UNIVERSITY OF LJUBLJANA

SCHOOL OF ECONOMICS AND BUSINESS

MASTER'S THESIS

# THE EFFECT OF NATIONAL CULTURE ON THE MANAGEMENT OF FOREIGN FIRMS IN MONTENEGRO

Ljubljana, September 2020                                    SANDRA RADONJIĆ

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# TABLE OF CONTENTS

**LIST OF FIGURES:**

**LIST OF TABLES:**

**LIST OF APPENDICES:**

**List of Abbreviations**

**CCC** – Cross Cultural Competence
**CC** – Cultural Competence
**CQ** – Cultural Intelligence
**GVCs** – Global Value Chains
**HRM** – Human Resources Management
**IB** – International Business
**IDV** – Individualism
**IVR** – Indulgence
**LTO** – Long-term Orientation
**MAS** – Masculinity
**MNCs** – Multinational Companies
**OCI** – Organizational Culture Inventory
**OPI** – Organizational Culture Profile
**PDI** – Power Distance
**SFRY** – Socialist Federal Republic of Yugoslavia
**UAI** – Uncertainty Avoidance

# INTRODUCTION

Culture has been identified as a key environmental characteristic underlying systematic differences in behavior (Markus & Kitayama, 1991). In order to do business across borders, companies have to be aware of the fact that every country has its own culture, perceptions and behavior. Culture has been pointed to as one of the biggest challenges to doing international business (Leung, Bhagat, Buchan, Erez, & Gibson, 2005). In Hofstede's words, "The business of international business is culture" (Hofstede, 1994). Many business failures happen because of the lack of experience and information when it comes to the host country where companies open their subsidiaries. Entire books have been written about the mistakes companies make when misunderstanding or insufficiently considering the national culture of the host country (Ricks, 2009).

At the same time, each business has its own culture: it belongs both to the national culture within the company's home country, but also has its own *organizational* and *corporate culture.* The corporate culture of the company is importantly constrained by the national cultural framework of the host country. Many agree that *national culture* influences performance abroad, but studies of the relationship between cultural differences and acquisition performance have produced conflicting findings (Weber, Shenkar, & Raveh, 1996). Some authors argue that combining types of culture could be accompanied by proactive thinking and creating, while some studies claim that it inevitably leads to business failure. On the negative side, studies show that cultural differences create additional costs and make organizational challenges (Cartwright & Price, 2003), and that cultural distance produces conflicts in making daily-basis decisions (Jemison & Sitkin, 1986). On the positive side, some authors argue that differences in culture could bring benefits to the company. For instance, Morosini, Shane and Singh (1998) found a positive relationship between cultural distance and performance in their study when they interviewed managers in 52 companies (Brock, 2005).

Correlation between national and corporate culture and the main obstacles that managers are coping with are common topics in today's international business (IB) studies. Working in foreign subsidiaries represents a challenge for those who are not familiar with the differences in corporate culture and have to adapt to the completely new working environment. It also poses challenges to the management itself, whether or not the management was appointed from the company in the home country, or if management consists of people from the host country, who are knowledgeable about the local culture, but are neither familiar with the national nor the organizational culture of the home company. Hofstede emphasized the importance of adapting management ideas to local cultures: "if we see what effective organizations in different cultures have done, we recognize that their leaders did adapt foreign management ideas to local cultures" (Hofstede, 2001). Therefore, in order to do their work efficiently, the management of the foreign company has to merge both its own

corporate culture, of the company in its home culture, as well as the national culture of the host country.

The main points of contention where home corporate culture clashes with the host national culture is in the domain of organizational flexibility. Many authors have shown that domestic companies frequently perform within a single industrial system with no changes of the rules for years, while multinational companies (MNCs) are seen as flexible companies, which meet heterogeneity in regulations (Gursoy, Maier, & Chi, 2008). Other authors have looked at the local employee side, by assessing how the organizational culture of the MNC affects the local people working at it and how changes their perspective of work and work values. Many authors claim that MNCs in general put a greater emphasis on market knowledge than their domestic counterparts did (Attia, Jantan, Atteya, & Fakhr, 2014). For example, in Human Resources Management (HRM), research has shown that a significant number of domestic companies do not engage in evaluation achievements and possible goals, which is very important for many multinational companies (Buckley & Casson, 1985).

In the case of Montenegro, the clash between the corporate culture of MNCs and the local culture is notoriously well known, but very little empirical research has examined how this clash works out in actual business settings. The **purpose** of this thesis is therefore to explore the role of national culture in the context of organizational culture in a multi-national company, and to investigate whether managers working in host countries have dissimilar thinking and perception of work from local managers. I will examine how management of foreign companies in Montenegro differs from Montenegrin managers, and to what degree foreign companies have to adapt their management to local culture. The result of this research will help managers to understand how to manage their work in cases with differences between organizational and national culture.

My **research goals** are:

- To review the main frameworks for studying national and organizational culture and the measurement instruments of culture in international business;
- To analyze Montenegro as a host country in the context of Hofstede national framework;
- To examine the interaction between the national and organizational culture of the foreign company with the national culture of the management of foreign firms, by examining whether foreign managers in Montenegro have the same attitudes and values as domestic managers;
- To determine the main obstacles faced by the management of foreign firms working in Montenegro;
- To examine whether there is a difference in the management of foreign firms depending on the culture of the management in Montenegro.

Additionally, these goals will be examined through the following **research questions** that represent the basis for the empirical part of the thesis:

- What are the main differences between the national culture of Montenegro and the national culture of the foreign company working in Montenegro?
- What are the main obstacles faced by the management of foreign firms working in Montenegro?
- Do managers perceive clashes between their organizational culture and the national culture of workers in the subsidiary in Montenegro?
- Are there differences in the management of foreign companies depending on whether the management in Montenegro is local (Montenegrin) or expatriate (from the host firm/country)?

The Master's thesis will mostly rely on qualitative empirical and descriptive research. The research will be conducted through both primary and secondary data while answering the proposed research questions.

Using secondary data in the theoretical part, my aim is to show how national and corporate culture are connected, and how they both influence on international business of multinational companies. The data will rely on scientific papers and reports prepared by universities and research scholars. Apart from them, publications of economic organizations will also be used as a source of the theoretical part. The main theoretical framework will be based on Hofstede`s model so it could be seen how national culture has effect on working environment through his six dimensional model. Analyzing Montenegro as a host country of foreign companies will help to understand the interaction between national culture of the management and organizational culture of the companies.

The primary data will focus on understanding human behavior through the sample of *semi-structured in-depth interviews* with six managers in foreign companies in Montenegro. The sample includes managers of subsidiaries of foreign companies in Montenegro; three of whom are be locally staffed (i.e. Montenegrin managers of the foreign subsidiary) and three staffed by the home office (i.e. foreign managers). These managers are all members of the Association of Montenegrin Managers through which I was be able to contact them. All of them work in Montenegro for years and are aware of cultural distance from their home country. By interviewing them I tried to highlight the impact of their national culture on the work they are doing. The results show to what degree their attitudes, values, and ways of managing staff are influenced by their national culture and to what degree local managers in foreign firms differ from foreign managers staffed by home country.

The thesis is structured in the following way. In the first chapter, the theory on the importance of culture in international business will represent a basis for the following research. An impact of both national and organizational culture on cross-cultural management and international business in general is presented. The second chapter is more

focused on the practical examples of measuring national/organizational culture though different models proposed by well-known sociologists. In this chapter is included an implication of Hofstede's model on the example of Montenegro, which provides additional information regarding national culture of the society and their principles of managing the business. In the third chapter, the main purpose and research goals of the study, description of the sample and methodology of the research, are explained. Findings are presented in the fourth chapter, divided in several topics that are recognized during the interviews and are important for the very goal of the research. In the fifth chapter the main findings are summarized though research questions and lead to the final conclusion of the thesis. Implications and limitations of the study are presented as well in this chapter.

# 1 THE IMPORTANCE OF CULTURE IN INTERNATIONAL BUSINESS

## 1.1 Definitions of culture

"Culture, whether organizational or national, is frequently defined as a set of taken-for-granted assumptions, expectations, or rules for being in the world. The culture concept emphasizes the shared cognitive approaches to reality that distinguish a given group from others" (Adler & Jelinek, 1986, p. 74). Culture has been examined and researched all along and many social psychologists defined a spectrum of theories regarding culture itself as well as cross-cultural groups and cultural dimensions. Some of them compared culture with „software of the mind" of person claiming that every person has its own model of thinking, perceiving and performing which must be unlearned in order to learn another one (Hofstede, Hofstede, & Minkov, 2010).

However, the study and definition of culture has developed and changed in many directions over time, mostly in the field of anthropology. It refers to which one learns „as a member of society" and by „society" means people and nation (Pieterse, 2020, p. 12). According to anthropological evidence, there is idea that culture developed first slowly (period of a million years), than rapidly (period of 200 000 years), and finally continuously (Donald, 1991). One of the most famous anthropologists, Edward Tylor, recognized culture as „that complex whole which includes knowledge, belief, art, morals, law, custom and any other capabilities and habits acquired by man as a member of society" (Tylor, 1874, p. 1). In his book he explained that culture is *learned* – which means that is not biological, and *shared* – which means that is acquired as a part of group, not individually. Thus, every society has its own culture which is shared over generations. It is described as a very complex phenomena, which is changing and upgrading constantly but it can easily be lost because humans are the ones who transfer it and exists only in their mind. Indian anthropologist Nirmal Bose in his book of cultural anthropology, described culture as a common thing among group of people which is capable of transmission through generations and from one country to another. He

defined a term of culture as "the crystalized phase of man`s life-activity which includes certain forms of action closely associated with particular objects and institutions; habitual attitudes of mind transferable from one person to another with the aid of mental images conveyed by speech-symbols. All of these either serve directly to maintain man in the struggle for existence, or help him indirectly by bringing in a sense of strength and power when he is sorely afflicted in that struggle" (Bose, 1988, p. 23). Other anthropologists, such as Nigel Rapport, stated that culture gave purpose to the social system. A social system refers to people or nation which have the same beliefs and behavior that represent their attributes as a society (Rapport, 2014).

Apart from social sciences (anthropology), culture further appears in many humanities – cultural studies, communication, literature, theatre, art and media studies (Pieterse, 2020). Culture in the field of economics deals with dimensions of economics overlapping with behavioral economics. In politics, it describes how culture affects politics and its ideals. When speaking about international relations it means that countries between themselves have distinctive politics and economics culture which have to be coordinated in order to operate properly. It is important to investigate how countries deal with cultural differences among them and to what extent these differences have impact on the country itself (Pieterse, 2020). Business studies suggest that culture influences a work on power distance and uncertainty avoidance (Hofstede, Hofstede, & Minkov, 2010). Doing business between different organizational cultures could be extremely challenging for every party in terms of coordination and successful collaboration. This is explained by the claim of management guru Peter Drucker who said that „culture eats strategy for breakfast" (Pieterse, 2020). Thus, neither strategy nor long-term plans are the core of successful business but the culture itself.

Understanding culture and broadening knowledge about its development could lead to a better perception of what individuals are influenced in their environment. There are many factors such as economic, political or legal constraints or well developed social networks in each society, that are influenced by cultural norms and directly or indirectly influence the individuals (Leung, Bhagat, Buchan, Erez, & Gibson, 2005). Awareness of one person's background means understanding his/her culture which enables to predict their future behavior. A lot of studies point out the importance of Cultural Intelligence (CQ). Authors define it as „person's capability for successful adaptation to new cultural settings, that is, for unfamiliar settings attributable to cultural context" (Early & Ang, 2003, p. 9). Early identified three facets of CQ as can be seen in Figure 1.With *cognitive*, *motivational* and *behavioral* elements people should be capable to modify their own elements and accommodate to new ones.

*Figure 1: Facets of cultural intelligence*
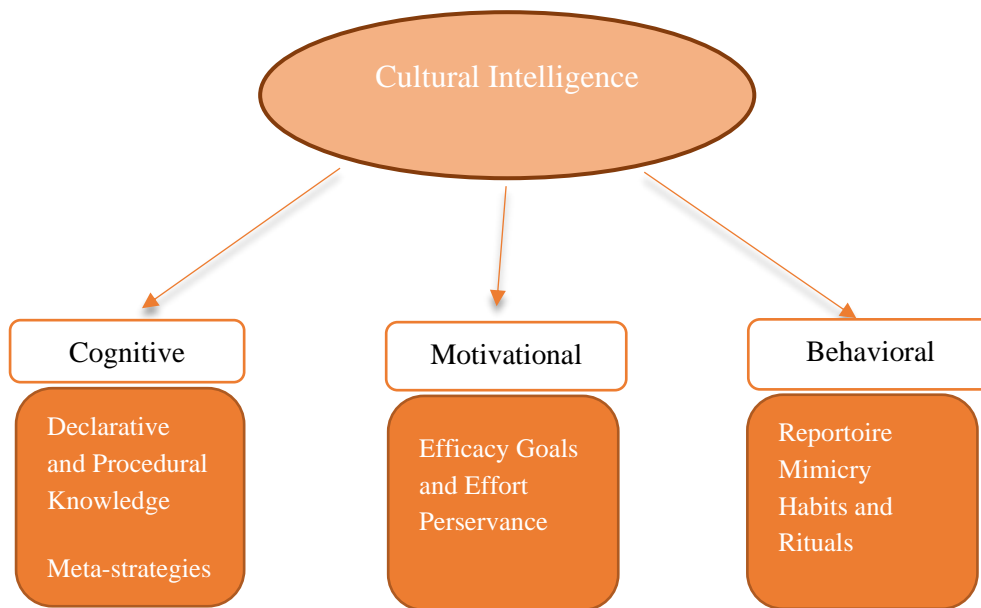


*Source: Early (2002)*

- ➢ *Cognitive* skills allow to person to function effectively in a new culture and overcome new social contexts. Self-concept and differentiation are the outcomes of CQ developed by the process of integrating information which are used for understanding new cultural settings;
- ➢ *Motivational* elements stimulate person to seek new information outside of their knowledge frameworks and to adapt to a different cultural environment. According to Early (2002) it is not enough to have knowledge of new settings but to be motivated and able to use this knowledge and produce a culturally appropriate response;
- ➢ *Behavioral* elements lead to ability to engage in adaptive behaviors. The capability to acquire appropriate behavior for new culture is of the great importance. A person with high CQ is capable of adapting to new cultural behavior such as language only by having persistence and willingness (Early, 2002).

The process of integration in new cultures is critical for managing business. Research shows that CQ has influence on cross-cultural adaptation, group performance, task performance and leadership as well (Jasenko & Dulcic, 2012). A person with high CQ is able to understand a culture, and at the same time engage others in the new settings.

