1.365650028	0	0.989646401
World Average	1.296225	1.26735946	0.6244998	1.666133248	2.098570942	0.989646401	0
This is a dissimilarity matrix							

Proximity Matrix							
	Euclidean Distance						
	Romania	Eastern Europe	Latin Europe	German Europe	Nordic Europe	Anglo Culture	World Average
Romania	0	<b>0.879772698</b>	1.286856635	2.668894902	3.020430433	2.082978636	1.296225289
Eastern Europe	0.879773	0	1.240241912	2.728369476	2.847700827	2.029285589	1.26735946
Latin Europe	1.286857	1.240241912	0	1.557754795	2.057717182	1.08480413	0.6244998
German Europe	2.668895	2.728369476	1.557754795	0	1.688253535	1.202331069	1.666133248
Nordic Europe	3.02043	2.847700827	2.057717182	1.688253535	0	1.365650028	2.098570942
Anglo Culture	2.082979	2.029285589	1.08480413	1.202331069	1.365650028	0	0.989646401

Proximity Matrix							
	Euclidean Distance						
	Romania	Eastern Europe	Latin Europe	German Europe	Nordic Europe	Anglo Culture	World Average
Romania	0	<b>1,549967742</b>	2,150999768	4,442881948	4,511817815	3,063608983	1,901709757
Eastern Europe	1,549968	0	1,930492165	4,16108159	3,952632034	2,725820977	1,455025773
Latin Europe	2,151	1,930492165	0	2,530138336	2,932729104	1,636245703	0,870804226
German Europe	4,442882	4,16108159	2,530138336	0	2,463757293	2,328755032	2,823596997
Nordic Europe	4,511818	3,952632034	2,932729104	2,463757293	0	1,681427965	2,97237279
Anglo Culture	3,063609	2,725820977	1,636245703	2,328755032	1,681427965	0	1,562241979
World Average	1,90171	1,455025773	0,870804226	2,823596997	2,97237279	1,562241979	0
This is a dissimilarity matrix							

**Abstract**

*Advocates of the knowledge-based school claim that a firm can only have a competitive advantage if it possesses more relevant knowledge than its competitors. Scientific literature usually discusses two well-known classifications of knowledge. The first one divides knowledge into its explicit and tacit component, whereas the second one discusses human and structural capital. The growing importance of knowledge naturally calls for its systematic management. If knowledge management is to give proper results, its basic goal should be to transform as much of a firm's human capital into its structural capital as possible. Empirical research in this paper is based on the sample of 225 Slovenian firms. It shows that the firms see the most relevant sources of their competitive advantage in the structural capital, tacit knowledge, and in imperfect imitability of knowledge. The more relevant knowledge a firm possesses and the better its management is, the greater is the firm performance and competitiveness, which means our empirical support of the knowledge-based school is quite unequivocal. Among the studied sources of competitive advantage within the knowledge-based school performing the knowledge management tasks regularly and ensuring that relevant knowledge cannot be imitated by competitors seem to be the most relevant factors of a firm's competitiveness and performance.*

## Introduction

A competitive advantage can be defined as a unique position<sup>1</sup> that a firm develops in comparison with its competitors. Outward evidence of a competitive advantage is a position of superiority in an industry or market (Bamberger, 1989), where the superiority depends on how customers perceive it. The discussion on a firm's competitiveness takes place literally every day, not only among managers but also among academics, politicians, and others. Firms whose primary strategic goal is long-term progress, development, and success must build up some kind of competitive advantage, which means that certain sources of competitive advantage must first be developed. In other words, the process of competition between firms can be described as a causal-consecutive sequence like 'sources of competitive advantage → forms of competitive advantage → performance'. The scientific literature usually discusses two fundamental forms of competitive advantage, i.e. lower price (costs) and differentiation, along with four basic schools concerning the sources of competitive advantage, i.e. the industrial organization school, the resource-based school, the capability-based school, and the knowledge-based school. Advocates of the knowledge-based school argue that a firm can only win a competitive battle if it possesses more relevant knowledge than its competitors. Competitive advantage, therefore, finds its source in knowledge (Pučko, 1998; Čater, 2001c). Knowledge is said to be a good source of competitive advantage because it is subject to the effects of the economies of scale and scope. This means that a firm, once it possesses the relevant knowledge, can use this knowledge at many fronts with negligible marginal costs (Grant, 1997).

The purpose of this paper is to analyze the sources of competitive advantage as seen by the knowledge-based school, examine the relationship between these sources and a firm's competitiveness and performance, and, based thereon, offer a judgement on the relevance of the knowledge-based school. After briefly reviewing the relevant theory on the knowledge-related sources of competitive advantage, the paper mainly involves a presentation of the empirical findings of a study of 225 Slovenian firms. By comparing the empirical evidence with theoretical findings drawn from the literature, we believe some new insights can be offered to scholars and researchers in the area of competitiveness.

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<sup>1</sup> A more detailed discussion on a 'positional' competitive advantage is given by Ma (2000).



## **Knowledge-based school – a theoretical review**

### ***The core of the knowledge-based school***

Knowledge is said to be the only real source of a firm's competitive advantage and those firms that do not realize this today will suffer competitive disadvantages tomorrow. Given this, it is not surprising that a new explanation (namely the knowledge-based school) of the sources of a firm's competitive advantage became extremely popular in the last decade of the 20th century. One of the first modern notes about the knowledge as a source of competitive advantage go back to the 1890, when Alfred Marshall in his 'Principles of Economics' compared knowledge with the most powerful machine of the business (Truch, 2001). In spite of this, the knowledge-based school became an equally important approach for explaining a firm's competitive advantage as late as in the 1990s when several papers on the knowledge-based theory of the firm (Grant, 1996; Grant, 1997; Nonaka, Toyama, Nagata, 2000) and knowledge as an important factor of firm performance (Zack, 1999a; Martin, 2000) and competitiveness (Pučko, 1998; Riesenberger, 1998; Čater, 2000) were published. Although the knowledge-based school derives from the resource-based school (Hoskisson et al., 1999), there is an important distinction between them, namely in the organizational level at which the sources of competitive advantage are discussed. While the resource-based school primarily treats the sources of competitive advantage on the strategic business unit level, the knowledge-based school, especially within the discussion on knowledge management (Earl, Scott, 1999), treats them on the corporate level (Quinn, Anderson, Finkelstein, 1996; Wiig, 1997; Pučko, 2002a).

If a firm wants to base its competitive advantage on its knowledge several conditions must be met. Since we have already discussed these conditions elsewhere (see, for example, Čater (2001a)) we will not discuss them in details again. Let us just mention that knowledge as a potential to be a source of competitive advantage has to be valuable, heterogeneous, rare, immobile, not substitutable, and may not be easily imitated (Zupan, 1996; Teece, 1998; Ndlela, Du Toit, 2001).

### ***Types of knowledge as a source of competitive advantage***

Naturally, from the firm's point of view not all kinds of knowledge are equally useful. Especially important is that part of knowledge that can be labelled commercial knowledge. The nature of commercial knowledge (as the opposite of non commercial knowledge) was perhaps best described by Demarest (1997), who proposed that the goal of commercial knowledge is not to find the truth, but to ensure effective performance. It does not answer the question 'what is right'

but rather 'what works' or even 'what works better', where better is defined in competitive and financial contexts.

Within the discussion on different classifications of knowledge, we shall limit ourselves on those that are important for a firm's competitiveness and performance. With regard to the 'ownership' of knowledge, a firm's intellectual capital is divided into its human and structural component (Edvinsson, Malone, 1997). Human capital is based on the employees' knowledge, their innovativeness and ingenuity, their skills, as well as on their values and culture. This category of intellectual capital cannot be the property of a firm because employees take their knowledge, skills, and experience with them when they leave the firm. Human capital can, therefore, only be rented, which means that it is highly risky. On the other hand, structural capital is everything left at the office when employees go home. It is the property of a firm and can thereby be traded (Edvinsson, Sullivan, 1996; Edvinsson, 1997). For this reason, a firm's true competitive advantage can mostly be built on its structural capital, which means that one of the most important challenges of knowledge management is to transform a firm's human capital into its structural capital (Lank, 1997).

Another important knowledge-related classification emphasizes a distinction between explicit knowledge and tacit knowledge (as introduced by Polanyi (1966)). Explicit knowledge is objectively 'codified' knowledge, which is transmittable in formal, systematic language (Riesenberger, 1998). It can be found in manuals, textbooks, computer programs, patent documents etc., which means that it can be learned by observing and studying (Edvinsson, Sullivan, 1996). Tacit knowledge, on the other hand, is personal, subjective, context-specific knowledge, which means that it is hard to formalize and communicate (Inkpen, 1996; Narasimha, 2000; Zack, 1999b). For this reason, tacit knowledge usually is acquired only in the direct working experience (Inkpen, 1996). If we now ask ourselves, which type of knowledge is more important in terms of creation of competitive superiority of a firm, the answer is quite obvious. Explicit knowledge will usually not play a vital role in a competitive battle between firms. Even if it is protected as the intellectual property, such protection is usually limited in time and in many countries also hard to enforce (Pučko, 1998). On the other hand, a firm will probably be able to base its competitive advantage on the relevant tacit knowledge (McAulay, Russell, Sims, 1997; Leonard, Sensiper, 1998). It is extremely desirable that such knowledge is potentially codifiable, although a firm must be sure that such codification will not be transmittable in use to competitors (Grant, 1997). In order to be useful, such knowledge must also be understood by its distant users. Since it is usually very

context-specific, it is often hard to understand it in contexts different from those in which it was created (Čater, 2000).

***Knowledge management as a means of developing a firm's competitive advantage***

Since the importance of knowledge rapidly grows, it is only natural that its systematic management is needed in a firm. More and more authors (Botha, 2000; Chaves et al., 2000; Hicks, 2000) believe that this new management paradigm is a primary driving force of a firm's competitive advantage. When discussing knowledge management, different authors are bound to put different definitions of the term. On the one hand, there are authors who define knowledge management as a process. Duffy (2001), for example, defines it as a formal process that engages a firm's people, process, and technology in a solution that captures knowledge and delivers it to the right people at the right time. Similarly, Wiig (1997) sees knowledge management as a process of facilitating and managing knowledge-related activities such as creation, capture, transformation, and use. The definition by Brooking (1997), which is short but to the point, understands knowledge management as an activity which is concerned with strategy and tactics to manage human-centred assets. On the other hand, there are also authors who do not explicitly define knowledge management as a process. Bair (1997), for example, defines it as a set of policies, organizational structures, procedures, applications, and technologies intended to improve the decision-making effectiveness of a group or a firm. A somewhat different definition is offered by Raisinghani (2000) who understands knowledge management as an attempt to put processes in place that capture and reuse a firm's knowledge that it can be used to generate revenue. Finally, according to Harris (1998), knowledge management is a discipline that promotes a collaborative and integrated approach to the creation, capture, organization, access, and use of an enterprise's information assets.

If knowledge management is to give proper results – i.e. help to create a firm's competitive advantage – its basic goal should be to transform as much of a firm's human capital into its structural capital as possible (Edvinsson, Sullivan, 1996; Lank, 1997). In order to reach this goal, the basic tasks of knowledge management (see Figure 1) need to be regularly practiced at strategic, tactical, and operational levels (Grant, 1996; Lank, 1997; Pučko, 1998; Decarolis, Deeds, 1999; Macintosh, 1999; Argote, Ingram, 2000; Rastogi, 2000; Čater, 2001b).

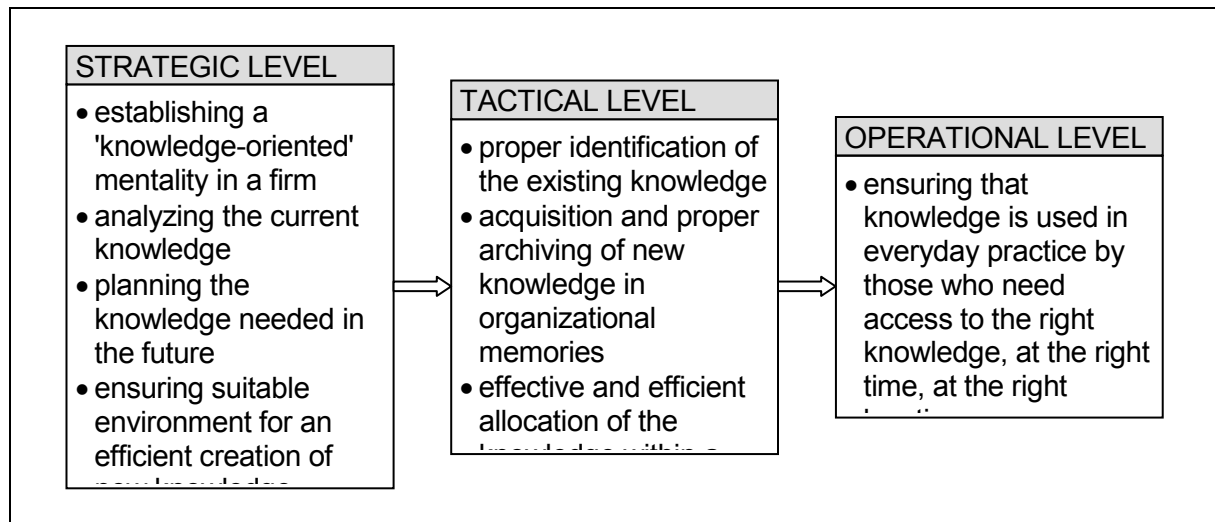


Figure 1. Knowledge management tasks at strategic, tactical and operational level

Taking into account the discussed knowledge management definitions as well as the presented knowledge management tasks, we argue that knowledge management should be understood as a part of the total management process which focuses on the systematic analysis, planning, accumulation, creation, developing, archiving, and exploitation of a firm's knowledge (as well as other knowledge-related assets) and tries to transform as much of a firm's human capital into its structural capital as possible in order to develop competitive advantage of a firm and to help to fulfil its other main objective(s) in an expedient manner. Although our definition treats knowledge management as part of the overall management process, this does not mean it is a functional activity like, for instance, human resource management, production management, marketing management etc. On the contrary, knowledge management is and must be a cross-functional activity (it rises above the level of business functions) and as such remains within the competence of a firm's top (strategic) management (Pučko, 1998). Having this in mind, we wish to explicitly reject all attempts to show knowledge management as part of or even a synonym for human resource management (Čater, 2001b), according to which the primary responsibility for a firm's knowledge management should rest on a firm's personnel department.

### ***Past empirical support of the knowledge-based school***

Although relatively new, the knowledge-based school has considerable empirical support in the related literature. Several studies can be found that confirm direct influence of employees' knowledge on competitive advantage (Makovec-Brenčič, Žabkar, 2001), sales growth (Hall, 1991), market share (Makovec-Brenčič, 2001), profitability, and value added per employee (Čater, Alfirević, 2003). Similar conclusions were also reached by Michalisin (1996) who concentrated on the influence of the employees' technological know-how on firm

performance. The relationship between the experience (as a special type of knowledge) and firm performance was studied by Piercy, Kaleka, and Katsikeas (1998) who confirmed the positive influence of the experience on return on investment, market share, and sales growth. Pučko's (2002b) research revealed that among several types of knowledge firms see the most relevant source of competitive advantage in team knowledge and employees' technological know-how. Some other studies try to classify the types of knowledge according to the share of firms that find each type of knowledge as extremely important for a firm's competitiveness and performance. One such study (see Riesenberger (1998)) shows that the knowledge about the customers is seen as extremely important by 96% of the firms. Other types of knowledge are classified as follows: technological know-how (87%), individuals' capabilities (86%), knowledge about the products (85%), knowledge about the market (83%), and knowledge about the competitors (81%). The same research also deals with basic positive consequences of knowledge. 83% of the firms believe that the direct results of superior knowledge are faster reactions to the environmental challenges, improved innovation, decision making, and greater efficiency. 82% of the firms believe that the direct benefit of the relevant knowledge is also greater flexibility of a firm (Riesenberger, 1998).

The knowledge-related literature does not only deal with the studies that concentrate on the influence of knowledge on a firm's competitiveness and performance but also with the studies that deal with knowledge management and its consequences. These studies can be divided into three categories. The emphasis of the first group of authors is focused on the importance of knowledge management for process and technology improvements (Demarest, 1997; Carrillo, Gaimon, 2000; Hichs, 2000; Raisinghani, 2000). The next group of published papers surpasses the thesis that knowledge management is needed to improve a firm's processes and technology and connects knowledge management directly with the improved financial performance of a firm, especially the improved profitability (Cappel, Boone, 1995; Lloyd, 1996; Baker, Sinkula, 1999; Tyson, 1999; Hitt, Ireland, Lee, 2000; DeTienne, Jackson, 2001; Čater, Alfirević, 2003), productivity (Dyer, Nobeoka, 2000), value added per employee (Čater, Alfirević, 2003), and cash flows (Demarest, 1997). Finally, in the third group there are authors who believe that the benefits of successful knowledge management systems are not only in helping improve a firm's financial performance but also in creating and reinforcing a firm's competitive advantage (Subramaniam, Venkatraman, 1998; Sarvary, 1999; Ndlela, Du Toit, 2001) that cannot be easily imitated (Lubit, 2001).

## Methodological background

Reflecting the teachings of the knowledge-based school and its past empirical support, it is believed that the more firms follow the teachings of the school, the greater competitive advantage and performance they achieve. This is probably even more true in (post)transitional economies where 'the rules of the game' are sometimes insufficiently defined and where frequent external disturbances (such as an emerging political structure, legislation changes, privatization etc.) demand that firms focus on things other than those strictly related with their businesses. Therefore, following the theoretical background and the aim of the paper two research hypotheses dealing with the knowledge-based school on the sources of competitive advantage were developed as follows:

- *Hypothesis 1: A firm's competitive advantage positively depends on the sources of competitive advantage discussed by the knowledge-based school.*
- *Hypothesis 2: Firm performance positively depends on the sources of competitive advantage discussed by the knowledge-based school.*

Empirical research in this paper forms part of a broader study on the strategic behavior and competitive advantages of Slovenian firms. Data was collected by sending questionnaires<sup>2</sup> to the Chief Executive Officers or members of the top management of randomly selected firms by post. In selecting the firms the *Gospodarski vestnik*<sup>3</sup> (2002) database was used. As this database includes firms, i.e. economy subjects that are legal persons (not natural persons), from all sectors (industries), size groups, age groups etc., we can say that the target population are all Slovenian firms. By the end 2002, questionnaires from 225 (out of 508 initially distributed) Slovenian firms had been satisfactorily completed and returned to the author, meaning the response rate was 44.3%. The respondents were mostly Chief Executive Officers (36.4%), assistant managers (27.6%) or members of the top management (25.3%). In the remaining 10.7%, the respondents were the heads of different (mostly advisory) departments such as controlling, accounting etc. If the above structure of respondents holds true, this can be regarded as very satisfactory as in most cases the respondents were individuals who should have fluently mastered the discussed topics.

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<sup>2</sup> On consultation with leading Slovenian professors of management (in order to assure maximal reasonableness and validity) the questionnaire was designed by the author.

<sup>3</sup> *Gospodarski vestnik* is a leading Slovenian business newspaper publisher.

Because of the broader goals<sup>4</sup> of the research we used stratified sampling in selecting firms in the sample. This means that the sample consisted of equal number (33.3%) of small, medium-sized, and large firms<sup>5</sup>. With regard to the sector appurtenance there were 33.3% of manufacturing firms, 34.2% of service firms, and 32.4% of trading firms. Regarding the legal form of the firms we had 45.3% of public limited companies and 54.7% of private limited companies. As for the year of foundation, 50.7% of the firms were founded in 1989 or sooner, while others (49.3%) were founded in 1990 or later. According to their ownership distribution, there were 3.6% of the firms with mostly state ownership, 33.8% of the firms with managers as majority owners, 10.2% of the firms with employees as majority owners, while in 52.4% of the cases the firms were mostly owned by external owners. In most firms (88.0%) the domestic (Slovenian) capital was in the majority. In view of the prevailing markets, 29.4% of the firms earned most of their revenues on local market, 43.1% on the Slovenian market as a whole, 4.0% on ex-Yugoslav markets, 20.0% on the EU market, and only 3.1% on European markets outside ex-Yugoslav republics and the EU. Since the structure of firms in the sample, especially according to the criterion of size distribution, was quite different from the actual structure<sup>6</sup> of Slovenian firms, it cannot be said that the sample is completely representative. The reason for this primarily lies in the use of stratified sampling which, as already explained, was influenced by the research's broader goals.

In order to test the research hypotheses we need to examine how the number of points for variables representing how firms follow the 'teachings' of the knowledge-based school influences a firm's competitive position and performance. For this purpose, we first had to carefully study the relevant literature and, based thereon, form a list of the relevant forms of competitive advantage and knowledge-related sources of competitive advantage (i.e. variables that measure as accurately as possible how the lessons within the knowledge-based school are followed by Slovenian firms). The values of these variables were, as already explained, obtained by sending questionnaires to the managers of selected firms. Most questions in the questionnaire required an answer in the form of (dis)agreement with the offered statements.

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<sup>4</sup> The goals of the research were much wider than the goals presented in this paper. Among other things, we also wanted to examine the differences in the sources and forms of competitive advantage between different groups of firms such as manufacturing, service and trading firms, large, medium-sized and small firms, and so on. In order to have a sufficient number of large firms in the sample, as required to carry out these analyses, stratified sampling was used.

<sup>5</sup> The size of the firms in Slovenia (as well as in this research) is statutorily defined (Uradni list RS, 2001).

<sup>6</sup> The actual structure of Slovenian firms shows that at the end of 2002 there were 95.0% of small firms, 4.1% of medium-sized firms, and only 0.9% of large firms. With regard to the sector appurtenance 17.4% of firms were in the manufacturing sector, 45.4% were in the service sector, while 37.2% were in the trading sector. From the legal form aspect, 83.2% of firms were companies with limited liability, 8.2% were formed as general partnerships, 2.6% were public limited companies, while the remaining firms (6.0%) had other legal forms (Statistical Office of the Republic of Slovenia, 2003).

Respondents were asked to choose between five answers (a five-point Likert scale was used), where 1 means they completely disagreed with the statement, whereas 5 means they completely agreed with it.

Based on these basic variables, the compounded variables (constructs) were then calculated. We formed 12 constructs (see Table 1) representing the knowledge-based sources of competitive advantage and 3 constructs (i.e. lower price, differentiation and total competitive advantage) representing the forms of competitive advantage. The formation of these constructs<sup>7</sup> was carried out by calculating unweighted<sup>8</sup> means from the relevant basic variables. The total estimation of the regularity of performing knowledge management tasks was, for example, calculated as a mean from the variables measuring the 'knowledge-oriented' mentality in a firm, the regularity of analyzing and planning knowledge, the suitability of the business environment for the creation of new knowledge, the acquisition and archiving of new knowledge in organizational memories, the level of employees' motivation to share knowledge with their co-workers, and the effectiveness and efficiency of the allocation of knowledge within a firm. In like manner also the total estimations of all other constructs were calculated. The total estimation of the knowledge-based school was then calculated as a mean from individual types of knowledge, the characteristics of knowledge and the regularity of performing knowledge management tasks (see Table 1). In this way we collected data for two groups of variables, i.e. the sources of competitive advantage as discussed by the knowledge-based school and the forms of competitive advantage.

