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POWER DISTANCE AND UNCERTAINTY AVOIDANCE AS FACTORS OF COMPETITIVENESS OF COMPANIES IN AP VOJVODINA*

Distanca moći i izbegavanje neizvesnosti kao faktori konkurentnosti preduzeća u AP Vojvodini

Abstract

This paper aims to show how the dimensions of organizational culture (power distance and uncertainty avoidance) affect competitiveness of medium-sized companies in the recessionary environment in the region of a transitional economy on its way to EU accession. Our research was based on the assessment of differences in attitudes of both managers and non-managers in two groups of companies operating with private capital of foreign and domestic origin in AP Vojvodina with regard to each element of these dimensions of culture. Analysis of indicators of liquidity and profitability was performed using ratio analysis. The assumption in this research is that medium-sized companies that operate with private capital of foreign origin in AP Vojvodina are characterized by lower power distance and less uncertainty avoidance in comparison to companies that operate with private capital of domestic origin. Therefore, those dimensions of culture make their businesses more liquid and more profitable. When it comes to uncertainty avoidance, contrary to the expectations, the managers of the first group of companies have shown a higher degree of uncertainty avoidance in comparison to the managers of the second group of companies. This can be explained by the fact that the operations of this group have been exposed not only to the contraction of external demand, but also to the need to respond by planning to the environment which is not regulated to the same extent as is the case in the country of origin of the capital.

Key words: *organizational culture, FDI as a means of transposing cultural patterns, competitiveness, medium-sized companies*

Sažetak

Cilj ovog rada je da ukaže kako dimenzije organizacione kulture (distanca moći i izbegavanje neizvesnosti) utiču na konkurentnost preduzeća srednje veličine u regionu jedne tranzicione ekonomije na njenom putu ka EU i u kontekstu poslovanja u recesionim uslovima. Testirane su razlike u stavovima menadžera i zaposlenih dve grupe preduzeća srednje veličine koja posluju u AP Vojvodini, sa privatnim kapitalom stranog odnosno domaćeg porekla, u odnosu na svaku od stavki koja indikuje pomenute dimenzije kulture. Analiza indikatora likvidnosti i profitabilnosti urađena je korišćenjem racio analize. Pretpostavka u istraživanju na osnovu koga je nastao ovaj rad je da se preduzeća srednje veličine koja posluju sa privatnim kapitalom stranog porekla u AP Vojvodini odlikuju nižom distancom moći i manjim stepenom izbegavanja neizvesnosti u odnosu na preduzeća koja posluju sa privatnim kapitalom domaćeg porekla. Niža distanca moći i niži stepen izbegavanja neizvesnosti čine poslovanje kompanija koja posluju sa privatnim kapitalom stranog porekla likvidnijim i profitabilnijim. Kada je u pitanju odnos prema neizvesnosti, menadžeri grupe preduzeća koja posluju sa privatnim kapitalom stranog porekla (prva grupa preduzeća) su pokazali viši stepen izbegavanja neizvesnosti u odnosu na menadžere preduzeća koja posluju sa privatnim kapitalom domaćeg porekla (druga grupe preduzeća), što je protivno očekivanjima. Dobiveni nalaz se objašnjava činjenicom da su menadžeri prve grupe preduzeća bili više izloženi kontrakcijama eksterne tražnje, ali i da imaju potrebu da na ambijent koji nije uređen u meri u kojoj su uređene zemlje porekla kapitala reaguju planiranjem.

Ključne reči: *organizaciona kultura, SDI kao metod prenošenja kulturnih obrazaca, konkurentnost, preduzeća srednje veličine*

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Introductory remarks

The aim of this paper is to explain the nature of the impact of power distance and attitude to uncertainty as dimensions of organizational culture on the competitiveness of medium-sized companies operating with private capital of foreign and domestic origin in AP Vojvodina.

The theoretical and methodological basis of this research is the work of *Hofstede* [29], who developed a model that identifies cultural dimensions such as power distance, uncertainty avoidance, collectivism versus individualism, and feminine versus masculine dimensions of culture. The reason for the choice of *Hofstede's* model lies in the fact that, in 1971, the former Yugoslavia was also included in his series of research conducted from 1967 to 1973, encompassing more than 116,000 participants from more than 72 countries.

In their paper "HRM Trends in Transition Economies", *Janićijević* and *Bogićević-Milkić* found that the national culture of Serbia changed the least relative to the original research of *Hofstede* due to a very slow process of transition toward a market economy [9, p. 173]. As this research was conducted only in AP Vojvodina, the initial assumption was that the values that *Hofstede* got for Serbia in 1993 were valid for AP Vojvodina so that obtained results were interpreted and compared in relation to the cultural dimensions index of Serbia, which *Hofstede* got for Serbia.

According to *Hofstede*, culture is the so-called "software of the mind, the collective programming of the mind which distinguishes the members of one group or category of people from another" [31, p. 4]. Although the term culture is usually associated with a nation-state, *Hofstede* is of the opinion that the term culture can be used for any human collective: organization, profession, age group, family, etc. This opinion is shared by many other authors [28], [30]. When it comes to the research of national cultures, *Hofstede* points out that they differ in values, whereas in the study of organizational culture we rather talk about the differences in practice [30, p. 312]. Different levels of observation of both national and organizational culture produce the different styles of managing these cultures. In fact, while a value system is more difficult to change, changing the rules in companies can lead to easier and faster changes in the behaviour of employees, and therefore, to more efficient business operations.

Hofstede himself indicates that the terms organizational culture and corporate culture are synonymous, highlighting the importance of the works "Corporate Cultures" by *Deal* and *Kennedy* and "In Search of Excellence" by *Peters* and *Waterman* in which the concept of corporate culture is elaborated.

In this research, *Hofstede's* model of culture was applied to the level of organizations or more precisely to two groups of medium-sized companies operating with private capital of foreign and domestic origin in AP Vojvodina in 2010. With the aim of providing more comprehensive understanding and interpretation of dimension indices of organizational culture, the research included both managers and employees.