## 1.2    Why culture matters in IB

With globalization, the world has started struggling with divergence between nations recognized in every part of everyday life. Greater level of interconnectedness led to conflicting impressions of cultural differences which changed their form through time. It is known that relations between countries depend on their willingness to adjust to different culture and agree on compromise solutions. In order to follow growing trend of

interconnectedness countries have started to cooperate at an even higher level. Some authors claimed that this trend led toward increasing cultural standardization (Pieterse, 2020). George Ritzer developed the term "McDonaldization" as a shorthand version of worldwide homogenization of cultures due to globalization (Ritzer, 1996). With this indication he demonstrated that society adapts the characteristics of fast-food restaurants and rapidly changes its primary characteristic. However, some authors spoke not about globalization but "international trade" when thinking about world economy a two decades ago (Drucker, 1995). Today, international trade has culminated in the emergence of a global economy (Leung, Bhagat, Buchan, Erez, & Gibson , 2005). It consists of flows of information, money and people and it is conducted through global international organizations, multinational companies and cross-border alliances in the form of joint ventures, mergers and acquisitions. Thus, interconnectedness has become a key for economic growth and prosperity (Drucker, 1995).

Globalization and cross-cultural development have influenced many companies to decide upon going internationally and connecting globally. Companies had recognized the effective cross-cultural awareness, organization and adaptability to host countries as an important factor for successful operating (Hutchings, 2003). Before the period of globalization, companies world-wide had all their stages of production centralized at one location within one firm. With globalization and opening global market many corporations started to expand its businesses in a way that they organized their productions at different locations. Different processes were split in different countries. This development of production processes had led to creating of Global Value Chains (GVCs) which connected countries between themselves (Baldwin, 2016). These chains challenged existing economic insights and policy implications related to globalization. Multinational companies are believed to be an important driver behind the international fragmentation of production within GVCs (Baldwin, 2016). As a consequence MNCs have become the most wide-spread type of the corporate entity and represent the main actors driving economic globalization. MNCs have an important role in today globalized world. This could be explained by the fact that 200 of the largest MNCs in the world have sales equivalent to almost 30% of the world's GDP and half of the global export. (Cadestin, 2018).

### 1.2.1 Cross-Cultural Competence

The trend of disappearing borders caused that companies have started expanding abroad easier and taking opportunities from new markets. These expansions are in most cases extremely difficult due to many factors. Companies have to be informed regarding the market they entering. Political factors, legislation and regulation are common obstacles for new companies on the market, but there are also some which could be likely unnoticed – cultural differences. Many international businesses fail because of the lack of cross-cultural competence (hereafter CCC) (Johnson, Lenartowicz, & Apud, 2006). According to many authors CCC is defined as a set of behaviors, attitudes and policies that come together in a

system, and enables that system to work effectively in cross-cultural situations (Cross, Bazron, Dennis, & Isaacs, 1989). Identified are three factors which can influence development process of person's cultural competence: skills, personal attributes and knowledge (Cross, Bazron, Dennis, & Isaacs, 1989). Hofstede in his book defined two types of cultural knowledge. *Culture-general knowledge* refers to knowledge that applies to any cultural environment, has the focus on cultural differences and frameworks for understanding and comparing different cultures. *Culture-specific knowledge* is focused on specific knowledge of another culture, such as language and ability to communicate effectively (Hofstede, 2001). Therefore, being cultural competent is of a great importance for people in business and could cost them in many ways if they are not informed properly.

## 1.2.2 Costs and benefits of failure

It is matter of fact that failure costs are extremely high for companies. In some studies it has been estimated that failure rate of more than 100 000 United States expatriates sent overseas each year is between 40% and 55% (Black, Gregersen, Mendenhall, & Stroh, 1999). Significant part of total costs represent additional costs like lost opportunity, lower productivity, damaged relationships with international partners which could cost the company on the long-term (Storti, 2001). These costs arise because of early return or loss of an expatriate manager due to his/her inability to function effectively in another culture. Apart from expatriate failures, the absence of the CCC might result in problems with understanding of local socio-cultural climate (Johnson, Lenartowicz, & Apud, 2006). Globally competent manager must learn about foreign cultures and approaches, be skillful in working simultaneously with people from many diverse cultures and be capable of living and interacting with foreign colleagues (Johnson, Lenartowicz, & Apud, 2006).

Near-market knowledge and its impact on foreign market entry was studied and examined by authors who emphasized the importance of company's awareness in expansion. The level of knowledge of cultural environment of a foreign market will affect the probability of entering that market. This knowledge could be obtained through experience from operating on similar market like the potential one or from home market characteristics that are related to those of potential new markets (Mitra & Golder, 2002). Thus, the term „near market" represent not the market which is geographically close but ones that are economically and culturally similar. Several studies support the theory of „cultural distance" as a difference between the cultures of two countries (Bilkey & Tesar, 1977). When companies operate in countries with different cultural settings, they have to modify the whole marketing mix (Davidson, 1983). It has proven that companies through the process of internalization mostly enter countries with similar cultures (Johanson & Vahlne, 1977).

Managing international business means handling both national and organizational cultural differences between countries at the same time. „Organizational cultures are somewhat manageable while national cultures are given facts for management; common organizational

cultures across borders are what keeps multinationals together" (Hofstede, 1994). Studies of organizational learning propose that companies can take advantage of new market and acquire and share knowledge through organizations/companies (Huber, 1991). When companies operate positively in foreign markets, the cultural knowledge obtained in those markets will make them entry similar markets earlier and easily (Mitra & Golder, 2002). However, there are very few instances when national culture does not matter when it comes to working with managers in MNCs. National culture has influence on different outcomes such as beliefs and behavior (Hofstede, 2001). According to (Graham & Adler, 1989) international management studies have been based primarily on managerial behavior in countries around the world. Thus, it is important the influential factor of managerial behavior when doing business internationally. Cross-cultural literature supports opinion that differences among managers could cause deterioration of their relationships and could consequently have impact on the company they work at (Graham & Adler, 1989).

As some authors stated, business world is in many ways becoming one and the relationship between culture and IB is definitely growing (Leung, Bhagat, Buchan, Erez, & Gibson, 2005). Hofstede proposed several cultural dimensions which provide more complex conceptualizations of culture (Hofstede, 1994). Defining these dimensions it was enabled to recognize new frameworks of culture in different contexts. GLOBE project model defined leadership with cultural elements as the ability of individual to influence and motivate others to contribute toward the effectiveness in their organizations (House, et al., 1999). Therefore, a number of studies and researches have shown that culture has an extremely important place in the process of business internationalization and its success. Business failure has often been described as a low degree of CCC by individuals who are involved in business (Johnson, Lenartowicz, & Apud, 2006). Negative experiences could be prevented by raising awareness of cultural distances and overcoming it by having strategy on the foreign market. It depends on companies what strategy they will choose – either hiring local managers or transferring knowledge and practice from similar markets. Being learned about cultural differences in a small market could be a good starting point for companies to invest in the large ones with no cultural obstacles.

## 1.3    National culture

Each society develops attitudes, beliefs and behavior that is descriptive for them and by which they are known. National culture refers to beliefs and behavior of individuals within a country. Hofstede defined culture as a collective programming of the human mind across six cultural dimensions varying in every country (Hofstede, 2001).

National culture as programming of the mind distinguishes the members of one category from others, and by category means the nation. Every nation has its own culture with its own believes and behaviors. "Culture is to a human collectivity what personality is to an individual" (Hofstede, 1980, p. 24). It is possible to change through time and generations,

since it is a subject to many influences. According to some findings, national culture influences beliefs and behaviors of trans-national business partners and has a great impact on the business itself (Bhaskaran & Gligorovska, 2009). National culture is associated with numerous business forms, such as entrepreneurship, adaption of innovations or firm performance. Some empirical studies even show that success factors of business partnerships depend on cultural characteristics across countries (Valtakoski, Reynoso, Maranto, Edvardsson, & Cabrera, 2019).

Culture manifests itself in certain ways. They all cover the total concept of the culture and could be seen as the skins of an onion (Figure 2). Hofstede identified several manifestations of cultures: Symbols, Heroes, Rituals and Values. Symbols represent the most superficial, and values the deepest layer of culture (Hofstede, 2018).

*Figure 2: Manifestations of culture*
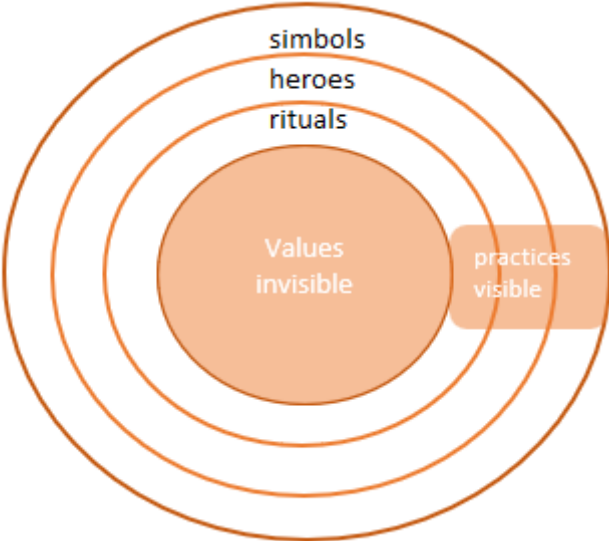


*Source: Hofstede (2018)*

Symbols represent whether words, pictures or objects that have particular meaning within the culture and are identified by those who share the same culture. They usually show an individual`s status through their hair style or the way of dressing. Apart from that, they could be any language jargons or objects which are easily created and adopted by the group while the old ones disappear. Through time symbols are copied from different cultural groups frequently and because of that they do not refer to the longstanding manifestation but rather represent the most superficial layer of the culture (Hofstede, 2018). A hero could be person, whether real or fictional, whose attributes are admired by particular cultural group and who serve as a preferable model of behavior. Public figures such as successful sport players, founders of famous organizations and companies, musicians or actors often become cultural heroes. With the progress of television, media appearance has become an important part of cultural process, especially when it comes to heroes (Hofstede, 2018). Heroes represent less

superficial layer but not as lasting and deep as rituals, through which few individuals or larger groups carry out some shared activities to reach desired ends which are socially essential. Many social events could be considered as rituals – business or political meetings, ways of greeting, religion ceremonies (Hofstede, 2018). As the most longstanding manifestations of the culture, rituals are positioned in the figure as the least visible layer. Symbols, heroes and rituals considered together, refer to culture's practices. These layers are visible which means that they could be observed by people from other culture and that are easily recognizable. However, it is not the rule they are unquestionably visible and understood since that depends on the insiders and how they interpret these practices (Hofstede, 2018).

Opposite from symbols, heroes and rituals, values represent an invisible cultural layer, and they form the core of the culture. "Culture is a system of collectively held values (Hofstede, 1980, p. 24). They are considered as deep and strong emotions and believes that have two contrasts within spectrum – good versus evil, real versus imaginary, interesting versus boring, positive versus negative, reliable versus unreliable, natural versus unnatural. Values are things children learn first and implicitly, not intentionally. Therefore, they remain unconscious to individuals who hold them and can rarely be discussed, or directly observed by outsiders. Through numerous actions people interpret their values under various circumstances (Hofstede, 2018). Numerous theories regarding values exist and they have similar outlook. Hofstede defined values as "a broad tendency to prefer certain states of affairs over others" (Hofstede, 1980, p. 19). More structured anthropological interpretation defined value as "a conception, explicit or implicit, distinctive of an individual or characteristic of a group, of the desirable which influences the selection from available modes, means and ends of actions" (Kluckhohn, 1951, p. 395). According to Hofstede, values are irrational since they are programmed early in childhood. Internal value conflicts are one of the sources of uncertainty in social systems. By uncertainty means the situations when certain values in one sphere of life can affect behavior in the other life sphere (Hofstede, 1980). Mental programs of people are acquired and are consisted of most essential values which they learn and adapt from their social environment (Hofstede, 2018). Research regarding work heterogeneity has shown that information exchanged between young group members was strongly correlated with national culture, while old group members have already understood and accepted certain attributes of the culture which are hardly changeable (Zellmer-Bruhn, Gibson, & Early, 2002). Thus, national culture represents an important initiator of group communication especially in early phases of their shaping.

## 1.4    Organizational culture

Organizational culture includes a system of assumptions, values, norms and attitudes presented through symbols, developed and adopted by members of an organization through their experience. This experience helps to all members to find out how to behave in certain environment and understand the definition of organizational culture in the company they

work at. Organizational culture determines how members perceive things and events within organization, how make decisions and take actions according to mission and vision of the company (Schein, 2004). According to Kotter and Heskett (1992), organizational culture could be observed at two levels: one is the less visible level – "the values that are shared by the people in a group and that tend to persist over time when group membership changes", while at the visible level, culture is - "the behavior patterns or style of an organization that new employees are automatically encouraged to follow by their fellow employees" (Kotter & Heskett, 1992, p. 4).

A term "organizational culture" refers also to "corporate culture". A research has also examined the correlation between organizational performance and corporate culture, demonstrating how corporate culture has a long-term impact on the performance of the organization. It is suggested that corporate culture is critical "in the field of organizational behavior, particularly in trying to better understand the context of organizations and the people managing the organization" (Rashid, Sambasivan, & Johari, 2003, p. 708). Corporate culture has been identified in many ways, but usually refers to "the values and practices that are shared across all groups in the firm" (Kotter & Heskett, 1992, p. 6). It is considered as a pattern to beliefs, symbols, rituals and practices that have evolved over time in an organization (Pheysey, 1993). According to Van de Post *et al.* (1998), „culture is, to the organization, what personality is to the individual". It represents a system of beliefs, meanings and symbols that shape behavior of employees and leads to creating a behavioral standards (Rashid, Sambasivan, & Johari, 2003).

Organizational culture reflects both national culture and professional subculture, but the organization's own history as well (Hofstede, 1980). A history of organizations constrains behavior and beliefs within the organization, thus it determines how the members will recognize their values. The influence of culture on the organizations is visible through many actions – distribution of power, organizational goals and objectives, decision-making processes, shaping organizational structure, rewards system, communication. Culture influences an organization through the values of members of competing organizations as well. By recognizing values in the environment, any organization can determine its own constraints on business path and decide what can or cannot to do (Hofstede, 1980). Schein (2004) pointed out the importance of corporate culture and its interconnectedness with leadership and managers. He defined a culture as the most deep and unaware part of any organization, thus less tangible and visible. It is hardly changeable, even the fact that members of the group can fluctuate. It survives because members of the group value stability. According to Schein, any group that has membership stability and the history of shared learning, has developed some level of the culture and some recognizable behavior and values (Schein, 2004).