In order to carry out some empirical analyses we also had to group the firms according to their prevailing form of competitive advantage<sup>9</sup>. We created four groups of firms, namely 'firms without a competitive advantage', 'firms with mostly a price advantage', 'firms with mostly a differentiation advantage', and 'firms with a simultaneous price and differentiation advantage'. A firm was said to have a competitive advantage (48.0% of firms) if its competitive position was estimated as positive (at least +1 on the -5 to +5 scale), if its competitive advantage

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<sup>7</sup> When calculating the constructs we also computed their Cronbach's alphas in order to find out how reliable measurements of these constructs using the set of chosen basic variables really are. For a reliable measurement Cronbach's alphas should exceed 0.6, although we have to stress that this is more an experimentally defined value than a strict statistical rule. As the computed Cronbach's alphas for all constructs were relatively high (between 0.80 and 0.90) we were able to conclude that the measurements of the constructs are sufficiently reliable.

<sup>8</sup> Unweighted means were calculated because we were unable to determine different weights for every variable in an objective way (for example, based on the study of the relevant literature).

<sup>9</sup> Since any discussion about the forms of competitive advantage is more reasonable at the strategic business unit (SBU) level than the corporate level, respondents were asked to take this fact into account. Where a firm was diversified enough to say it has at least two SBUs, respondents were asked to provide answers for the most important SBU. On the other hand, if a firm as a whole was a single SBU respondents were asked to provide answers for the firm as a whole.



lasted at least a month and if at least one of the forms of competitive advantage was estimated as being very strong (at least 4 on the 1 to 5 scale), while the remaining forms of competitive advantage were not estimated as nonexistent (at least 2 on the 1 to 5 scale). If all of these conditions were not fulfilled, a firm was said to be 'without a competitive advantage' (52.0% of firms). Firms with a competitive advantage were further divided according to their prevailing form. Firms that estimated price advantage higher than differentiation advantage were labeled 'firms with mostly a price advantage' (12.4% of firms), firms that estimated differentiation advantage higher than price advantage were labeled 'firms with mostly a differentiation advantage' (19.6% of firms), while firms with equal estimations of price and differentiation advantage were labeled 'firms with a simultaneous price and differentiation advantage' (16.0% of firms).

Data for the third group of variables, i.e. a firm's performance, were partially collected through the questionnaire (estimations of the nonfinancial performance indicators were obtained in this way) and partly from the *Gospodarski vestnik* (2002) database (the data needed to calculate the financial performance indicators were collected using this). As for the nonfinancial performance indicators, firms were asked to provide the data needed to calculate: (1) percentage of loyal customers; (2) percentage of loyal suppliers; (3) turnover (of staff); (4) share of expenses on training and education; (5) share of expenses on research and development; and (6) percentage of reclaimed deliveries. On the other hand, we also calculated several financial performance indicators, namely: (1) return on equity; (2) return on assets; (3) return on sales; (4) revenues-to-expenses ratio; (5) sales-to-operating-expenses ratio; and (6) value added per employee. The data for all performance indicators were collected for the period between 2000 and 2002. We then used these figures to calculate a three-year unweighted mean<sup>10</sup> for each indicator. These means were then used in all statistical analyses instead of individual annual indicators. All statistical analyses within the research were carried out by using SPSS for Windows.

## **Empirical findings and discussion**

In the research we first wanted to find out how the firms estimate the importance of the sources of competitive advantage within the knowledge-based school. The results (see Table 1) show that firms on average ascribed the most points to the variables representing the structural capital

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<sup>10</sup> The measurement of firm performance based on three-year means was necessary to avoid the influence of unique and random events. At the same time, the measurement of firm performance over several years follows the logic of competitive advantage that is said to be a long-term phenomenon.

(Mean = 3.83), the tacit knowledge (Mean = 3.67), the human capital (Mean = 3.56) and the imperfect imitability of knowledge. Slightly less important are the explicit knowledge (Mean = 3.31) and the regularity of performing knowledge management tasks (Mean = 3.04), while all other variables, i.e. the characteristics of knowledge other than imitability, received considerably lower estimates of importance. Among several knowledge management tasks motivating employees was ascribed the most points (Mean = 3.57). Relatively satisfactory estimates of importance can also be found for acquiring new knowledge (Mean = 3.37) and stimulating the creation of knowledge within a firm (Mean = 3.31). All other knowledge management tasks received considerably lower estimates of importance, which means that the importance of some key tasks such as analyzing and planning knowledge, archiving knowledge etc. seems to be unduly underestimated by Slovenian firms.

Knowledge-related sources of competitive advantage	Mean	Std. deviation	Cronbach $\alpha$
a) Human capital	3.56	1.16	0.84
b) Structural capital	3.83	1.07	0.86
c) Explicit knowledge	3.31	1.05	0.83
d) Tacit knowledge	3.67	1.05	0.89
e) Value of knowledge	2.16	0.87	0.82
f) Heterogeneity of knowledge	2.16	0.85	0.87
g) Rareness of knowledge	2.82	1.12	0.89
h) Durability of knowledge	2.19	0.82	0.90
i) Unsubstitutability of knowledge	2.84	1.11	0.85
j) Immobility of knowledge	2.84	1.05	0.87
k) Imperfect imitability of knowledge	3.47	1.10	0.89
l) Knowledge management tasks	3.04	0.78	0.80

Table 1. The relevance of knowledge-related sources of competitive advantage in Slovenian firms

As regards the responsibility for knowledge management, the results in Figure 2 show that in slightly more than a half of Slovenian firms, this responsibility rests on the top manager (CEO) (42.7%) or a member of the top management team (board) (8.9%). In 28.0% of firms the responsibility rests on a firm's personnel department, while in 4.0% of firms individuals or units from other departments are responsible. In the remaining 16.4% of firms nobody is responsible for knowledge management (either because they do not practice knowledge management at all or because managing knowledge simply does not fall within anybody's job description). Unfortunately, none of the firms (not even the large ones) in the sample has appointed a special professional, the so-called knowledge manager or chief knowledge officer, to manage the firm's knowledge.

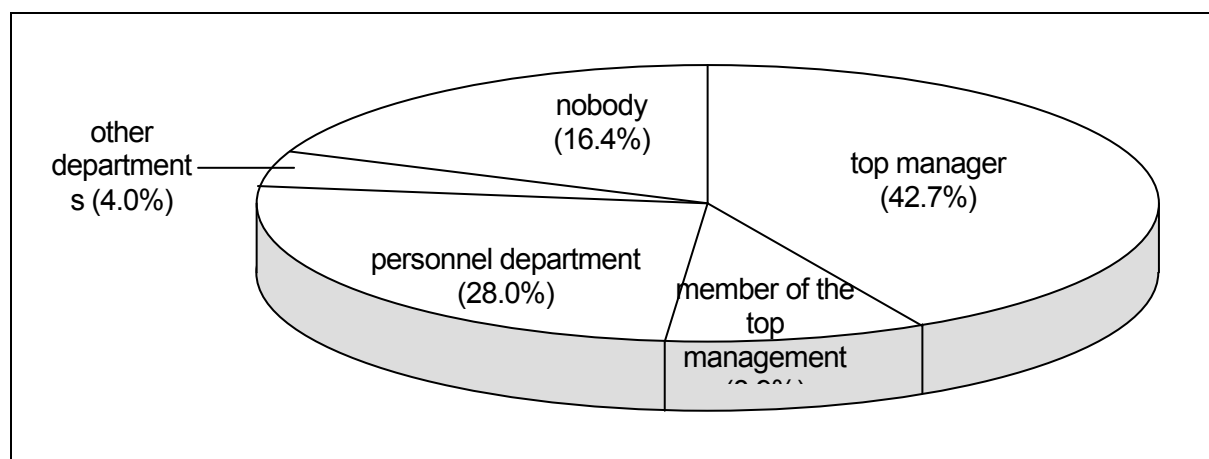


Figure 2. The responsibility for knowledge management in Slovenian firms

### ***The influence of the knowledge-related sources of competitive advantage on the forms of competitive advantage***

In the first research hypothesis we examine the reasonableness of the knowledge-based school on the sources of competitive advantage. One possible approach here is to calculate the influence of the total estimation of this school as well as individual sources of competitive advantage within it (independent variables) on a firm's competitive advantage (dependent variable). If the independent variables are metric and the dependent one is nonmetric a discriminant analysis can be used in order to determine whether or not the value of an independent variable has a statistically significant influence on the value of a dependent variable. The calculated values of the Wilks' lambdas and their levels of significance (see Discriminant analysis 1 in Table 2) reveal that, based on the total estimation of the knowledge-based school, we can make a statistically significant judgement as to whether a firm has a competitive advantage. With regard to individual sources of competitive advantage it can also be concluded that they have a statistically significant influence on the existence of a firm's competitive advantage. This conclusion is also supported by the calculated canonical correlation coefficients, which are highest in the case of the imperfect imitability of knowledge ( $R = 0.659$ ), the performance of knowledge management tasks ( $R = 0.636$ ) and the total characteristics of knowledge ( $R = 0.614$ ).

A similar but more detailed analysis can be carried out when the dependent variable has four possible values, i.e. firms without a competitive advantage, firms with mostly a price advantage, firms with mostly a differentiation advantage, and firms with a simultaneous price and differentiation advantage. The calculated values of the Wilks' lambdas and their levels of significance (see Discriminant analysis 2 in Table 2) again reveal that, based on the total

estimation of the knowledge-based school as well as on the estimations of all individual sources of competitive advantage within it, we can make a statistically significant judgement on the type of a firm's competitive advantage. Also in support of this conclusion are the calculated canonical correlation coefficients, which again are highest in case of the imperfect imitability of knowledge ( $R = 0.661$ ), the performance of knowledge management tasks ( $R = 0.641$ ) and the total characteristics of knowledge ( $R = 0.621$ ).

Independent var. (X) = Knowledge-based sources of competitive advantage	Average of X		Discr. analysis 1		Average of X				Discr. analysis 2	
	Y = no comp. adv.	Y = comp. adv.	Wilks $\lambda$	Canonical correl. coef.	Y = no comp. adv.	Y = lower price	Y = differentiat.	Y = simult. comp. adv.	Wilks $\lambda$	Canonical correl. coef.
Knowledge-based school	2.57	3.47	**0.702	0.546	2.57	3.33	3.50	3.54	**0.697	0.550
Human capital	3.03	3.94	**0.847	0.391	3.03	3.86	3.82	4.14	**0.840	0.400
Structural capital	3.36	4.36	**0.749	0.501	3.36	4.29	4.30	4.49	**0.745	0.505
Explicit knowledge	2.94	3.71	**0.865	0.368	2.94	3.61	3.61	3.92	**0.856	0.380
Tacit knowledge	3.20	4.19	**0.778	0.471	3.20	3.75	4.30	4.39	**0.749	0.501
Characteristics of knowl.	2.13	3.11	**0.623	0.614	2.13	2.99	3.08	3.24	**0.615	0.621
Imperf. imitab. of knowl.	2.59	3.81	**0.566	0.659	2.59	3.72	3.78	3.91	**0.562	0.661
Knowl. managem. tasks	2.57	3.56	**0.595	0.636	2.57	3.41	3.57	3.65	**0.588	0.641

Note: \*\* Statistical significance at the  $< 0.01$  level

Table 2. Examination of the influence of the knowledge-based sources of competitive advantage on the forms of competitive advantage using the discriminant analysis

Although based on the discriminant analysis, we can already reach a conclusion on hypothesis 1., This hypothesis can be further verified by using metric independent and dependent variables. Here, the values of dependent variables, i.e. the strengths of different forms of competitive advantage, are directly defined by the managers' answers, which is another advantage over the analyses presented in the previous paragraphs. The fact that both groups of variables (independent and dependent) are metric allows us to further verify hypothesis 1 by using the regression analysis. The results (see Table 3) show that the strength of a firm's competitive advantage is positively dependent on the total estimation of the knowledge-based school as well as on the estimations of all individual sources of competitive advantage within this school. By the total estimation of the knowledge-based school, we can explain a considerable share (39.9%) of variance of the strength of a firm's competitive advantage. Of all studied sources of competitive advantage, the greatest share of variance of the strength of a firm's competitive advantage can be explained by the performance of knowledge management

tasks (57.2%) and the imperfect imitability of knowledge (54.8%). The results regarding both basic forms of competitive advantage, i.e. lower price and differentiation, are very similar as both forms of competitive advantage are again positively dependent on the total estimation of the knowledge-based school as well as on the estimations of all individual sources of competitive advantage within this school. Based on both statistical methods, namely the discriminant and regression analyses, we can conclude that *hypothesis 1* can be *confirmed*, as a firm's competitive advantage indeed does positively depend on the sources of competitive advantage discussed by the knowledge-based school.

Dependent var. (Y) = Form of competitive advantage	Independent var. (X) = Knowledge-based sources of competitive advantage							
	Knowl. school	Human capital	Structura l capital	Explicit knowl.	Tacit knowl.	Charact. of knowl.	Imperf. imitabil.	Knowl. manag.
Total	**0.399(+)	**0.250(+)	**0.391(+)	**0.204(+)	**0.314(+)	**0.480(+)	**0.548(+)	**0.572(+)
Lower price	**0.267(+)	**0.171(+)	**0.267(+)	**0.137(+)	**0.183(+)	**0.381(+)	**0.443(+)	**0.406(+)
Differentiation	**0.419(+)	**0.261(+)	**0.409(+)	**0.215(+)	**0.348(+)	**0.470(+)	**0.532(+)	**0.587(+)

Note: \*\* Statistical significance at the < 0.01 level

Table 3. Examination of the influence of the knowledge-based sources of competitive advantage on the forms of competitive advantage using the regression analysis (determination coefficients)

In the research, we also examined the relative influence of the studied sources of knowledge-based advantage on a firm's competitive position. If the independent variables are metric and the dependent one is non-metric a discriminant analysis<sup>11</sup> with several independent variables can be used. The results (see Discriminant analysis 1 in Table 4) show that where the dependent variable has two possible values, i.e. firms without a competitive advantage and firms with a competitive advantage, only two independent variables enter the model. In step 1, the variable representing the imperfect imitability of knowledge is entered, while in step 2 the variable representing the performance of knowledge management tasks is entered. As the dependent variable has only two possible values, we only deal with one discriminant function. Almost without any risk we can conclude that this function is able to distinguish between both groups of firms (i.e. both values of the dependent variable). The calculated canonical correlation coefficients ( $R = 0.659$  and  $0.669$ ) show that the contribution of the second independent variable (the performance of knowledge management tasks) to the strength of the relationship between the dependent and independent variables is relatively weak.

<sup>11</sup> The 'stepwise' method and the criterion of Wilks' lambda are used to determine the sequence of independent variables that meet the conditions for entering the model.

If the dependent variable has four possible values, i.e. firms without a competitive advantage, firms with mostly a price advantage, firms with mostly a differentiation advantage, and firms with a simultaneous price and differentiation advantage, an additional question about the number of discriminant functions arises and makes the analysis more complex. Again two independent variables are entered in the model, in which the variable in step 1 represents the imperfect imitability of knowledge and in step 2 it represents the performance of knowledge management tasks. The results (see Discriminant analysis 2 in Table 4) show, when both independent variables are in the model, it is reasonable to use only one discriminant function as it contains 96.0% of the variance of both independent variables, whereas the second discriminant function contains only 4.0% of the variance. If we ignore the second discriminant function the results of this analysis, i.e. the values of Wilks' lambda and canonical correlation coefficient, are almost identical to the results of the analysis with only two possible values of the dependent variable. Based on both analyses we can conclude that a firm's competitive advantage depends mostly on the imperfect imitability of knowledge and the performance of knowledge management tasks.

Independent var. (X) = Knowledge-based sources of competitive advantage	Average of X		Discr. analysis 1		Average of X				Discr. analysis 2		
	Y = no comp. adv.	Y = comp. adv.	Wilks λ	Canonical correl. coef.	Y = no comp. adv.	Y = lower price	Y = differentiat.	Y = simult. comp. adv.	Wilks λ	Explained varian. (%)	Canonical correl. coef.
Imperf. imitab. of knowl.	2.59	3.81	**0.566	0.659	2.59	3.72	3.78	3.91	**0.562	100.0	0.661
Imperf. imitab. of knowl., knowl. managem. tasks	2.59 2.57	3.81 3.56	**0.552	0.669	2.59 2.57	3.72 3.41	3.78 3.57	3.91 3.65	**0.537 *0.967	96.0 4.0	0.667 0.181

Note: \* Statistical significance at the < 0.05 level; \*\* Statistical significance at the < 0.01 level  
Table 4. Examination of the influence of the knowledge-based sources of competitive advantage on the forms of competitive advantage using the discriminant analysis

The relative influence of the studied sources of knowledge-based advantage on a firm's competitive position can be additionally verified by using metric independent and dependent variables, which means that the partial correlation analysis can be used. This analysis differs from the bivariate correlation analysis in excluding the disturbing influence of all other variables when calculating the relationship between two variables. The results (see Table 5) show that the performance of knowledge management tasks has the largest positive influence on the strength of a firm's differentiation as well as total competitive advantage, while the imperfect imitability of knowledge has the largest positive influence on a firm's price advantage. For all other studied sources of competitive advantage, this influence is no longer

statistically significant as also indicated by the low values of the coefficients of partial correlation (approximately between 0 and 0.1). Based on both statistical methods, namely the discriminant and partial correlation analyses, we can conclude that different sources of competitive advantage within the knowledge-based school have a relatively different influence on a firm's competitive advantage and its two basic forms. The most relevant seem to be the performance of knowledge management tasks and the imperfect imitability of knowledge. The relative influence of all other sources is much smaller. Based on the results of the partial correlation analysis the human capital takes third place, the tacit knowledge fourth place, the structural capital fifth place, the explicit knowledge sixth place, and the total characteristics of knowledge seventh place.

Dependent var. (Y) = Form of competitive advantage	Independent var. (X) = Knowledge-based sources of competitive advantage						
	Human capital	Structural capital	Explicit knowl.	Tacit knowl.	Charact. of knowl.	Imperf. imitabil.	Knowl. manag.
Total	0.097 <sup>(3)</sup>	-0.022 <sup>(5)</sup>	-0.012 <sup>(6)</sup>	0.048 <sup>(4)</sup>	0.005 <sup>(7)</sup>	*0.152 <sup>(2)</sup>	**0.258 <sup>(1)</sup>
Lower price	0.063 <sup>(3)</sup>	0.008 <sup>(7)</sup>	-0.030 <sup>(6)</sup>	0.047 <sup>(4)</sup>	-0.012 <sup>(6)</sup>	**0.205 <sup>(1)</sup>	0.132 <sup>(2)</sup>
Differentiation	0.104 <sup>(2)</sup>	-0.037 <sup>(5)</sup>	0.001 <sup>(7)</sup>	0.097 <sup>(4)</sup>	0.015 <sup>(6)</sup>	0.099 <sup>(3)</sup>	**0.296 <sup>(1)</sup>

Note: \* Statistical significance at the < 0.05 level; \*\* Statistical significance at the < 0.01 level

Table 5. Examination of the influence of the knowledge-based sources on the forms of competitive advantage using the partial correlation analysis (coefficients of partial correlation and their ranks)

### ***The influence of the knowledge-related sources of competitive advantage on firm performance***

The second research hypothesis examines the reasonableness of the knowledge-based school by testing the direct influence of the total estimation of this school and individual sources of competitive advantage within it on a firm's performance. The fact that both groups of variables (independent and dependent) are metric allows us to use the regression analysis. The results (see Table 6) show that the total estimation of the knowledge-based school as well as all individual sources of competitive advantage within this school have a positive influence on most performance indicators, except on turnover and the percentage of reclaimed deliveries (which was fully expected since smaller turnover and less reclaimed deliveries mean better performance). In spite of all that, relatively small shares of variance of financial (between 15 and 25%) and nonfinancial (between 5 and 15%) performance indicators can be explained by the total estimation of the knowledge-based school. Of all studied sources of competitive advantage, the greatest shares of variance of most performance indicators can be explained by the performance of knowledge management tasks, the imperfect imitability of knowledge, and the total characteristics of knowledge. Based on the above discussion, we can conclude that

*hypothesis 2* can be *confirmed*, as a firm's performance indeed does positively depend on the sources of competitive advantage discussed by the knowledge-based school.