This research looks into two dimensions of organizational culture (power distance and uncertainty avoidance) for the purpose of revealing their impact on maintaining long-run competitiveness of the observed companies, based on the fact that these two dimensions of culture are determining factors of the efficiency of FDI in culturally divergent countries. In this research, FDI is used as a means of transposing cultural patterns.

Many authors agree that the issue of competitiveness has not been situated at an adequate analytical level. Namely, the competitiveness of nations and regions has most often been approached, although neither nations nor regions compete in the world market, but companies [49, p. 189].

The competitiveness of countries in transition, which the Republic of Serbia belongs to, is rarely covered in the literature. However, in recent years a greater number of researchers have been dealing with the ways of improving the receptivity of these countries to FDI, and the ability to manage the costs of cultural distance caused by the inflow of investment into these countries from culturally divergent countries [37], [42], [43], [60].

From 2001 to 2009, total net foreign direct investment (FDI) in Serbia amounted to almost EUR 11 billion, of which EUR 4.8 billion were in AP Vojvodina. Investors from the European Union have the highest percentage share in the total number of investors in AP Vojvodina and accordingly, we could talk about the convergence of dimensions of Serbian national culture to culture dimensions of the EU countries. Thus, in this period, Italy participates with 17% in FDI in AP Vojvodina (with power distance of 50 and uncertainty avoidance of 72), Belgium with 12% (PDI of 65 and UAI of 94), Germany with 12% (PDI of 35 and UAI of 65) and France with 10% (PDI of 68 and UAI of 86). For the sake of comparison, according to *Hofestede's* research, Serbia is a country which has higher values of power distance index and uncertainty avoidance index compared to all the aforementioned countries (PDI of 86 and UAI of 92).

Although in the literature there is no concept of a "European model of culture" in terms of precisely defined dimensions, each of these investor countries could be said to belong to the group of Western countries whose dimensions of culture diverge from the dimensions of culture of transition economies. *Eriksen* states that "there are systematic differences between Western and Eastern European countries with regard to *Hofstede's* dimensions of culture. Countries in the former group tend to be more egalitarian, more individualistic, more long-term oriented, and more tolerant of uncertainty than countries in the latter" [22, p. 342].

To better understand the purpose of this research and its conclusions, it is important to clarify the content of power distance and uncertainty avoidance as dimensions of culture, the way in which the concept of competitiveness is understood in this research, as well as the ways in which certain dimensions of culture influence certain processes of management in companies and, consequently, their micro-competitiveness.

Power distance, as defined by *Hofstede*, is the dimension that refers to "the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally" [29, p. 46].

While *Hofstede* defines uncertainty avoidance as "the extent to which the members of a culture feel threatened by ambiguous or unknown situations," this feeling is, "among other things, expressed through nervous stress and in a need for predictability: a need for written and unwritten rules" [29, p. 187].

Authors observed organizational culture as a factor in strengthening the performance and competitiveness of companies and accordingly pointed to the characteristics of organizational culture that contribute to gaining and maintaining micro-competitiveness [18], [29], [39]. From the very beginning of the writing on organizational culture to this day, it is possible to distinguish three phases of the research on the influence of culture on the performance of organizations: the research phase which lasted until 1982 (*Peters* and *Waterman*) when those companies with "strong" organizational culture were considered successful, followed by the period 1982-1990 (*Kotter* and *Hesket, Denison*), and finally the period after 1990, when *Denison* and *Mishra* defined the dimensions of organizational culture that affect the long-term competitiveness of companies.

Denison observed the dimensions such as involvement, consistency, adaptability, and mission, indicating that involvement and consistency related to the processes within the company, whereas the dimensions of adaptability and mission were connected to relations of a company within the environment. Involvement corresponds to *Hofsede's* dimension of power distance, while adaptability and mission are similar to *Hofstede's* dimension of attitude to uncertainty. Although there has been a great deal of research on the relationship between organizational culture and effectiveness, there is still no general theory of organizational culture and effectiveness of companies [3], [18], [48], [56].

According to the aforementioned, it is possible to set a hypothesis that national culture determines the organizational culture of companies, thus making organizational culture of companies a factor of their competitiveness. Based on the previous theoretical and research analyses, in this research we start from the hypothesis that companies which have lower power distance and lesser uncertainty aversion are more competitive compared to those characterised by an organizational culture whose dimensions are divergent from the above-mentioned. Considering the indices of the analysed dimensions of culture provided for the investor countries in AP Vojvodina, we may assume that accordingly the first group of companies observed in AP Vojvodina (companies operating with private capital of foreign origin) should be more competitive than the second group of companies (those operating with private capital of domestic origin).

The next section of the paper contains a review of the relevant literature, research methodology, analyses of the obtained research results and, accordingly, conclusions and recommendations for future research in the field of organizational culture and organizational performance.

Literature review

The fact is that a very small number of privatized companies in transition economies managed to restructure and improve their competitiveness without the support of strategic investors [19], [34], [40], [46]. In the opinion of many authors, the lack of organizational transformation, as well as changes in the organizational culture of privatized companies, is one of the main reasons why transition economies are not able to be competitive at the global level [16], [35], [47].

The primary motive of capital owners in transition economies is "survival" rather than "growth" of companies and that is the major difference from entrepreneurs in developed market economies [54]. *Sachs* and *Who* [52] believe that there is a need for further research on the ways to stimulate companies' growth in a post-transition environment.

Scase [55] found the explanation for the dominance of motive for "ownership of the business" over the motive for the "entrepreneurial behaviour" in the experience of state socialism – after ownership transformation and transition process people have a strong need for personal autonomy as opposed to the authoritarian style used during the centrally planned economy. Apart from the need to avoid the pressure of authoritarianism, small and medium-sized companies were found to "avoid uncertainty" [1] brought by some situations, such as being spun off from public companies in the process of privatization and restructuring.