Three levels of organizational culture are determined, and the level implies the degree to which is visible to the observer. The levels range from most tangible which could be easily seen, to the unconscious ones which represent the essence of the culture (Figure 3). At the

surface are *artifacts* which refer to everything that one sees, hears and feels when entering a new group with different culture. Different organizational processes consists this level of the culture since they create an organizational routines and standards that are easily observed by others. However, artifacts are considered to be hardly decoded and observers cannot aware of what these routines mean to the members of the group (Schein, 2004). Some authors identified several clusters of artefacts that are important for understanding the culture of an organization: physical symbols, language, traditions and stories (Pedersen & Sorensen, 1989). *Espoused beliefs and values* represent the second level of the organizational culture and they are considered as the reflection of someone's leadership spirit. Every group has certain number of individuals that prevail and can influence other members to adopt particular approach to the problem. These individuals are leaders and they determine business strategies and standards according to their beliefs and values, while the rest of the group adopts their opinions because there is no shared knowledge within all members. Beliefs and values can predict much of the behavior within the group comparing with artifacts. An important requirement is that they have to be based on prior learning, in order to avoid potential incorrect theories regarding further behavior of the group (Schein, 2004). *Basic underlying assumptions* in Schein's theory are comparable to values in Hofstede's model of the culture and represent the deepest level that is hardly visible to the observers and at the same time is the essence of the culture. According to Schein, basic assumptions are taken for granted and result from repeated success in implementing particular beliefs and values. They are no debatable and hence, extremely difficult to change. If members assume that everyone is motivated, they will act in accordance with that assumption by trying to be as motivated as possible, but also encouraging others as well. Negative results could arise because of unconscious assumptions that lead to proposing inappropriate solution to a given problem. This could be especially present in the case of expatriate managers who come from different cultural tradition (Schein, 2004).

*Figure 3: Levels of the culture*
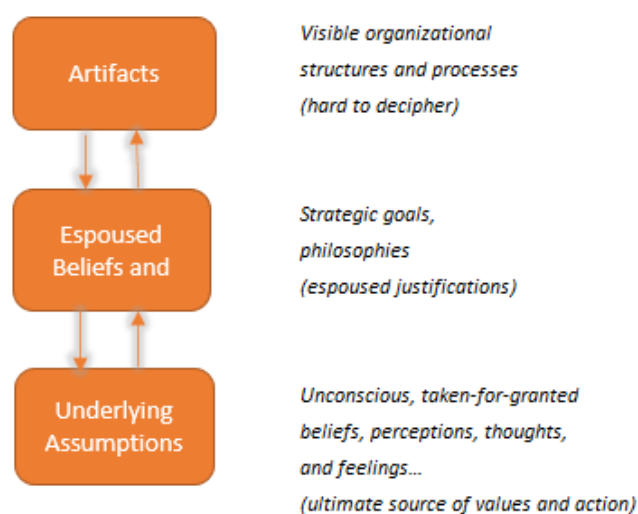


*Source: Schein (2004)*

13

Analyzing organizations through the culture has become an important part of business strategy for MNCs, especially in twentieth century with expansion of international business. Companies around the world have become aware of the organizational culture and have started to put effort to create one. According to Schein (1992), it is crucial for the group to have been together long enough to have shared similar problems and to have opportunity to solve these problems, so the culture could be established and maintained at the same time (Pedersen & Sorensen, 1989).

## 1.5    Differences among national and organizational culture

When speaking about organizational culture, the observation unit is the organization, while national culture refers to the particular nation. Comparing organizational culture means comparing two or more organizations in terms of their beliefs and values. According to Hofstede, every person possesses several layers of mental programming, whether values or practices. Since national culture is determined by an individual's values and organizational culture by his/her practices, differentiation between national and organizational culture lays in different mix of values and practices. When managers struggle with coordinating these two types of culture, it is fundamental to be conscious of the fact that it is possible for employees to adapt to practices of an organization, but it is unlikely that their national culture will not play a significant role in the process of understanding. Their processing of practices will be determined directly by their national culture (Plijter, van der Voordt, & Rocco, 2014).

National cultures differ at the level of values while organizational cultures differ at the level of practices: symbols, heroes and rituals. Studies of national culture examine differences among subsidiaries of multinational companies while organizational cultures oppose different organizations within the same countries (Hofstede, 2018). While Hofstede defined national culture as the collective programming of the human mind, Schein defined organizational culture as the beliefs and values shared by senior managers in certain business practices. National societies are the ones that are explained by national culture which forms values through early socialization, while organizational culture suggests acquiring organizational practices and standards. Hence, differences between people holding similar values are found and are distinctive as national and organizational culture (Weber, Shenkar, & Raveh, 1996).

Many researchers compare national with organizational culture and examine their interconnectedness. An important question is to what extent national culture influences organizational culture and vice versa. While some authors claimed that the degree of the impact of national culture on organizations will decline (Evan, 1975), others supported the idea of increasing cross-cultural impact on international business (Hofstede, 2018).

Numerous studies point out the importance of taking into account differences in national cultures of the subsidiaries for companies that go international (Schneider, 1988), (Weber, Shenkar, & Raveh, 1996). Certain empirical studies support the fact that some characteristics

of national culture have influence on manufacturing practices and that quality management within these practices depends on national cultural environment (Wiengarten, Gimenez, Fynes, & Ferdows, 2015). Depending to what extent individuals identify themselves with their culture, the impact of national culture is indicated. If they consider culture as a large component of their self-concept, the impact will be strong and will have an effect on their working process as well (Leung, Bhagat, Buchan, Erez, & Gibson, 2005). It has become an important task for international managers to coordinate national culture in the context of organizational culture of the companies. At the same time an employee's preferences and the workplace itself have to fit together since the misfit of these two factors could have a negative impact on organizational performance. A satisfaction of employees, the quality of their work and trainings, work values, could be affected by the location of company and at the same time define the success of any organization (Plijter, van der Voordt, & Rocco, 2014).

## 1.6    Cross-cultural management

Management and culture started to interconnect at the moment when MNCs have become expanding their businesses by sending expatriates to host countries. Hofstede emphasized that since 1980 when Japanese companies outperformed American companies, interest in culture has increased and consequently many authors have started to study cultural differences and their implications (Hofstede, 2018). A term of "corporate culture" has been introduced. Different companies and organizations had to struggle with different national values through shared businesses and practices. Depending on where the company operates there are many different organizational cultures related to their attitudes toward business, employees and learning. As Roman and Ruiz emphasized, there is an example proving that geographical position of headquarters matters. For example, companies located in South Europe have different negotiation culture and training methods compared to those located in North Europe (Román & Ruiz, 2003). Thus, a strategy for international management was to establish, monitor and adapt different organization practices (Hofstede, 2018).

The appearance of two different cultures refers to *cultural distance*. The aim of cultural distance is to include all dissimilarities in national culture between home country and subsidiaries overseas (Johnson, Lenartowicz, & Apud, 2006). It is well-known occurrence for MNCs and their affiliates that they have to coordinate all distinctions between local culture and the culture of their organization. This distance has been defined as "the sum of factors creating, on the one hand, a need for knowledge, and on the other hand, barriers to knowledge flow and hence for other flows between the home and the target countries" (Luostarinen, 1980, p. 131). Despite the fact that cultural distance can design a good basis for sharing knowledge between countries, many companies consider it as a risk for potential business failure. Namely, one of the reasons that make potential foreign companies to avoid investing in new market, is high information cost and the difficulty in transferring management techniques and values (Weber, Shenkar, & Raveh, 1996). For mergers and

acquisitions it is of the great importance to take into account possible obstacles due to cultural distance between countries. In many studies was indicated that with increasing of cultural distance, the difficulties facing business process also increase (Johnson, Lenartowicz, & Apud, 2006). For expatriates who are located in host country, this distance is not reflected only in different cultural values, but also in language, legal system, the economy, or political system. A combination of all these aspects could influence the overall business process.

However, some scholars point out the possibility of taking competitive advantage over cultural distance. According to (Hoecklin, 1995), culture can be used competitively and should not be seen as an obstacle in cross-cultural businesses, but rather as a benefit. Other empirical studies have shown that internal discussion and comparison of management approaches may result in positive outcome for the company (Morosini, Shane, & Singh, 1998). In cross-cultural management the focus is on managers and employees and their cultural identification of organizational practices in the local context. Being involved in different business processes makes them more proactive and able to see "the other side" of the process. In order to manage international business effectively and to create desired organizational structure, MNCs have to understand the nature of cultural differences and to define to what extent these distinctions constrain organizations. Thus, it is extremely important for MNCs to decide whether to localize HRM approach and organizational culture to fit the host country or to standardize HRM over countries instead (Gerhart, 2009).

Cross-cultural management depends on an individual`s ability to adapt his/her knowledge and skills to the local context, hence the gap of "knowing" and "doing" is an important aspect in CCC. Some authors proposed a framework of the study of Cultural Competence (CC) in international business (Figure 4) (Johnson, Lenartowicz, & Apud, 2006).

*Figure 4: A model of cross-cultural competence in international business*
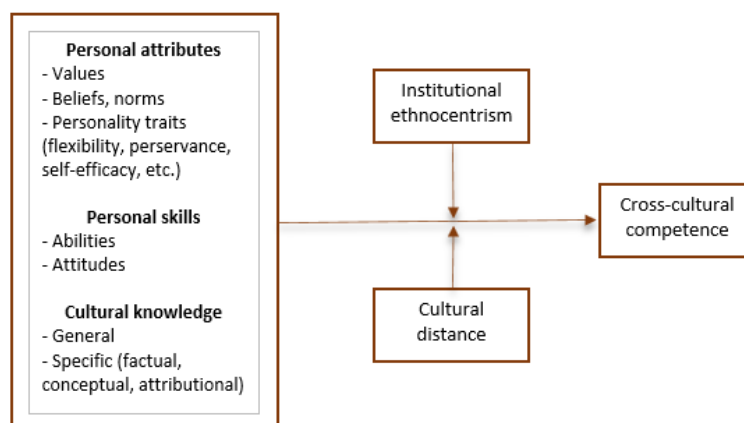


*Source: Johnson, Lenartowicz, & Apud (2006)*

This model includes both general and specific cultural knowledge, personal skills and personal attributes which are considered as inventory of cross-cultural competencies.

According to authors, cultural distance affects the process of implementing this inventory in cross-cultural context. Three components on the left side of the framework are considered as antecedents to CC (Johnson, Lenartowicz, & Apud, 2006). They are acquired through time by learning and socializing, and are required for CC. An individual may poses a limited number of these tools because the tools are not generic predispositions but are usually learned by time. By appropriate trainings and exposing to unfamiliar cultures these tools could be obtained and could be transferred into prerequisites for CCC. Institutional ethnocentrism can create institutional barriers to the company`s adaptation strategy for their subsidiaries in host countries (Johnson, Lenartowicz, & Apud, 2006). As authors stated, the gap between "knowing" and "doing" can induce a potential business failure because of unsuccessful implementing of knowledge, practices and skills. Furthermore, a cultural distance between national culture and the local one can produce an adaptive behavior by expatriate manager. At this point, personal attributes such as self-efficiency and perseverance, play the main role in reducing and overcoming a cultural gap. This model is applicable on both expatriate manager and local employee working in subsidiary (Johnson, Lenartowicz, & Apud, 2006).

Cross-cultural management has become a methodology for overcoming cultural differences, such as miscommunication or conflicts. It is evident that no expatriate manager could avoid the possibility of misperception and misjudgement with local business partners or customers. Acquisitions or mergers in different national culture could enhance a company's performance in two ways (Morosini, Shane, & Singh, 1998). Namely, through learning, companies take advantage of the interaction and learn from each other at different practical levels. For companies that have a lack of routines and practices, it is a great opportunity to acquire new knowledge and skills. The second way of enhancing performance is specialization of routines essential for performing a certain tasks. According to authors, it is less costly to maintain consistent national culture values in the local context, rather to carrying out tasks that are no compatible with cultural beliefs of local partners (Morosini, Shane, & Singh, 1998).

# 2 MODELS FOR MEASURING NATIONAL AND ORGANIZATIONAL CULTURE

## 2.1 Measurement of national culture

As mentioned above, handling both national and organizational culture is required for successful managing of international business. Since management is done by people and every person has its own acquired national culture, it is essential for managers to be aware of cultural diversity of their staff and to try to behave in accordance with that. Thus, with understanding people from their environment means for managers that can understand their background and predict their present and future behavior (Hofstede, 1994). In accordance

with that, some authors proposed models for measuring culture and recognizing the level of cultural diversity among people. It is emphasized that the category of "people" can be any social group – nation, region, social class, profession or occupation (Hofstede, 1994). Since national culture differs among countries and social groups, some principal models for measuring culture have become used for business purpose.

Cultural models identify and define basic problems in cross-cultural groups that have consequences in normal functioning of an organization. These problems may be related to authority, distribution of power and work, or even conflicts within the group. Several models have been proposed in order to measure national culture and cultural differences, but the Hofstede Model and GLOBE Model have become most applied. Apart from them, one of the most widely used is a cultural model proposed by Trompenaars, who upgraded suggested dimensions defined by Hofstede through dimensional analysis across 43 nations. The GLOBE model is the most recent research on cultural differences and is usually compared to the Hofstede Model, since both developed much-required insights in the national culture structure which helps managers and employees to establish a good working environment. The GLOBE measures a relationship between its own values and practices, but also between its own dimensions and those of Hofstede (Venaik & Brewer, 2008). Despite the fact that both models are subject to many criticisms, they represent an important measurement instrument in business context, since a major of cross-cultural researches are based on these models.

### 2.1.1 Hofstede model

With an increasing need for understanding national culture and its influence on international business, researchers started to analyze interconnection of these two variables. Among all researchers, the one who distinguished himself is Gerard Hendrik (Geert) Hofstede, a Dutch social psychologist who was the first who started to explore the influence of culture in business context. He was a pioneer in researching of cross-cultural groups and organizations and had a great contribution in developing a framework for differentiating national and organizational cultures. In order to measure a national culture, Hofstede (1980, 1991) developed by far the most influential national cultural framework. Using a combination of empirical analyses, Hofstede derived and defined four dimensions of cultural variation (Steenkamp, 2001). Later, after his book "Exploring Culture", he added two more dimensions of the model. Through different research projects among subsidiaries of MNCs, Hofstede determined cultural dimensions. Namely, within the project of researching subsidiaries in 70 different countries, differences were identified among every each of them (Hofstede, 1994). Hofstede's model was recognized as a very important step in understanding global-local dilemma – whether to standardize culture across all subsidiaries or to adapt to local culture. Applying this model on consumer behavior was a solution for business practitioners when doing business internationally (Mooij & Hofstede, 2015).