Dependent var. (Y) = Firm performance	Independent var. (X) = Knowledge-based sources of competitive advantage							
	Knowl. school	Human capital	Structural capital	Explicit knowl.	Tacit knowl.	Charact. of knowl.	Imperf. imitabil.	Knowl. manag.
Return on equity	**0.214 <sup>(+)</sup>	**0.212 <sup>(+)</sup>	**0.214 <sup>(+)</sup>	**0.145 <sup>(+)</sup>	**0.197 <sup>(+)</sup>	**0.249 <sup>(+)</sup>	**0.278 <sup>(+)</sup>	**0.277 <sup>(+)</sup>
Return on assets	**0.251 <sup>(+)</sup>	**0.248 <sup>(+)</sup>	**0.253 <sup>(+)</sup>	**0.134 <sup>(+)</sup>	**0.212 <sup>(+)</sup>	**0.304 <sup>(+)</sup>	**0.313 <sup>(+)</sup>	**0.319 <sup>(+)</sup>
Return on sales	**0.260 <sup>(+)</sup>	**0.220 <sup>(+)</sup>	**0.298 <sup>(+)</sup>	**0.131 <sup>(+)</sup>	**0.206 <sup>(+)</sup>	**0.320 <sup>(+)</sup>	**0.320 <sup>(+)</sup>	**0.347 <sup>(+)</sup>
Revenue-to-expens.	**0.193 <sup>(+)</sup>	**0.161 <sup>(+)</sup>	**0.217 <sup>(+)</sup>	**0.088 <sup>(+)</sup>	**0.151 <sup>(+)</sup>	**0.261 <sup>(+)</sup>	**0.253 <sup>(+)</sup>	**0.263 <sup>(+)</sup>
Sales-to-oper.-expens.	**0.160 <sup>(+)</sup>	**0.201 <sup>(+)</sup>	**0.200 <sup>(+)</sup>	**0.121 <sup>(+)</sup>	**0.139 <sup>(+)</sup>	**0.226 <sup>(+)</sup>	**0.246 <sup>(+)</sup>	**0.243 <sup>(+)</sup>
Value added per empl.	**0.104 <sup>(+)</sup>	**0.145 <sup>(+)</sup>	**0.133 <sup>(+)</sup>	**0.064 <sup>(+)</sup>	**0.132 <sup>(+)</sup>	**0.180 <sup>(+)</sup>	**0.170 <sup>(+)</sup>	**0.203 <sup>(+)</sup>
% of loyal customers	**0.083 <sup>(+)</sup>	**0.054 <sup>(+)</sup>	**0.060 <sup>(+)</sup>	**0.040 <sup>(+)</sup>	**0.065 <sup>(+)</sup>	**0.050 <sup>(+)</sup>	**0.053 <sup>(+)</sup>	**0.083 <sup>(+)</sup>
% of loyal suppliers	**0.023 <sup>(+)</sup>	**0.019 <sup>(+)</sup>	**0.030 <sup>(+)</sup>	**0.009 <sup>(+)</sup>	**0.019 <sup>(+)</sup>	**0.014 <sup>(+)</sup>	**0.008 <sup>(+)</sup>	**0.025 <sup>(+)</sup>
Turnover (of staff)	0.117 <sup>(-)</sup>	0.068 <sup>(-)</sup>	0.090 <sup>(-)</sup>	0.045 <sup>(-)</sup>	0.084 <sup>(-)</sup>	0.100 <sup>(-)</sup>	0.109 <sup>(-)</sup>	0.144 <sup>(-)</sup>
% of expens. for train.	**0.141 <sup>(+)</sup>	**0.119 <sup>(+)</sup>	**0.106 <sup>(+)</sup>	**0.071 <sup>(+)</sup>	**0.081 <sup>(+)</sup>	**0.145 <sup>(+)</sup>	**0.131 <sup>(+)</sup>	**0.167 <sup>(+)</sup>
% of expens. for R&D	**0.096 <sup>(+)</sup>	**0.079 <sup>(+)</sup>	**0.095 <sup>(+)</sup>	**0.032 <sup>(+)</sup>	**0.062 <sup>(+)</sup>	**0.172 <sup>(+)</sup>	**0.147 <sup>(+)</sup>	**0.149 <sup>(+)</sup>
% of recl. deliveries	**0.175 <sup>(-)</sup>	**0.075 <sup>(-)</sup>	**0.178 <sup>(-)</sup>	**0.076 <sup>(-)</sup>	**0.131 <sup>(-)</sup>	**0.140 <sup>(-)</sup>	**0.175 <sup>(-)</sup>	**0.184 <sup>(-)</sup>

Note: \* Statistical significance at the < 0.05 level; \*\* Statistical significance at the < 0.01 level

Table 6. Examination of the influence of the knowledge-based sources of competitive advantage on firm performance using the regression analysis (determination coefficients)

In the research, we also examined the relative influence of the studied knowledge-related sources of competitive advantage on a firm's performance. Since both groups of variables (independent and dependent) are metric, probably the best approach here is using a partial correlation analysis. The results (see Table 7) show that the performance of knowledge management tasks has the largest positive influence on most performance indicators. The second largest effect on most performance indicators can be detected for the imperfect imitability of knowledge. For all other studied sources of competitive advantage, this influence is no longer statistically significant as also indicated by the low values of the coefficients of partial correlation (approximately between 0 and 0.1). Based on the partial correlation analysis, we can conclude that different sources of competitive advantage within the knowledge-based school have a relatively different influence on a firm's performance. The most relevant seem to be the performance of knowledge management tasks and the imperfect imitability of knowledge, while the relative influence of all other studied sources of competitive advantage cannot be precisely defined as the ranks of their coefficients of partial correlation differ among different performance indicators.



Dependent var. (Y) = Firm performance	Independent var. (X) = Knowledge-based sources of competitive advantage						
	Human capital	Structural capital	Explicit knowl.	Tacit knowl.	Charact. of knowl.	Imperf. imitabil.	Knowl. manag.
Return on equity	0.066 <sup>(5)</sup>	0.068 <sup>(4)</sup>	-0.041 <sup>(7)</sup>	0.124 <sup>(2)</sup>	0.043 <sup>(6)</sup>	0.072 <sup>(3)</sup>	**0.196 <sup>(1)</sup>
Return on assets	0.027 <sup>(6)</sup>	-0.026 <sup>(7)</sup>	0.135 <sup>(2)</sup>	0.103 <sup>(4)</sup>	0.106 <sup>(3)</sup>	0.072 <sup>(5)</sup>	**0.275 <sup>(1)</sup>
Return on sales	-0.023 <sup>(6)</sup>	0.100 <sup>(5)</sup>	0.103 <sup>(4)</sup>	0.000 <sup>(7)</sup>	0.129 <sup>(2)</sup>	0.108 <sup>(3)</sup>	**0.189 <sup>(1)</sup>
Revenue-to-expens.	-0.013 <sup>(6)</sup>	0.073 <sup>(4)</sup>	0.108 <sup>(3)</sup>	0.003 <sup>(7)</sup>	0.131 <sup>(2)</sup>	0.067 <sup>(5)</sup>	**0.166 <sup>(1)</sup>
Sales-to-oper.- expens.	0.051 <sup>(5)</sup>	0.019 <sup>(6)</sup>	0.077 <sup>(2)</sup>	0.009 <sup>(7)</sup>	0.051 <sup>(4)</sup>	0.064 <sup>(3)</sup>	**0.208 <sup>(1)</sup>
Value added per empl.	-0.046 <sup>(7)</sup>	-0.081 <sup>(6)</sup>	0.126 <sup>(2)</sup>	0.112 <sup>(4)</sup>	0.099 <sup>(5)</sup>	0.124 <sup>(3)</sup>	**0.232 <sup>(1)</sup>
% of loyal customers	-0.058 <sup>(4)</sup>	-0.042 <sup>(5)</sup>	0.010 <sup>(7)</sup>	0.077 <sup>(2)</sup>	0.016 <sup>(6)</sup>	0.131 <sup>(1)</sup>	0.072 <sup>(3)</sup>
% of loyal suppliers	*0.137 <sup>(1)</sup>	0.072 <sup>(4)</sup>	-0.025 <sup>(6)</sup>	-0.006 <sup>(7)</sup>	0.075 <sup>(3)</sup>	0.091 <sup>(2)</sup>	0.057 <sup>(5)</sup>
Turnover (of staff)	0.012 <sup>(6)</sup>	0.041 <sup>(4)</sup>	0.026 <sup>(5)</sup>	-0.048 <sup>(3)</sup>	-0.004 <sup>(7)</sup>	0.157 <sup>(1)</sup>	-0.076 <sup>(2)</sup>
% of expens. for train.	-0.086 <sup>(4)</sup>	-0.036 <sup>(5)</sup>	-0.027 <sup>(6)</sup>	0.014 <sup>(7)</sup>	0.109 <sup>(3)</sup>	*0.149 <sup>(2)</sup>	*0.150 <sup>(1)</sup>
% of expens. for R&D	-0.030 <sup>(5)</sup>	0.014 <sup>(7)</sup>	0.110 <sup>(3)</sup>	-0.018 <sup>(6)</sup>	*0.147 <sup>(1)</sup>	0.057 <sup>(4)</sup>	0.139 <sup>(2)</sup>
% of recl. deliveries	-0.070 <sup>(3)</sup>	-0.102 <sup>(1)</sup>	-0.020 <sup>(6)</sup>	-0.007 <sup>(7)</sup>	0.027 <sup>(4)</sup>	-0.070 <sup>(2)</sup>	0.025 <sup>(5)</sup>

Note: \* Statistical significance at the < 0.05 level; \*\* Statistical significance at the < 0.01 level

Table 7. Examination of the influence of the knowledge-based sources on firm performance using the partial correlation analysis (coefficients of partial correlation and their ranks

## Conclusion

By using different statistical methods, four important conclusions can be drawn concerning the relevance of the knowledge-based school on the sources of a firm's competitive advantage:

- Slovenian firms believe that for creating a firm's competitive advantage the structural capital is more relevant than the human capital and the tacit knowledge is more relevant than the explicit knowledge. Among different characteristics of knowledge the most relevant and desirable seems to be its imperfect imitability.
- Using the regression analysis, it can be concluded that the more firms follow the teachings of the knowledge-based school, the greater the competitive advantage (hypothesis 1 confirmed) and performance (hypothesis 2 confirmed) they achieve.
- Using the partial correlation analysis, it can be concluded that among all individual sources of competitive advantage within the knowledge-based school the regular performance of knowledge management tasks and the imperfect imitability of knowledge have the largest influence on a firm's competitive advantage and performance. Of all other studied sources (with much smaller relative influence), the human capital takes third place, the tacit knowledge fourth place, the structural capital fifth place, the explicit knowledge sixth place, and the total characteristics of knowledge seventh place.

- Slovenian firms unduly underestimate the importance of some key knowledge management tasks. Also, in almost a half of the firms, the responsibility for knowledge management rests on the wrong individuals/teams.

Based on the above conclusions, we can say that our findings generally confirm the findings of some (although few in number) empirical studies on the sources of competitive advantage within the knowledge-based school that have been carried out in both transitional economies and established market economies. Furthermore, our research also implicitly confirms the findings of many past empirical studies on the internal and external sources of competitive advantage. Most of these studies show that, although both groups of sources have a statistically significant influence on a firm's performance (Spanos, Lioukas, 2001), internal sources seem to be even more important (i.e. they explain relatively larger portions of the variance in different performance indicators). Some of the studies report the following proportions between the variances explained by internal and external sources: 45.8% vs. 4.0% (Rumelt, 1991), 36.9% vs. 6.2% (Mauri, Michaels, 1998), 55.0% vs. 10.2% (Roquebert, Phillips, Westfall, 1996), 37.8% vs. 18.5% (Hansen, Wernerfelt, 1989), and 36.0% vs. 18.7% (McGahan, Porter, 1997), all in favour of internal sources. Similar results are also reported by Barney (1986), Powell (1993), and Maijoor and Van Witteloostuijn (1996), while only a few studies give priority to external sources (see, for example, Kotha and Nair (1995)). In this respect, our research definitely represents further support of the contemporary theory on firm competitiveness, which teaches us that the 'internal' sources of competitive advantage (such as knowledge and its proper management) are extremely relevant and important for the creation of competitive advantage and superior performance.

The question that needs to be answered before reaching a final conclusion is also how the empirical results might be influenced by the fact that the study was carried out in a post-transitional business environment. We believe that the answer here is twofold. On the one hand, for example, the finding that there is a clear and statistically significant relationship between the teachings of the knowledge-based school and a firm's competitive advantage and performance was expected (and is similar to the findings of studies carried out in established market economies). In this respect, the specific Slovenian context of our study, therefore, did not have a significant influence on the empirical results. On the other hand, however, we certainly expected to discover that the situation regarding the knowledge management tasks and the responsibility for knowledge management would be somewhat better. The reason for such results probably at least partly lies in the fact that a half of the firms in the sample (of that a vast majority of large

firms) were established before Slovenia's independence in 1990. These firms, therefore, used to be ex-socialist enterprises, many of which have suffered losses as a result of the change in the political system and the loss of the relatively large ex-Yugoslav market. Therefore, one possible explanation for the undesired situation regarding the knowledge management in Slovenian firms can be found in Slovenian firms' relative inexperience with the market economy as well as in other challenges Slovenian firms were preoccupied with during the transition period (radical restructuring, search for new markets etc.).

Except for the aspects mentioned above, our findings can unfortunately not be fully and adequately compared with similar past studies as studies with such specific research design simply do not exist<sup>12</sup> in (post)transitional nor in established market economies, at least not in the literature available to us. In this respect, our paper can immodestly be regarded as an introduction to further and much more detailed studies on the knowledge-based school on a firm's competitive advantage. In this respect, we naturally not only wish to stimulate and contribute to the discussion among academics, but also to offer additional insights into this important topic to practitioners, i.e. managers. The general implications of our findings for management are that firms should always keep in mind that not all types of their resources, capabilities, knowledge, and other sources of competitive advantage have the same potential to contribute positively to a firm's improved competitiveness and performance. More specifically, four suggestions<sup>13</sup> can be offered to managers:

- Modern firms should strive to build up their competitiveness on rare (if not unique) and specific knowledge. The reason for this is that such knowledge is an intangible asset, which generally cannot be easily imitated by competitors. The imperfect imitability of knowledge is, in most cases, a direct consequence of its invisibility, complexity, complementarity with other resources and the specific environment in which it was created.
- Firms should try to 'chain' as much of its knowledge as possible to the firm as a whole. Sure the knowledge chained to individual employees can be profitable but it is also very risky, as individual employees can always leave the firm and take an important part of knowledge with them. Even worse, they can sometimes transfer their knowledge to competitors. In other words, by stimulating the

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<sup>12</sup> Of course, even the comparisons we did draw may not be completely appropriate since most of the past empirical studies were carried out in established market economies, while our study was placed in the Slovenian post-transitional business environment.

<sup>13</sup> Although these suggestions are constrained to a very limited area of management, those managers who are willing can quite clearly perceive what their future tasks in developing knowledge management systems will be.

sharing and transferring of knowledge among all employees, which necessarily involves a suitable organizational structure, compensation system, team work etc., managers should try to transform as much of the individual-related knowledge into the firm-related knowledge as possible.

- Although motivating employees is an important knowledge management task, it is probably not the most important one (as perceived by Slovenian managers). Even more concerning is that some key tasks such as analyzing and planning knowledge, archiving knowledge etc. received unreasonably low estimates of importance. Our suggestion, therefore, is that all basic knowledge management tasks (above all the systematic analysis, planning, acquiring, creation, archiving, and exploitation of a firm's knowledge as well as the transformation of a firm's human capital into its structural capital) should be practiced regularly in all firms irrespective of their activity (sector), size, and other attributes.
- Many firms still do not fully realize that a competitive advantage is an unattainable goal without systematically managing the firm's knowledge-related assets. As this systematic can only be achieved at the highest organizational level, the responsibility for knowledge management in all firms should rest on their top managers (top management teams).

Irrespective of all the findings of this research, its possible weaknesses should also be mentioned. Perhaps the most important weakness lies in the fact that the knowledge-based sources of competitive advantage are usually well hidden, making it impossible for a researcher to measure them completely objectively. For this reason, we had to use managers' relatively subjective assessments of the basic sources and forms of competitive (dis)advantage of their firms. In future research, this weakness might be partially avoided by personally interviewing managers, by observing each firm over a longer period of time, and/or by combining the results of quantitative and qualitative studies. In this respect, especially (multiple) case studies as a methodological approach might be useful. Another possible weakness of this research is the use of stratified sampling, which was necessary because of the broader goals of the research. The consequence of stratified sampling is that the sample is not completely representative, meaning the conclusions cannot be automatically extrapolated for all Slovenian firms. As a suggestion for further research, we believe that similar studies should also be carried out on a much more homogeneous sample of firms. This would, of course, limit the 'applicable value' of each research only to a small homogeneous group of firms but over a longer period of time several

similar studies might give additional insights into the true origins of a firm's competitive advantage. Finally, additional empirical evidence on this important aspect of strategic management should also be based on a longitudinal study, if possible carried out on a large international sample of firms. In spite of these weaknesses, we still believe that the research has the potential to broaden our knowledge in the field of knowledge management and firm competitiveness. Its most important advantage is probably the relatively large sample of firms involved, which has allowed us to draw certain conclusions with minimum risk.

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**Abstract**

*Our paper aims to present some of the issues of an empirical research carried out in Romania by a group of researchers and a faculty under the brand of GLOBE (Global Leadership and Organizational Behavior Effectiveness Research Program), an existing research program with 62 participating cultures. GLOBE is directed toward the development of systemic knowledge concerning how cultures affect leadership and organizational practices in different nations. Our approach was oriented upon the values regarding the Organizational culture and some explanations of management behaviour in Romanian companies acting in three industries: finance-banking, telecommunication, food processing. Secondly, we have tried to make some assumptions about connections between cultural variables and management roles and functions, and we proposed some instruments.*

## Introduction

It is well-known that culture is one of the leading forces in society. Any employee, manager or worker carries a cultural baggage that affects its relationships and performance within society and organization. Since the study conducted by the team *GLOBE Romania* used information from middle managers, we tried to explain the findings and to comment the way leadership and management interact.

The data used in our study was collected by the *GLOBE Romania* team in 2006, from 235 respondents occupying middle management positions in Romanian companies all over the country, acting in the fields of finance-banking services, telecommunication, and food industry. We decided to focus on the organizational culture of the Romanian cluster and to investigate the information obtained according to the GLOBE procedures and recommendations.

Firstly, moving from variable to variable, we present the levels of the nine variables comparing the results in Romania with the world average (GLOBE database source) and highlight the main differences between industries. Then, we try to make few assumptions on the attitude that could explain the managerial behaviour, based on several interviews with managers from different areas in the companies included in the panel. Taking into consideration their middle management position, we tried to focus on how their decision process is influenced by cultural variables and how they fulfil functions and roles. The secondary objective of our research was to refer to the basic principle of “*perpetuum mobile*” in management (Figure 1) and to draw some theoretical maps that could explain the everyday behaviour of a manager, actually the way functions, roles, and leadership are performed.

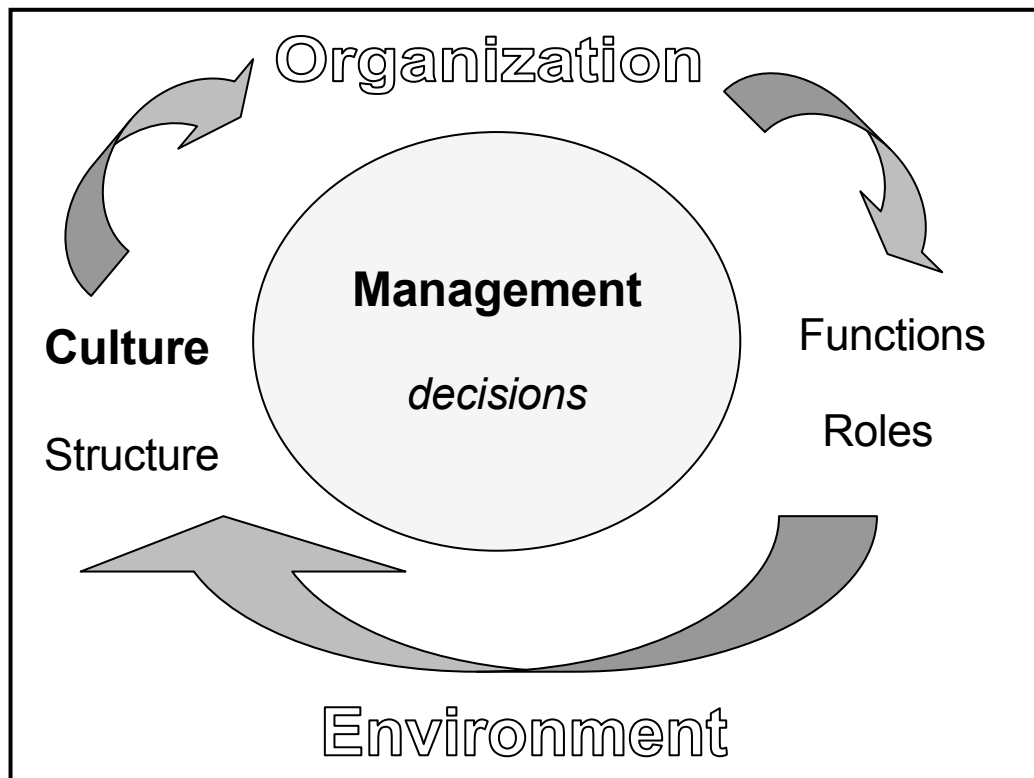


Figure 1. The “*perpetuum mobile*” of management behavior

## Findings and Discussion

The Organizational Culture is a very complex phenomenon residing on the interaction of personal and common values as well as beliefs under the influence of the organizational environment. Our research under the umbrella of the GLOBE project was focused on the middle management, as an interface and a catalyst of the organizational culture. Between “the hammer and the anvil”, a middle manager plays his role within the organization bearing the organizational culture heritage.

We introduce our research findings by presenting the map of the results about the cultural variables, distinguishing the gaps between practices (*as it is*) and values (*as it should be*) on the scale from 1 to 7. We can observe in Figure 2 that there can be two separated categories of cultural variables, on the one hand, those with a low gap between reality and the ideal situation, and, on the other hand, the case of high gap. In the first case, we can separate Performance Orientation, In-Group Collectivism, Future Orientation, Gender Egalitarianism, and Institutional Collectivism, while in the second group we placed Power Distance, Assertiveness, Humane Orientation, and Uncertainty Avoidance. Further research will focus on explaining the causes for this findings and how middle managers foresee actions to improve the climate, also how the decision making process can affect and can be affected.

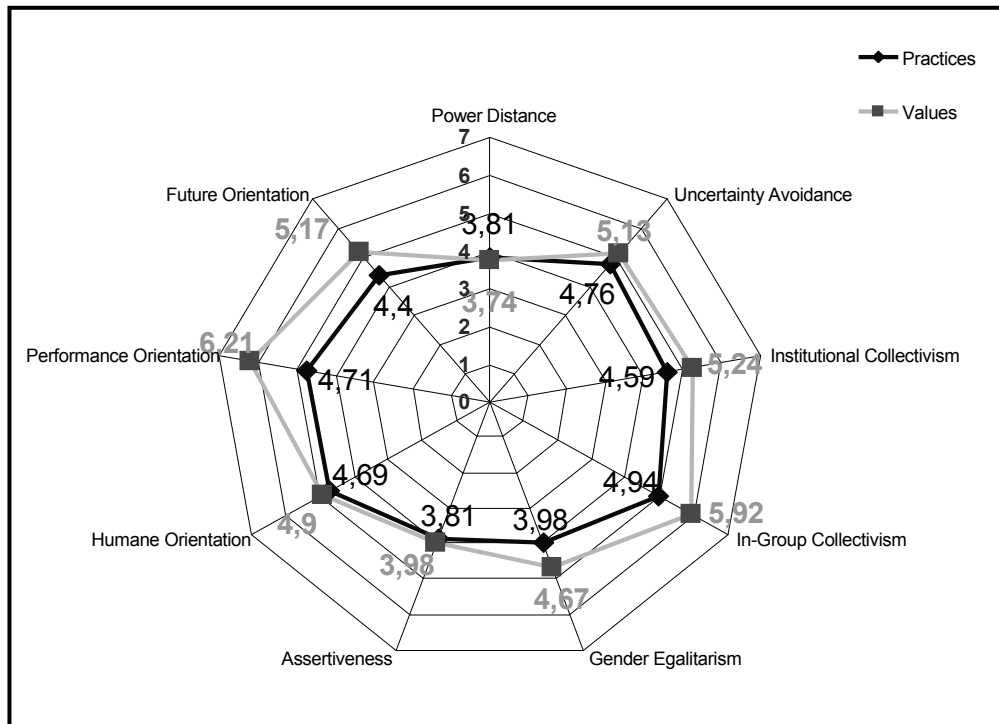


Figure 2. Overall values and practices in Romanian companies

Romania (Practices) in Organizational Power Distance (Table 1) is by 5% below the world average, but the standard deviation is double (1.27), meaning that there is a significant heterogeneity in the sample of individuals. In all industries except for Food processing the level of power distance is lower than the world average. The Power distance index in Food Industry is about 8% higher than the Romania average, and more than 11% higher than the Finance field. We think that in this industry the management role is an expert one, employees are likely to follow the rules, and the hierarchy is very stable. There is a very small difference between Practices and values of Power Distance in Romania (less than 2%), meaning that middle managers are comfortable with the situation in their companies, except the Food processing industry in which they would like to lower the Power Distance.