The fact is that there are few studies that specifically deal with the study of the organizational culture of small and medium-sized companies [15]. Small and medium-sized companies differ from the large ones in terms of more flexibility, a lower level of bureaucracy, a lesser degree of rigidity in decision-making, and faster response to both chances and threats from the environment [13], [41].

Power distance affects management styles, organizational structure of companies, and the process of change management. There are many authors who pointed to a strong correlation of power distance with the mentioned management functions in the process of gaining and maintaining competitive advantages.[1]

When it comes to the growth of small and medium-sized companies, authors and researchers increasingly point to management styles that have the highest similarity with entrepreneurial behaviour [53, p. 47]. *Kanter* [36] suggests that there is a strong correlation between a participative management style and entrepreneurial behaviour as opposed to a traditional autocratic management style.

The dimension of uncertainty avoidance affects the relationship with changes, the strategic management process, as well as planning and control systems. The authors who have considered certain management functions as the variables dependent on the value of the uncertainty aversion index are *Castells* [14], *Francesco* and *Gold* [23] *Harzing* and *Hofstede* [27], *Kotter* and *Schlesinger* [38]. *Berry* [6] believes that the lack of strategic planning does not only affect the inability of small and medium-sized companies to realize their full growth potential, but also their survival which due to "myopia" and lack of a long-term vision can be endangered [6, p. 455]. Strategic planning is a competitiveness factor of small and medium-sized companies. Researchers point to a positive correlation between strategic planning and the growth of the rate of return, employment rate, and sales rate of medium-sized companies that have strategic development plans [11], [8], [12], [25]. The role of planning is especially pronounced in recessionary conditions.

A systematic study of organizational culture in Serbian companies dates back to the end of the 1990s of the last century, to be continued in the period after 2000. In this period, domestic authors (e.g. *Janićijević*, *Mojić*, *Bogićević*) started to introduce the concept of organizational culture into their research practice, to critically analyse its scope and to look for the ways of improving it. Authors mostly use *Hofstede's* findings and research as theoretical

1 See [2], [4], [7], [26], [29], [45], [56], [57].

and methodological basis for their studies. Since, in this study, we deal with organizational culture as a factor of competitiveness of medium-sized companies in AP Vojvodina, a finding by *Janićijević* and *Bogićević-Milikić* is important. He states that the centralization of the decision-making process in companies operating in the Republic of Serbia, as well as aversion to delegating authority and responsibility, represents an obstacle to the growth of medium-sized companies [33, p. 178].

Data and analysis

This research used a methodology of the Statistical Office of the Republic of Serbia, which is based on the classification of legal entities by the number of employees and where medium-sized companies are the companies that employ 50 to 249 employees. The performance of medium-sized companies in AP Vojvodina was observed from 2007 to 2010.

Two sets of indicators for the two groups of medium-sized companies are considered: qualitative and quantitative ones. Quantitative indicators refer to indicators of competitiveness of companies and are obtained by analyzing their final accounts, whereas the qualitative ones are related to attitudes of the employees and management in the two groups of companies in AP Vojvodina. The survey covered 90 managers and 445 employees from two groups of medium companies operating in AP Vojvodina with private capital of foreign and domestic origin.

The main objective of the research of medium-sized companies in AP Vojvodina based on final accounts from 2007 to 2010 is to calculate the indicators of their profitability and liquidity. In 2008, final accounts were submitted by a total of 23,391 companies, of which 22,148 were small, 999 were medium-sized, and 244 were large. There were 134 medium-sized companies with foreign capital.

Measurement of attitudes of the managers and non-managers from two groups of companies in AP Vojvodina was performed on a sample determined as follows. The target groups of the research were: (a) managers of companies in top positions and (b) employees in different jobs. The research was conducted in two phases, as follows: in the first phase of the research, the basic set consisted of 134 medium-sized companies with a share of foreign capital in the ownership structure (according to final accounts submitted in 2008) operating in the territory of AP Vojvodina. The survey was conducted in 44 companies.

In the second phase of the research, the managers and employees of companies operating with private capital of domestic origin in AP Vojvodina were interviewed. The main set in this case consisted of 865 companies. A set of 120 companies was created (which was 14 % from the basic set). The survey was conducted in 46 companies operating with the share of foreign capital in the ownership structure.

The questionnaire used in this research was taken from *Hofstede's* study of national cultures and adjusted to the needs of this research [29, p. 467].

Results and discussion

A decisive role in the determination of the ways of investing in a country as well as the success of this investment is played especially by two dimensions of national cultures of the recipient countries, such as power distance and uncertainty avoidance [29, p. 447].

High-power distance societies are characterized by low interpersonal trust and highly expressed information asymmetry resulting in high transaction costs.

As the Serbian culture is characterized by high power distance and high uncertainty avoidance, this research provides an overview of FDI realized in AP Vojvodina from 2001 to 2009, as well as an overview of countries whose investment constituted more than 10% of the total investment in the region in this period. When foreign investment is observed from the sector's perspective, an interesting finding is that in the reporting period FDI was placed in the non-tradable sector in AP Vojvodina in a greater amount (56.69%) compared to the 43.31% placed in the tradable sector [60, p. 136]. Investment in non-tradable sector also indicates the existence of cultural distance as a type of transaction cost that still puts investment off in the tradable sector.

Power distance and uncertainty avoidance

Countries with low uncertainty avoidance are open to innovation and at the macroeconomic level they are characterized by high investment in research and development (in Serbia, investment in research and development amounted to 0.5% of GDP in 2010, which is far from the target set by the Europe 2020 strategy where this type of investment should be at the level of 3 % of GDP).