While working as a manager of personnel research in International Business Machines (IBM), Hofstede founded and managed the Personnel Research Department, through which he made a research based on MNCs subsidiaries in more than 70 different countries. He traveled across Europe and Middle East, interviewed people and collected opinions and experiences from employees in subsidiaries regarding their behavior in MNCs. Through more than 100.000 questionnaires he extracted data on their cultural attributes (Venaik & Brewer, 2008). He covered seven different occupation categories through five non-managerial and two managerial categories. A cross-cultural and cross-national collection of responses was so large that he did not manage to process all data because of his main job. However, he noticed apparent significant differences among national subsidiaries (Venaik & Brewer, 2008). He decided to take two-year leave from his job to get deeper into data, finish a conduct and get some results. While being visiting lecturer at International Institute for Management Development, he made a selection from his IBM questionnaire and presented to his course participants, who were from 30 different countries and worked in different large organizations. While comparing results from the IBM research, he noticed that they were quite the same and concluded that culture differences are not present only within people among countries related to IBM, but the differences are result of common socialization competences that are specific for people grown in the same country. Analyzing data in a variety of ways and using literature from psychology, political science, anthropology and sociology, he published his results (Hoppe, 2004).

As mentioned, Hofstede firstly defined four initial dimensions of national culture based on 40 initial countries, but later realized that needed two more so he could examine national cultures rather than individual personalities. These dimensions made easier for business practitioners to understand culture and they are all based on fundamental problems which society faces:

1. *Power distance* (PDI), describing "the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally";
2. *Individualism vs. collectivism* (IDV) – "people looking after themselves and their immediate family only, versus people belonging to in-groups that look after them in exchange for loyalty";
3. *Masculinity vs. femininity* (MAS) – "the dominant values in a masculine society are achievement and success; the dominant values in a feminine society are caring for others and quality of life";
4. *Uncertainty avoidance* (UAI) – "the extent to which people feel threatened by uncertainty and ambiguity and try to avoid these situations";
5. *Long-term orientation vs. short-term orientation* (LTO) – "the extent to which a society exhibits a pragmatic future-orientated perspective rather than a conventional historic or short-term point of view";

6. *Indulgence vs. restraint* (IVR) – "the extent to which societal members try to control their desires and impulses" (Mooij & Hofstede, 2015).

*Power distance* defines inequality in the distribution of the power within organization, but rather defined from below, not from the above. Considering the fact that "all societies are unequal, but some are more unequal than others" (Hofstede, 1994), it is very important how the power will be distributed within the group. Hofstede emphasized that in order to understand someone's behavior at the work it is essential to know their previous experience with family or teachers, since this kind of experience has a great impact on work behavior. If someone wants to understand their colleagues or superiors, they have to know about family relationships and school standards in that country (Hofstede, 1994). In large power distance countries, everyone has its own rightful place in a social hierarchy. It that kind of cultures, it is important that social status is clear so everyone could behave in accordance with that and could show proper respect (Mooij & Hofstede, 2015).

*Individualism/Collectivism* represents the degree to which is an individual integrated in the group. Individualists on the one side are considered as societies in which the relationship between members in the group is loosely bounded and everyone is expected to look after him/herself and their family, not to socialize with other groups. At the other side, collectivism refers to the societies where people are integrated in heterogeneous groups, extended families (with all relatives), and have unquestioning loyalty (Hofstede, 1994). Individualists are "I-conscious" and their culture is low-context communication and they perceive values the same for the whole world. People in collectivism culture are "we-conscious" and their culture is high-context communication. They compare themselves with the social system they live in and always try to expand their social circle. When doing business, individualists always want to get to the point fast and without exchanging additional information, while collectivists usually want to get know with each other and build trust before make an agreement (Mooij & Hofstede, 2015). When it comes to differences at work places between these two types of societies, Hofstede extracted a few of them. Namely, for collectivist society, value standards differ for in-group and out-groups, while at the individualist society, standards are applied to all members. In collectivist society, relationships are of the great importance for members of this society, and usually prevails over some given task, while individualists will always choose task as priority (Hofstede, 1994).

*Masculinity/femininity* dimension explains a distribution of roles between the sexes. It represents one of the most fundamental issue for every society. Through his IBM research, Hofstede concluded that women's values differ less than men's values across societies and that they both contain different value dimensions, from decisive and competitive to caring ones. Values that are assertive and decisive belong to the "masculine", and modest and caring values to "feminine" (Hofstede, 1994). For feminine countries is characteristic that

females have the same modest and caring values as men, while in masculine countries they tend to have more assertive values but not like men. In those countries is noticeable the gap between men's and women's values. Hofstede identified some main characteristics for both societies which are based on a few social experiences – family, school and work. In feminine society the stress is on family relationships and solidarity, while in masculine societies the stress is on achievement and competition. For school environment, a difference is in the perception of student's failure, while at the work the stress on careers are visible in masculine societies and stress on life quality in feminine ones (Hofstede, 1994). In masculine society success and accomplishment are important things to be shown, they must be demonstrated and on that way create a status brand (Mooij & Hofstede, 2015).

*Uncertainty avoidance* is an important cultural dimension since it was founded in both IBM and student researches, thus it represent a common occurrence in all kind of societies. It is connected with an individual's tolerance for the ambiguity and it refers to an individual's search for the truth. Uncertainty avoiding cultures are trying to avoid the situations of unknown, different or surprising by law and security measures, convincing its members that "there can be only one truth" (Hofstede, 1994, p. 5). They consider everything that is unknown or different as dangerous, and have emotional need for rules at work. Members of such societies are more nervous and emotional, while the members of uncertainty accepting cultures are more receptive and tolerant for different viewpoint than theirs. They are more emotionless and thoughtful, and usually dislike rules in the work environment (Hofstede, 1994). When doing business with high uncertainty avoidance people it is important to bear in mind the fact that they are less open to changes and innovations than people from low uncertainty avoidance cultures. This is explained by the trend of adoption of any type of innovations in those countries (Mooij & Hofstede, 2015).

*Long-term orientation vs. short-term orientation* is additional dimension identified in student research across 23 countries. Values that belong to long-term orientation are persistence and carefulness, opposite from the values included in short-term orientation that are respect for tradition, stability and having social commitment. It refers to extent to which a society put emphasis on actions that establish future goals. Thus, cultures that have a low score of this dimension are short-term oriented societies and are focused on things that establish goals in the present. It was originally named as "Confucian dynamism" because values remind of teachings of Confucius, but it is applicable also to the other countries (Hofstede, 1994).

*Indulgence vs. restraint* is the sixth dimension added a years after initial four and additional fifth. This dimensions has not yet been widely adopted in management field but it is not less important than other cultural dimensions. For indulgent culture is characteristic that they tend to put emphasis on freedom of speech and personal control, rather than restrained cultures that are focused on helplessness about personal destiny. This dimension is related to feelings of subject - happiness or unhappiness. In indulgence culture people have a perception of personal life control, while in restrained cultures people tend to feel that what

happens to them is not their own doing, that depends on other factors. Indulgence society has a leisure ethic, restrained society has more work ethic and is less important to have friends. This is applicable in management field in the way that employees that put emphasis on personal happiness and freedom of speech, are about to leave an organization when they do not feel satisfied with their role. The only way of measuring the level of indulgence is to compare country by country (Mooij & Hofstede, 2015).

In Hofstede's model, each country is given a score for each of the six dimensions, allowing us to compare differences in national cultures across countries. The model has a scale from 0 (low score countries) to 100 (high score countries) for 76 countries for each dimension and each country has its position in the index (Mooij & Hofstede, 2015). Scores of the countries point out a main cultural differences and should be found in the common history of the countries that have similar score. Thus, it exists Germanic part of the Europe, Chinese empire, Roman Empire or Latin countries, or some other that have in their roots the same cultural attributes. As Hofstede emphasized, all dimensions are correlated with a plenty of other data regarding countries. Therefore, power distance is correlated with income inequality of the country, individualism is correlated with flexibility of generations when it comes to social classes, masculinity is correlated negatively with the share of gross national product, uncertainty avoidance with some legal obligations, and long-term orientation with national economic growth in the past 25 years (Hofstede, 1994). Business and management processes are culturally dependent, but differ across countries.

According to several researches, a two of these dimensions are discovered to show the highest correlation between national culture and work characteristics – power distance and the individualism (Plijter, Voordt, & Rocco, 2014). High power distance indicates that in the organization hierarchy exists a significant differentiation and distribution of the work. However, some studies have observed a visibility of power distance in todays more flexible and transparent workplace concepts, and the impact is becoming lower. The individualism affects a workplace depending on the type of people working at the organization. If they are more individualistically oriented they would prefer separate offices, whereas in collective culture it would be preferable to work in group offices (Plijter, Voordt, & Rocco, 2014).

### 2.1.2    GLOBE Model

The GLOBE Model is famous for being one of the most comprehensive and sophisticated cross-cultural research and is an acronym for "Global Leadership and Organizational Behavior Effectiveness". At the same time, this investigation represents an extended type of Hofstede's cultural model in terms of depth, scope and sophistication (Grove, 2005). On the initiative of several authors and primarily the professor Robert J. House of the Wharton School of the University of Pennsylvania, GLOBE project was conducted in 1991 and involved almost 200 co-investigators in order to analyze 62 world's cultures. A data was collected in 3 specific industries and 951 organizations through which they examined 17.300

middle managers. In country a number of managers scored from 27 to 1.790, with an average per country of 251 respondents. They worked in their current organizations in average of 12.2 years and were all full-time employed. A methods for researching were qualitative while 27 research hypotheses were tested (Grove, 2005). A project is consisted of three phases. Namely, with phase 1 dealt with the development of research instruments. In phase 2, nine cultural dimensions were assessed of both national and organizational cultures and their impact in 62 societies were explored. Phase 3 examined specific leader behaviors (Grove, 2005).

According to GLOBE, culture is defined as "shared motives, values, beliefs, identities, and interpretations or meanings of significant events that result from common experience of members of collectives and are transmitted across age generations" (Javidan, Stahl, Brodbeck, & Wilderom, 2005, p. 61). It defines nine cultural dimensions – six of them are expanded versions of Hofstede's dimensions, plus three additional dimensions proposed by GLOBE. Opposite of Hofstede's model, the GLOBE addresses the relationship between both *practices* and *values,* but also the interconnectedness between its own dimensions with those from Hofstede. Table 1 provides short descriptions of these cultural dimensions.

*Table 1: Descriptions of cultural dimensions by GLOBE*

| | |
|---|---|
| *Power distance* | Degree to which a culture's people are (should be) separated by power, authority, and prestige. |
| *In-Group Collectivism* | Degree to which a culture's people (should) take pride in and (should) feel loyalty toward their families, organizations, and employers. |
| *Institutional Collectivism* | Degree to which individuals are (should be) encouraged by institutions to be integrated into broader entities with harmony and cooperation as paramount principles at the expense of autonomy and individual freedom. |
| *Uncertainty Avoidance* | Degree to which a culture's people (should) seek orderliness, consistency, and structure. |
| *Future Orientation* | Degree to which a culture's people are (should be) willing to defer immediate gratification for future benefits. |
| *Gender Egalitarianism* | Degree to which a culture's people (should) support gender equality. |
| *Assertiveness* | Degree to which a culture's people are (should be) assertive, confrontational, and aggressive. |
| *Humane Orientation* | Degree to which a culture's people are (should be) fair, altruistic, generous, caring, and kind towards others. |
| *Performance Orientation* | Degree to which a culture's people (should) encourage and reward people for performance. |

*Source: Javidan, Stahl, Brodbeck, & Wilderom (2005)*

As mentioned, the GLOBE has a double nature cultural dimensions meaning that a society is defined through both its cultural *practices* ("what is" a behavior) and *values* ("what should be" according to respondents). A data connected with cultural practices shows which are perceptions of each society and cultural values data refers to respondents' feelings and how

they perceive a development of their culture in the future. Thus, "what should be" score gives an information regarding desires for future changes and it is an important factor in potential knowledge transfer between two cultures. Namely, in the situation where two cultures have different "what is" score but similar "what should be" score, they will easier share knowledge and experience since both have comparable goal perceptions. According to some authors, if two groups have different cultural values without being aware of that, a problem with knowledge transfer could arise (Javidan, Stahl, Brodbeck, & Wilderom, 2005).

The scale ranges from 1 (lowest) to 7 (highest). Differences represent a gap between what the culture is and what the culture strives for. Since cultural dimensions are based on both societal and organizational levels, in Table 2 are provided a questionnaire items of expected behavior for each of nine cultural dimensions.

*Table 2: Sample questionnaire items for each of 9 dimensions*

| | |
|---|---|
| *Power distance:* | Followers are (should be) expected to obey their leaders without question. |
| *Uncertainty Avoidance:* | Most people lead (should lead) highly structured lives with few unexpected events. |
| *Humane Orientation:* | People are generally (should be generally) very tolerant of mistakes. |
| *Collectivism I:* | Leaders encourage (should encourage: group loyalty even if individual goals suffer. |
| *Collectivism II:* | Employees feel (should feel) great loyalty toward this organization. |
| *Assertiveness:* | People are (should be) generally dominant in their relationships with each other. |
| *Gender Egalitarianism:* | Boys are encouraged (should be encouraged) more than girls to attain a higher education (scored inversely). |
| *Future Orientation:* | More people live (should live) for the present rather than for the future. |
| *Performance Orientation:* | Students are encouraged (should be encouraged) to strive for continuously improved performance. |

*Source: House, Javidan, Hanges, & Dorfman (2002)*

## 2.2 Measurement of organizational and corporate culture

Several models have been proposed to measure organizational culture. The most important models are reviewed below: Schein (2004) model of organizational culture, the organizational culture inventory (OCI) model, and the P-O fit model.

### 2.2.1 Schein Model

Organizational culture refers to the values, beliefs, principles and policies in the organization (Schein, 2004). Edgar Henry Schein put an important mark on the area of organizational development, and consequently on the organizational culture. He is a famous professor at the MIT Sloan School of Management who is known for investigating a field of organization management and its influence on companies. He claimed that for organization to adapt a culture is necessary a longer period of time. An adaption process to new culture is very extensive and comprehensive.

In order to measure organizational/corporate culture, or the values and beliefs inside an organization, Schein proposed three levels of culture: *artefacts and creations*, *values* and *basic assumptions*. According to Schein, organizations do not adopt a culture in a single day, instead it is "constantly enacted and created by our interactions with others and shaped by leadership behavior, and a set of structures, routines, rules, and norms that guide and constrain behaviors (Schein, 2004, p. 1).