Power Distance		World		Romania	
		Mean	Standard Deviation	Mean	Standard Deviation
Practices	All industries	4.01	0.67	3.81	1.27
	Finance	4.03	0.58	3.70	1.16
	Food processing	3.88	0.66	4.11	1.37
	Telecommunication	4.21	0.86	3.79	1.28
Values	All industries	3.56	0.44	3.74	0.91
	Finance	3.60	0.41	3.64	0.87
	Food processing	3.58	0.50	3.83	0.86
	Telecommunication	3.43	0.40	3.80	1.00

Table 1. The Power Distance distribution

We have proposed in Table 2 a list of the most intense connections between the Power Distance and functions, roles and leadership that might affect middle managers behavior.

<b>Functions</b>	Controlling
<b>Roles</b>	Figurehead, Disseminator, Resource allocator
<b>Leader behavior</b>	Self-protective

Table 2. The impact of Power Distance on management behavior

Regarding to Uncertainty Avoidance, Romanian middle managers think (values) that in their organizations should be done more actions to avoid uncertainty. They would like to avoid risk and to act more according to the plan than there is usually done (Practice). The lowest gap (less than 4%) between values and practices belongs to the Telecommunication industry and the highest (about 11%) belongs to the Food processing industry (Table 3). We assume that the middle managers in the Telecommunication industry are more accustomed to change and risk because of the high rhythm of technological change due to the investments in research and development. Usually, the Telecommunication companies use the “project management” style, based on a more flexible budgeting system and pretty loose control system. The finance sector scores the highest Uncertainty Avoidance rate in Practices because of the number of specific rules and regulations regarding procedures about money. The risk is high (banks and stock market brokers) so that the budgeting plan is their bible, and they think that it still can be improved.

Uncertainty avoidance		World		Romania	
		Mean	Standard Deviation	Mean	Standard Deviation
Practices	All industries	n.a	n.a	4.76	1.26
	Finance	n.a	n.a	4.88	1.30
	Food processing	n.a	n.a	4.61	1.28
	Telecommunication	n.a	n.a	4.65	1.12
Values	All industries	n.a	n.a	5.13	0.93
	Finance	n.a	n.a	5.12	0.90
	Food processing	n.a	n.a	5.27	0.85
	Telecommunication	n.a	n.a	4.83	0.90

Table 3. The Uncertainty Avoidance distribution

We also consider that the Uncertainty Avoidance mainly affects some aspects of the managerial activity, as we proposed in the Table 4.

<b>Functions</b>	Planning, Controlling
<b>Roles</b>	Leader, Monitor, Resource allocator
<b>Leader behavior</b>	Self-protective, Team-oriented

Table 4. The impact of Uncertainty Avoidance on behavior

In the Telecommunication and Finance Services, respondents placed their answers about Institutional Collectivism practices by 9% to 11% more than the world average, meaning that in Romania there is a strong orientation to the social dimension of a company (Table 5). When talking about values, middle managers think that the rating should be higher, the gap between “should be” and “as is” being about 14%. Also, the standard deviation is lower when the middle managers express their values about the social meaning of a company.

Institutional Collectivism		World		Romania	
		Mean	Standard Deviation	Mean	Standard Deviation
Practices	All industries	n.a	n.a	4.59	1.03
	Finance	4.18	0.60	4.67	1.09
	Food processing	4.31	0.50	4.27	1.04
	Telecommunication	4.25	0.61	4.66	1.11
Values	All industries	n.a	n.a	5.24	0.78
	Finance	4.85	0.41	5.19	0.79
	Food processing	5.00	0.50	5.31	0.75
	Telecommunication	5.04	0.57	5.21	0.81

Table 5. The Institutional Collectivism distribution

Table 6 regroups the managerial functions, roles and leader behavior that we propose to be considered mainly influenced by the cultural variable of Institutional Collectivism.



<b>Functions</b>	Organizing, Leading(Coordinating)
<b>Roles</b>	Figurehead, Spokesperson, Entrepreneurial
<b>Leader behavior</b>	Participative

Table 6. The impact of Institutional Collectivism on behavior

Compared with the results in the affirmation above, people pay more attention, they are more involved in the In-group collectivism than in the Institutional one. The difference between the indexes of values and practices is very high, about 20%, meaning that they would like to reward the performance of the group rather than personal performance. In the Telecommunication industry and Finance services, middle managers tend to focus more on group consensus and on group responsibility than they do in the Food processing industry.

<b>In-Group Collectivism</b>		World		Romania	
		Mean	Standard Deviation	Mean	Standard Deviation
Practices	All industries	n.a	n.a	4.94	0.94
	Finance	4.64	0.51	5.02	0.89
	Food processing	4.79	0.50	4.73	1.00
	Telecommunication	4.62	0.54	4.98	0.89
Values	All industries	n.a	n.a	5.92	0.77
	Finance	5.06	0.57	6.01	0.75
	Food processing	5.52	0.58	5.74	0.66
	Telecommunication	5.58	0.64	6.02	0.77

Table 7. The In-group Collectivism distribution

Our proposition about the interactions between the In-group Collectivism variable and the management process is presented in Table 8.

<b>Functions</b>	Leading (Coordinating)
<b>Roles</b>	Liaison, Disseminator, Disturbance handler
<b>Leader behavior</b>	Charismatic, Team-oriented

Table 8. The impact of In-group Collectivism on behavior

Regarding to Gender Egalitarianism, the difference between the Finance services and the Food processing industry (almost 19%) is very high, meaning that in the food processing companies, gender roles are more distinct and the conflicts are solved by fighting over issues (Table 9). In the Finance services, especially in banks, there are a lot of women in management positions, so that they are more oriented about the quality of life and relationship between employees. We think that in a way it is a good sign that values are by far higher than practices ratings (more than 17%), so that we can speak of an equality of chances, but this gap can also explain that people do not want to take responsibility for tasks and performance in general.

Gender egalitarianism		World		Romania	
		Mean	Standard Deviation	Mean	Standard Deviation
Practices	All industries	n.a	n.a	3.98	1.07
	Finance	n.a	n.a	4.29	1.00
	Food processing	n.a	n.a	3.62	1.08
	Telecommunication	n.a	n.a	3.79	0.95
Values	All industries	n.a	n.a	4.67	0.77
	Finance	n.a	n.a	4.64	0.77
	Food processing	n.a	n.a	4.70	0.82
	Telecommunication	n.a	n.a	4.54	0.66

Table 9. The Gender Egalitarianism distribution

Table 10 regroups the main functions, roles and leader behavior that we consider to be affected by the elements of the Gender Egalitarianism cultural aspect.

<b>Functions</b>	Leading (Coordinating)
<b>Roles</b>	Leader, Monitor, Disturbance handler
<b>Leader behavior</b>	Charismatic, Participative

Table 10. The impact of Gender Egalitarianism on behavior

In Romanian companies, the Assertiveness level is by 7% lower than the world average, meaning that Romanians are more oriented toward warm relationships and loyalty. Looking at values, we can see almost identical values between Romania and the world average (Table 11). The highest degree of assertiveness is in the Finance Services when information flows must be very specific, based on compulsory documents. It is very interesting that middle managers working in the Telecommunication industry agree (values) that the assertiveness issues should be higher, maybe because they are more dependent on progress and on technical calculations.

Assertiveness		World		Romania	
		Mean	Standard Deviation	Mean	Standard Deviation
Practices	All industries	4.11	0.48	3.81	0.77
	Finance	n.a	n.a	3.88	0.69
	Food processing	n.a	n.a	3.68	0.85
	Telecommunication	n.a	n.a	3.82	0.72
Values	All industries	3.96	0.73	3.98	0.94
	Finance	n.a	n.a	3.92	0.71
	Food processing	n.a	n.a	3.87	1.22
	Telecommunication	n.a	n.a	4.11	0.78

Table 11. The Assertiveness distribution

We think that Assertiveness has a significant impact on managerial function and roles and determinates a specific kind of behaviour, as presented in Table 12.

<b>Functions</b>	Controlling
<b>Roles</b>	Figurehead, Monitor, Negotiator
<b>Leader behavior</b>	Self-protective

Table 12. The impact of Assertiveness on behavior

In Romania, in the Finance Services and Telecommunication industry the level of Humane Orientation (practices) is higher than the Food processing industry and that is the opposite of the world situation (Table 13). The cause of this fact could be that in Romania services encourage employees more, they invest more in an adequate work environment, and they reward people. Middle manager working in the Food processing industry “don’t agree” with the human orientation. This fact is proven by the highest level of standard deviation. We think that in the Food processing industry, middle managers are more oriented on the process. Most of the companies strive to meet the standards of the food security, so that procedures became more important than the human dimension. We assume that the level of qualification and initiative of the employees can be a cause for the results. When comparing values with practices, we discover that the Food processing sector bear a 13% gap, meaning that people would prefer a motivation based upon common interest and the well-being of the group. Actually, in all three fields, middle managers think that the human orientation within the organization should be higher, and they agree more on that (0,74 standard deviation). The gaps between Romanian standard deviation and the world average prove that in Romania the state of “transition” to market economy is still a fact and that there is a high heterogeneity in middle manager opinions.

<b>Humane Orientation</b>		World		Romania	
		Mean	Standard Deviation	Mean	Standard Deviation
Practices	All industries	n.a	n.a	4.69	1.22
	Finance	4.45	0.51	4.70	1.07
	Food processing	4.52	0.43	4.34	1.23
	Telecommunication	4.51	0.43	4.61	1.16
Values	All industries	n.a	n.a	4.90	0.74
	Finance	4.97	0.39	4.83	0.65
	Food processing	4.99	0.37	4.91	0.76
	Telecommunication	5.00	0.44	4.75	0.79

Table 13. The Humane Orientation distribution

The Humane Orientation can become a determinative factor for management behavior, as suggested in Table 14.

<b>Functions</b>	Planning, Leading (Coordinating)
<b>Roles</b>	Leader, Disseminator, Disturbance handler
<b>Leader behavior</b>	Human oriented

Table 14. The impact of Humane Orientation on behavior

It is especially interesting to comment the important gap (more than 30% in average) between values and practices ratings about Performance Orientation aspects (Table 15). Romanian middle managers think that in their organizations people should be more concerned about performance. There is a need for performance in Romanian organizations, meaning a strong demand for the management to define measurable objectives and precise procedures to accomplish them. We know that managerial know-how is one of the main ways to increase productivity, one of the main indicators about performance and competitiveness. The Finance Services sector leads both the practices and values scores. We appreciate that this fact is due, on the one hand, to measurable objectives and precision regarding money management, and on the other hand, to financial motivational system.

Performance Orientation		World		Romania	
		Mean	Standard Deviation	Mean	Standard Deviation
Practices	All industries	n.a	n.a	4.71	1.19
	Finance	n.a	n.a	4.92	1.16
	Food processing	n.a	n.a	4.57	1.04
	Telecommunication	n.a	n.a	4.62	1.25
Values	All industries	n.a	n.a	6.21	0.70
	Finance	n.a	n.a	6.29	0.70
	Food processing	n.a	n.a	6.18	0.74
	Telecommunication	n.a	n.a	6.22	0.64

Table 15. The Performance Orientation distribution

In Table 16 we presented some assumptions about the functions, roles and leader behaviors that gravitate around the Performance Orientation cultural variable.

<b>Functions</b>	Planning, Organizing, Controlling
<b>Roles</b>	Leader, Monitor, Resource allocator
<b>Leader behavior</b>	Value Based, Autonomous, Participative

Table 16. The impact of Performance Orientation on behavior

When analyzing Future Orientation, this issue is a very sensitive one because of the social and economical background due to the socialist systems before the 1990s. Romania has passed through a transition from a centralized economy to a market one, a period of strong social convulsions, insecurity, and very often defective planning from the state, both public institutions and state owned companies. The Romanian average is 5% lower than the world average (Table 17), meaning that in Romanian companies middle managers do not involve themselves in strategic planning, in investments because they are more attracted to immediate gains, sometimes understanding the change of their job. They think that the level of future orientation should be higher, the Food processing and Telecommunication industries reaching the top position. There is still a significant difference in values rating between Romania and the world average (about 10%) that could be explained by the continuous transformation in Romanian society which impose an adaptive and reactive model of behaviour. We must also mention the very high level of standard deviation, more than twice the world average in all the three economic fields, expressing very different position about items like planning, long term success, flexibility. We think that Romanian managers are under the influence of western models and they strive to evolve in a short range of time.

Future Orientation		World		Romania	
		Mean	Standard Deviation	Mean	Standard Deviation
Practices	All industries	4.61	0.66	4.40	1.40
	Finance	4.60	0.67	4.65	1.36
	Food processing	4.73	0.65	4.18	1.50
	Telecommunication	4.39	0.63	4.13	1.30
Values	All industries	5.66	0.45	5.17	0.99
	Finance	5.63	0.44	5.14	1.00
	Food processing	5.73	0.39	5.26	0.97
	Telecommunication	5.61	0.58	5.25	0.94

Table 17. The Future Orientation distribution

As for the impact of Future Orientation on managerial behavior, we proposed some connections presented in Table 18.

<b>Functions</b>	Planning
<b>Roles</b>	Leader, Monitor, Entrepreneurial
<b>Leader behavior</b>	Value-based

Table 18. The impact of Future Orientation on behavior

## Conclusion

We can conclude that Romanian organizations make a very heterogeneous map when representing the main cultural variables. There is a wide distribution in management practices even within the same company. We think that Romanian organizations are still in a convulsive transition, obliged to meet the conditions of a free market economy in a rapidly changing environment. We have observed two streams regarding the managerial behaviour, on the one hand, a western model of management, mostly imposed by corporate strategy, and on the other hand, a local model, based on personal relationship within the company.

Regarding the conceptual issues, we consider management and leadership to be processes that can hardly be separated from the person; therefore, we propose two matrixes to be discussed (Table 19, Table 20). This subject and also how the gap between cultural values and practices affect managerial behaviour will determinate objectives for further research.

Cultural Variables	Management Functions			
	Planning	Organizing	Leading (Coordinating)	Controlling
Power distance				<b>X</b>
Uncertainty avoidance	<b>X</b>			<b>X</b>
Institutional Collectivism		<b>X</b>	<b>X</b>	
In-Group Collectivism			<b>X</b>	
Gender Egalitarianism			<b>X</b>	
Assertiveness		<b>X</b>		<b>X</b>
Humane Orientation	<b>X</b>		<b>X</b>	
Performance Orientation	<b>X</b>	<b>X</b>		<b>X</b>
Future Orientation	<b>X</b>			

Table 19. The Function-Culture Matrix in Management (*proposal*)

Cultural Variables	Management Roles									
	Interpersonal			Informational			Decisional			
	Figurehead	Leader	Liaison	Monitor	Disseminator	Spokes person	Entrepreneur	Disturbance handler	Resource allocator	Negotiator
Power distance	<b>X</b>				<b>X</b>				<b>X</b>	
Uncertainty avoidance		<b>X</b>		<b>X</b>					<b>X</b>	
Institutional Collectivism	<b>X</b>					<b>X</b>	<b>X</b>			
In-Group Collectivism			<b>X</b>		<b>X</b>			<b>X</b>		
Gender Egalitarianism		<b>X</b>		<b>X</b>				<b>X</b>		
Assertiveness	<b>X</b>			<b>X</b>						<b>X</b>
Humane Orientation		<b>X</b>			<b>X</b>			<b>X</b>		
Performance Orientation		<b>X</b>		<b>X</b>					<b>X</b>	
Future Orientation		<b>X</b>		<b>X</b>			<b>X</b>			

Table 20. The Role-Culture Matrix in Management (*proposal*)

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## **Abstract**

*In the last decades, Central and Eastern European (CEE) countries have undergone changes in various aspects. After disengaging from the Soviet Union, they had to implement a lot of transformations, such as creation of their own political system or reorientation from plan to market economy. Changes in the political situation and improvements in economics attracted western companies to invest in post-socialistic countries and these investments played a significant role in the further reorganization processes. Today, 5% of all companies in Lithuania have foreign investors and at the same time it can be noticed that the bigger part of them are among the most outstanding companies in their fields in the country. Naturally, western proprietorship influences not only the company's performance but also the organization and the attitudes shared within the enterprise. In this paper, the author concentrates on the main effects that foreign investments have on the organization of the companies.*

*Just after the collapse of the Soviet System, management principals, methods and models in Eastern Europe had to be created newly in a lot of aspects,, as the possibilities to apply western experience widely were rather limited because of the differences in environment and other conditions. Now, the quick development of CEE countries and their membership in the European Union has made it easier for foreign companies to invest here and in this way, made transformations in organizations faster (Melnikas, 1995, p.85). Foreigners also transfer their business practices to CEE countries, mainly by organizing trainings. These could be teaching in order to diminish the inefficiency in business practices or development of the sense of responsibility in the decision making process. Trainings are crucial since western investors often single out the lack of managerial skills among high rank personnel as one of the main problems in post-socialist countries (Rondinelli, 1994). On the other hand, not only local managers had to change, but also Westerners investing here were to learn a lot about local business cultures and challenges in changing the attitudes and behaviours towards them (Savitt, 1995).*

*The aim of the work is to describe the business culture in Lithuania focusing mostly on the leadership styles and corporate cultures. Along with that, the influence of foreign ownership on these aspects will be analyzed. Two leading companies in the Lithuanian bread market, both owned by Finnish investors, were chosen for comparison and illustration of the changes and effects of acquisitions. In order to get more precise results and to be able to draw better*

*conclusions, leadership and organizational culture in one Lithuanian enterprise without any foreign investments is analyzed and compared to those in the bakeries.*

## **Design and methodology of the study**

The paper is an empirical study based on theory as well as on the comparison of two bakeries, their foreign owners, and the poultry fabric which is not acquired by any foreign company. All interviews were held with the managing directors of three companies contacting them per e-mail several times in February and March 2007.

The first interview (*see Appendix 1*) included questions about the structure of the organization and its changes after the acquisition by Finnish investors. Questions concerning attitudes, values, and changes in the companies are either open or measured in the 5 point Likert-type scale. Along with that, companies were asked to evaluate the six features of preferred leader according to GLOBE second order leadership scale (Bakacsi G., 2002, House R., 2002). In order to see how leaders who are preferred in Lithuania and in Finland differ, a list of features used by Robert House in his article 'Global leadership and organizational behaviour effectiveness research program' (2002) was adapted. The respondents had to mark which of these attributes suit Lithuanians or Finns better. Another method selected for measuring the leadership style and, in particular, what concerns the decision making process asked the investigated enterprises to chose one out of four described leadership styles which they think depicts best the one that is practiced in their company (Kovač J., Jesenko M., 2003). The managing directors were also requested to choose a style characterizing the leadership in their parent company and the one performed in the company before the acquisition.

Questionnaires for the second interviews were developed according to John Mole's researches (*See Appendixes 2 and 3*). The aim was to evaluate the style of leadership and the organizational culture in Lithuanian enterprises and to compare them to the findings of John Mole in Finland.

The first company (later in the work *Company A*) is one of the Lithuanian business leaders operating in the bread baking field more than 100 years. This company was chosen because it had passed both World Wars, a lot of changes in the country's government as well as in its own administration, and has managed to successfully reorient the business from plan to market economy after the collapse of the Soviet Union. In 1990, the bakery was announced as a state enterprise and remained till its privatization in the late 1990s. In 2002, the bakery was bought by a Finnish company operating in North Europe and Baltic markets. Today, Company A manages five bakeries in Lithuania, employs more than 800 people, and is the biggest player in the bread market having a 25% share.

The second company (*Company B*) is a rather young one, established in 1995 as a private enterprise. Seven years later, the Finnish investor bought all 100% of the company's stock (the first 65% were sold in 2001). After the acquisition, the bakery was modernized and new

production lines were introduced. The company started also to conduct regular market research. Statistics show that Company B is the second biggest company in the bakery field, occupying 10% of the market. Having 240 employees, it is few times smaller than Company A.

The owners of the Lithuanian bakeries A and B are also the leaders in the Finnish bread market. The mother company of Company A is an enterprise managing bakeries in Finland, Estonia (acquired in 1993), Latvia (acquired in 1995), Lithuania (acquired in 2002), and Sweden (acquired in 2003). The owner of Company B belongs to a corporation of three enterprises and operates in Latvia (since 2001), Sweden, Russia, and Estonia (since 1994). As we see, when investing in Lithuania, both Finnish companies had already had experience in coordinating business in former Socialist countries, namely Estonia and Latvia.

The bakeries were chosen because of being the leaders in the Lithuanian bread market and of having both foreign investors from Finland, although they vary in size and age. As for the branch of market the chosen companies represent, it can be said that in Lithuania manufacturing is the most popular field for investments, making up almost 35% (production of food, drinks, and tobacco is the second biggest subgroup of this sector). Moreover, after the former Soviet countries became independent, food and clothing were affected less than other fields of industries (Steilmann, 1993). Therefore, companies of these branches could concentrate more on the development of their business and, as a result, investors were enabled to transfer the entrepreneurial experience easier.

In order to be able to concentrate on the influences of foreign investors on local companies, the author focused on Finland because it is a suitable country for the origin of the investors since Finland is among the main countries of investors in Lithuania. According to the amount of investments in 2005, Finland was the fifth biggest investor in Lithuania after Russia, Denmark, Germany, and Sweden. In the middle of 2007, there were around 190 companies in Lithuania who were partially or a hundred percent owned by Finnish enterprises. Because of the great popularity of Baltic markets among Finnish investors, it can be assumed that neither of Finnish bakeries lacked knowledge about Lithuania when investing here.

The third company (*Company C*) chosen as a benchmark enterprise, is one of the main poultry fabrics in Lithuania operating in the market since its establishment in 1967. Having about 620 employees, the company is not only successfully operating in Lithuania, having a market share of about 40%, but also exporting its products. The company is thought to be suitable for the comparison because of being also the market leader in its field, almost equal in size to Company A, and representing the branch that requires a lot of labour force.

It is expected that organizational cultures and leadership styles in company A and B will show resemblance to the ones of their parent companies or to those shared in Finland on the whole. As for comparison of the bakeries and the poultry fabric, it is anticipated that the companies with foreign investors will tend to be orientated more towards group leadership, whereas the Company C will prefer individual leadership. On the other hand, both larger companies (A and C) are expected to be more systematic and less relationship orientated than Company B.

### **Organizational structure**

Corporate Culture can be analysed from various perspectives, such as strategy, communication, personnel, organization, or leadership (Reineke, 1995, p.95). We will concentrate more on the latter two. It seems that the way an enterprise is organised and the used leadership style are correlative since big organizations usually tend to be lead by more individualist managers and small companies usually practice group leadership. However, the organizational culture or the degree of employee participation in decision making can be measured not only within the whole organization, but also within its separate departments (Roots, 2003). Therefore, it is equally important to consider the departmentalisation level of the companies that are studied.