Managers of the two groups of companies were asked about the characteristics of business and questions of demographic character. Upon testing the differences in attitudes of the two groups of managers, a conclusion on the specifics of each group of respondents was reached. Since the research occurred in 2010, among others, questions were formed in such a way to obtain estimates of managers of the degree and ways of the impact of the economic crisis on companies they managed. Thus, the managers of the first group of companies in the majority of cases (43.2%) compared to 28.9% of the managers of the second group of companies, declared that the global economic crisis would "decisively" effect on reducing demand for goods and services in external markets. This demonstrates their strategic export orientation and ability to meet more sophisticated external demand.

Innovation is a key factor for long-term competitiveness. Thus, from this aspect it important to understand the differences in attitudes of managers of the two groups of middle-sized companies that operate with private capital of foreign or domestic origin, to confirm or refuse the presumption that companies doing business with private capital of foreign origin have a lower degree of uncertainty aversion and consequently a higher degree of openness to change and innovation (compared to companies that do business with private capital of domestic origin). The findings are interesting because they indicate the existence of statistically significant differences in the frequency distribution of responses to the question "Does your company cooperate with a scientific research institution to improve its production?" between managers of the two groups of companies. The percentage of the managers of the first group of companies (70.5%), i.e. medium-sized companies operating with the private capital of foreign origin in AP Vojvodina, responded that they did not cooperate with scientific research institutions to improve their production compared to 54.3% of the managers of the second group of companies, i.e. medium-sized companies operating with the private capital of domestic origin in AP Vojvodina. Considering the nature of FDI in the Republic of Serbia and AP Vojvodina, the responses of the managers of the first group of companies are understandable, given that the Republic of Serbia has been in the stage of resource- and efficiency-driven competitiveness since 2000 until the present day, which attracts market-seeking and efficiency seeking investments, rather than the investors who would bring new technologies to the Serbian market. Although this was the case, research in this field was usually located in branch offices or countries of origin of the capital.

Power distance

In this research, the formula used in *Hofstede's* research was used to calculate the power distance index for the managers and employees in the two groups of companies in AP Vojvodina. PDI = 135 – 25x (the arithmetic mean of the questions concerning fear of employees to express their disagreement with the views of managers) + (% of current management's grade 1+2) – (% of preferred management 3).

The same formula was used in the research of leadership styles of managers in Serbia by *D. Mojić* and, based on that, he calculated power distance indices of managers and employees of Serbian companies [44, p. 99].

Based on the above formula, *Hofstede* calculated the power distance index for the former Yugoslavia (76). Yugoslavia was placed in the cluster of countries with high power distance. After the breakup of Yugoslavia in 1993, *Hofstede* calculated the indices of dimensions of culture for Serbia, Slovenia, and Croatia and he got the power distance index of 86 for Serbia. In 2003, *Mojić* calculated the power distance index for managers in Serbia and got a value of 83 [45, p. 100], which is higher than *Hofstede's* index for the former Yugoslavia (76) and slightly lower than *Hofstede's* index for Serbia in 1993 (86).

Observing the power distance index that *Hofstede* got for Serbia in 1993 (86) and compared with *Mojić's* findings (83), it can be concluded that the power distance index for Serbia showed a tendency to fall over time. The decline continues when these values are compared with the results we obtained in this research.

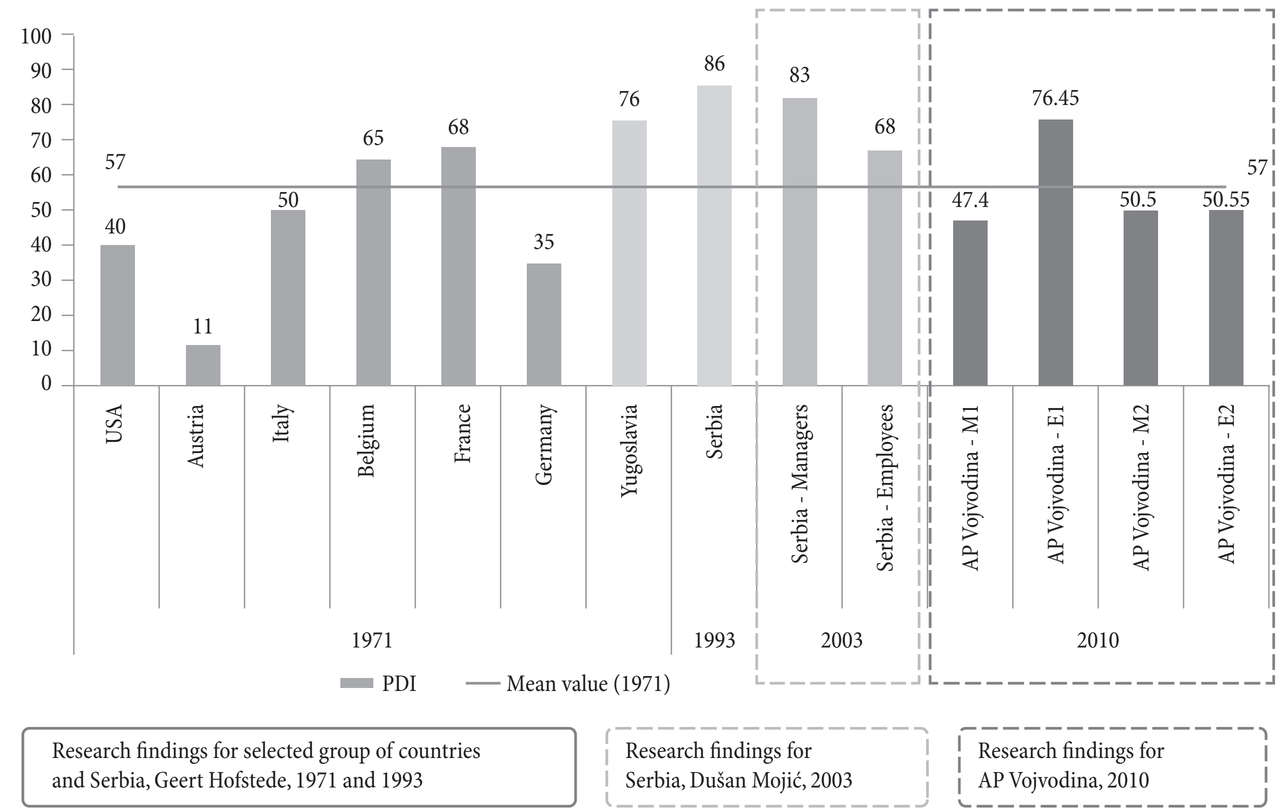
The power distance index is slightly lower (47.4) for managers employed in companies that do business with private capital of foreign origin in AP Vojvodina, compared to the same index for managers employed in companies that do business with private capital of domestic origin (50.5). Contrary to expectations, the power distance index for the employees in the first group of companies in AP Vojvodina is higher (76.45) than the power distance index of the employees in the second group of companies (50.5).