Most visible and tangible is the first level – *areifacts*. It includes everything that one sees, hears and feels when encounters a new group with an unfamiliar culture. „Artefacts include the visible product of the group, such as the architecture of its physical environment; its language; its technology and products; its artistic creations; its style, as embodied in clothing, manners of address, emotional displays, and myths and stories told about the organization; its published lists of values; its observable rituals and ceremonies; and so on" (Schein, 2004, p. 25). *Beliefs and values* represent second level in the model. He stated that all group learnings reflect someone's values and beliefs. Those individuals who can influence all group members will be identified as leaders. For example, managers represent a good example of sharing values and beliefs across the company. The third level of the culture are *basic assumptions*. According to Schein, basic assumptions are taken for granted and result from repeated success in implementing particular beliefs and values. They are no debatable and hence, extremely difficult to change. „In fact, if a basic assumption comes to be strongly held in a group, members will find behavior based on any other premise inconceivable" (Schein, 2004, p. 31).

### 2.2.2 Organizational culture inventory

Some of the most comprehensive and deeply researched ways of measuring organizational culture and its correlation with business are *organizational culture inventory* and *organizational culture profile.* Organizational culture inventory (OCI) represents a quantitative instrument which measures 12 different sets of behavioral norms through which are described behavioral styles that might be implicitly or explicitly required for people  to "fit in" and "meet expectations" in an organization or organizational subunit (Cooke & Szumal, 2013, p. 148). All sets of norms measured by OCT are defined in three types of organizational culture:

- Constructive Cultures – Achievement norms, Self-Actualizing norms, Humanistic-Encouraging norms, Affiliative norms;
- Passive/Defensive Cultures - Approval norms, Conventional norms, Dependent norms , Avoidance norms;
- Aggressive/Defensive Cultures - Oppositional norms, Power norms, Competitive norms, Perfectionistic norms.

Scale scores of respondents are presented on OCI Circumplex – a circular diagram in which degree of similarity is reflected through the distances between behavioral norms (Ashkanasy, Wilderom, & Peterson, 2000). „Behavioral norms on the right-hand side of the OCT circumplex reflect expectations for behaviors that are people oriented; those on the left-hand side reflect expectations for behavior that are relatively task oriented. Norms toward the top of the circumplex promote behaviors that are directed toward the fulfillment of higher-order satisfaction needs; those near the bottom promote behaviors directed toward the fulfillment of lower-order security needs" (Cooke & Szumal, 2013).

### 2.2.3 Organizational culture profile

An important issue when it comes to organizational culture is also measuring to which extent the person fits to specific organization. This problem in organizational psychology is called *person-organization (P-O) fit* (Borg, Groenen, Jehn, Bilsky, & Schwartz, 2011). A level of P-O fit is positively correlated with many variables such as job satisfaction, organizational commitment, quit or turnover (Boxx, Odom, & Dunn, 1991). One of the instruments to measure P-O fit is Organizational Culture Profile (OCP). It consists of 54 items each focusing on different value. The respondent needs to rate these values on a 9-point scale ranging from "most important" to "most unimportant". The OCP asks the respondent to normally distribute (Q-sort) the items twice – once in terms of how important he/she considers the values in an ideal organization, and once in terms of how important these values actually are in the particular organization (Borg, Groenen, Jehn, Bilsky, & Schwartz, 2011). These all 54 vales are classified within 9 categories in 4 clusters – C (conversation) – Security, Conformity, Tradition; O (openness) - Self-direction, Stimulation, Hedonism; T (self-transcendence) – Universalism, Benevolence; and E (self-enhancement) – Hedonism, Achievement, Power.

## 2.3 Montenegrin culture according to Hofstede's model

For the purpose of understanding the Montenegrin culture and to what extent foreign managers need to adapt to the local culture in Montenegro, below the six cultural dimensions are analyzed. Data is obtained from the website Hofstede Insights, based on two Hofstede publications through which the scores are defined or estimated depending on the chosen country. (Hofstede, Hofstede, & Minkov, 2010), (Hofstede, 2001). The scores for Montenegro are estimated, since it may not be found in Hofstede books and partially are

done through research projects of Hofstede Insights, thus all references on scores are addressed to Hofstede literature and are relevant. The rule is that on the scale from 0 to 100, 50 is a mid-level and a score under 50 refers to "low" on the scale, and a score under 50 refers to "high" score.

*Figure 5: Estimated scores of six dimensions of Hofstede's model for Montenegro*
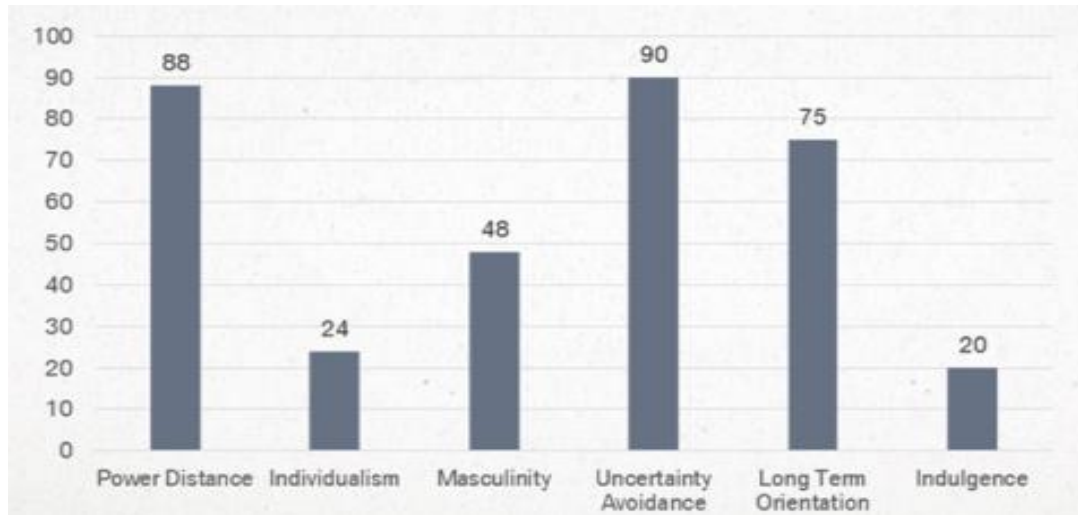


*Source: Hofstede Insights (2020)*

**Power distance:** This dimension reflects the level of equality and expresses the attitude of the culture toward equality among individuals. Montenegro with a high score of power distance – 88 (as can be seen in Figure 5), represents a country where everybody has a place in the hierarchy and everybody accepts the place which are assigned to them. This society accepts and expects unequal distribution of power. Power holders are seen as distant and the distribution of the power explains the fact that they have far more benefits than less powerful in the society. Superiors give a guidelines and subordinates expect to be told what to do and wait for the approval of every work. Through the distribution of the power, status symbols are defined and represent an important way of showing power . A high power distance of Montenegrin society could be explained by the fact that the country was a part of the Socialist Federal Republic of Yugoslavia (SFRY). According to (Krivokapić & Ćeranić, 2014), all Yugoslavian countries are characterized by inequality when it comes to the distribution of the power which is a basis for authoritarianism. Authoritarianism refers to "recognition and idealization of the principals of the hierarchy and submission to those who are in positions of higher formal rank" (Krivokapić & Ćeranić, 2014, p. 207). Since the area of Western Balkan, to which Montenegro belongs, has recently been identified as a zone with highest measured authoritarianism in Europe, it is not unusual that a majority of respondents in Montenegro agree that "obedience and respect for authority are most important virtues children should learn" (Krivokapić & Ćeranić, 2014, p. 207). Thus, it can be said that society in Montenegro adapts some patriarchal characteristics, which is currently a dominant cultural pattern in the country.

**Individualism/collectivism** is considered as one of the most relevant dimensions when comparing and understanding differences between cultures. The main issue that is addressed by this dimension is the degree of independence of an individual in a society. It is related with the self-image of people living in the society, whether they consider themselves in terms of "I" or "We". Having a low score of 24 (as seen in Figure 5), Montenegro represents a collectivist country with the characteristics of integration and cohesive grouping. Members of the society protect each other and show loyalty (Hofstede Insights, 2020). Collectivist culture in Montenegro could be related again with the existence of the SFRY. In organizations, people behave more like friends rather than colleagues, and maintain a private relationships as well. This perception of unity results in the fact that 67.8% of the population of respondents idealizes a state and think that the state is responsible for the overall welfare of citizens (Krivokapić & Ćeranić, 2014). Collectivism in Montenegro with high power distance is transferred into dependency of the individual to the highest authority in the society, making them lose their initiatives and entrepreneurial sense, and rather follow trends that are proposed by the authority, regardless of whether this is the company director or president of the country (Krivokapić & Ćeranić, 2014).

**Masculinit**y at low score of 48 (Figure 5) defines Montenegro as a country where people care about each other and of the quality of life. A society is more feminine, which describes their dominant values, such as being a part of the crowd and not standing out from it, but also recognizing success through the quality of lifestyle. However, with intermediate score of 48 Montenegro represents a country with no dominant cultural value, since a lot of masculinity values are present in society, such as – competition, achievement, money making, assertiveness and success. It could be said that both "worlds" clashes and it depends on the situation which one will prevail (Hofstede Insights, 2020). According to (Krivokapić & Ćeranić, 2014), Montenegrins consider a social position, status and relationship with people as a very important values, rather than results of work or the wealth acquisition resulting from it.

**Uncertainty avoidance:** Montenegro has a high score of uncertainty avoidance – 90 (Figure 5), demonstrating that nation uses possible mechanisms to avoid ambiguity. People are not used to frequent changes and they not accept them easily, thus it could be said they are risk averse and are afraid of the failure. Unusual behavior, actions or ideas are not acceptable and they consider it as disrespect of prescribed rules or potential threat. In order to maintain strict codes of behavior and minimize the level of uncertainty, rigid laws and regulations are set (Hofstede Insights, 2020). Montenegrins prefer everything to be standardized and uniformed, so they can feel comfortable. This could be seen as an obstacle when it comes to new business ideas or business strategies. People prefer to work in well-known environment with no surprising actions.

**Long-term orientation:** The score of 75 (as seen in Figure 5) defines Montenegrin culture as pragmatic in nature, meaning that people are convinced that the truth depends on the situation and time. They can adapt easily to changed conditions, but also have tendency to

save and invest, so a thriftiness and persistence refer to their most important long-term goals. On the other side, respecting tradition and accomplishing social obligations represent goals in a short term (Hofstede Insights, 2020). This score indicates that people in Montenegro put more importance on long-term goals. It can be seen that in management of large firms a great importance is assigned to strategy planning. Managers in Montenegro are respected and seen as successful leaders striving for long-term success (Hofstede Insights, 2020).

**Indulgence:** Finally, a very low score of indulgence (as seen in Figure 5 makes Montenegro as "restrained" society with relatively strong control of their desires and impulses. The actions of people are constrained by social norms, and they consider indulging themselves at workplace as something wrong. Thus, by being restrained in their personal satisfaction they try to be a good citizens, but employees as well. It could be said that they have a tendency toward pessimism (Hofstede Insights, 2020).

# 3 RESEARCH FRAMEWORK AND METHODOLOGY

## 3.1 Research design and purpose

The purpose of this research is to explore the role of national culture, to understand the extent of which it affects the management of foreign companies in Montenegro, and to explore whether national culture constrains the organizational culture of a company. Since a number of foreign companies operate in Montenegro which have heterogeneous employee structure and cross-cultural differences, they represent a good source of relevant information regarding cultural divergence. Observing companies with a culturally mixed hierarchical structure, my aim is to explore whether some obstacles and management struggles exist when it comes to managing culture. Managers are responsible for managing both business and people in the company, which makes them adaptable to various circumstances. The results of this research could help managers to understand and better manage work in cross-cultural environment.

The **research goals** are:

- To review the main frameworks for studying national and organizational culture and the measurement instruments of culture in international business;
- To analyze Montenegro as a host country in the context of Hofstede national framework;
- To examine the interaction between the national and organizational culture of the foreign company with the national culture of the management of foreign firms, by examining whether foreign managers in Montenegro have the same attitudes and values as domestic managers;
- To determine the main obstacles faced by the management of foreign firms working in Montenegro;

- To examine whether there is a difference in the management of foreign firms depending on the culture of the management in Montenegro.

The **research questions** include:

- What are the main differences between the national culture of Montenegro and the national culture of the foreign company working in Montenegro?
- What are the main obstacles faced by the management of foreign firms working in Montenegro?
- Do managers perceive clashes between their organizational culture and the national culture of workers in the subsidiary in Montenegro?
- Are there differences in the management of foreign companies depending on whether the management in Montenegro is local (Montenegrin) or expatriate (from the host firm/country)?

## 3.2    Methodology

This master's thesis relies on qualitative empirical and descriptive research and is consisted of two parts – the first part is theoretical and based on secondary data, while the second part is based on primary data in the form of empirical research. While answering research questions, both primary and secondary data will be utilized in order to get relevant results.

The secondary data relies on scientific papers and reports prepared by research scholars, publications of economic organizations and other relevant sources. By utilizing secondary data, my aim is to show how culture - both national and organizational, influences not only international business but managers as well. The management in an international company represents an important factor in developing business strategy, thus their behavior and performance affects both the people and the output of the company. The most convenient and appropriate framework for this research is Hofstede's model of national culture which is divided in six cultural dimensions. Using a relevant source for measuring Hofstede's cultural dimensions, results for Montenegro were interpreted in the first theoretical part, showing a score for each of dimensions.

Primary data were collected through semi-structured, in-depth interviews with managers of foreign firms in Montenegro, and analysed using content analysis, as described below.

## 3.3    Data collection method: In-depth interview

An in-depth interview is considered as an important qualitative research method since the data is collected directly from the interviewees and the researchers could get more detailed information. This way of gathering data is appropriate, especially when the topic is related to behavior, emotions, experience, or culture. Participants are encouraged to talk in depth

regarding the topic under study and in such a way could also have some elements of observation. Thus, this method of collecting primary data represents the most efficient one since it has intention to detect and expose in-depth details of respondent's experience (Showkat & Parveen, 2017). By doing semi-structured, in-depth interviews in the research, the aim is to make respondents feel free to bring up new ideas and easily express their thoughts since questions are open-ended and divided into topics, thus different questions could arise. In this research questions are based on the Hofstede's framework of national culture and are followed by cultural dimensions defined by Hofstede himself.

The main advantages of in-depth interviews are:

- Provides much more detailed information compared to other methods of data collection;
- Enables researches to understand the behavior of participants through in-depth questions;
- The focus is on the individual which stimulates them to cooperate (Showkat & Parveen, 2017).

Interview questions were based on Hofstede's cultural framework, so it is possible to recognize the relationship between theoretical and practical part of the research. Analyzing the management of foreign companies in Montenegro through this cultural model, the aim was to understand the interaction between the national culture of the management and the organizational culture of the companies, thus to investigate whether national culture has an important role in the decision-making and organization of work.