A rather common phenomenon in the companies of post-socialist countries when restructuring and readjusting to the current market economy was downsizing in order to optimize the ratio between costs and productivity. Along with that, since the lack of products was an everyday phenomenon in the Soviet countries, no marketing or advertising tasks were needed. After the Soviet Union collapsed, enterprises felt the necessity of changing the organizational structure and of establishing new departments, such as marketing, development, or sales, to help them to entrench in the market economy (Kelemen, Hristov, 1998, Steilmann, 1993). These are the challenges that occurred in the early 1990s.

Foreign investments played and still play an important role in quickening the pace of restructuring the company and in influencing the ways and strategies of transformations. In Communism, managers were used to obey, conform, and meet plans. However, it is to be noted that “from the perspective of the prospect Western investors the most serious problems were inflexibility, inaccuracy, and lack of timeliness. Most of socialist-managers were unable to take responsibility in the decision making process and were inefficient in such business practices as assessment of competitive opportunities, development of market advantages, use of information systems, or risk management” (Rondinelli, 1994, p.27). On the other hand, incompetence is not the only reason to change managers. It is said that after acquisitions some employees refused to

implement changes, to accept the new boss or are afraid to lose the national identity of their organization, in cases of international mergers and acquisitions (Olie, 1995, p.318-319).

The answers the representatives of the bakeries submitted to the questionnaires (*see Appendix 1, questions 1, 2, 4-7*) show, first of all, that some changes in the organizational structure were implemented only as a result of foreign investments, even though by that time both companies have already been operating in the market economy. The interesting thing to notice about the structures of the companies is that despite the varying sizes of companies A and B (respectively, 842 and 240 employees) each of them has 6 top level managers and almost an equal number of middle level managers (respectively, 45 and 34). Both companies are also divided into quite similar departments, which are listed in the table below.

Company A	Company B
<ul style="list-style-type: none"> <li>• Production and logistics</li> <li>• IT and finance</li> <li>• Law and personnel</li> <li>• Sales and marketing (consists of two units which concentrate on these fields of work)</li> </ul>	<ul style="list-style-type: none"> <li>• Production and technology</li> <li>• Finance (includes IT specialist as well)</li> <li>• HR</li> <li>• Sales (includes logistics)</li> <li>• Marketing</li> </ul>

Table 1. Departments in the Companies A and B

After the acquisition of companies A and B in 2002, the increase in the number of employees in executive positions was observable in both of them. The Director General of Company A stated that this led to improvements in the quality of management and control. The management of the bakery became more centralized. The commerce department was divided into production and logistics and sales and marketing. The personnel and law units were consolidated into one and this could be seen as improvement in efficiency while avoiding work overlapping. In case of Company B, after the acquisition by Finns, the departments for sales, marketing, and HR were established.

The intriguing thing is that, after Company A was bought by the Finnish investor, drastic changes or restructurings occurred and only the CEO of the company was replaced. In the meantime, the new owners of Company B changed the whole top level management, leaving only the Director for Production and Technology. Here, it is worth to remember that the first company of the study is the company which earlier operated under command of socialist managers, while the second one was established not until 1995. We can assume that the age of the company is not a factor the skills of managers depend on.

Taking the above mentioned information into account, it is normal that new owners of companies wanted to have new managers or to retrain the old ones. The owner of Company B used both of these steps and organized trainings to newly hired personnel in all departments, first

of all, paying attention to the team building process. Tutoring processes were also implemented in Company A where foreign specialist consulted the company. Foreigners investing in Central and Eastern European countries want to “take advantage of new markets while the enterprises in post-socialist countries expect the new owners to share their know-how, bring by the managerial skills and in this way improve the company’s performance” (Adam, 2002, p.73-75). This enables the assumption that companies which have undergone the acquisitions and gained experience from Finnish investors should resemble in organizational culture and leadership to their foreign owners. This will be discussed later in this work.

### **Organizational culture**

Culture is usually understood as shared believes, values, and attitudes that developed within a group of people through the years and act as a pattern of correct thinking, behaving, and perceiving. When talking about organizational culture, the group is understood as an enterprise and its employees. Organizational culture shows how work is organized, tasks fulfilled or results measured. Factors that affect these things are history, ownership, and size of the organization, its goals and employees, environment, and technology. As for the size, the larger the organization, the more likely it is to be role orientated (Handy, 1993). This perception will be used as background for the presumption that companies of the study should be prone to role culture and more task than people orientated.

Charles Handy referred to Rodger Harrison and defined four organizational cultures, namely role, task, power, and person (see Table 2). In the questionnaire, statements describing the main characteristics of these cultures were used; the respondents were asked to evaluate them in the Likert Type 5 point scale, where 5 meant “corresponds a lot” and 1 stood for “does not correspond at all”.

Role	Duties and assignments are more important than the person who fills them
Task	Team work is very important n accomplishing tasks
Power	The company works on anticipating the wishes and decisions of the central power sources
Person	Organization operate first of all in order to meet the needs of individuals

Table 2. Descriptions of organizational cultures

Power culture is a culture with a main power source in the centre controlling others among it. This culture is common in small, family based entrepreneurial organizations. In the person culture, on the contrary, the individual is more important than the company, which only helps the individuals to achieve their goals (Handy, 1993). Both bakeries remained indifferent choosing

the middle answer in the questionnaire in terms of power culture. This could be explained by the fact that big organizations could not function properly under the web culture. On the other hand, in such organizations, directions from top-level managers are important and therefore the statement cannot be fully rejected. As for person culture, Company A declared that it does not correspond to the company's culture at all, while Company B evaluated the statement as neither corresponding nor contravening. The same answer emerged in the questionnaires of Company C. As this type of culture is unlikely to be suitable in these types of business, it can be imputed to unclear expressions or translation of the statement. It can be assumed that the statement was understood as dealing with person orientation and the level to which the organization helps its members to achieve their goals and to self-actualize.

The second two organizational cultures, suiting big companies better, are role and task cultures. Role culture is described as operating on logical relations, rationality and is often compared to bureaucracy. The task culture is orientated towards a goal and is common there where high level of flexibility is needed. Team work is a usual way of accomplishing jobs here. The evaluations of the statements of these two cultures varied rather a lot. All three companies labelled team work as being important or very important in accomplishing tasks, which would suggest them to have a task culture. However, at the same time Company A admitted that assignments are more important than the person who is in charge, Company B remained indifferent and Company C meant that the statement does not correspond to the company.

The attained results suggest that all three companies are bureaucratic to different extent. Company A could be described as role orientated but at the same time practicing task orientation in separate departments. Company B is a smaller company, employing more than 3 times less people, what enables it to be less bureaucratic. As for Company C, although being large, it cannot be described as typical bureaucracy. It still shares some collectivist attitudes the reason for what can be not only absence of foreign investments, but also the environment in which the company operates\*.

Statements measuring the organizational culture towards two dimensions only, namely towards systematic (task) or relationship (people) orientations, were also submitted to the directors of the enterprises. The results showed that both bakeries consider functions coordinated by well-defined logical relations as the main elements of the organization, while Company C evaluated the statement as not corresponding to the situation in the company. As for the relationship orientation, Company B stated needs and interpersonal relations of its members as important,

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\* The company operates in a small town having about 6000 citizens, which can be the reason for a higher level of collectivism



while both larger organizations, companies A and C, think them to be neither important nor unimportant. All companies admitted to care for the employees' individuality and personal features.

In the next question, five propositions about changes in organizational culture and shared attitudes after the acquisition were provided. The CEOs were asked to evaluate them in the Likert Type 5 point scale, whether they correspond to the situation in the company or not. The poultry fabric evaluated the statements in terms of changes through the past years.

1. The company became more orientated to the task than to the employees
2. Group work became more important
3. The management and coordination of the company became more centralized and concentrated
4. The relationship between employees became more formal
5. The competition between employees increased

Table 3. Propositions concerning changes in the companies

Companies A and C rated the first statement as corresponding quite well, whereas Company B did not notice any changes in this dimension of organizational culture. Both larger companies also admitted that the management has become more concentrated and centralized. Company B remained indifferent in terms of this statement. This can be due to the fact that the company is rather young in comparison to the other two and that it did not have to undergo the restructuring from plan to market economy. Moreover, it does not have such deep traditions as older companies, which may be the reason for the higher increase in competition between employees. However, all three companies reject the fourth statement concerning the formality of relationship between employees. This implies that companies in Lithuania are to some extent collectivistic and people orientated. The only clear sphere of influence of foreign investments is the increase of group work importance in the companies acquired in 2002, whereas Company C did not notice any significant changes in team work necessity.

On the whole, we can see that no single conclusion can be drawn. The bakeries seem to be more task than people orientated; however, due to the fact that personalities of employees are important and the statement describing the organic organization was not rejected, we cannot assign the bare systematic style of organization to them. Company C may be still carrying some collectivistic attitudes towards work and therefore does not find itself being a systematic one. However, it does not agree that relationships between people are the basis of the company, which could lead to the assumption that the company's organizational culture is somewhere in the middle between relationship and task orientation.

## **Leadership**

Leadership is the process of management during which a manager aims at getting people to work effectively and willingly towards company's goals. It begins at the top of the management hierarchy and then spreads down, often with an objective to form working teams. Leadership stands not only for personal skills and features of a manager, but also for the whole decision making process and employee participation in it. When knowing the leadership style, one can predict not only who in the company has the power, but also how the power is exercised or what characteristics one has to have to be a good boss (Mole, 1996). In this part of the work, leadership will be measured according to the authoritarian and democratic dimensions. Then, the preferred characteristics of a leader will be discussed.

### *Authoritarian and participative dimensions*

The style of leadership shows how employees are informed and what role they play in influencing the last decision. It may seem that the way an enterprise is organised and the leadership style are correlative, since big organizations usually tend to be lead by more individualist managers, whereas smaller companies usually practice group leadership. It is also evident that not all employees of a large enterprises can be involved in the decision making process. Borum (1995, p.49-51) depicts the formal organizations as hierarchical pyramids based on labour division, where different levels of hierarchy are "linked together by formal superior-subordinate relationship". Each level of a hierarchy makes up a smaller hierarchy, also having its superior-subordinate relationships. If referring to Borum's ideas, we can see that the participation of employees can be increased within each department. In this way, leadership in an enterprise is less autocratic and the staff can feel to be more important for the company. The autocratic style leader uses authority in a straightforward manner and simply issues orders. The democratic leaders encourage employee participation and free communication while making it clear that he or she has the final say.

Kovač and Jesenko use descriptions of four styles of leadership in their article 'Values and leadership styles of Managers in Slovenia' (JEEMS 4/2003). The styles vary from autocratic or individual (L1) to participatory or group (L4) and concern mostly employee involvement in the decision making process (see Table 3). These descriptions were submitted to the CEOs of the companies under study, who were asked to select the description best representing the current leadership style in their company. Both bakeries also had to choose the leadership style practised in their Finnish mother companies as well as to define the style used before the foreign investments.

L1	Decisions are made immediately and subordinates are informed about them. Employees are expected to be loyal and execute the decisions thoroughly.
L2	Decisions are made immediately, but it is tried to explain things in details to subordinates beforehand. Reasons for the decision are given and questions of employees are answered
L3	Usual consultations with subordinates before making a decision. Execution is expected, regardless of whether it represents the employees' proposal.
L4	Subordinates are involved in the decision making, explaining them the problem and encouraging the discussion. Decision is based on majority opinion

Table 4. Leadership styles with respect to employee involvement in decision making process

	Company A	Company B	Company C
Current leadership style	L4	L2	L4
Leadership style before foreign investments	L1	L2	-
Leadership style in the Finnish company	L4	L4	-

Table 5. Results regarding the leadership styles

Analysing the answers (see Table 4 above) several conclusions can be drawn. Firstly, both bakeries agree that group leadership is preferred in Finland. This also conforms to the findings of John Mole, who argues that “meetings are an important forum for information sharing, problem solving and debate” in Finland (Mole, 1996, p.124). However, we can see that the leadership style does not necessarily depend on the size of an organization, since the bigger companies, Company A and Company C, chose L4 as the best description for the current leadership style, while Company B admitted preferring a rather individual leadership. Furthermore, although “transformations in Central and Eastern Europe are frequently perceived as an exclusive transfer of western expertise into Central and Eastern Europe” (Melnikas, 2006, p.203), it can be seen that the leadership style is not always influenced by foreign investor. Whereas Company A changed its business culture drastically from authoritarian to participatory leadership adopting the values shared by Western investor, Company B continued working with only partial employee involvement in the decision making process. Another important thing to note here is that the leadership style is not affected by a change of top level managers, since previous findings showed that Company B was the company to undergo big changes in authorities.

Moreover, answers to the questions on the Likert Type 5 point scale (see Appendix 1, question 3) are a little bit different and thought provoking. Despite the fact that the two bakeries practice different styles of leadership, both claim to encourage employees to express their opinion on various topics but are not sure whether these suggestions are always taken into account before making a decision, presumably because of the variance in significance and dimension of the decisions. Company C, on the contrary, pays respect to the employees' wishes although not

encouraging them to speak out. This could be explained by the above mentioned assumption that collectivistic attitudes are shared to a broader extent in Company C.

No matter if companies chose L2 or L4 as the current leadership style, all of them admitted that meetings and discussions are important or very important in the decision making process but none rejected the proposal that the last decision is made by the small group of top level managers. This would be quite typical for enterprises in Finland, where leadership is often described as oligarchic, meaning a small group of senior managers has the authority. This shows that in this case Lithuanian and Finnish leadership styles are quite similar. Moreover, it can be difficult to evaluate the leadership as group orientated because of the size of the companies. This can be observed in the case of Company A, where the statement “Leadership in the company is more individual than group orientated” was evaluated as corresponding quite well, although other results of the survey rather suggest participatory leadership. The reason for such discrepancy could be explained by the above mentioned theories of Borum. The rather centralized and concentrated management of the whole company does not mean that separate departments do not have freedom to make decisions concerning their work.

### ***Features of a Preferred Leader***

As leadership is not only about managers acting in one or another way, but also about subordinates expecting them to do so, an important criterion when speaking about leadership is the preferred characteristics of a leader. The second order leadership scale of the GLOBE was used to get the background knowledge about it. The directors of the companies had to evaluate six features (Bakacsi G., 2002, House R., 2002). The results are presented in Figure 1 below.

The first thing to note is that features of a leader preferred in Company B conform better the ones preferred in the Eastern European Cluster, described by Bakacsi (2002). The only feature that differs is the preference of autonomous leader. This is prevailing in all three Lithuanian companies and the importance of this characteristic is either 6 or 7, while in the Eastern European cluster it is valued the least. Moreover, for Finnish leaders non – autocracy is typical, which suggests that even after acquisitions Lithuanian managers remain individualistic and work in their own manner.

The reason for this kind of individualism or insularity is not only the historical background, but also the fact that Lithuanian entrepreneurs have become more critical thinkers. In the first years of independence, western structures sought often only to benefit economically but did not always care about long-term improvements. Moreover, local specialists were often seen and treated as lower-level ones. This lead to the understanding that it is not worth to barely adapt business models that have been formed in a western world and that are not always easily to implement

successfully in Central and Eastern Europe. The praising of foreigners, typical in Lithuania, has also decreased in the past years (Melnikas, 2002, p.245). Now most of the companies try to adapt only the most suitable things but at the same time to maintain their own attitudes and values.

The results show that Company A values participation more than the other two companies. Having in mind that this company changed its leadership style after the acquisition, we could assume that it is essential to change some features in order to be able to work under the new conditions. Such traits as humanity and team orientation are also preferred by all the questioned companies and resemble the Eastern European Cluster. Self protection is expected more often in the bigger companies.

The most interesting findings are the preferences in terms of charismatic leader. It is obvious from the picture below that Company C regards this characteristic as almost unimportant. In Lithuania, charisma is usually understood as enthusiasm and the ability to motivate others so we could go back to organizational cultures and assume that this enterprise is more task oriented than focussing on the person who performs it.

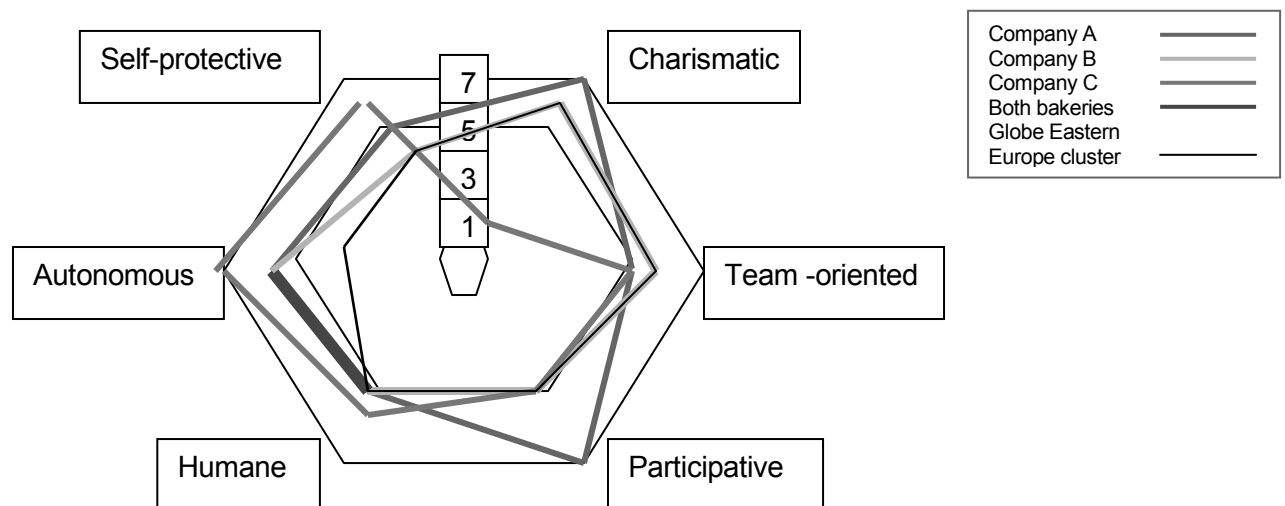


Figure 1. Leadership profile scores according to the companies

The findings of this part of the study may be taken into account only partially, since the six attributes used are originally based on more items, which were not provided to the companies under study. This implies that the companies could have understood the features not in a way, they were used by GLOBE researchers.

## Comparison of Finland and Lithuania

As business culture is about having shared values and attitudes, it is expected that people of the same country should have common priorities for the characteristics of a preferred leader. House refers to Shaw (1990) and argues that variance in managerial behaviour could be understood as a result of “showing cultural differences in leader prototypes” (House, 2002, p.45). Because of different historical backgrounds and environments, these variances can be well observed when comparing Eastern and Western companies and analysing their cooperation.

First of all, attitudes to leaders in Finland and in Lithuania will be compared. Then, using the attained results the three Lithuanian companies will be placed in a “map” according to leadership and organization dimensions. It will also be analysed to what extent they differ from the ones shared in Finland.

### *Attitude to Leader*

In this part of the paper, business cultures in Finland and Lithuania are compared by the way features of good leaders differ in both countries. Attaining a list of leadership attributes (see table below), the CEOs of the companies had to mark which of them suit the Lithuanian leader and which the Finnish one.

Decisive	Inspirational	Team integrating	Autonomous
Integrity	Non-autocratic	Humane	Conflict avoiding
Honesty	Visionary	Diplomatic	Administrative
Performance	Participative	Collaborative	Self sacrificing

Table 6. List of leadership attributes

The results showed that both countries value integrity of the leader. The characteristics of Finnish leaders singled out by both Lithuanian companies were humanity, conflict avoidance and diplomacy, non-autocracy, team integration and collaboration. The latter features also support the saying that “employees are expected to use initiative” in Finland (Mole, 1996, p.123). Lithuanians themselves expect leaders to be autonomous, decisive, and self-sacrificing. At the same time, they should be administrative, inspirational, participative, and performance orientated.

Finns	Humanity, conflict avoidance, diplomacy, non-autocracy, team integration, and collaboration orientated
Lithuanians	Autonomous, decisive, self-sacrificing. administrative, inspirational, participative, performance orientated

Table 7. Leader’s attributes in Lithuania and Finland

Similar attributes of leadership were used by House (2002). In this paper the question was simplified by providing less characteristics and asking the companies to select only the most important ones instead of splitting them in groups, according to the level of preference. Despite this fact, both results are comparable. The features selected by Lithuanian companies are quite similar to the highly positive ones in the Czech Republic cluster. The difference is that in the Czech Republic decisiveness is regarded as low positive. The results also showed that autonomy and individualism are more common to leadership in the Germanic and East European countries (including, Czech Republic and Lithuania), while interpersonal relations and frankness are inseparable parts of successful leadership in Northern Europe, in particular in Finland (House, 2002, p.59).

When asked about difficulties in cooperating with Finnish companies, the CEOs of the bakeries in Lithuania emphasize differences in Lithuanian and Finnish cultures, attitudes to business, and the decision making process. The director general of Company B admitted that the Finnish way of thinking was too slow for a very dynamic and competitive market in Lithuania. John Mole also argues that the process of consultation and debate in Finnish enterprises is long and the decision making is slow and deliberate (Mole, 1996).

After both acquisitions, the contrarities were gradually narrowed by advising and organizing trainings for the main employees of the companies. It is interesting that in both bakeries Lithuanian managers had the freedom to act themselves, which helped to avoid bigger disputes. The CEO of Company A remembers that a meeting and dialogue culture developed in which decisions were only made after full and thorough analysis of the situation. This helped both sides to understand each other better and contributed to the development of Lithuanians' attitude to business.

### ***Comparing organizational culture and leadership***

History and tradition as well as country size and its wealth shape the values and beliefs shared in a particular region. Culture encompasses not only traditions or habits but also the attitude to work and the ways of organizing it (Handy, 1993). Nonetheless, it would be impossible to retain all the former characteristics when being owned by a foreign company, especially in cases of companies from Central and Eastern European countries, where the business culture does not have deep traditions and is constantly changing. As already mentioned in the beginning of this paper, Lithuanian companies with Finnish owners were assumed to have adapted business practises and values of their foreign owners. In this part of the work, the countries are compared referring to John Mole's researches of cross-cultural communication.

John Mole analyzed the business cultures in various European countries and generalized the results to put them in a “map” according to leadership style and organizational culture. His investigations showed that Finnish entrepreneurs rather prefer a systematic than an organic organization, as well as rather group than individual leadership. These facts were confirmed by the answers about their Finnish owners submitted by Lithuanian bakeries. To evaluate business culture in Lithuania so that the results are comparable to those presented in the book, new questionnaires were given to the enterprises under study. The questionnaires were based on John Mole’s suggested way for measuring the leadership and organizational culture of a company (Mole, 1996, p.228-233). The results are depicted below.