Since there are different subcultures in every company, both managerial and non-managerial subcultures were observed in this research. Our assumption was that the process of selection of employees in companies operating with private capital of foreign origin in AP Vojvodina is directed toward finding candidates who will fit into the dominant culture of the organization, even if such candidates are atypical representatives of their own cultures. In accordance with this, it can be expected that the employees in the first group of companies in AP Vojvodina show lower power distance compared to the employees of the second group of companies.

A finding indicating higher power distance of employees of the first group compared to the second group of companies is contrary to expectations. Because the employees of the first group of companies showed the presence of higher power distance to a greater extent than the employees of the second group of companies, it is quite logical that they perceived their managers as autocrats to a greater extent than the employees of the second group of companies. This finding suggests that the management of companies operating with private capital of foreign origin in AP Vojvodina still cannot be based on a consultative management style for which the local workforce is not ready yet.

The reason of high power distance index for the employees of the first group of companies can be explained by the fact that the local workforce, even when working in organizations with low power distance culture, is still prone to the values immanent in high-power distance culture in which they grew up and socialized, which emphasizes the need for choosing and applying a management style that is appropriate, understandable, and congruent with the local culture.

Figure 1: Values of PDI for the Republic of Serbia, AP Vojvodina, and countries whose FDI in AP Vojvodina is over 50% from 2001 to 2009



Managers who come from countries with low power distance to the countries and organizations with high power distance automatically apply a consultative management style, which is counterproductive because members of high-power distance cultures expect to be ordered and explained in detail what to do, and they think that if their bosses consult them, they are certainly incompetent.

Seven years since *Mojić's* study was done (2003), a survey of managers and employees in companies in AP Vojvodina shows that the managers of both groups of companies have lower power distance index in comparison to the employees (see Figure 1). Comparative research in this area indicates that there is a downward trend in power distance index in the countries of Central and Eastern Europe, especially in the managerial subculture [50, p. 98]. In the context of this trend observed in a cluster of Eastern European countries, the findings of this research should be understood as well. With power distance index values obtained in this research, one should consider the fact that the sample consists of medium-sized companies and that their size and a small number of hierarchical levels is one of the reasons that may explain the values of the obtained indices.

Uncertainty avoidance

The dimension "uncertainty avoidance" is indicated in this study by responses to the questions related to stress, job stability, and tolerance toward breaking company rules. *Hofstede* got the uncertainty avoidance index of 88 for the former Yugoslavia, and later after the breakup of the former Yugoslavia, in 1993, he calculated this index for the Republic of Serbia (92) [29, p. 501]. In his research of leadership styles of managers in Serbia, *D. Mojić* calculated the uncertainty avoidance index of 93 for managers [44, p. 100], which is not only higher than the score of 88 that *Hofstede* got for the former Yugoslavia (1971), but also higher than the score got by the same author for the Republic of Serbia (92). *Mojić* used *Hofstede's* formula to calculate this index, which is as follows: UAI = 300 – 30 (the arithmetic mean of responses to the question of violation of company rules) – (percentage of those who responded they would remain in the company less than five years) – 40 (the arithmetic mean of responses to the question about stress). The same formula was used in our research.

As obtained results in our research show, the employees in companies with foreign ownership exhibit lower degree of uncertainty avoidance (63.3) in comparison to the employees of companies that do business with private capital of domestic origin (70.2) in AP Vojvodina. The mere fact that a person got a job in a company that operates with private capital of foreign origin in AP Vojvodina and not through strong social networks (close connections) in a company operating with private capital of domestic origin indicates a lower degree of uncertainty avoidance.

Furthermore, in conditions of crisis, managers are more exposed to situations where the existing rules do not apply and where one must act quickly, which means breaking the existing rules if the situation indicates that it is in favour of the company. The fact is that managers have the possibility to change the rules and they were forced to it by doing business in recessionary conditions. Contrary to expectations, the managers of the first group of companies showed a higher degree of uncertainty avoidance (88) compared to the managers of the second group of companies (77.9), which can be explained by doing business in the context of recession. In any case, the recession led to an increase in the uncertainty index around the world, not only because of the increased stress level, but also because of the need to implement packages of anti-crisis measures at the international level and regulate business operations in the post-recession period. New mindset must respect new geopolitical and regulatory trends as "current Serbia's economic model is impotent and unsustainable. This model was based on services, consumption, import and credits. The new model requires new set of priorities: real economy, investments, exports and savings" [21, p. 326]. *Đuričin* and *Vuksanović* also point out that the productivity of national economy arises as a consequence of combined influence of domestic companies and foreign investors, but they conclude that "domestic business elite cannot be substituted with foreign technocrats" [21, p. 326].

In this context, the increased level of uncertainty avoidance with the managers of the first group of companies should be understood since the companies they managed mainly focused on meeting external demand, which was in contraction in the observed period.

"The stress level of the managers of the first group of companies was higher because they had to lead and organize their business activities in a country which was not institutionally regulated then, as were countries investing in AP Vojvodina. They were doing business with capital originating from countries which to a large extent determine the mechanisms of administrative control as a way of reducing the uncertainty, and the results should be interpreted in that context" [5, p. 309].