The interviews in this research consisted of two parts. The first one is related to general information for the purpose of understanding the demographic characteristics of the sample, such as: gender, age, employment position in the company, industry, and culture. The respondents have also explained the industry they operate in and what are the main principles of their business. This information was important so the characteristics of the sample could be recognized and the process of managing the company could be understood. A second part is consisted of fourteen questions related to the culture of management and some practical examples. This part is more focused on the framework for measuring national culture and is divided into cultural dimensions/topics of the interview. Each dimension of Hofstede's model is examined through the experience of foreign and local managers in Montenegro, so the effect of national culture could be examined from different angles. Apart from the framework for measuring national culture, some other important topics arose while interviewing respondents. Consequently, the second part of the interview is divided into the following topics:

- Differentiation between cultures
- The obstacles and challenges of the management of foreign companies
- An analysis of Hofstede's cultural dimensions
- The overall impact of the national culture on management

Interviews were conducted in person, in the period from June to July 2020 and in different locations – Podgorica, Tivat and Bar. All interviews were recorded and conducted mostly in English - those which were guided in the local language, are translated afterward.

## 3.4 Sampling method

For the purpose of choosing the sample, *convenience sampling* was used – which represents a non-probability type of sampling and involves a group of people easy to contact or to reach. The only criteria for this method is that people are available and willing to participate, but who also match the required characteristics. It is a widely used method of sampling since it has a numerous advantages such as speed, cost effectiveness, and availability. Convenience sampling is usually the most appropriate method especially when the researcher is limited with the resources such as time (Etikan, Musa, & Alkassim, 2016).

In accordance with my research question, I attempted to find managers of foreign subsidiaries in Montenegro: three Montenegrin managers, and three foreign managers. All of the managers are members of the Association of Montenegrin Managers through which I was able to contact them. The aim was to interview managers with different nationalities, so it could be seen whether perspective of doing business differs across countries and nations.

## 3.5 Sample description

According to the topic of the research, the target group for interviewing were managers - both local and foreign ones who work in foreign companies in Montenegro. In order to get a relevant conclusion regarding *the effect of the national culture on management,* I have decided to focus on different management cultures so the origin of the companies from the sample is a constant (each of them is a <u>foreign company</u>). Thus, the sample is divided in a following way:

- three of the respondents are **foreign** managers of <u>foreign firms</u> who have years of experience working in Montenegro (e.g. Turkish company, Turkish manager);
- three of the respondents are **domestic (e.g. Montenegrin)** managers of <u>foreign firms</u> operating in Montenegro.

It is important to define that foreign managers in foreign companies belong to the same culture as the host company. Two of the respondents who are from UK and Egypt work in the company which has England and Egyptian culture in the core of its business and the third one from Turkey works in Turkish company, thus also has the same culture as the home culture of the company.

In this way a sample has covered both perspectives – the way local managers perceive foreign organizational culture and to discover whether their national culture affects managing in the company; and to investigate whether the national culture of foreign

managers clashes with the local culture and to what extent it affects their functioning in the company.

All of these managers have years of experience in their field and are exposed to cross-cultural interactions on a daily basis. Since all companies have headquarters abroad and their owners are used to different business and cultural behavior, they struggle with cultural distance whether because of national culture or because of the organizational culture. The majority of the respondents work in tourism as managers in exclusive marinas and ports such as "Porto Montenegro", "Luštica Bay" and "Port of Adria". I believe these companies represent a good source of information when it comes to cultural distance due to the fact that a mix of nationalities among employees is present. These ports as a famous luxury in the region mean a lot for the country in terms of resources, as well as sharing knowledge and cultural experience.

In order to achieve a high variability of the sample, managers are representatives of various cultures, age, both genders, different management positions and professional experience. A more detailed view of the sample can be found in Table 3. It is consisted of the information necessary to analyze a demographic, business, and cultural profile of the respondents – the focus of the company they work at, gender, age group, position in the company and their national culture.

*Table 3: Structure of the research sample*

| Manager interviewees | Focus of the company | Company | Gender | Age group | Position in the company | National culture of manager |
|---|---|---|---|---|---|---|
| Interviewee 1 | Exclusive yachting and tourism (B2B&B2C) | Porto Montenegro (United Arab Emirates) | M | 55-60 | Legal director | Montenegro |
| Interviewee 2 | International advisory organization (B2B&B2C) | Eurofast (Egypt) | F | 25-30 | Investment and Immigration Manager | Montenegro |
| Interviewee 3 | Exclusive yachting and tourism (B2B&B2C) | Lustica Bay (UK, Egypt) | M | 45-50 | Head of Legal Department | Montenegro |
| Interviewee 4 | Exclusive yachting and tourism (B2B&B2C) | Lustica Bay (UK, Egypt) | M | 55-60 | Business Development Manage Strategy & Corporate PMO Officer | Egypt |
| Interviewee 5 | Exclusive yachting and tourism (B2B&B2C) | Lustica Bay (UK, Egypt) | F | 55-60 | Head of Human Resources | United Kingdom |
| Interviewee 6 | Exclusive yachting and tourism (B2B&B2C) | Port of Adria (Turkey) | M | 35-40 | Commercial Director | Turkey |

*Source: Own work*

## 3.6     Data analysis methods

Since many researchers are sceptical regarding qualitative research methods and the possibility of the failure in transforming information into factual results, a new method of interpretation is developed by a few psychologists. They propose *thematic analysis* as an appropriate way of analyzing results by examining themes or patterns of meaning within data. An important step in the process of analysis is coding – a primary process of defining themes by identifying elements of analytic importance. It is appropriate for all types of the interview and all types of data – whether the responses are short or whether they are open-ended. Identified are two types of the thematic analysis and those are – inductive and deductive approach (Braun & Clarke, 2012). In this research the *deductive approach is used*, meaning that the interpreted results are theory-driven. The analysis is shaped by the pre-existing theory, information, or concept. Themes are identified by using theory as a basis for coding, interpreting, and analyzing data.

Since a deductive approach of thematic analysis will be used in this research, identified topics/themes will be based on the previously explained theory of national culture which relies on the Hofstede's model and the mutual influence of the national and organizational culture, but their common influence on the international business as well. The collected data from in-depth interviews was transcribed – from audio recordings to written answers. In this way it was possible to analyze the data and determine some patterns which are later interpreted through relevant themes in the following chapters.

## 4      FINDINGS

Data obtained from the interviews with six managers is analyzed and interpreted in this chapter. Through communicating with respondents, a few themes and issues appeared as the most common among managers in foreign companies. These topics together with the topics based on pre-existing theory are analyzed at the level of foreign and domestic managers separately so it could be explored whether a difference exists in their way of perceiving culture in the business context.

### 4.1     Foreign firm with foreign management in Montenegro

In-depth interviews with foreign managers in Montenegro have led to similar results when it comes to national culture and its effect on doing business. Since all of three foreign managers are from different countries (United Kingdom, Turkey, Egypt), the analysis itself is more diversified and comparable to the other parts of the world.

### 4.1.1 Differentiation between cultures

The clash of cultures. Managing a business when many nationalities are involved represents a big challenge for managers, especially when they themselves are foreigners as well and have to operate in two fields – to manage other employees at the company and to go through the process of adaptation to the local culture. When it comes to the clash itself, it could be said that all of the respondents do not consider it as a conflict of cultures, but rather as a process of integration and mutual processing. Since Montenegrin culture is quite different from western cultures, this process of integration could be "painful" and rough. Taking into account the fact that all the foreign managers have already worked in several international companies located on different sides of the world and have absorbed different knowledge, the clash between all these attitudes is more than expected.

The interviewees themselves interpreted their opinions regarding the cross-cultural mix in their companies and the way in which they experienced it:

*"There is more of a process of integration and synergies than clash. As a project company in Montenegro we embraced the best of the local culture traits. We are as much a local company, as an international one."* (Interviewee 4)

*"I am not sure whether it is the culture or the maturity of the country in terms of business. The point is that we in the company are aware of the fact that we have to integrate stuff – the process of doing things from the West with the relationship and the human thing from Montenegro. If you take the best of both and integrate it, listen to people – everything works. If you do not listen to people, it will never work. We have to work with both cultures, otherwise the process will be painful, and the failure as well."* (Interviewee 5)

Not all foreigners experience a cultural gap. Apart from the fact that national diversity usually induces cultural issues, there are exceptions as well. Not all foreigners experience a cultural gap since many countries have similar behavior in terms of culture which diminishes a sense of a cultural gap. This was the case with respondent from Turkey who works at the Port of Adria – a multipurpose port with dedicated terminals for container ships, general cargo ships and cruise ships. He stated that he does not experience cultural distance in terms of business:

*"I do not notice the clash at all. The business we are in is not a new type of business that would create a conflict between different cultures. At the same time, my home country and Montenegro have very similar cultures and traditions."* (Interviewee 6)

*"Actually, I have not experienced a very different cultural environment of national or organizational culture. However I believe that if there had been a big gap between cultures; that might have affected the way that an organization performs."* (Interviewee 6)

<u>Comparison of local and foreign employees.</u> Through communication with respondents, one of the most common topics was the differentiation of locals and foreigners. It is evident that regardless of the effect of culture on the business, the difference between employees is noticed and present on a daily basis. Namely, foreign managers are aware of these differences and struggle with them so the balance could be achieved and the business could run smoothly.

*"In Montenegro, culture is very diverse since the management team has people from English, Australia, Egypt, Montenegro, and Ireland. Dissimilarities from the culture point of view are behaviors, values..."* (Interviewee 4)

*"I would say that there is more emotion in doing business here. People from the West are much more transactional and I get surprised when it is all about emotions, opinions or offense here. It is not time consuming."* (Interviewee 5)

*"It is all about the relationships here. When I think about the business - if you were at the West (not only the UK), an important thing is task, getting the task done and it is not something personal – if you have something to do, do it! In Montenegro it is all about nurturing the relationship, actually the stuff are getting done through relationships. The jar we notice is if you don't respect the relationship and the need for going on the coffee together, to talk and to go through, and you go just straight on the task, you are not nurturing the relationship."* (Interviewee 5)

*"The major difference only arises from the fact that all of the Balkan, Slavic cultures, including the Montenegrin one, incline to be as risk averse as possible. I like to illustrate it with the following example. In more individualistic cultures all that is not explicitly forbidden is allowed which encourages decision making. In Slavic, collectivistic cultures, people tend to think that only what is explicitly approved by authority (regardless where) is allowed."* (Interviewee 4)

A degree of cultural distance depends on the countries involved in the relationship. Some respondents stated that they do not recognize many differences in comparing to their culture. Thus, a cultural gap between locals and foreigners is correlated with specific countries.

*"Depends on where the foreign employees come from. As a company with Egyptian roots, I see great similarities between Arab and Montenegrin culture in their interaction with business. Obviously, employees from the West are bringing some other qualities to our organization. In essence, there are no such cultural differences between employees that would enable clear division lines between cultures. Younger Montenegrin generations are more and more inclining towards more individualistic western cultures due to their increasing foreign education and interaction."* (Interviewee 4)

*"The interesting thing about the culture is that Montenegrin culture is actually similar to the Egyptian culture. Both regions are countries where nothing can get done and everything*

*can get done. If you talk to the right person, you get the things done. It is very different from the Western culture.*" (Interviewee 5)

"*There are not many foreigners in our company to make a good comparison with local employees. As much as I have observed, the work culture is similar.*" (Interviewee 6)

### 4.1.2    The obstacles and challenges in foreign management

<u>Obstacles come when they are least expected.</u> Not all nations have the same principles of doing business. Moreover, a great amount of dissimilarity is what makes business more challenging and demanding. In order to examine that, the respondents were asked whether the process of managing international business brings some obstacles and makes it challenging. They found different reasons as subject of barriers in their work such as: risk averseness of employees, different economic systems or impossibility to change someone's behavior or way of thinking. Different answers arose from these questions:

"*I personally find it difficult empowering and encouraging employees to make informative decisions. Encouraging entrepreneurial spirit with employees is very challenging thing since not all of them have the same perceptions and not all of them are self-confident enough to make informative decisions, whether because of the culture or some other external factor.*" (Interviewee 4)

"*It is always difficult to change the way of an already running system. However, people are convinced when they are introduced with an optimum system.*" (Interviewee 6)

"*It is interesting that obstacles appear just when you don't expect them. I would say that Montenegro is the hottest country I have ever worked in from the people point of view and cultural obstacles. I come from the northern England, I am a more Scandinavian based person. We say – there is nothing as weird as people, because we are all different. Montenegro is the most challenging country I have ever worked in.*" (Interviewee 5)

The manager from the United Kingdom was explicit in making differentiation of Montenegro with the several other countries she worked in previously. The personality of people from Montenegro is something she considers as a challenge in terms of business since they are used to the standardized approach of operating and hardly accept changes. However, she stated that this process is progressing day by day and it is something that makes her even more motivated for work.

"*The environment is kind of pushing people toward capitalism, but the older generations had a better time at socialism and look back at that period. People are emerging a capitalism environment where there is not so much of the middle class. I find it very interesting. I notice a resistance to change, a lot of things come out just when you do not expect them because*

*all of them have massive commitment and energy and passion and effort, being competitive."* (Interviewee 5)

<u>Adaptation process.</u> The respondents were asked regarding the process of getting to know local culture and accepting/integrating local behavior in order to manage the international business. They found it very demanding to balance several business cultures and to learn how to behave in certain unpredictable situations. Trainings and workshops are very popular ways of educating people and making them aware of the environment they work at.

*"There is no formal process of adaptation to national culture as there is so little that an organization can do about it. On the other hand, there is repeated, and formalized process of formulating and communicating basic principles of our organizational culture to employees which is reflected in quarterly all-staff presentations where, amongst other things, we reiterate main company values."* (Interviewee 4)

*"Naturally our company does not impose a national culture, but we share our best experiences within the same work environment and organizational culture so we succeed to create a prosperous company all together. We provide this with good communication and some training programs."* (Interviewee 6)

Since many managers have already worked for big international corporations and adapted to different business ethics and behavior, the process of adaptation is even more provocative and personal. By coming to Montenegro, managers had to face unfamiliar situations and non-acceptance in terms of business decisions.

*"Montenegro is a country of the extremes and a culture is one of the extremes. Unpredictability is one of the things that make the work here challenging. Montenegrins are very rich people, culturally diverse, very passionate. You have to work hard to maintain that and share information why something has to be done in that way. In that way organization is maturing. We had a lot of training to help people understand that and make their work easier. Transactional analysis is an important part of the process."* (Interviewee 5)

*"We have experts and they came from different countries and from the first world. Majority of them spend first few months telling in which way they do something in their countries, but I tell them: "You are not in Australia anymore, forget it!" It is very hard process. There is nothing to hold to in terms of language. Slavic languages are very different to our languages, different basics of working. I think the point is to just taking steady with them, to help them, explore..."* (Interviewee 5)

### 4.1.3 An analysis of Hofstede's cultural dimensions

Respondents were asked to comment on Hofstede's cultural dimensions related to Montenegro with the aim to compare the result from the practice with the theory and examine

whether the result could be generalized to the population as a whole. Interpreted are dimensions which are directly related to the respondents and the business they operate in.