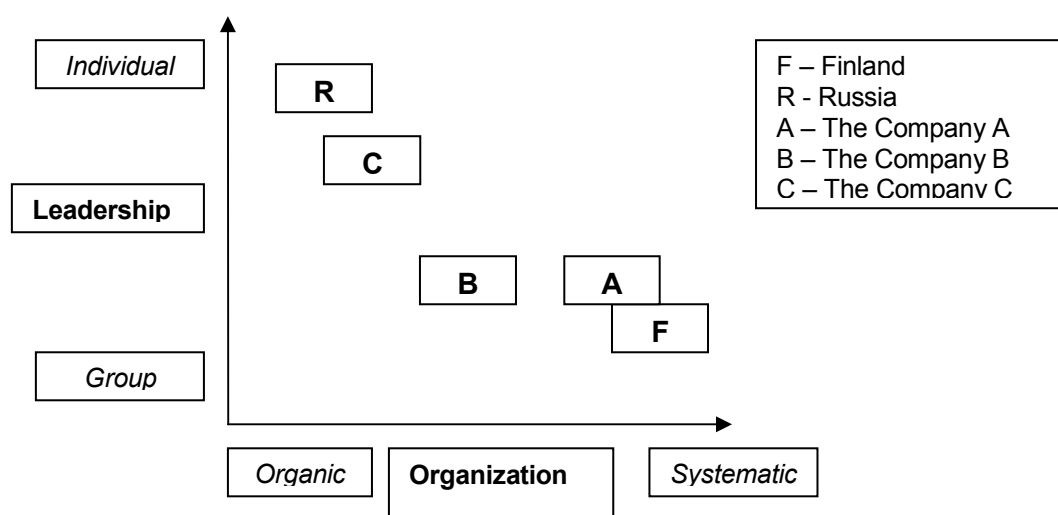


Figure 2. The position of Lithuanian companies in comparison to Finland in the “map”.

The findings show that foreign investments have influence on companies’ attitudes and values, but cannot be considered as the factor changing them one hundred percent. It is evident that despite of belonging to Finnish companies, none of the bakeries has an organizational culture or leadership equal to Finland. They are rather placed far away from one another in terms of organizational culture. As for company C, it is situated far from both bakeries and is close to the business culture practised in Russia, where individualistic leadership and organic corporate culture dominate. To conclude, the first expectation that Lithuanian and Finnish bakeries will show resemblance in terms of organizational culture and leadership is supported only partially.

The assumptions that the companies with foreign investors will tend to be orientated more towards group leadership, while the poultry fabric should prefer individual leadership, were supported by the results of the interviews. The bakeries also stated that meetings and discussions are important in the decision making process, but admitted that the last decision is made by the small group of top level managers, which is also typical for oligarchic Finnish leadership.



The last assumption was rejected. Both larger companies (A and C) were expected to be more systematic and less relationship orientated than Company B. However, the results did not support it, as Company A is systematic and Company C is rather organic, typical in Russia or previously in Soviet times.

There are also some discrepancies between the results attained from the first and the second questionnaires. However, they are not so huge and could be explained by attitudes and values in the companies different according to the task or department.

## **Conclusions**

In this paper, the business culture in Lithuania focusing mainly on organizational culture and leadership was analyzed. Two Lithuanian enterprises and their parent companies from Finland were compared and one Lithuanian company without foreign investors was used as a benchmark. Organizational cultures and leadership styles in both bakeries were expected to resemble those of Finland. Along with that, they were thought to be practicing group leadership more than the poultry fabric. It was anticipated that the bigger enterprises will be more task and less people orientated than Company B.

Pendergast argued that in Central and Eastern European Countries fields warranting rearrangements the most are organization and skills of modern management as well as attitudes, culture, or mentality of local people (Pendergast, 1995, p.223). However, not all of these changes could be observed in the companies under study. The conclusion that could be drawn from these results is that not only “Finland is well positioned to take advantage of the resurgence of the Baltics” (John Mole, 1996, p.122), but also Baltic countries benefit from this monetary support, knowledge gaining, practise, and learning of managerial skills, but at the same time managing to retain their unique style and attitudes and to adopt not all the foreign values. Despite the fact that business culture in Lithuania is still in its formation process, it cannot be changed easily. It could cause troubles if one party wanted to readjust the other according to its own preferences (Dijck, Olie, 1995), as attitudes to business develop from the national culture, which is not easy to repudiate.

In this empirical study bear reformations after the acquisitions were not observed, as both Finnish investors let the local managers reform the organization of the company by their own using mainly trainings and advising as a tool to transfer their knowledge and attitudes to business. The case of Company B showed that management replace does not necessary mean changes in the company’s leadership style. On the other hand, the case of Company C shows that

in big companies without foreign investments styles of leadership and people orientation similar to Russian (or socialistic) ones are common.

There are several limitations in the work. First of all, only the CEOs of the companies were interviewed, which could have influence on the answers to the questionnaires and the whole results. If having a possibility, it would have been better to visit companies and to contact respondents personally. When conducting an empirical study, feeling the atmosphere in the company and seeing the environment and reactions of the interviewees may also give some useful information. One also knows who filled out the questionnaire. One more thing that could be done to improve the paper is increasing the number of companies under study and questioning more employees. To get more precise results and to be able to compare the attitudes and answers, other Finnish companies investing in Lithuania could also be contacted.

Today, not only domestic but also cross-border mergers and acquisitions are an ordinary phenomenon, which causes researchers to argue and analyze the effects of such collaborations on various things, such as retention of the national culture or management styles (Olie, 1995). It can be expected that these discussions together with the new generation of managers will simplify the intercultural communication when doing business. Since there are always more opportunities for people to study abroad and the learning environment is becoming more and more international, it can be expected that the new generation of managers will learn cross cultural communication and will be able to cooperate with people from other cultures in such a way that a common space for doing business is created also maintaining the national values of each side.

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## Appendix 1. Questionnaire for the enterprises<sup>1</sup>

### 1. Organizational structure

How many people are employed in the company?

How many of them are:

- Top level managers
- Middle level managers
- Other employees

How many and what departments are there in the company? How many people does the leader of each department have under him?

2. How did the organizational structure change after the acquisition of Finnish investor (in terms of number of employees, managing personnel, departments)?
3. Evaluation of statements from “very important” to “totally unimportant” or from “suits a lot” to “does not suit at all” (with an option “don’t know”)
  - a. How important are the individuality and personal features of employees?
  - b. Enterprise is a social organism, growing from the needs of its employees and their interpersonal relationship
  - c. The main element of the organization are functions coordinated by well-defined logical relations
  - d. Duties and responsibilities are more important than the person who fulfills them
  - e. The company operates according to the orders of the main power source
  - f. How important is the team work when fulfilling tasks?
  - g. How important are meetings in decision making?
  - h. The last decision is made by the small group of managers
  - i. Leadership in the company is more individual than group-orientated
  - j. Employees are encouraged to express their opinion on different issues
  - k. Employees’ opinion and suggestions are taken into account
  - l. The company is organized to fulfill first of all the needs of individuals, not the group.
4. What changes can you single out in the company’s organizational culture after 1990?
  - a. The company became more orientated towards aim and task, not the employees
  - b. Team work has become more important
  - c. Management has become more centralized (more concentrated)
  - d. Relationship between employees have become more formal
  - e. The competition among employees has increased
5. What changes can you single out in the company’s organizational culture after 2002?
  - a. The company became more orientated towards aim and task, not the employees
  - b. Team work has become more important
  - c. Management has become more centralized (more concentrated)
  - d. Relationship between employees have become more formal
  - e. The competition among employees has increased

<sup>1</sup> Questions 4 and 6 were submitted only to companies A and C, since the company B has not been yet established when the Soviet Union collapsed.

Questions regarding Finland or Acquisitions were not submitted to the Company C.

6. \*How would you describe changes after the collapse of the Soviet Union? How was the company reorganized from plan to market economy? What kind of difficulties occurred?
7. How was the company reorganized after the acquisition? (for example, in term of management and leadership style, new management, trainings, etc)
8. Did any problems or difficulties occur when reorganizing the company according to the wishes of Finns? Did you notice any contrarities between cultures, attitudes towards business? How were they reduced?
9. Please evaluate the importance of each character features of a leader with a number from 1 (totally unimportant) to 7 (very important)
  - a. Charismatic
  - b. Team orientated
  - c. Participative
  - d. Humane
  - e. Autonomous
  - f. Self-protective
10. Please mark, which features describe the leader, preferred by Lithuanians and which of them depict the leader preferred in Finland

Feature	Finns	Lithuanians	Feature	Finns	Lithuanians
Decisive			Team integrator		
Integrity			Humane		
Honesty			Diplomatic		
Performance			Collaborative		
Inspirational			Autonomous		
Non-autocratic			Conflict avoiding		
Visionary			Administrative		
Participative			Self sacrificial		

11. Below you have 4 descriptions of leadership
  - a. Which of them best depicts the management and leadership in your company?
  - b. Which of them best depicts the management and leadership in Finland?
  - c. Which of them best depicts the management and leadership in your company before the acquisition?

L1	Decisions are made immediately and subordinates are informed about them. Employees are expected to be loyal and execute the decisions thoroughly.
L2	Decisions are made immediately, but it is tried to explain things in details to subordinates beforehand. Reasons for the decision are given and questions of employees are answered
L3	Usual consultations with subordinates before making a decision. Execution is expected, regardless of whether it represents the employees' proposal.

L4	Subordinates are involved in the decision making, explaining them the problem and encouraging the discussion. Decision is based on majority opinion
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**Appendix 2.** Questionnaire for measuring the leadership dimension  
(by John Mole, 1996)

The most effective decisions are made by individuals	The most effective decisions are made by teams
Planning is best done by top management	Planning is best done by all concerned
Only top management needs to know the corporate strategy	Everyone should know the corporate strategy
Giving clear instructions is the most important factor in implementing decisions	Getting everyone's agreement is the most important factor in implementing decisions
Decisions are best made by those who have responsibility	Decisions are best made by everyone they affect
Good leaders are born not made	Anyone can become a good leader
Bosses are better keeping a distance from their subordinates	Bosses are better close to the people they manage
The best bosses are tough are decisive	The best bosses are tough are decisive
A boss's primary task is to set clear goals	A boss's primary task is to get the team to agree an goals
Enforcing quality is a specific responsibility	Everyone should be responsible for the quality
Individuals should be rewarded	Teams should be rewarded
Individuals work primarily for themselves	Individuals work primarily for team
Healthy competition between colleagues is more important than teamwork	Teamwork is more important than competition
If I have a problem I go first to my boss	If I have a problem I go to my colleagues
Meetings are mainly for communication	Meetings are mainly for decision making
Meetings should be in the firm control of the chair	Meetings are for everyone to bring up what they want
I always support a majority decision even if I disagree	if I disagree with the decision I will try not to comply
If I want something to be done I see people individually	If I want something to be done I call a meeting of everyone concerned
My main concern at meetings is to put my case	My main concern at meetings is to help the team come to an agreement
Meetings are a time wasting way of getting agreement	Meetings are the best way to get agreement

**Appendix 3.** Questionnaire for measuring the organizational dimension

(by John Mole, 1996)

The best decisions are based on research and analysis	The best decisions are based on judgement and experience
Planning influences what happens tomorrow	Why plan? Future is unpredictable
Getting ahead depends on what you know	Getting ahead depends on who you know
The most important quality of a leader is professional competence	The most important quality of a leader is charisma
Organisation charts describe how the company works	Organisation charts do not reflect the reality of how the company works
To be effective people most need detailed action plans	To be effective people most need freedom to be creative
Errors can always be traced to faulty systems and procedures	Errors can always be traced to people
Tasks should be precisely defined	People should use initiative in carrying out tasks
You get promoted if you perform well	You get promoted if you are the right person
You can be taught the right skills for the job	Either you are suited for a job or you are not
It is vital to stick to procedures	Procedures should be ignored if necessary
Procedures should only be revised after careful analysis	Procedures should be quickly adapted to suit the circumstances
The key to success is managing key figures	The key to success is managing key people
At a meeting the agenda should be strictly adhered to	Participants should not be slaves to agenda
You should keep personalities out of issue	Personalities are a vital factor in any issue
Meetings are wasted unless they have a specific result	Meetings are always useful because they give people a chance to air problems
Most major decisions and agreements are made at meetings	Most major decisions and agreements are made outside meetings in private
Meetings should be run on established procedures	Meetings should be as flexible and free-form as possible
You can usually rely on people to follow up	You have to chase people to follow up
Those with the most powerful arguments win in the end	Those with the most powerful allies win in the end



**Abstract**

*The Council Regulation (EC) on the statute for a European company (SE), No. 2157/2001 (Official Journal of the European Communities, 294, 10.11.2001) initiated appropriate changes in EU countries' legal systems. For many CEE countries, this ground gave the possibility of choosing either the Anglo-American or the German corporate governance model in their corporate practice. The mentioned change in the legal framework confronted the owners of public companies with the question "Should we substitute the existing corporate governance model applied in our company with the variant of the Anglo-American one or should we persist with the old (according to its characteristics mostly German governance) model?". An answer to the posed question is not at all simple. It cannot be generic, meaning that obviously it cannot be the same for all public companies. Therefore, it is worthwhile to identify and analyse the factors that may have influence on the rational choice of the corporate governance model in each company. This is the subject this paper deals with.*

*The chosen topic will be analytically approached by using a comparative critical analysis of the two well-known corporate governance models. An historical method of analysis will also be used to identify the development of the corporate governance function as one of the most important organisational functions. After the definition of the research question, research purpose, and cognitive goals, the overall research method and the structure of the paper is explained. In the second part, the development of the contemporary corporate governance models is described analytically as well as the diversity of views on corporate governance together with the characteristics of the two main corporate governance models are shown. Later, an analysis of the factors that support the choice of the Anglo-American model will be carried out as well as the similar analysis of the supportive factors that are linked with the German model. The stated analysis is the basis for creating a tool for assessing and choosing the right kind of corporate governance model for a public company. Such a tool is offered in the third part of the paper. The conclusion will summarize the analytical findings and suggest the most probable developments of the corporate governance models in the CEE countries' environment.*

## **Development of and contemporary corporate governance models**

### ***Historical development of the corporate governance function***

First enterprises in human history were small economic units that were governed by individual owners. Their efficiency and effectiveness were dependent on the owner's rational decision-making. Enterprises were forced to grow if they wished to achieve a higher economic efficiency. In time, their size became too large to be governed and managed efficiently by just the individual owner. The decision-making process because of its complexity demanded capabilities that surpassed those of an individual. The firm's owner was forced to employ professional leaders who are called managers today and were hired to assist the owner in managing the enterprise (Rozman, p.100). The originally united enterprise governing function was slowly divided in two organisational functions, namely in governance and management. The enterprise's owner kept the competences (rights) for making all those decisions that were important to promote his interests in his hands. Managers took over the management function, meaning the right and obligation to co-ordinate the enterprise's business process in the most efficient way with the purpose to assist the owner in achieving the objectives established by him. Managers became in this way owner's agents (trustees). They were in a specific relation with the owner which was the basis they derived their power for decision-making in the enterprise from. Such a development opened a possibility that managers were not behaving in the way which was preferred by the owner. The problem of how much autonomy the owner should delegate upon his managers increased. Economic theory knows this problem as the agent problem nowadays.

The further economic development drivers demanded such a size of enterprises that for an individual it was not possible anymore to provide all the needed capital for the large enterprise. The solution was pooling capital of more owners together. This innovation changed the governance's function radically. Instead of one owner that holds the governing function alone in his hands, this function was allocated on more owners. The enterprise transformed itself into a partnership organisation and later in companies. The further dispersion of ownership shares in companies resulted in public companies with a much dispersed ownership. These changes contributed to an evolution of the governance function in enterprises. This function does not mean anymore a simple relationship between one owner and his managers. It became a complex set of relationships between many owners and their managers. Because of the complexity of those sets of relationships, they can be established in many different ways. Here we find the ground for erection of many different corporate governing models.

In spite of the (theoretical and practical) possibility that numerous different corporate governance models appear, it is fair to acknowledge that we know two main types of relationships in the field of corporate governance function, namely the Anglo-American and the German (Continental European) model. Each of the two (conceptual) models solves somehow differently the problem of power allocation (power for decision-making), decision-making efficiency, as well as designing corporate governing and managing function in an organisation.

As companies grew further, they became extremely large and complex organisation. The number of the owners of such organisations increased tremendously, too. Because of these developments individual owners were losing their strong impact (power) on decision-making. The owners' dispersed ownership enabled managers to gain additional decision-making power and concentrate power that enables them to neglect the owners' interests in a significant degree while managing the company. It would be wrong not to mention that the developments in the external and internal companies' environment created the growing power of other stakeholder groups in the companies, too. The employees' co-determination phenomenon in Europe very clearly indicates this fact.

### ***Contemporary views on the essence of the corporate governing function***

The theory of corporate governance as we call the phenomenon of governing companies on shares today is not very well developed. Many different interpretations of its essence can be found (Turnbull, p. 181). Shleifer and Vishny define governance as the way in which suppliers of finances assure themselves of getting a return on their investment (Shleifer & Vishny, p. 2). The definition is not comprehensive enough to include many companies' stakeholders. Collin and Cesljas define corporate governance as a system by which companies are directed and controlled (Collin & Cesljas, p. 164). Their definition is very general and not enough precise to describe the phenomenon. It does not emphasise the essential issues linked to solve the conflict of interest between two groups of actors, i.e. owners and managers, and the importance of the solution for efficiency of the company. The corporate governance, defined by OECD (Gregorič and Zajc, p. 263), as a set of mechanisms that regulate mutual relationships between those who dispose with the company's resources and those who actually contribute means, financial and non-financial, seems to be more comprehensive and therefore better.

From the historical point of view, the corporate governing function was developed as an organisational function (generally determined by the individual socio-economic system) that was a source of all power in the enterprise and that from the dynamic aspect represents a process of establishing objectives and business policy as well as making all other important decisions which

take care of the enterprise owners' interest (Lipovec, p. 52). Such a definition clearly suggests that this function not only encompasses socio-economic relationships that are of research interest for economics as a science but also encompasses (internal) organisational relationships that are of research interest for organisational science. All those relationships can be created in many ways. It is difficult to say that they could be formulated in an optimal way. The lawmaker has no possibility to define them as an optimal corporate governance system (Gregorič and Zajc, p. 267). It is clear that the issue of a better or of a worse corporate governance model can only be solved (of course taking into account the existing legal framework) for an individual company.

Corporate governance systems change in time and in individual countries. The corporate governance function did not carry its appropriate role in the developed corporate worlds in the last 30 years (Mac Avoy & Millstein, p. 9). The increasing number of individual owners, increasing share of institutional owners, decreasing power of individual investors, growing role of multinational companies, strategic alliances, networks, virtual organisations and enterprise clusters have contributed to such development. The stories of Enron, World Com, Vivendi, Parmalat and many others vividly show the problem.

Now privatised but previously state (social) owned enterprises in European transitional countries experienced many weaknesses of their corporate governance models too. The state and 'para-state' institutions, private investment funds, and internal owners dominate in many companies, while external investors do not have enough voting power to control the companies (Gregorič, et al., p. 184). The underdeveloped capital markets do not provide a needed inflow of fresh capital into companies nor offers their liquidity level an indirect owners' control over the behaviour of management boards. The management boards mostly do not look for new fresh capital. They prefer to take care for maintaining the existing ownership's structure.

If we may talk about a corporate governance crisis today, then the relevant question is how one can come out of it. The company has strived in its historic development to achieve one basic objective, i.e. namely performing in such a way that its profit and returns for the shareholders will be improved (Mac Avoy & Millstein, p. 11). More recent developments created the belief that also other company's stakeholders should participate in corporate governance together with the owners and control managers' decision-making as well as to take part in making decisions regarding the profit allocation. The Continental Europe accepted this kind of beliefs more enthusiastically as the Anglo-American part of the world. In this regard, we can say that the so called stakeholders' concept linked to corporate governance issue is supported by many reasons and recent developments. Will the exit out of the corporate governance crisis be finally in the implementation of the stakeholders' concept? The answer on this question is not quite clear today.

Many oppose such a prediction by arguing that the Anglo-American part of the world achieves better overall economic results nowadays practicing a different corporate governance model. It could not be completely unbelievable that the corporate governance systems will be more as some kind of the convergence of contemporary known systems in the future.

### ***Two main corporate governance models in the world and their characteristics***

We can find to extreme views on corporate governance systems today (Kuznetsov & Kuznetsov, p. 256). On the one hand, the neoclassical school (in economics) considers that the company's owners (shareholders) are the sole group governing the company. On the other hand, the corporate social responsibility school suggests considering the company not exclusively as an entity that creates value for the shareholders, but as a coalition of primary stakeholders that should satisfy their interests. It means that basically two different conceptual models of corporate governance exist today. These two models can be found under other names as well. Many authors speak about the outsider and insider model of corporate governance. The major supporters for the first model can be found in the USA and UK. The main supporters for the insiders' model can be met in Germany and other parts of Continental Europe as well as in Japan (Gregorič et al., 2000, p. 186). The first model appears also under the name Anglo-American or one tier model, the second one as German or two-tier model.

Both main corporate governance models include governing and management bodies or in other words, sets of relationships between these two organisational functions (Poročilo o upravljanju javnih delniških družb 2006, p. 5). The shareholders' assembly and the board of directors are the governing bodies within the one-tier model. Members of the board of directors are external (i.e. persons that are not employed in the company) and internal ones. Internal members are executive directors – i.e. top managers of the company. The competences and obligations of the board of directors are basically defined by the law in the relevant model, but it is not forbidden by law that the board delegates some of its competences and obligations to executive directors. If a person takes over the role of the chairman of the board of directors at the same time while being chief executive officer, then a very serious question appears whether the board of directors in this case can be still considered as a governing body or whether it is really transformed in the main management board of the company. One-tier corporate governance model does not include any employees' participation in corporate governing function. Conflicts of interests between owners and managers might appear within this model very easily when executive directors concentrate too much power to their hands. The insider model is typical for the UK and USA, but later it was put into practice also in some other European countries (France, Switzerland, Italy, Sweden etc.).

Macedonia introduced this model in its legal framework among the first European transitional countries (Drakuleski, p. 1133).

The basic characteristic of the two-tier model is the stakeholders' assembly and supervisory board as two governing bodies of the company. The law usually defines precisely the competences and obligations of the supervisory board and forbids any transfer of these on management bodies or individual managers. The highest managerial body in this model is a managing board which might consist of one or more managing directors. The supervisory board consists of exclusively external members. The exemption to this rule is representatives of employees which are members of the supervisory boards in large companies. The supervisors are elected by shareholders. The employees' representative/s in the supervisory board is/are elected by employees. The governing and the management function are clearly separated within the two-tier corporate governance model. Some complexity and »multidirectional subordination« arise within the relationships because of the employees' representative/s in the supervisory board. As supervisor/s, he/they are supposed to control managers, but as employee/s, he/ they is/are subordinated to the managers. The two-tier model is applied in Germany, Austria, and the Netherlands. It was built into the legal systems of nearly all European transitional countries (for example Czech Republic, Estonia, Croatia, Latvia, Lithuania, Hungary, Poland, Slovakia, Slovenia) at the beginning of their transition.

### **Analysis of factors influencing the choice of the corporate governance model**

Each one of the two main described corporate governance model has evolved on the ground of specific conditions in the companies' external environment. It could be said that each model is based on a set of assumptions which must be present in its environment. If the assumptions are not realistic, the model will not be efficient as expected. Its use will point out its different weaknesses. Let us therefore analyse both models from these two angles, i.e. their assumptions and potential weaknesses.