In fact, when it comes to uncertainty avoidance, a seemingly paradoxical situation should be considered and that is that companies under conditions of uncertainty "defend" themselves by adopting new business rules, redefining the organizational vision and mission, which in the post-recession period (and in normal circumstances) is a task that is expected of managers. In this sense, one should also understand a higher degree of uncertainty avoidance from the managers of the first group of companies in AP Vojvodina compared to the managers of the second group of companies. As for the managers of the second group of companies and their greater tolerance for "violation of rules", observed as an indicator of lower degree of uncertainty avoidance in this study, it should be mentioned here that during the 1990s the entrepreneurial culture and entrepreneurial ethics in the Republic of Serbia evolved in conditions of the "gray economy", which does not only have negative effects when it comes to the possibility of levying taxes and filling the budget, but also when it comes to blocking the formation of entrepreneurial ethics in the Republic of Serbia.

Furthermore, "in lasting business operations in the gray economy, people learn to 'wheel and deal' and do not learn modern entrepreneurial activities, they learn to be 'resourceful' in prevaricating regulations, but do not learn how to be business creative" [10, p. 173]. Such creativity was reflected, among other things, in business activities where a high tolerance for the non-performance of business duties was considered the normal behaviour.

Recessionary business conditions obviously affect the higher value of this index even in countries whose cultures are characterized by low uncertainty avoidance index. The global economic crisis was called the "confidence crisis". Therefore, an important element of any exit strategy from the crisis is dealing with the ways to restore confidence: "A society will, in fact, be more capable of organizational innovation, as a high degree of confidence enables the existence of a wide diversity of social relationships. However, people who do not trust each other will cooperate with each other only under the system of formal rules and regulations" [24, p. 37].

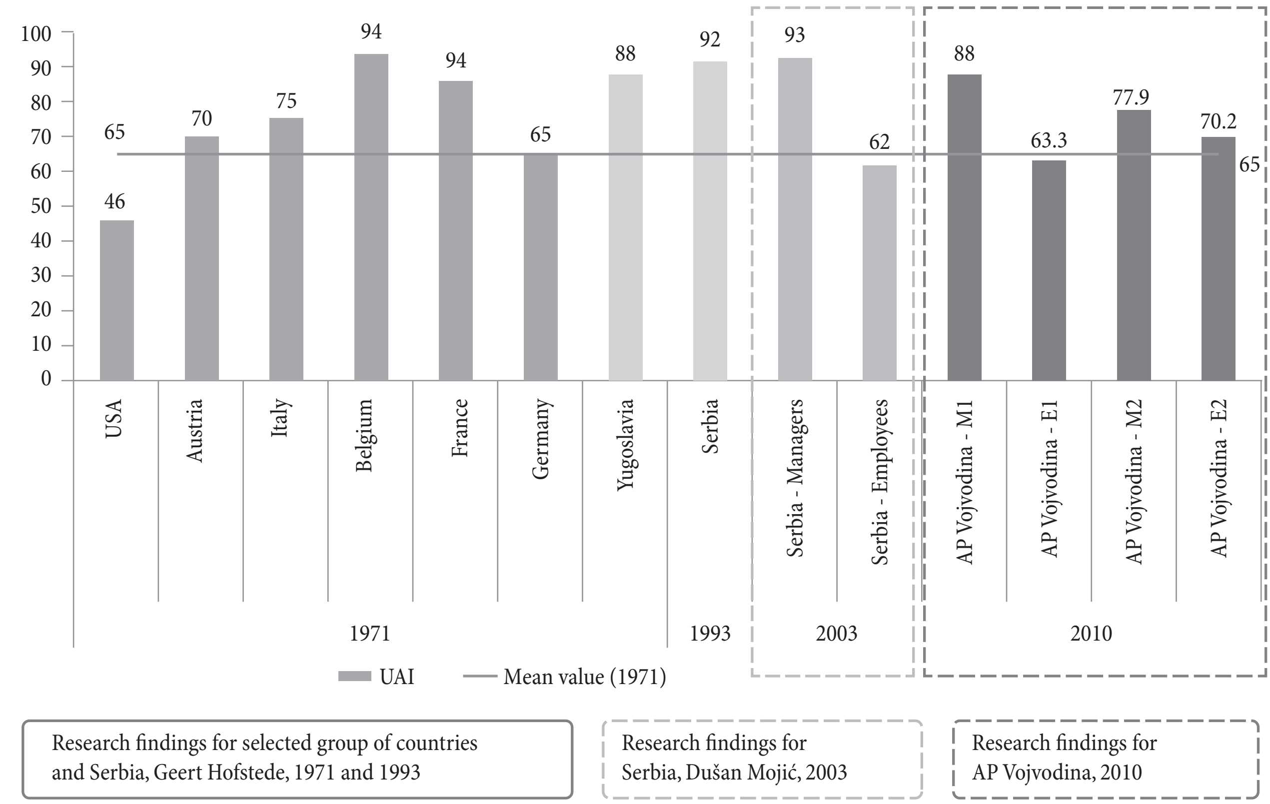
According to *Đuričin* and *Vuksanović* "reindustrialization could solve the crisis of confidence, enabling Serbia to return to industrial economy development model. It largely depends on the statesmen, not politicians, and their readiness to first and foremost consider the economic consequences of the political decisions, giving priority to the return on investments over the return of voters" [20, p. 308].

Observing the movement of the uncertainty avoidance index over time (see Figure 2), a drop is noticed from 92 (as calculated by *Hofstede* for Serbia in 1993) and 93 (as *Mojić* got for the Republic of Serbia in 2003) to 88 as shown by the results of this study for the managers of the first group of companies in Vojvodina, and 77.9 for the managers of the second group of companies in AP Vojvodina. Concerning employees, the comparison is only possible in relation to *Mojić's* research in 2003 when he got 62 for the uncertainty avoidance index for employees. In our study, 63.3 is the uncertainty avoidance index for the employees of the first group of companies, while the index for the employees of the second group of companies is higher at 70.2, thus showing an increase compared to *Mojić's* index.