Power distance. A score of 88 for Montenegro when it comes to power distance indicates that the hierarchy and equality is very important for people in this society. When it comes to power and its distribution across the companies with foreign managers, it could be said that the structure is well organized and hierarchical.

*"Hierarchy is organized by the Act of systematization which outlines the organizational structure and describes roles and duties of each single employee. So, formally there is very clear assignment of duties and responsibilities."* (Interviewee 4)

Through the interviews with managers it is shown that companies care about the distribution of work and responsibilities which matches with the score of Montenegro related to this dimension. Thus, power distance of Montenegro matches to power distance of UK, Egypt and Turkey.

However, respondents claimed that the process of structuring was not easy-going at the beginning and stated that is not uncommon for anyone to step out of his/her place and do the job that is not assigned to their place. A cross-cultural environment has absolutely had an effect on the structuring.

*"The reality of the work we do and the organizational culture of the company encourages stepping out and often below or above someone's assigned "place". It is not unusual to have senior management team members assigning tasks to employees that are much over their formal position, end even above their existing knowledge and skills set in order to empower them, and train them."* (Interviewee 4)

When it comes to collectivism, respondents claimed that Montenegrins are famous for being a collective society which distinguishes itself from other present cultures. Montenegro scored 24 on the individualism dimension, indicatia png that it is expected that managers should maintain the relationships with other employees out of the work time. The aim of asking this question was to find out whether this trait is present in terms of business, and it turned out that respondents from the UK and Egypt have different attitude when it comes to the relationships in the company.

*"In my country it is not that people don't care about each other, but the job is the job, and we are more transactional. Whereas here, friends are first and colleagues are second. I would compare the collectivism with the socialism, these two are very similar. Montenegro is a country that took a lot time to emerge, which I think is painful so people only had each other."* (Interviewee 5)

*"While I acknowledge the highly collectivistic score for MNE, I tend to disagree to an extent to a conclusion that this collectivistic trait extends fully to workplace and that colleagues*

*are always integrated in the in-groups. There has been fundamental shift in work related collectivism in MNE and all the Balkans and work-related individualism is prevailing now, especially with the younger generations of employees."* (Interviewee 4)

<u>Uncertainty avoidance</u>. With the score of 90 on this dimension, people in Montenegro are expected to avoid risky decisions and maintain standardized environment. It could be said that the theory is positively correlated with the practice in terms of this dimension. Respondents agreed that employees from Montenegro are less risk takers than the foreign ones because of their mentality.

*"Local employees are less likely to make informative decisions even within their responsibility without getting consent from the superior in the attempt to mitigate any risk of failure."* (Interviewee 4)

When it comes to <u>long/short term orientation</u>, according to the score of 75 Montenegrins are long-term oriented people. From the interviews was found out that respondents perceive employees from Montenegro as short-term oriented people which clashes with the score proposed by the model:

*"I think it is the environmental thing. I see Montenegro as a non-strategic country, short term is understandable. Strategic development and strategic insight is something you develop in business. I see people are learning very well but the things are unpredictable. People live based on the plan for the three months."* (Interviewee 5)

### 4.1.4 The overall impact of the national culture on foreign management

According to all respondents, an equilibrium of national and organizational culture has to be achieved so the business could be run without major issues. They consider the companies they work at as environments good for sharing knowledge and cultural experience in order to be as productive as possible.

Managers were asked to express their opinion regarding the overall effect of national culture on the business and to comment whether it exists at all.

*"Of course it exists. You cannot ignore it. If you have a problem with that, don't go and set a business overseas. It is easier for some countries to overcome these differences, which is great but as I said, Montenegro, from the employment type of view and the relations within [the] organization, is the most challenging country I worked in. But equally, the company has to be prepared as well. If you don't want to take this risk, then go somewhere else."* (Interviewee 5)

*"If unmanaged it would affect the business. But I am sure we have achieved adequate equilibrium and embraced lots of the values within our organizational culture which are*

*using the best of the national culture as such as pride, integrity, entrepreneurial spirit etc."*
(Interviewee 4)

A diversity in national cultures is recognized as positive thing among management at foreign companies considering the fact that the exchange of knowledge is at an even greater level.

*"These differences actually bring a lot more color in the business and people are very committed and passionate. From my point of view, we rely on discretionary effort, we work a lot. People go above and beyond what they are expected to do. The benefit of that diversity is passion for work. People who are employed are hardworking, well educated, and that is not always the case."* (Interviewee 6)


## 4.2 Foreign firm with domestic management in Montenegro

Since one of the research goals is to find out whether domestic managers have a similar impression of national culture and its effect on managing a business, the interviews were done with three local managers who work at foreign firms. The questions asked were the same as for the foreigners so the answers are comparable. It could be said that the attitudes of local managers is comparable to the attitudes of foreigners but from their own point of the view. In the following chapters will be interpreted their answers and opinions regarding cultural influence.


### 4.2.1 Differentiation between cultures

The clash of the cultures. As already mentioned and discussed with the foreign managers, working in a culturally diverse environment could induce conflict between the cultures in terms of business decisions and strategies. These dissimilarities are particularly seen among managers, since they could lead to the conflict of opinions during the process of making decisions and managing the business. Respondents were asked to express their judgment regarding the potential clash:

*"There are many examples of that. This is an international company which is physically located in Montenegro which was not ready for this kind of investment at that time. It was very hard to transfer the culture of the company onto the employees. The investor put a lot of effort to educate and train employees and locals, but also the local government. There is a clash in achieving the final result. There is still a gap but there is a way how to do it, and the company is persistent in achieving that goal."* (Interviewee 1)

*"Of course the clash exists. The company is entirely run by Cyprians, UK and US partners so the huge difference is overseen in the management especially when it comes to Cyprians management style which is actually influencing the entire corporate culture. The company has started as a small advisory firm from Cyprus few years ago, principles of the planning*

*is according to a Cyprian corporate mentality which is deep down in the roots of company management."* (Interviewee 2)

A few managers stated that the type of economic system in Montenegro determines a behavior of people and consequently affects the business. Due to the fact that Montenegro was a part of Socialist Federal Republic of Yugoslavia there are some consequent behaviors that conflict with foreign Western cultures.

*"Montenegro was a former socialist country and my generation lived in socialism but young people are growing in capitalism. That kind of mentality somehow survived. There is a difference in the views of the job and their responsibilities, especially with the working time comparing to other cultures in our company."* (Interviewee 1)

According to one manager, the clash does not exist even though the cultural diversity is present and many nationalities are involved in management:

*"I see no clashes in our company. It is certain that the desire of all employees to learn and understand as much as possible about the national cultures of their countries from their colleagues significantly contributes to that, and they attach great importance to that. Understanding and accepting the specifics of cultures is an essential element for creating a business relationship on a sound basis, especially in the case between managers and employees."* (Interviewee 3)

When it comes to <u>comparison of local and foreign employees</u> they all agreed on the fact that diversity is present and real and it creates many unfamiliar situations. Montenegrins see themselves as people more flexible than foreigners and more open to their colleagues. The following are their statements:

*"This way of doing business is not standard for our culture. For example, foreign people in the company spend a lot of time on the work with no problems, while our people wait until the end of the work time to go home. It is a strange thing for the foreigners. This western mode of operation is a big lesson and possibility for our people through these international projects."* (Interviewee 1)

*"The main difference is seen in macro management approach. Managers are running the company outside of Montenegro (outside location). The huge difference is in the process of reporting, so by my experience the global managers have more disciplined culture when it comes to some administrative tasks which helps the company to progress faster. The biggest difference in my opinion is the way of managing the company that comes from a Montenegrin and Balkan more flexible mentality."* (Interviewee 2)

However, it could be said that all of them are <u>overcoming cultural differences</u> by constantly training people within the company and making the compromise.

*"It is not strange to stay above the work time, and that is not common for the people from here. This kind of behavior was not accepted by the management of the company so we slowly changed the mentality and now we can see that both locals and foreigners are staying as much as needed."* (Interviewee 1)

### 4.2.2 The obstacles and challenges in domestic management

*"The biggest challenge for us locals is to understand that nothing is guaranteed, because we believe we are protected if we are employed by the company no matter what are the results. That is the biggest difference that I can see between local and foreign employees – how they see their positions in the company and how they see the company within the business community."* (Interviewee 3)

<u>A pressure on local managers exists</u>. As much foreign managers have to overcome obstacles in the local culture, local managers have to overcome them in terms of the foreign culture. By talking with local managers of foreign companies it was noticed that the pressure they feel is not negligible comparing to foreigners since they also have to learn how to adapt to foreign organizational culture and how to behave in a proper manner. Each of them has a different experience which are interpreted below:

*"The fact is that in certain cultures the decision-making approach implies a significantly higher degree of analytical consideration and strategic assessment of the situation, while in other cultures this is not required for decision-making. Also, some national cultures favor teamwork as an essential element of business. These are all specifics that must be taken into account in a multinational company like ours."* (Interviewee 3)

*"We as local employers are constantly under stress and presure between two languages and do the work in the foreign language. For the foreigners it's not a big problem, they communicate only in one language, while we locals have to balance. The important thing is that the conversation is professional and we have to struggle with our foreign professional terms, but it is a big lesson for us."* (Interviewee 1)

Different type of obstacles could be seen through administrative stuff and the possibility to organize international cooperation in terms of bureaucracy. According to one respondent this happens because of the lack of knowledge when it comes to international business.

*"There are many problems with bureaucracy with both state and local authority. A will for the cooperation exists, but the knowledge necessary for that kind of cooperation lacks in both local and state authority."* (Interviewee 1)

<u>Misunderstandings</u>. Different management approaches could lead to certain misunderstandings between managers and employees. These situations are followed with

time consumption but are considered as lessons for future management of the business. The following are examples of the respondents when it comes to similar situations:

*"We have an expert who is in upper management, has a PhD from the US and is a highly knowledgeable person. He had to adapt to the local mentality, employees, and the work liabilities. Communication between managers and employees is different and both manager and employees saw this as a challenge. Now we can see that people from Montenegro act and behave as foreign experts. The way of communication changed through time and management and employees have a great benefit from that."* (Interviewee 2)

*"We had a situation with one of the leaders from Ireland who takes everything for granted and did not understand the relationship with others in the company. What he did not understand was that everybody was more bothered about the relationships than he was. He is an expert - what he needed to implement was absolutely the right thing to do but he didn't listen to people and was too pushy and transactional..."* (Interviewee 2)

### 4.2.3    An analysis of Hofstede's cultural dimensions

Power distance. Since Montenegro scored 88 on this dimension, people from this society are expected to be very structured and hierarchal organized. Respondents were asked regarding the hierarchy in the company and assigned responsibilities. It was found out that some of them confirmed a high score of power distance in terms of clearly structured division of work and power:

*"Our company has a precisely defined organizational structure with a completely clear hierarchy in work and decision making. When establishing an employment relationship, each person receives clear instructions (which are formally recognized in the employment contract), with the expected results that will be evaluated twice a year. In addition to the above, employees receive clear instructions about their immediate superiors, as well as about the hierarchical line of communication, ways of acting and decision-making."* (Interviewee 3)

However, some of the respondents stated that even though everyone in the company has an assigned place, there are still exceptions and situations where employees have to do something which is not in their job description.

"*When it comes to the description of the job it is not that much related. It happens very often that a person from one department has to jump to some other role which is not the main role he is in charge of."* (Interviewee 2)

Collectivism. Having a low score of the individualism – 24, Montenegro represents a country where people take care about each other whether they are close family, friends, or even colleagues. According to the experience of local managers it could be said that this works in

practice and the difference between local and foreign employees (from United Arab Emirates, Egypt and UK) is evident. The following are respondents' experiences:

*"We are very collective-oriented people historically because of religion and history. Foreign experts are more individuals and that is obviously part of their culture and their attitude and outlook upon the world. They really need to rely on themselves and do not expect any help from the government or a third party."* (Interviewee 1)

*"I believe that foreigners are not hugely collective bound and they are less emotional when it comes to relations with other employees. As well I do not see there is specific spending time out of the work place with the colleagues which is a very common thing here in Montenegro."* (Interviewee 2)

Masculinity/femininity. Montenegro scored 48 on this dimension, indicating that the society is both masculinity and femininity oriented. This means that traits such as the quality of life and being part of the crowd are present, but the assertiveness, competition and achievement as well. Respondents were asked to comment on basic values which determines whether society is more masculinity or femininity oriented. The following are their answers:

*"It is an indisputable fact that there are certain differences in understandings of the above-mentioned values. When we talk about the quality of life, I think that the culture of our citizens has significantly retained the need for work not to "endanger" the expected quality of life that they projected, so it is quite common not to accept jobs if Saturday is scheduled as a working day. In terms of competition and self-confidence, I think there is no significant difference."* (Interviewee 3)

*"Of course there is a huge difference. When there is a time to be competitive the foreigners are using the right matrix. They are more competitive based on the results and progress they make. The Balkan or Montenegrin mentality is using much more social intelligence."* (Interviewee 2)

*"There is always competition in such a company and business like this. Foreigners are less prone to be showing competition within company. Locals are trying to compete more because they are trying to achieve a higher positions in the company like experts."* (Interviewee 1)

Uncertainty avoidance. Risk aversion and not accepting changes are characteristics of a society with a high score of uncertainty avoidance. Montenegro with a score of 90 represents a nation which does not accept changes or takes risks easily. This was found out as one of the main differences between Montenegrins and foreign managers from United Arab Emirates, UK and Egypt.

*"Refraining from risk and avoiding failure are one of the main reasons why our citizens have not yet significantly accepted opportunities and new challenges. There is still a need in*

*our culture to ensure the stability of the employment relationship through the so-called work indefinitely. Foreign nationals are significantly more prone to change, short-term planning and the constant search for new business challenges, while, in my opinion, such an approach has not yet been developed in our culture."* (Interviewee 3)

### 4.2.4    The overall impact of the national culture on domestic management

Some respondents claimed that the national culture has a great impact on the business and behavior of employees in a way that encourages people to share knowledge and experience within the company which affects the overall performance.

*"It is a mutual process where we learn from foreign experts and it is very beneficial for my personal development but also for the whole community. I and the other locals are privileged to be a part of this process and learn a new culture, business strategy, and other things. This is a very helpful process for everyone."* (Interviewee 1)

However, some of them were not agreed upon the effect of the national culture, claiming that the balance of cultures within the company is achieved to the level that company performance is not exposed to its influence.