#### ***Factors supporting the choice of the one-tier corporate governance model***

The Anglo-American corporate governance model developed from the classical theoretical economic assumptions: The company is governed directly by its owners or indirectly by their chosen representatives. The governance function holds the complete power of the company. The company's purpose is creating a profit. The owners are the sole interest group in the company exposed to the risk of loss; therefore, they are entitled to the whole profit created (after an appropriate tax on profit is paid). Other company's stakeholders do not take over any

risk of loss and therefore they can claim only payments in the accordance with their productive contributions. Their services must be paid according to the contract. Because of this, they cannot require their participation in a profit sharing. These model's assumptions are still valid in spite of the fact that the model has been transformed in the companies with a more and more increasing dispersion of the ownership structure throughout the 20th century, that means a constantly higher integration of corporate governance and management function (Mac Avoy/ Millstein, p. 2).

The board of directors performs a control function in the one-tier corporate governance model, but it makes many (strategic) managerial decisions too. Executive directors that are members of the board hold the management function; at the same time, they are supposed in their role of being the members of the board of directors to control the company's management. The outside members of the board of directors' relationship with the company's owners are much simpler and therefore clear. The inside members of the board' relationships are, on the one hand, with the company's owners which elected them as members of the board, but, on the other hand, their critical relationship with the board of directors as a collegial body which should supervise them in their role of company's managers are established and maintained . These two sets of relationships can be clearly distinguished here. The existence of such sets of relationships potentially offers the possibility that inside members of the board will not behave and act in best interest of the company's owners. The governance function as a process of protecting and promoting the company's owners interest has lost at least partly its efficiency due to that relationship. Managers who are at the same time members of the board of directors might easily transform their relationship of being owners' trustees into a relationship that will not be based on the owners' interest in the forefront.

If the country's legal system allows that the Chief executive officer is a board of directors' chairman at the same time, then the danger that the manager's role of being the owners' trustees will be changed in something completely different is quite real. Such potential deformation in the relationship between owners and managers becomes still more probable if the legal system in a country allows the proxy mechanism to be used by managers regarding decision-making at the shareholders assembly.

The competences of the board of directors in the one-tier corporate governance model are regularly larger if compared with those of the supervisory board in the two-tier model. This fact diminishes a danger for deformations appearing in the relationship between insider members of the board with the company's owners.

The competences of the supervisory board are regularly precisely defined by the law. They encompass the choice of the managing board and the control of the company's financial performance as well as laying of the managing board's members. All other business decisions are in the hands of the company's managers. The top managers might consult with the supervisory board, but it is not obligatory.

The board of directors in the one-tier model holds, besides the competences mentioned for the supervisory board in the two-tier model, the competences to make strategic decisions as a body while operating decisions are expected to be made by executive directors alone. This division of competences between the board of directors and the company's management means a certain security device built in the model that protects the company's owners and that does not enable executive directors to make strategic decisions by them neglecting the interests of the company's owners.

The described relationships between management and both governing bodies within the one-tier corporate governance model leave many possibilities for conflicts of interests to appear between the two most powerful interest groups of the company. The danger of making decisions which are not in the best interests of the company's owners increases if the level of integration of a governing and management function within the board of directors is higher.

Let us analyse the assumptions on which the one-tier corporate governance model is built and its expected potential efficiency!

One –tier model has been developed for:

- a large independent corporation with a dispersed ownership structure,
- a well developed legal system that discourages ownership by banks and other financial organisations and protects small shareholder,
- corporations situated in environments characterised by strong financial markets and small government intervention,
- an environment with the domination of competitive culture,
- the board of directors that is quite independent regarding its shareholders and stakeholders.

The existence of large independent companies with a dispersed ownership structure means that there aren't just a few big groups of companies with a wide network of subsidiaries that are well coordinated by business policies of the parents' centres in the economy and that these companies would certainly diminish the competition. A high level of competition on the market forces



management teams to constantly strive for improvements in business performance and company's growth.

If the dispersed ownership structure is one of the important assumptions for the one-tier governance model introduction, then it is clear that individual shareholder have negligible power. There are no (or there are rarely) shareholders which would have controlling shares in the company's ownership. Therefore, such small owners need legal protection as efficiently as possible. In such environments it is better that the use of proxy mechanisms is not allowed. Each small shareholder must be protected against the making of important decisions that are linked to large changes of the company's status and other radical changes without his needed participation. Comprehensive and honest annual reports of the company's performance to owners are urgently needed. The legal system must offer an efficient way for suing members of the company's board of directors and top managers for their misbehaving and wrong doing. The usage of the »internal information« for providing personal benefits must be qualified in the legal system as one of the greatest »sins« which could be efficiently penalised in the court procedures.

Shareholders have potentially a good indirect control over the behaviour of the company's management if the country has strong capital markets. Shareholders may always express any dissatisfaction with the company's performance by selling their shares on the very liquid capital market and by investing their capital in another venture. If such »runaway« of the shareholders increases the share prices for that particular company will start to diminish. The final outcome will most probably be a firing of the top management of the company. If the capital market(s) is (are) weak (not very liquid) in the country, then an indirect owner's control over the company's management does not exist. It cannot be implemented in this way. Therefore, the shareholders' interests can be much more easily neglected by the management.

The one-tier corporate governance model assumes that government does not intervene strongly with the corporate governance practice. If a government interferes with the company's business decision-making, decisions will most probably be based on different criteria (first of all on political instead of economic ones) as in the case of no such intervention. If investors cannot be sure that the company will follow the objectives and goals that they consider as the right ones, they will not be willing to take over the risk linked to investing in such a company.

The existence of a competitive culture in the environment is an important assumption for the well-functioning of the one-tier model. Competition is a mechanism that motivates managers for making decisions that improve the company's financial performance on the long run. If competitive environment exists, managers have much less room for implementing their own group interests that would not be in accordance with the company's owners interests.

Banks and similar financial organisations are economic entities that should not invest their capital into ownership shares in companies. If they behave otherwise they take over risks that are not typical for financial organisations. Their risk exposition would change radically by doing so. The monetary authority must intervene in such cases. Banks and other similar financial institutions dispose with large capital. If they enter the business firms' market, they are able to change quickly the company's ownership structure. It could be rapidly transformed from a dispersed into a concentrated one. The assumption of a dispersed ownership ceases to be valid. Because of these reasons in numerous countries it is forbidden by law that financial organisations can be shareholders in companies (Collin/Cesljas, p. 163).

Well qualified and very independent outside members of the boards of directors are needed in the one-tier corporate governance model. They must be able to take over competences for directing and controlling the company's performance. They have to take over responsibility for the board decisions in front of company's owners who elected them as well as of other primary stakeholders. The board chairman should ideally have a strong personality and not be an insider. He/she needs an excellent professional expertise that will enable him/her to establish his/her independent attitudes regarding important issues of the company operations and development. He/she must be in a position to provide the board members with the relevant key information. Such a chairman must be able to put together the agendas for board meetings that will focus on company strategic issues and that will force top managers to clarify their intended way of dealing with these issues. The chairman must be able to monitor and supervise the behaviour and activities of the executive directors. All his/her tasks mentioned above will not be carried out appropriately if he/she is not able to dedicate himself/herself on efficient performance of his/her role as a chairman. The logical consequence of all these demands is that the chairman is well remunerated for his/her job. High professionalism, personal reliability, dedication to the task, and ability to establish independent attitudes must be needed traits of all other outside board members too if the one-tier model is expected to function well.

It is clear that one-tier corporate governance model produces more or less good results in practice. It shows even serious weaknesses in many cases. In some cases, it contributes to the assessment that it is completely unsuitable. Then, one starts to talk about the corporate governance crisis.

The one-tier model's weaknesses appear, first of all, because all its assumptions are not fulfilled and therefore it does not function well. Holes in the legal system could be the cause for developing serious deformations in companies' decision-making processes and for appearing damages for shareholders. It is frequently the case that small shareholders are those whose

interests are damaged the most. The Russian experiment with the introduction of one-tier corporate governance model in the beginning of the transition (Kuznetsov/Kuznetsov, p. 249) might be a serious warning that the chosen governance model is not able to produce good results if the assumptions for its efficient functioning are not fulfilled.

The one tier-model is the product of a liberal ideology. As such, it has been less suitable for the environments in European transitional countries in which such an ideology has not been present. Key assumptions for its efficient functioning are still not given in those economies. Their capital markets are still weak and inefficient. Shareholders are not in a position to exit from the company in an easy way. They are still not (especially small ones) efficiently legally protected. There is not a prevailing competitive culture, but some kind of paternalistic one. Exploiting insiders' information is still very much present and not appropriately legally sanctioned. Strong informal links between politicians, top managers, and the largest owners still exist. Banks are still important owners of many companies. Governments like to interfere in business decision-making. Auditing companies do not carry out their obligations regarding the provision of honest and correct information on companies' performance very well. They enable even in rare cases that managers do not disclose the real difficult company's situation. Managers that were active in previous socialist countries still behave in the way which was typical in the old system. They are very slow in their decision-making. Their orientation is on short run instead of on the long run. They are still rather inflexible. They further maintain strong linkages with the local community. The managers' mobility is low and their mutual relationships strong. All these traits are not an appropriate ground for one-tier corporate governance models to function efficiently.

Serious weaknesses in the functioning of the one-tier model in the world can also be perceived because board members do not perform their tasks very well. There are many outside board members that do not allocate enough of their time to their supervisors' role. The board members abilities to assess to the company's environment, analyse comprehensively the company, assess the critical human resource and political issues as well as accounting practices in companies are not all the time up to the level (Mac Avoy/Millstein, p. 3). The board members remuneration is also not in accordance with job demands.

It would be too naive if somebody expected that the legal regulations might produce the efficient functioning of the one-tier corporate governance model. On the contrary, the model is built on the assumption that legal framework enables those who hold the governance function in their hands are as much free as possible in establishing practical solutions for their company's governing and management function. Such a concept opens the possibilities for deformations in the performance of the governing function, too. The large open space for deformations initiated

the erection of different ethical and governing codes. They should diminish the appearances of unwanted behaviour, but they leave an open question about the positive effects such a code might have regardless of the level on which it is established.

***Factors supporting the two-tiers corporate governance model's choice***

The German (two-tiers) governance model is based on different assumptions than the Anglo-American one. Its most important assumptions are the following (Collin/Cesljas, p.167):

- Business group systems dominate in the economy.
- Financial markets are weak in the country.
- A government used to intervene strongly in the economy.
- A rather co-operative or authoritarian culture prevails in the economy.
- Close connections are present between corporations and financial organisations.
- Company's owners are not the sole stakeholder group that takes over the business risk.
- More sizeable »governing apparatus« and wider participation in decision-making do not increase much cost in companies.

The corporate governance function is carried out by two bodies in the two-tier model. The shareholders' assembly is the first one and the supervisory board the second one. The top management body is a managing board. It may consist of just one person or of more managing directors. The employees' participation in company's governance and management is practiced in larger companies. The representatives of employees are members of the supervisory board in larger companies. An employees' director is the member of the top management if the company is large. Members of the supervisory board are elected by the shareholders' assembly (with the exception of the representative/s of the employees in the board). The supervisory board nominates the members of the managing board. Members of the managing board and other top managers cannot be outsiders. The main task of the supervisory board is to nominate and to fire members of the managing board as well as to control the company's financial performance.

The two-tier corporate governance model has very clearly defined the relationship between persons responsible for corporate governance, on the one hand, and persons responsible for managing the company, on the other hand. The governing bodies consider the company's managers as their agents that were selected and authorised to manage the company on behalf of the company's stakeholders. Therefore, the supervisory board expects from the management to behave and act in the best interests of the stakeholders. In a comparison with the classical

relationship between the company's owners and management, the two-tier model includes two main sets of relationships which are based on the existence of two interest groups, i.e. the company's owners on one side and employees on the other side, nowadays. Other interest groups, like for example local community, suppliers, customers etc., are not directly included in the corporate governance within the German model. Their vital interests are how to deal with legal regulations and their own independent decision-making.

The existence of the large business groups in the economy diminishes a competition in a country. In such circumstances, the one-tier governance model does not stimulate the company's management properly to focus on improving the company's financial performance and growth. The integration of the governance and management function in such environments might not produce the expected results. It seems to be a bad solution.

If capital markets are inefficient and weak, then there are fewer opportunities for company's owners to have indirect control over managers. Owners have difficulties in selling their ownership shares in companies if they are not satisfied with the company's management. In such circumstances, a more direct supervisory control of the company's management is needed.

If companies experience a stronger government intervention in business decision-making, then owners need a more direct control over their company's management. It is clear that a government wants to have influence on the company's governance if its ownership share is not negligible. Less clear are all those cases in which the government's influence and control are implemented in an indirect way, in spite of the fact that the government has no stake in the company's ownership. Such influences might be implemented by carrying out its control through organisations like banks and other organisations whose cooperation is important for a company. Let us recall how the French or Italian government behaved recently in the situation of potential take-overs of some of the French or Italian business firms. It is not difficult to find similar examples in our region, too.

If banks and other financial organisations hold larger ownership shares in companies, then they attempt to execute direct control over the company's performance. The supervisory board can carry out such a task more efficiently than the board of directors in which there is a mixture of representatives of owners and management.

G. J. March and M. R. Cyert began to develop a theory of the firm as a coalition of interest groups already far back in the sixties of the previous century by publishing their book *A Behavioural Theory of the Firm* (Mallory, p. 420). These two researchers initiated a new view on an enterprise as an organisation which should be governed by more interest groups and not just

by the company's owner. Here, one might find important roots for the concept of the corporate social responsibility, too.

The Anglo-American corporate government model cannot easily incorporate other interest groups among the company's governors. Therefore, the phenomenon of corporate social responsibility has got fewer supporters in the Anglo-American part of the world than in Europe. In principle, the German model easily enables to include others as potentially eligible for carrying out the corporate governance function besides employees as an interest group. By widening the interest base present in governing, it seems that a company would be more efficiently directed towards paying appropriate attention to its social responsibility.

Is a corporate social responsibility after all a worthwhile concept? Which are the assumptions on which it is based? Could it be included in the mainstream economic theory without ruining it? It seems that such questions have no clear answer. The corporate social responsibility can be connected with the definition of a company which is not part of the classical economic theory. The new definition describes a company as a system of primary stakeholder groups, a complex set of relationships between and among interest groups with different rights, objectives, expectations, and responsibilities (Clarkson, p. 106-107). If a company is understood in such a way, then managers must manage all these sets of relationships and must be responsible for all stakeholder groups.

A company as a system of stakeholder groups and sets of their relationships cannot be focused on just creation of wealth for only one stakeholder group, i.e. shareholders. In this context, the purpose of a company is to create and distribute increased wealth and value to all its primary stakeholder groups without favouring one group at the expense of others. Stakeholders are persons or groups that have, or claim, ownership, rights or interests in a company and its activities of the past, present, or future (Clarkson, p. 106). A primary stakeholder group is one without whose continuing participation the company cannot survive as a concern. The secondary stakeholders influence or affect, or are influenced or affected by, the company, but they are not essential for the company's survival. They are groups or organisations like governments, the inhabitants of the particular geographical region, pressure groups etc.(Finlay, p. 80).

Managers must resolve conflicts between primary stakeholder groups otherwise they will not be able to retain the participation of a particular primary stakeholder group what might result in the company's inability to create and distribute sufficient wealth or value to satisfy one or more primary stakeholder groups. If one or more primary stakeholder groups cease to participate the company cannot survive.

Such a theory of the business firm logically suggests that all primary stakeholder groups are entitled to govern the company. Primary stakeholder groups will take care of many aspects of the corporate social responsibility within this theoretical framework. Therefore, the stakeholder approach to operationalise the corporate social responsibility might have a kind of firm foundation.

The problem is that the validity of the assumptions on which this definition of the business firm is based on has not been proven yet.

The two-tier corporate governance model is inclined to build on the assumption that its interest groups should govern a company. They can assert the appropriate company's social responsibility. The owners are no longer the only risk-takers and investors in the company. Due to a dispersed ownership, they do not take more risk than at least some other stakeholders do. Employees invest in the circumstances of an evolving knowledge society in developing some specific knowledge and/or skills which demands to take over a significant risk that authorises employees to participate in the government of their companies. The existing tendency of the increasing variable component of employees' remuneration, which is apparent, requires risk sharing between owners and employees. In environments in which participation in corporate decision-making is acknowledged as an important value because of different historical and cultural reasons this fact contributes additionally to the preference of the German governance model.

In the majority of the cases, Central European transitional countries chose in their legislation the two-tier governance model at the beginning. Their choices were based on the assessments that the assumptions for the efficient performance of the two-tier model are better fulfilled in those countries as for the one-tier model. It is probably true that the choices were not made primarily because of taking into account the increasing role of employees' knowledge and specialised skills in their surroundings. The stated legal solutions did not necessarily mean a wrong choice. In spite of that, the adopted corporate governance models have not produced very good results in the past years.

The German model (or any of its adaptation), which was introduced in the corporate practice in the transitional countries of the Central Europe, produce also many weaknesses besides acceptable results. Because of the wide dispersion of companies' ownership, managers were able to behave in a way which was frequently not in the best interest of the companies' owners (Kozarzewski, p. 2061). The owners and the employees' control over managers were mostly weak and inefficient. Inexperienced and unqualified supervisors contributed to such results. Supervisory boards were in the majority of cases quite passive and not able to perform their

role. Legal regulations were too modest which contributed to »expropriations« of small shareholders by big ones (Pavlik, p. 114). The Czech case in this regard is well known. Governors were inclined to look for short-range instead of long-range benefits. Owners were in the majority of cases not willing (or able) to invest »fresh« capital in their companies. Perceived weaknesses were identified in intertwining the management and ownership functions in companies which enabled managers (if they were among the bigger owners), because of holes in the legal regulations, to use insider information, proxy mechanisms for their best interests and the low level of familiarity with the corporate control changes and their effects on the side of other internal and external owners.

The implemented corporate governance model enabled the companies' management to develop a paternalistic relationship towards its employees taking into account, first of all, the need for maintaining working posts at least on the short-run. Governments contributed to such managerial behaviour by enacting legal regulations that favoured keeping the employment and by reducing lenders risks. The protection of the owners' share in the increased company's profit was not the first priority. The implemented corporate governance model supported the managerial behaviour directed to satisfy the needs of all interest groups, i.e. in accordance with the paradigm of the company as a coalition of interest groups. Companies' owner's interests were not as important.

Distributive methods of the privatisation of previously state (social) enterprises could be a factor that made any neglect of the owners' interests relatively »acceptable and justified«. All these facts contributed to slower changes of organisational cultures than they would be experienced if one-tier corporate governance model had been implemented.

### ***A tool for assessing and choosing a suitable corporate governance model***

Changes which are going on in the transitional part of Europe initiate reconsiderations about the corporate governance models that would be the most suitable for companies. The companies' ownership concentration process is present. Bigger business groups are evolving. The level of companies' independency is becoming lower. Governments are withdrawing (for the matter of fact too slowly) from the circle of companies' owners. Relevant legal regulations are improving. Individual European countries are introducing in their legal systems also the possibilities for companies to choose between the one-tier or two-tier corporate governance model. The efficiency of the court system is expected to be improved. There are signals that



capital markets will slowly improve their performance in the transitional countries. Banks do not seem to intend their fast withdrawal from the circle of companies' owners, but such a process is somehow present. It will take quite a time to be completed. Potential and existing supervisors are improving their professional knowledge and skills. They are taking their governing role and its responsibility slowly more seriously. The structure of economic activities are changing not very quickly as in the first decade of transition, but slowly in the directions of strengthening high-tech and knowledge-based industries. National cultures are not unchangeable, but the attitudes towards the role of competition and remuneration of managers are just slightly transforming. It is difficult to perceive that individuals would be willing to take over bigger risk. Personal linkages and familiarities between bigger companies' owners, managerial and political elites are and will be a very strong factor of companies' financial performance.

All stated changes and inertia force companies to reconsider which corporate governance model should be applied in the company in the future. The question that is open today is: »Should we substitute our two-tier with the one-tier corporate governance model? «

The answer on the posed question might be given taking into account what is written in this article and by assessing the following determinants of the corporate governance model choice:

- What is the company's independency level in the economy?
- How well is the relevant capital market developed?
- How well is the legal framework developed and how efficiently can eventual conflict of interests among stakeholders be settled by using legal way?
- To what degree does government interfere with the business decision making?
- Is the level of rivalry in company's external environment high enough to force top managers to focus on increasing the company's growth and financial performance?
- Have banks and other financial organisations significant influence on corporate governance function?
- Has the broad and narrow environment of a company a positive attitude towards competition as a way of solving economic problems?
- What are the professional qualities, independency and efficiency of external company's auditing in the country?
- How easy is it to find highly qualified and well experienced persons that are able to build an independent position regarding their relationships towards different stakeholder groups and that are willing to dedicate needed time and energy to perform their tasks well for the outside members of the managing boards?

If the answers on the above stated questions are adequate (i.e. in the accordance with the thesis suggested in this article), then the choice of the one-tier corporate governance model for the particular company might be a correct one. On the other hand, if we do assess that:

- The company operates in the industry in which a few business groups dominate and where typical oligopoly behaviour prevails.
- The capital markets are weak.
- The legal framework is poorly developed and the efficiency of the legal enforcement is unsatisfied.
- The government's intervention into business decision-making is apparent.
- The banks and other financial organisations are still important owners of companies.
- The paternalistic culture and participation in decision-making as an important value are strongly present.
- The company is situated in the high-tech or knowledge based industry.
- A shortage of well qualified persons for the positions of supervisors in companies' managing boards exists,

the conclusion should be that it is better to keep a two-tier corporate governance model in that particular company and try to improve its performance.

The whole assessment procedure for choosing the right kind of the corporate governance model for a particular company might be carried out by using the tool described by the Table 1. A team should assesses how well the individual assumptions (i.e. the assessment criteria in the Table 1) for the analysed governance model are fulfilled by assigning appropriate number of points to each criterion and by assessing the importance (weight) of each of the criteria.

Assessment criterion	Point Assessment	Weight	Weighted Points
1. Company's degree of Independency	4	0.10	0.40
2. Capital market's efficiency	2	0.15	0.30
3. Level of legal regulations	2	0.10	0.20
4. Government intervention	3	0.10	0.30
5. Banks as important owners	2	0.10	0.20
6. Attitude to competitiveness	2	0.10	0.20
7. Importance of individuals' knowledge	2	0.15	0.30
8. Access to skilful supervisors	2	0.20	0.40
9. Total			2.20

Remark: Scale for the point assessment: 1 point = very low (very bad)

2 points = low (bad)

3 points = medium

4 points = high (good)

5 points = very high (very good)

Table 1. Tool for assessing and choosing the right kind of the corporate governance model for a company

If the suitability of the one-tier governance model was assessed in Table 1, then the sum of weighted points (i.e. 2.20 which is less than average score) suggests that the two-tier model is more appropriate in these circumstances.