Competitiveness indicators of companies in AP Vojvodina, 2007-2010

Since the recessionary environment is mentioned when analyzing the indicators of competitiveness of companies in AP Vojvodina, it is necessary to briefly point out the characteristics of this environment. A recession is defined as a period of decline in gross domestic product (GDP) for two or more consecutive quarters. Emerging from recession can be discussed when GDP growth is realized in a single

Figure 2: Values of UAI for Serbia, AP Vojvodina, and countries whose FDI in AP Vojvodina is over 50% from 2001 to 2009



quarter. In the first quarter of 2010, the Republic of Serbia statistically emerged from recession. In the first quarter of 2010, the Republic of Serbia had an increase in GDP amounting to 1%, which was the first increase in GDP after the fall in four consecutive quarters. Accordingly, it can be concluded that the Republic of Serbia emerged from recession in the first quarter of 2010.

Rates of return on total assets are commonly used as global indicators of profitability. To determine these rates, balance sheet and profit and loss account data are used with the following formula: Rate of return on total assets = Net profit / Total assets; Net profit (ADP 229 from the profit and loss account); Total assets (ADP 024 or ADP 122 from the balance sheet) .

Quick ratio is obtained by the formula: Short-term receivables + Investments + Cash (ADP 015) / short-term liabilities (ADP 114 for balance sheets for 2007 and ADP 116 for 2008, 2009, and 2010). The indicator of relatively satisfactory liquidity is 1:1 ratio for liquid assets and short-term liabilities. However, since the operations in the recessionary environment affect the extension of the collection of receivables, vigilance is required when unreservedly classifying receivables to liquid assets, which can lead to an unrealistic picture of the liquidity of the company. However, when the liquidity of the economy or economic branches is analyzed, then it can be assumed that upward and downward deviations from the average cancel each other out, which allows the quick ratio in the amount of 1 to be accepted as a standard of a satisfactory liquidity. The analysis of the financial structure and profitability of medium-sized companies in AP Vojvodina was done from 2007 to 2010. The sample consisted of medium-sized companies with private capital of foreign or domestic origin in AP Vojvodina (their number is presented in Table 1).

Expectations were that companies doing business with private capital of foreign origin would be more successful and more profitable than companies that do business with private capital of domestic origin in AP Vojvodina in recessionary conditions. Expectations were based on assumptions that companies doing business with private capital of foreign origin have an organizational culture that in recessionary conditions makes them more competitive than companies operating with private capital of domestic origin. Indicators of financial structure and

Table 1: Indicators of financial structure and profitability for medium-sized companies operating with private capital of foreign origin (first group of companies) and companies operating with private capital of domestic origin (second group of companies) in AP Vojvodina from 2007 to 2010

Year	2007		2008		2009		2010	
Origin of private capital:	domestic	foreign	domestic	foreign	domestic	foreign	domestic	foreign
Number of companies	514	102	538	119	480	118	437	105
Quick ratio	0.61	0.73	0.65	0.54	0.66	0.66	0.71	0.73
Rate of return on total assets	6.0	5.6	4.8	2.8	3.6	2.2	3.9	4.9

profitability of both groups of companies in the observed period are listed in Table 1.

Medium-sized companies operating with private capital of foreign origin in AP Vojvodina were more profitable than companies operating with private capital of domestic origin in the second half of 2009 and throughout 2010. Higher rates of return on total assets of companies operating with private capital of foreign origin in AP Vojvodina in the second half of 2009 and 2010 were a sign of the competitiveness of their products and services. Because of its export orientation, the first group of companies showed signs of faster recovery and a willingness to respond to the external demand recovery. Domestic economy lagged behind in terms of the recovery (recorded no sooner than at the end of 2010). Thus, one should understand the low rates of return and profitability of the second group of companies, considering their focus on local demand.

When quick ratio from 2007 to 2010 is observed, companies that operated with private capital of foreign origin in AP Vojvodina were more liquid (except in 2008) compared to companies that operated with private capital of domestic origin (Figure 3). It is important to note that the values of this ratio that were obtained for the observed group of companies are below the standard value. If the standard 1:1 is applied, it is noticeable that most sectors in the Republic of Serbia were below the limit of liquidity in the same period. In certain situations, analysts take 0.50:1 as a standard for this ratio.

The decrease in this ratio is explained by the amount of time required for the collection of receivables in the Republic of Serbia, prolonged in times of a recession. According to Eurostat, the average time for the collection of receivables in the Republic of Serbia during the recession period was 128 days. To better understand the importance of this factor for the liquidity of companies, it should be

Figure 3: Quick ratio for medium-sized companies operating with private capital of foreign or domestic origin in AP Vojvodina from 2007 to 2010