*"I believe that the national culture does not influence the way of doing business or does not limit it in any way. I am familiar with a large number of domestic companies that operate at a very high professional level and whose business owners are domestic persons whose expertise does not lag behind renowned international companies in any segment."* (Interviewee 3)

## 5    DISCUSSION AND RESEARCH IMPLICATIONS

### 5.1    Summary and implication of main findings

In this chapter, findings from the in-depth interviews done with managers of foreign companies in Montenegro are summarized. The main findings will be interpreted through main research questions previously set in the introduction.

**What are the main differences between the national culture of Montenegro and the national culture of the foreign company working in Montenegro?**

By comparing two or more cultures in terms of business it can be said that it is a complex process of balancing and maintaining different mind-sets. Managers, as the ones responsible for the flow and exchange of information between employees, are the most aware of this divergence. According to both the local and foreign managers, Montenegrin national culture differs from the culture of foreign companies in many aspects which are visible in certain

situations when teamwork is needed. Exchange of opinions leads to the appearance of misunderstandings caused by different cultural behavior.

Foreign managers emphasized as the main difference the perception of relationships within the company. It is known that people in Montenegro are quite dependent on social life and the people that surround them. This characteristic is reflected in business as well since relationships between colleagues are at an enviable level in comparison to other countries. According to foreign managers, the time spent with colleagues out of work does not exist in their countries while people from Montenegro maintain friendships with their co-workers. They explained this by historical facts and events that brought people together and developed a sense of interconnection. Managers from abroad claim they are more individualistic and transactional people meaning they are more self-oriented and concentrated on the given task. In situations when some business problem must be resolved, they rather go directly through the task while people in Montenegro first like to establish the relationship so the task could be done. Collectivism in Montenegro is recognized as one of the most significant values. According to managers, the very nature of the work influences the almost everyday examples of peer support that are especially expressed during teamwork on individual projects. The unbreakable link between individual processes requires greater connectivity and mutual support of employees. In this part, a special stamp is given by the national culture in Montenegro, in which the collegial approach and care for colleagues is very present.

From the local managers' point of view, they recognize a big cultural gap when it comes to work habits. From their experience it could be said that foreigners have much more passion to work outside of the work time. In situations when work requires staying beyond office hours, foreigners are shown as more flexible and adjustable than employees from Montenegro. This could be attributed to the cultural dimension of masculinity/femininity, where Montenegrins with the score of 48 represent a nation which is very focused on the quality of life. The balance between work and life should not be disturbed and that represents the main distinction from other cultures.

**What are the main obstacles faced by the management of foreign firms working in Montenegro?**

Working in a company with national diversity is a very challenging and dynamic process. Daily challenges are closely related to the diverse employee structure. Managers struggle with many issues based on cultural diversity. According to some managers, Montenegro is the most challenging country they ever worked in because of the cultural distance with Western culture and the diversity of nations involved in the business. A balance of values, behavior, and thinking has to be achieved among all employees, thus managers have a lot of work in educating people so cooperation could be efficient and productive.

Foreign managers are more challenged by the locals' resistance to change and risk averseness. This is related to the Montenegrin mentality, but also to conflicts with the

standards of foreign cultures which promote adaptability to changes and taking risks in terms of business decisions. The business mentality of local people is more traditional and without many deviations, which creates some kind of conflict between managers and employees.

From the locals' perspective, there are also some challenges through the adaptation process. Since local managers work with both local and foreign employees they have to program themselves to think both in a local and foreign manner so the job could be done in a proper way. Apart from that, a mix of languages (Montenegrin language when speaking with locals, English when speaking with foreigners) makes them more being under pressure.

In general, both local and foreign managers see challenges in multi-national cooperation since work liabilities and communication is different in each country. There were many situations where foreign leaders took a lot of time to adapt to the local mentality and to understand their mind-set so the managing of people in the company could be possible and successful.

**Do managers perceive clashes between their organizational culture and the national culture of workers in the subsidiary in Montenegro?**

Opinions are divided when it comes to the clash of the cultures themselves. Namely, a majority of the managers consider this clash as something inevitable. Foreign companies are physically located in Montenegro, but the way of doing business is quite different. Some types of management are more traditional, some of them are more modern and experimental. When two or more cultures are found in the same business, the clash exists and could induce some unexpected events.

Apart from the clash among employees, there are still some other conflict situations where the national culture plays a great role. According to one manager from an international company located in Montenegro, bureaucracy represents a main issue. Not all countries have the same regulation process and that could be a bothering circumstance for international companies in terms of time consumption and efficiency.

Socialism as the surviving economic system in the country influences older generations of managers in making decisions and perceiving business. This system conflicts with the majority of foreign mentalities in terms of different views on work, responsibilities, and aims. Companies are trying to overcome this clash by educating and training people to behave and think according to the organizational culture of the company.

However, some managers consider that it is more about the integration process of cultures rather than a clash. Due to the high national diversity in the company, this integration process is of the great importance. Whether because of the efficient training programs or similar national cultures among the employees, this cultural distance does not induce major issues.

Hence, the conflict/clash among national cultures exists but it is perceived on an individualistic basis. Depending on the environment in the company and willingness of people to overcome cultural differences, the clash will have positive or negative effects on the company.

**Are there differences in the management of foreign companies depending on whether the management in Montenegro is local (Montenegrin) or expatriate (from the host firm/country)?**

Taking into consideration information obtained from in-depth interviews, it is evident that differences exist in the way of perceiving and managing business. It could be said that local managers rely on more traditional and standardized way of managing, with security and risk aversion. They tend to manage the employees and business in a way that has already proved effective and without using many deviations. On the contrary, foreign managers are seen as more flexible and adjustable to current conditions. They expect employees to take risks and are more prone to introducing changes. This is something related to Western cultures that clashes in many aspects with Montenegrin and Balkan culture.

Nevertheless, a common thing for both locals and foreigners is the ability of balancing and managing different cultures. It is completely realistic that both of them must go through the process of adapting to a new work environment. In addition to this, the process includes other things such as adapting to new cultural settings. Since there is no formal adjustment procedure, managers are expected to understand that the work environment implies a set of multiple cultures and, accordingly, different approaches to work activities.

## 5.2    Limitations of the study

As already mentioned, qualitative research was considered for a long time as incomplete defined research because of the methods used for gathering and analysing data. Consequently, it has some limitations in terms of data collection and data analysis, which my thesis was also exposed to.

Firstly, like with many qualitative studies, my thesis included a small sample size which could be a very important limitation, especially when the subject of the research is regarding someone's behaviour, thinking, or motivation. Having in mind that this topic is related with an individual's impression, there is concern related to generalization as well.

Secondly, the possibility of bias is evident in terms of industry heterogeneity. Due to the fact that five from the six interviewed managers work at the ports, marinas, and exclusive yachting clubs, a possibility for limitation is not small. Similar experiences in managing the company may affect the overall result of the research and limit the possibility of diverse of opinions. A more balanced sample in terms of the industry may show different results.

Thirdly, demographic characteristics of the sample may affect the results of the research as the respondents are mostly located in the cities on the coast and work usually with people from that part of the country. It is known that the mentality of people differs across regions in the country, so possible bias could arise since people from the coast are considered to be more open for sharing their thoughts and experiences. Therefore, obtaining data from the broad population would definitely affect the overall conclusion.

Due to the very small sample and its limitations in terms of regions and industry, this research could not be generalized and applied to the country level.

## 5.3     Suggestions for further research

There is a lot potential for further research and improvement in terms of limitations. Since the sample size is quite small and limited by the region, it would be very interesting to interview managers from the other parts of the country and check whether they perceive national culture and its impact in another way. Interviews with managers from different regions, different industries and job positions might lead to more broad and generalized results of the research.

By interpreting the findings of this research, some new topics have been opened which might be interesting for further study. Interviews with managers in foreign companies in Montenegro showed that "nor were the market nor the people ready for the foreign investments in the country at the moment of their developing" (Interviewee 1). Thus, potential research could deal with the process of adaptation to different organizational culture in the management of the foreign companies in Montenegro. It might be interesting to investigate the other side of the managing process – how do managers adapt to different rules and business politics and which steps they have to make in order to handle cultural distance.

## CONCLUSION

Internationalization of companies is becoming a common thing across the world while centralized systems of operating are slowly being abandoned. Companies worldwide decide upon spreading business and gaining customers globally. The process of globalization made companies brave enough to explore new markets and industries overseas and to open subsidiaries. This network of international companies influenced people to go abroad and work in different cultural environments and collaborate with people with diverse nationalities. Sharing knowledge, experience, culture, and values is the main task of managers whether they work in a local or foreign environment. To make the system work, expatriate managers have to adapt to the local culture and vice versa. This mutual process has provoked many questions regarding influence of national culture in international business.

The main purpose of this thesis was to explore to which extent national culture influences management of foreign companies in Montenegro, depending on whether management is local (Montenegrin) or from the host country. The goals of the thesis were to review the main frameworks for studying national and organizational culture and to investigate Montenegro through them, to determine the main obstacles of the management of foreign companies and to examine whether differences exist based on the national culture of management. This was explored through research questions which were divided in four parts of research findings: what are the main differences between national culture of locals/foreigners in foreign company; what are the main obstacles faced by the management; does Hofstede's national framework match with practical examples; what is the overall impact of national culture on the management of foreign companies in Montenegro, depending whether is local or expatriate.

Montenegro was chosen as a country for investigation since it represents a very diverse national society with very few big international companies. Its history and culture differs a lot from the majority of countries that operate in Montenegro, thus the issue is even more present and complex.

Due to the very diverse cultural and national values of the respondents, the range of findings is broad and extensive. Hence, the final results of the fundamental implications in this research are following:

- The clash of the cultures among managers in international companies exists and both locals and foreigners are aware of that. In order to overcome issues, managers are trying to educate employees through training programs and team work so business results do not suffer;
- The main differences among local and foreign employees are in their perception and understanding of business. Foreign employees seem to be more flexible and open-minded while local employees prefer more traditional way of doing business. This is entirely related to national culture;
- The influence of national culture could be either positive or negative, depending on how managers perceive and understand cultural issues. By accepting different impressions of business and decision-making and trying to adapt them to a familiar environment, mutual benefits could lead to greater final results. Otherwise, an unwillingness for adaptation and learning could produce negative impact on the business;
- Managers of foreign companies are familiar with different obstacles and challenges due to cultural diversity, depending whether they are locals or foreigners;
- The influence of national culture is very obvious and present among foreign companies in Montenegro. A large cultural distance leads to unfamiliar events and could induce misunderstandings among employees at the company. However, it could be said that the influence of culture is becoming diminished by virtue of globalization. By sharing business, knowledge, and culture across the world, countries become aware of

differences and accept them, so eventually become more similar to each other as well, which consequently has an impact on management performance.

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**APPENDICES**

**Appendix A: Povzetek (Summary in Slovene language)**

Preden se v nekem podjetju odločijo poslovati v tujini, se najprej morajo zavedati dejstva, da ima vsaka država svojo kulturo in svoje načina dojemanja lastne kulture ter vedenja. Kultura je bila vedno izpostavljena kot eden največjih izzivov pri mednarodnem poslovanju. Vsako podjetje ima svojo kulturo: kulturo, ki temeljni na nacionalni kulturi matične države podjetja, kot tudi svojo lastno organizacijsko in korporacijsko kulturo. Pomembno je omeniti, da je korporativna kultura multinacionalnega podjetja vedno pogojena z nacionalno kulturo države gostiteljice.

Vpliv korporacijske in lokalne kulture v multinacionalnem podjetju v Črni gori je zelo dobro znan, vendar pa ni podprt z empiričnimi raziskavami, ki nam bi pojasnile kako točno poteka prepletanje teh dveh kultur v dejanskih poslovnih okoliščinah. Namen magistrskega dela je torej raziskati vlogo nacionalne kulture v kontekstu organizacijske kulture v multinacionalnem podjetju. Poleg tega bo raziskovan tudi razlika v dojemanju in percepcij korporacijske in nacionalne kulture med tujimi in lokalnimi managerji v državi gostiteljici. Preverila bom tudi, kako se upravljanje tujih menadžerjev v Črni gori razlikuje od črnogorskih menedžerjev in v kolikšni meri morajo tuja podjetja prilagoditi upravljanje lokalni kulturi. Menim, da bodo izsledki mojih raziskav pomagali managerjem v multinacionalnih podjetji k lažjem izvajanju njihovega dela v primeru, ko se bodo srečevali z razlikami med organizacijsko in nacionalno kulturo podjetja.

Magistrska naloga se bo opirala na kvalitativne empirične in opisne raziskave. Raziskava bo potekala na podlagi primarnih in sekundarnih podatkov, ki bodo osnova za odgovore na predlagana raziskovalna vprašanja. Primarni podatki se bodo osredotočili na razumevanje človeškega vedenja, ki bodo pridobljeni s polstrukturiranimi poglobljenimi intervjuji s strani šestih managerjev, ki so zaposleni v tujih podjetjih v Črni gori. V vzorec so tako vključeni managerji hčerinskih družb tujih podjetij v Črni gori. Sestavljajo ga trije lokalni managerji (t.i. črnogorski menedžerji tuje podružnice) in trije tuji managerjih, ki prihajajo iz matičnega podjetja (t.i. tuji menedžerji). Rezultati bodo pokazali v kolikšni meri na njihov odnos, vrednote in načine upravljanja osebja vpliva njihova nacionalna kultura ter v kolikšni meri se lokalni menedžerji v tujih podjetjih razlikujejo od tujih menedžerjev, ki prihajajo iz matičnega podjetja.

**Appendix B: Interview guide**

<u>**Introduction questions:**</u>

What is the main focus of your company? B2B or B2C?

Which country are you coming from?

Can you please describe the organizational culture of your company? What are the main principles of your business?

<u>**In-depth interview open-end questions:**</u>

1. What are according to you the main values as a manager in your company?
2. Do you see any clash of the national culture in Montenegro and the culture of your company? If yes, which are these differences?
3. How do you see a culture of employees in Montenegro, comparing to those who are foreigners?
4. Do employees go through the process of adaptation to different national/organizational culture?
5. What are the main obstacles and challenges in the management of the company regarding different organizational and national culture?
6. Can you please give an example of misunderstanding because of the culture? Whether the misunderstanding arose because of behavior, communication or some other external factor?
7. How is the hierarchy organized? Does everyone has its own responsibilities and accept their assigned place? Can you provide an example?
8. According to Hofstede model, Montenegro represents a country with high collectivism score, they are seen as people who care about their colleagues. Do you see any differences comparing *to your culture? / culture of the company?*
9. Do you see any differences between Montenegrins and foreign employees when it comes to the values such as quality of life, competition or assertiveness?
10. Are there some differences in cultures when it comes to accepting changes, being risk averse and have a fear of failure? Can you please give an example?
11. Do you recognize any differences between cultures when it comes to the long/short term orientation? Do you prefer more long-term or short-term planning?
12. In your opinion, does national culture affect a way of doing business and constrain organizational culture of the company?

*Source:* Own work