## Conclusion

The corporate governance models provoke reconsideration everywhere today. The dissatisfaction with the corporate governance practice forces to search for better solutions. There is no doubt about that better models can be developed. But it would be wrong to expect that one corporate governance model might be the most suitable for all environments. Historical, cultural, and economic as well as political factors are different in each country and even in individual industries. Their characteristics determine the most suitable governance model. Of course, different governance models have many common characteristics which are a basis for their classification.

Nowadays, the one-tier corporate governance model might seem to be more efficient in many cases. If the importance of the employees' knowledge grows in the future, it might require looking for a convergent governance model instead of the two-tier one. Employees might join owners as holders of the right to govern companies. Other primary and secondary stakeholder groups will not be able to change radically their recent role regarding a company's governance in foreseeable future, too. They will be able to protect their interests good enough by taking

part in the political processes that result in legal regulations of business firms operations. Of course, they will try to implement their interests in other ways too. Different ethical codes of behaviour are already in use in this regard and mean one way of influencing the companies' behaviour. The question is how efficient they will be.

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**Market Entry of German Small and Medium Business in  
Russia: Challenges and Strategies**

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**Abstract**

*An important part of the Russian-German relations is performed with German firms entering the Russian market and representing a considerable share of foreign goods on it. Their presence on the Russian market causes interaction with economic, technological, political, legal, social, cultural, and ecological factors. This interaction generates a number of problems constituting certain difficulties of mutual perception of different cultures. The economic benefits of the international cooperation, nevertheless, compel to overcome these difficulties.*

*The question arises, how it can be possible for an average German SME to internationalise further its business through entering and operating successfully in the Russian market? For a firm's correct foreign market orientation, it is necessary to consider certain features inherent to this market. Then, it is possible to position the goods on the market correctly.*

*Entering the Russian market is frequently associated with huge risks caused by uncertainty which occurs due to the extensiveness of the market, its heterogeneity, and certain features of Russian mentality. On the other hand, the 145-million population of multinational Russia gives magnificent prospects for selling German products.*

*With regards to this prerequisite, obstacles which German firms face when functioning in Russia represent an interesting problem for research.*

*This paper consists of four parts. After defining theoretical playground in the first part, the research browses the reported existing state of Russian-German mutual perception of both citizens of the two countries and managers of cooperating firms. Then, an evaluation of the Russian market is carried out by means of a computable model as well as expert interviewing. As a gist of the matter, a strategy for German SMEs eager to enter the Russian market is finally presented.*

## Understanding cross-cultural terms

Image is a term in market and advertising psychology that can be defined as the basis of attitudes existing in consumers' minds towards a certain product, service or an idea. Image is formed with stereotypes that frequently define it (*Hadeler, Arentzen, 2000*).

Stereotype can be put as a schematic, standardized image or idea about a social phenomenon or an object, usually emotionally coloured and possessing stability. It expresses the habitual attitude of a person to any phenomenon developed under influence of social conditions and previous experience. In psychology, stereotype has the meaning of the way mental activity and attitudes lead to fixed orientations that, in turn, often conduct to emergence of prejudices, stable points of view, and simplified estimation of people or things (*Reinhold, 2000*).

Stereotypes are strong conceptions that stay constant for a long time, are hardly changeable under the influence of new ideas, are in most cases positively or negatively estimated, and are emotionally coloured opinions about people and their groups, events or subjects in the world. When stereotypes are formed, only few attributes of the corresponding state of affairs are considered (*Fuchs-Heinritz, Lautmann, Rammstedt, Wienold, 1995*).

These categories are of great importance in terms of a new market entrance. Be they good or bad, they define substantially the way managers brought up in different cultural contexts percept the events happening during co-working with their foreign colleagues.

In his book "Lokales Denken, Globales Handeln", Geert Hofstede states that today cultural accidents happen because "people on the Earth became too fertile and too clever on a limited territory. The only chance to survive is to become even cleverer in order to compensate negative consequences of our own superiority". This demands joint efforts in those directions where people belonging to various cultures adhere rather different than identical opinions. To use this premise, intercultural cooperation plays the basic role for surviving during international business cooperation (*Hofstede, 2001*).

Considering this problem through the prism of relations between companies, the necessity of international and intercultural cooperation seems to be even more significant because if refusing cooperations, firms will have to face the challenges of entering the new market alone. On the other hand, when cooperating with their foreign trustworthy partners, enterprises have an opportunity to share to a certain extent the burden of these challenges. However, cultural distinctions cause various perception of dividing this burden what finally leads to disputes over the fairness of this division. That is where the basic challenge of intercultural interaction lies. A firm ready to cooperation should by all means understand the advantages that it gets when interacting with its partner. In this case the burden will not look unfair.



Projecting it on business relations between German firms entering the Russian market and their prospective partners in Russia, it is possible to conclude that even if a company estimates the market of another country as of low importance and high risks, the company can still get advantage of it in a long-term prospect, in case the market corresponds to strategic priorities of the enterprise. If answering the challenge of intercultural cooperation at an early stage, problems of business interaction between representatives of the economies of two countries can already be solved with much smaller expenses and losses, rather than at their occurrence later when there are no alternatives to cooperation.

### **Russian-German mutual attitudes**

To understand Russian-German mutual attitudes, the Friedrich Ebert Foundation carried out a research with the following results. An overwhelming majority of Russians (68,1%) has positive feelings towards Germany. Among Russians who know the German language (12%), visited Germany (9,2%) or have relatives and friends there (15,1%), the image of Germany is more positive. An overall positive evaluation of Germany, its economic achievements, high level of organization, and cultural heritage as well as interest in business partnership with its business entities amplifies in the process of growth of the Russian educational level. Representatives of different professional groups pay attention to what is closer to them. The importance of cooperation between the two countries is stressed most of all by businessmen and students (32,8% and 31,5% of all interviewed respectively), and the German contribution to World's science and culture was emphasised by humanitarians and intellectuals (41,5%). Most of the Russians observe Germany on the whole positively and are optimistically adjusted to prospects of cooperation with it. For Russians, Germany is a symbol of welfare, stability, and order. Russians admit economic and political weight to Germany in the modern world and in Europe and a corresponding recognition of Germany as one of the most perspective partners for Russia. Sceptical spirit of Russian attitudes to business interaction with Germany is closely connected with estimations that Europe is interested exclusively in Russia's natural resources (*Institut für komplexe Gesellschaftsstudien der Russischen Akademie der Wissenschaft, Friedrich Ebert Stiftung, 2002*).

Difficulties of the Russian-German cooperation consist in putting together various business cultures. If these obstacles are not eliminated, losses for both parties do come. According to Rothlauf, the most frequent reasons of conflicts arising during cooperation of Russian and German managers are:

- different working style;

- different rules of interpersonal contacts;
- different moral and ethical views;
- different conceptions of authority and submission;
- different understanding of time.

Various concepts of working style and moral and ethical views act as a serious challenge to successful cooperation. Views regarding the distance from an authority and the attitudes towards time as well as these to solidarity are of great importance.

The two lists below show the principal causes of conflicts about which interviewed managers had spoken.

#### Reasons of conflicts from the point of view of German managers

- Arguments of Russian managers are focused on rather insignificant details while urgent problems are discussed too late.
- Discussions and negotiations have no precise structure and are characterized as philosophical conversations and chatter.
- Alternatives are seldom discussed and developed systematically.
- Russian managers express their current positions seldom and address mainly vague arguments on the basis of general moral values.
- Various consequences of possible alternatives are not considered.
- Important decisions are constantly postponed or transferred “upwards”.
- Decision-making requires a lot of time.
- Cost and efficiency of the decisions made are almost not considered.
- Decisions remain very theorized, vague, and abstract and do not seem to be obligatory.
- Conflicts are not analyzed and often stay ignored.
- Readiness for compromise among Russian managers is very insignificant.
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#### Reasons of conflicts from the point of view of Russian managers

- The discontent of German managers with rather heavy conditions of life in Russia influences their behaviour with their Russian colleagues and employees negatively.

- German managers are not ready to adapt to the conditions in Russia and thus their coherence with the hosting party and partner business entity is very insignificant.
- Specific circumstances of the hosting party are perceived very superficially and are insufficiently considered at decision-making.
- Russian managers are treated not as equal partners, but only as “patient workers”.
- Qualifications and abilities of Russian managers are underestimated and are not used to full extent.
- German managers possess a materialistic point of view focused on profit.
- German managers use western techniques of management and prefer to act rationally mismatching with that dynamical changes in Russia.
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The main characteristics of Russians and Germans given from the opposite side are so that Russians appear to be emotional, hospitable, inclined to accumulate capital, tend to use well adjusted connections, and possess an extensive experience of enrichment. Germans are well-known for being cold and prudent, pragmatic, smart and practical in business, preferring to work individually, and possessing insufficient knowledge of other languages and markets (*Rothlauf, 1999*).

The most successful cooperation is only possible between countries with approximately identical level of social and economic development. Hence, it is necessary for Russia to aspire to raise and simultaneously to create an image of a country with favourable conditions for any kinds of commercial activity.

It is obvious that the problem of different mentalities of Russians and Germans plays a vivid role when carrying out common projects, starting to do business together or simply communicating after closing a deal. So, it is no surprise that the issue that should be taken into account in the current paper is the perception of certain factors on the Russian market by German SMEs. To find out how Germans see doing business in Russia and how high they evaluate it, an estimation of the attitudes of German SMEs is performed in this research.

### **Evaluation of the Russian market with German firms**

For the purpose of estimating the attitudes of German SMEs towards the Russian market in general it is necessary to find out their opinions about certain external factors. With the help of a questionnaire it is possible to perform a thorough examination of the perception of externals by German firms. All factors can be divided into several categories concerning the market in

general, its subjects (producers, competitors, consumers), instruments (e.g. in the field of marketing), and the market environment (economy, politics, law, society, technology, and nature). The answers for each group of factors will be analysed.

It is possible to take advantage of the Fishbein formula developed in 1967. Fishbein assumed that there is a certain functional dependence between the individual's perception of any object and its cognitive estimation. This dependence can be put as follows:

with  $A_{ij}$  – attitude of person (i) to object (j);

$B_{ijk}$  – probability that object (j) possesses attribute (k) through the perception of person (i);

$a_{ijk}$  – estimation of attribute (k) of object (j) by person (i);

n – quantity of significant attributes.

Position (A) in relation to object (j) is the sum of significant visions about the value of properties of an object. A cognitive component is added by means of a question of how significant it is for the person that the object possesses the attribute given. This component is designated (a) and is calculated for each feature. The weight (a) explains the relative importance of each property in the system of values of a person. It is necessary to keep in mind that criteria can compensate each other (*Meffert, 2000*).

By means of this model, it is possible to investigate not only the consumers' perception of certain goods but also the companies' perceptions of the market situation surrounding them. Then,  $A_{ij}$  is a position of company (i) in relation to market (j);  $B_{ijk}$  is the probability of that in the perception of company (i) market (j) possesses attribute (k);  $a_{ijk}$  is an estimation of attribute (k) of market (j) by company (i); n is the number of significant attributes.

After completing the questionnaire, one can find out the disposition of this or that enterprises relate to their business environment. For instance, it will be possible to state that the attitudes of x% of all SMEs fall into the interval of  $(y_1; y_2)$ . It is also possible to find out how companies evaluate a certain factor.

The questionnaire itself is divided into two parts. The first one consists of certain statements regarding probability which the respondent has to evaluate. The probability varies from "1" (small probability) to "5" (huge probability). There are 14 statements in the questionnaire. The second part of the questionnaire contains of 14 questions that have a direct correlation to the statements in the first part. Answering the questions concerning the company, the respondent defines the status of each criterion. The importance varies between "-2" (very bad) and "2" (very good). Thus, the highest mark the Russian market could gain in this research was 140 according

to the formula. The lowest was -140. The diagram below portrays how high 27 German firms evaluated the Russian market.

All marks lie in the interval between 20 and 87. No values below zero were reported. In the latter case, it would have been unprofitable to make a decision for a market entrance. Still, most of the companies reported marks between 40 and 60.

Of all the firms answered, the majority estimated probability of the market in Russia is developed as “average” or “below average”. However, many of them are also sure that the Russian market grows and is still insufficiently saturated with products. By all means, from the point of view of the firms coming from Germany, a country with a traditional market economy, the Russian market can hardly be named developed, especially in comparison with their own. But it is necessary to notice their confidence in Russia’s market being at the growth phase what in complex with its poor saturation opens magnificent prospects for doing business in Russia.

Opinions of German companies about interaction efficiency with Russian suppliers (if applicable) split. 50% reported that probability of interaction efficiency with suppliers was above average and 50% named it to be below average. Possibly, it denotes specificity of activity fields of the various companies or the lack of answers received. Ambiguous were also the answers to questions on success of interaction with intermediaries as well as those about the clients’ purchasing power. To reveal the influence of these factors onto the activity of German firms on the Russian market, it is necessary to carry out more detailed research in particular focused to receive extended answers to questions from respondents.

Much easier from the technical point of view was the analysis of the answers to questions about the influence of external macroeconomic factors. 30% of the German companies estimate the probability that climatic conditions in Russia are favourable, as average. The highest estimation here was given only with the 10% of respondents. At the same time, 45,5% estimate the probability of the Russian market infrastructure development as below average. So it is possible to state that a set of two factors – climatic conditions and insufficient development of infrastructure – can become a serious obstacle for doing business in Russia.

Russian customs and traditions are estimated neither positive nor negative. But the majority of respondents are also dissatisfied with the development of sciences and technologies, just like with political and legal conditions. The image of Russia as a generally instable country also causes discontent. However, discontent with the backwardness of the Russian sciences and technologies means that for a successful interaction with representatives of foreign economies in the future it is necessary to promote the development of sciences in Russia in every possible way.

The same concerns technological equipment of Russian economy. It is especially important for a country with a traditionally developed military-industrial complex.

Social factors like customs and traditions appear to be a problem as well. Unfortunately, they can be a subject to influence only in a long-term period. The problem of cross-cultural competence is not new. Interaction between two cultures can only be effective when favourable conditions are created. Otherwise, adverse external factors can create various disagreements all the time.

Within the framework of the research, an expert interviewing for a detailed insight into German perception of the Russian market was carried out. Conversations with German companies' representatives that opened affiliates in Russia were organized. The purpose of these conversations was to find out what obstacles German enterprises face on the Russian market, what stereotypes about our market emerge in the minds of foreign companies' representatives, and what attractive points about the Russian market German firms name.

According to expert opinions, the basic obstacle for foreign companies is an imperfect legislation which in complex with a rather extensive bureaucratic institution network not only seriously complicates activities of foreigners on the Russian market but sometimes simply limits their access to it.

For instance, German companies suffer from a long registration lasting up to 12 months. Obviously it is not possible to start doing business and carrying out investments until this process is over and consequently to work effectively in the new market. In this connection, one more problem that has to be named is product certifying. Russia uses standards, different from the European ones, so that German companies have to waste time for additional product testing in order to gain Russian certificates.

These obstacles to some extent frighten foreign enterprises, among them German companies; however, benefits from international cooperation force to search a solution in the current situation. But even despite of all these barriers, experts state that in the whole they acquired positive stereotypes about the Russian market. Experts highly estimate the Russian educational system giving skilled staff for their enterprises. They also mention that many Russian enterprises, despite of all Russian specificity do their best to carry out activities according to the western sample. Among one of the basic distinctive features of the Russian market, experts named openness of Russians with regard to interpersonal communication. This correlates with socio-cultural researches carried out both in Russia and in Germany. Experts also point out that they were pleased to find out that Russians are ready to work overtime for the sake of prompt completion of tasks in view.

Experts express confidence that relations between Russia and Germany will develop successfully in the further and are happy with an output of their companies on the Russian market.

### **Strategy for German SMEs in Russia**

The growth of the Russian economy and the establishing of a relatively predictable (even if not entirely democratic) political framework and legal environment led to an increase of attractiveness of the Russian market in international business. Its growth is especially interesting within the background of the stalled growth in Western Europe, slow recovery in the USA, and still the struggling of the recovery of the Japanese economy. These developments attract not only MNCs and big corporations but also Western Small and Medium Size Enterprises (SMEs). For many of the latter in general and particularly for SMEs in Germany the Russian economic growth might represent an interesting opportunity for geographic diversification of business. However, for them it is a challenging task to enter and start with successful business operations as long as, unlike big corporations or Multinational Corporations (MNCs), their abilities for market entry are limited by hard constraints such as scarcity of financial, human and temporal resources.

Thus, a successful strategy for Western SMEs entering the Russian market should start with better knowledge and awareness of the opportunities and specifics in Russia as well as with the avoidance of common misconceptions about its business environment and market potential. Such a successful entry strategy should be an effort that is concentrated, focused, precise, fast and target oriented.

A strategy to enter and operate on the Russian market does not immediately start with exploring the local market itself but rather with a clarification of what and why the product/service on offer is competitive. Right after this self assessment would come the initiative to check if the product/service that is to be offered can be positioned within the limits of the Russian local quality expectations, price levels, safety standards etc. At this preliminary point, a rough estimate than a precise evaluation may be sufficient. It may prove further explorations and preparation worthless and thus prevent time, efforts, and money being wasted.

Following this internal logic, a market and/or industry analysis is initially performed to provide the information needed for a sound decision-making. Only after the principal decisions are made, a strategy is prepared and put on a virtual test through simulation. If all looks reasonable the strategy is further developed into an action plan. Even though such an approach may look “too academic”, it does not necessarily consume a lot of time and is flexible enough to be modified according to a company’s particular needs.

The first is the definition of the objectives and the expectations. That is by far the most important point to be clearly spelled. A typical mistake is to state that the objective is to “generate some business”. The business objective must be defined as clearly and precise as possible. For example, it could be to gain a 15% share of the Nizhny Novgorod market within two years or to generate €100 000 EUR sales within the first year. In the same token, the expectations are defining the outcome a SME would expect of the company’s investments of efforts, time, and money. A well done market or an industry analysis will be sufficient to provide the key figures and facts that will help to establish a reasonable and realistic horizon for the expectations and the business objective.

The Russian business environment is experiencing something that could be characterized as early maturation. Therefore, it becomes increasingly possible to plan and execute a market entry in an organized and target oriented fashion. The study to which this paper addresses to attempts to demonstrate that entering the Russian market is not a ”mission impossible” enterprise for Western SMEs provided that they have a better understanding of market specifics and thoroughly prepared market intelligence and entry strategy.

The stable environment and growing demand for products and services in Russia certainly offer immense opportunities for Western SMEs. Provided that the latter would have the skills and the abilities to build a feasible entry strategy and navigate within the specifics of the Russian business landscape.

In terms of business environment and general publicity, the Western media not exactly pampers Russia. The image the media world continues to project is that of a lawless country with a lot of poor people, corrupt officials, chaotic economy, and recently added, suspicious democracy. In many Western countries, doing business in Russia is contemplated rather as an adventure than as a normal occupation.

The first obstacle for doing successful business in Russia is rooted precisely in that negative attitude. Russia is a market as any other market in the world that basically functions as a market economy with its specificities and particularities as anywhere else (and especially in emerging markets). In many respects, Western businessmen still think of Russia and its economy in terms of the beginning or the middle of the 1990s.

One of the most important changes is that the once upon a time valid argument that unpredictability and turbulence make great demands upon firms entering the market (*Johanson, Johanson, 1999*) is not valid anymore. That will suggest that in the recent Russian business environment it is possible to prepare, plan, and operate in a relatively stable and to some extent predictable over mid-term environment.



The political, economic, and social developments in Russia are much more dynamic than in the West and things change much faster. The times when Russian businessmen had a non-existent knowledge of basic business practices and concepts are gone. And that is why one of the worst mistakes a Western businessman could make is to base their actions on the assumption of possessing superior knowledge also known as the “*know it all*” attitude. In fact, it is quite the opposite - Russia is far from Western style market economy and contains an immense number of local specifics. The latter are of the type that Western businessmen usually do not know or often refuse to learn and understand. So, it is the Russian businessmen that are better prepared and have better knowledge about business and thus being in a more favourable position in the process of business negotiations. That may be changed provided that the Western businessmen make some preliminary preparations and knowledge gathering – a fact that strongly underlines the importance of partner-country-specific knowledge in the case of Russia (*Meyer, Skak, 2002*). It is often said that in Russia (and not only) it is personal contacts that matter in doing business. That is correct and many Western businessmen do not plan business in Russia because of the absence of such contacts. It is not a reason not to start but rather a good suggestion for how and where to start. A network of personal contacts could be and is developed gradually. The process of learning about the market and the key players in it provides the best opportunity for the creation of a network of personal contacts.

It is true that business connections in Russia mean a lot. That should be added to the earlier popular nostrums that every firm needs a local partner (*Borell, 2002*). The ideal partner is described as legitimate and as one who would have the necessary network and relationships to be invaluable in solving “Russian” problems and smoothing the road (*Wade, 2002*). On the other hand, in the search for a partner companies with criminal links might quite often be contacted (*Bush, 2002*).

It is of course good to find reliable and good partners in Russia but it never was and is not the ultimate condition for success. In addition, it is not that easy as expert level knowledge must be possessed in order to evaluate properly a potential partner. For instance, while size may not really be of importance, age certainly matters as younger companies tend to have a better performance (*Liuhto, 2001*). Finding the partner might be the only solution for very small companies that do not have even the minimal resources needed to learn about the market, to establish their own presence, and to start with their business. But for all others, finding a partner is not an ultimate must.

Researching and learning something about the market, building a feasible entry strategy, hiring knowledgeable professionals, and giving them concrete objectives and targets is much more

likely to bring the expected results. By finding the right people in Russia to help, there are many opportunities for foreign investor (*Coleman & Beaulieu, 1999*). The ability and the will to learn, to be flexible, and to adjust and manage Russian personnel might be a much better option than finding a Russian partner.

## **Conclusion**

There is a good potential in modern Russian-German political and economic relations. However, improvements can be introduced. Russia and Germany can apply further mutual efforts for a more effective utilization of available resources that will contribute not only to a qualitative and quantitative improvement of bilateral cooperation, but also to the creation of a united European economic space.

Of great importance here is the mutual perception of German and Russian partners that can perform both a connecting and separating function. Image and stereotypes define a huge part of mutual perception when doing business together and it is not only for business entities to work on improving company's image but also for the state to create stereotypes that raise positive emotions in the minds of foreigners.

People of both Russia and Germany and among them businessmen understand that cooperation is crucial for success, thus, there are no alternatives to seeking ways to minimize the losses of misunderstanding. Currently, German enterprises tend not to evaluate highly the Russian market. Although the marks are positive, they could be better if Russians and Germans understood each other better both in terms of customs and traditions and business circumstances.

A successful strategy for a foreign company in Russia rests upon precise marketing combined with innovative products and excellent quality under reasonable prices as well as customer treatment with additional information on usage of the goods and services. Also a company aspiring to enter the Russian market ought to possess a clear insight into the Russian specifics and external factors determining business activities. Clear understanding of final goals to be reached by the end of the day is not less crucial for success.

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