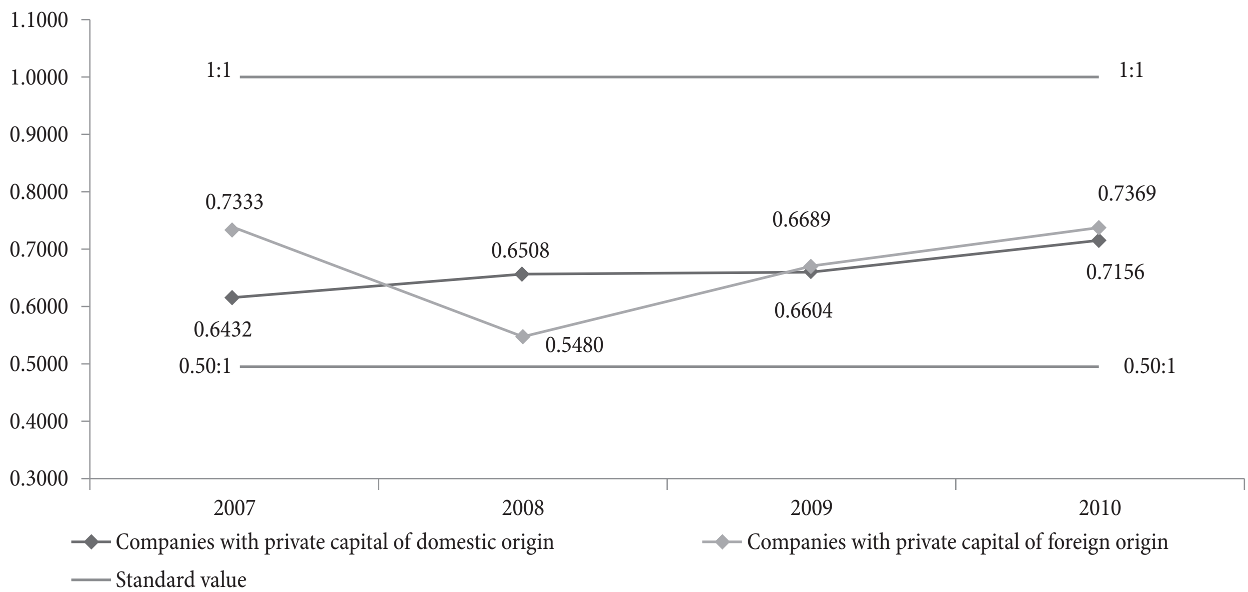
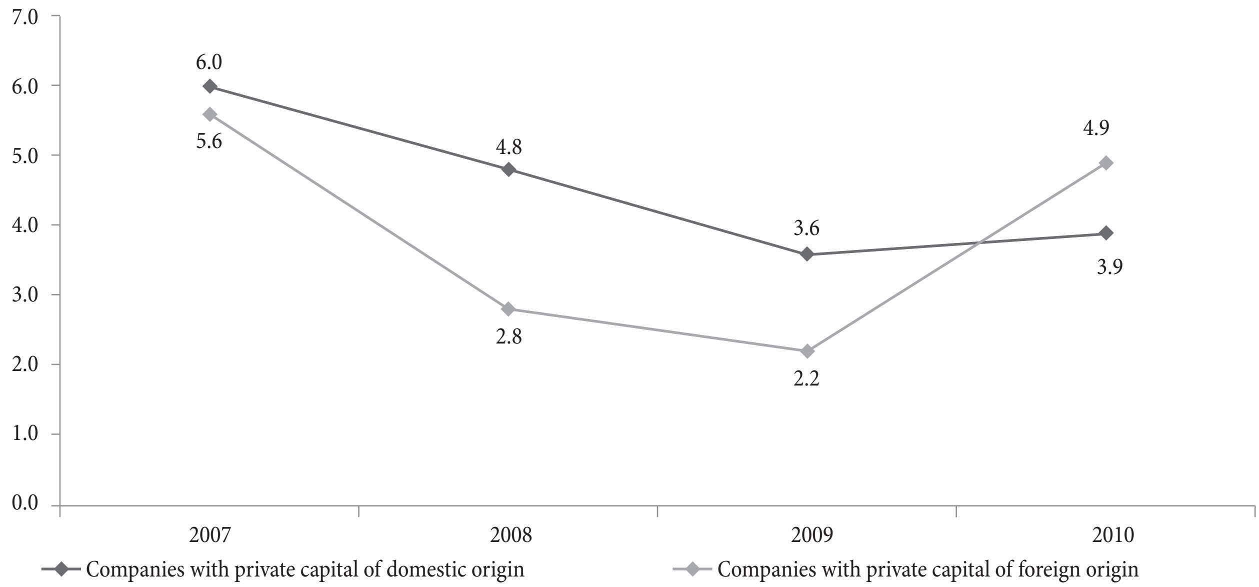


Figure 4: Rate of return on total assets of medium-sized companies operating with private capital of foreign or domestic origin in AP Vojvodina from 2007 to 2010



said that the average time for the collection of receivables in Germany is 18 days.

In the second half of 2009 and in 2010, companies operating with private capital of foreign origin in AP Vojvodina had more profitable businesses (measured by the rate of return on total assets) compared to companies that did business with private capital of domestic origin (Figure 4). These results should be interpreted in light of the fact that the initial revival of economic activities in the Serbian economy during 2010 contributed to halting the further decline in its profitability, as well as in light of the fact that companies operating with private capital of foreign origin are export-oriented.

Conclusion

The power distance index of managers of the second group of companies (medium-sized companies that do business with private capital of domestic origin in AP Vojvodina) and the power distance index of managers of the first group of companies (medium-sized companies that do business with private capital of foreign origin in AP Vojvodina) converge, which shows the confidence growth among the second group of managers of companies and their associates, and indicates the willingness to delegate duties and responsibilities and to abandon the paradigm of power culture, and a shift toward the role culture. Low values of the power distance index in the second group of companies also indicate the existence and awareness of the need to develop cooperation with other companies instead of striving for vertical positioning within the state apparatus. Furthermore, this allows positioning within business networks that are "flat" and not hierarchical. As this dimension of culture has a direct impact on a management style, and accordingly the micro-competitiveness of companies, it is clear that a more efficient management style in the first group of companies would be benevolent autocratic, rather than participative.

Members of cultures with high uncertainty avoidance are very competitive when it is necessary to respond to clearly defined and urgent requests. Such requirements are imposed on businesses in the recessionary environment, and therefore, the high value of the uncertainty avoidance index of the managers of the first group of companies compared to the managers of the second group of companies should not be surprising. These results should be understood in terms of the commitment of this group of companies to satisfy the sophisticated external demand. The profitability and liquidity of the first group of companies after the recovery in external demand is proof that the first group of companies reacted to the recessionary business conditions by strengthening the capacity for reducing uncertainty to promote the position of their products when the contraction in external demand ended.

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