CHAPTER 12.

CULTURE AND CULTURAL DIVERSITY AS A COMPETITIVE ADVANTAGE FOR ECONOMIC DEVELOPMENT

Srđan Redžepagić, PhD*, Dejan Erić, PhD**, Ivan Stošić, PhD***¹²,

INTRODUCTION

It has been nearly half a century since the attention directed towards reconstruction of countries devastated in World War II shifted to ending poverty, illiteracy and injustice faced by the majority of people living in Africa, Asia and Latin America. Optimism was growing immediately after the extraordinary success of the Marshall Plan in Western Europe and Japan's rising from the ashes of defeat. It was believed that the development was inevitable, especially after the abolition of the colonial yoke. Then a very influential book by Walt Rostow (1959) was published in 1960, titled "The Stages of Economic Growth," advocating that human progress is run by a dialectic that can be accelerated.

The colonial yoke was indeed largely removed. The Philippines became independent in 1946, as well as India and Pakistan in 1947.

 ¹² *assistant professor, Institute of Economic Sciences, Belgrade, Serbia
**professor, Institute of Economic Sciences, Belgrade, Serbia

^{***}associate professor, Institute of Economic Sciences, Belgrade, Serbia

The Alliance for Progress, which was a response by John F. Kennedy to the Cuban revolution, expressed the prevailing optimism. It was believed that Latin America would move far on the road to prosperity and democracy within ten years. Many African countries gained independence and started their own development. Many of them joined together in the early '60s in the Non-Aligned Movement.

At the beginning of the new era, however, optimism was replaced by feelings of frustration and pessimism. Several countries, such as Spain, Portugal, South Korea, Taiwan and Singapore, as well as the former colony of Hong Kong – fulfilled Rostow's predictions regarding the entry into the so-called "first world." But the vast majority of countries still lag far behind. Of about six billion people that now inhabit the planet, less than one billion live in countries which the World Bank does not classify as "low income" or "lower middle income" countries.

Culture can be defined as "*ways of living built by groups of human beings that are transmitted from one generation to another.*" Ways of living are conducted in the context of social institutions, including family, educational, religious and government institutions and companies. Culture involves conscious and unconscious values, ideas, attitudes, and symbols that shape human behavior and are passed from one generation to the next (and the following). Organizational anthropologist Geert Hofstede defines culture as "collective programming of thinking that distinguishes members of one group from another." A certain group of people can be represented by the nation, ethnic group, organization, family or some other unit. In this way we can differentiate levels of observation of culture, of which the most well-known are the national and organizational culture.

In a well-known definition of culture, the cultural anthropologist George P. Murdock (according to Keegan & Green, 2000) identifies a series of "*cultural universals*" such as athletic sports, body trimming, cooking, flirting, dancing, decorative art, education, ethics, family luncheon, taboos regarding food, language, marriage , meal time, grief, music, property rights, religious customs, dwelling rules, status differences and trade.

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Certain elements that are common to any definition of national culture are that it is always learned, shared and transmitted from one generation to another. Culture is primarily transmitted from parents to children, but also by community organizations, special interest groups, governments, schools and church. Common ways of thinking and behavior are developed and strengthened by social pressures (Czinkota & Ronkainen, 2001).

Cultural diversity is the existence within society of different racial, religious and ethnic groups, and other groups that do not share the same values and lifestyles. Cultural diversity (also known as cultural pluralism) means accepting and respecting these differences, not assimilation into the dominant culture. The practice of social work requires social workers to learn about new cultures. It is also required from modern managers.

Traditional cultures value diversity highly, which is another reason for the recognition, understanding, protection and promotion of traditional communities and their cultures, religions and languages. It is known that indigenous people have shown great understanding toward the community and believed that people are obliged to respect other people, other natural species and the environment. However, in many cases, indigenous people (who make up about 20% of the world's population or over 300 million inhabitants and speak 70% of the world's nearly 5,000 languages), are not recognizable in maps, although it is important to show each and every indigenous community in a map in order to recognize its existence in the world and grant all the rights to its people. The legal rights of indigenous people have been continually violated, and a variety of reasons given for their alleged invisibility. We point out that family, language, culture, art and the environment are inalienable part of the identity of all people. Indigenous people are equal in their dignity and rights to all other people, and all people have the right to be different, to consider themselves different and to be respected as such.

On the above mentioned grounds, multiculturalism was developed as one of the features of modern management in the second half of the 20th century (*Eric D., 2000*). The main objective of intercultural analysis of the consumer is to determine similarities and differences between people in two or more countries (Schiffman & Kanuka, 2000). Understanding the similarities and differences between countries is essential for multinational companies that have to make appropriate strategies to gain consumers in specific international markets. The higher the similarities between countries, the more appropriate it is to use relatively similar strategies in each country. On the other hand, if beliefs, values and traditions of specific countries differ widely, it is necessary to develop a separate (individual) marketing strategy for each country. Whether to follow ethnocentric or polycentric approach to gaining new markets is a dilemma.

Accepting Hofstede's definition of culture as "collective programming" of opinion," culture can be studied by considering the common attitudes, beliefs and values of a certain group of people. Attitude is a learned tendency to respond in a consistent manner to a given subject. Attitudes reflect a way of thinking, and they change and must be based on facts. A belief is an organized body of knowledge of an individual of the truth about the world. Attitudes and beliefs are closely related to values. A value is a permanent belief or feeling that a certain mode of behavior is personally or socially preferred to another. It follows that values are the deepest level of culture and are accepted by most members of a particular culture (Keegan & Green, 2000). Rawwas (2001) points out that values are the major determinant of cultural and are represented by people's beliefs about what is right and wrong. These values are learnt as a part of the national culture to which each individual belongs, and they help direct the behavior of each individual person. Cultural values in turn influence the way of thinking and the behavior of people within a specific area.

An illustrative example is the unification of West and East Germany. Although they claimed to be the same nation in both countries, they found out how different they actually were when the "wall" was broken between them. While the citizens of West Germany are competitive and fight for high performance and success, the citizens of East Germany are less disciplined and less concerned about impressing their managers. An even more dramatic example can be found in modern Europe, which is a compilation of different cultures. Although there are huge differences among individual areas, no one in Germany can understand how people in Greece could show false data on their indebtedness and public spending, which finally led to a crisis in 2009, and almost caused the collapse of Euro as a common European currency.

DEVELOPING CULTURAL PROCESS

The concept of culture creates much confusion and is open to interpretation. It was defined in 1549 as *development of intellectual faculties by appropriate exercises and all the knowledge that develop critical thinking, taste, and trial.*" Through the humanities, culture becomes a scientific object. Recently, culture is represented as a static formal description of business management.

The dynamic aspect of culture is interesting, particularly for its analogy to the efforts of organizations to adapt to external constraints. The concept of culture itself reflects many changes. In this context, culture suggests a human activity and reflects an inter-dependence between needs and work. It is through culture that man derives revenues through his work. The consequence is that culture shapes the organization of human activities.

When a problem arises, whatever its nature may be and whatever area it concerns, culture is often cited as a cause and sometimes, as a remedy. The culture of a company presents itself both as a management tool, but also as an obstacle. This concept is contradictory when applied to a company.

For ten years, companies have been seeking to build a different image. Technical excellence, economic performance and the mastery of business disappear in a company that wants to confront exclusion and environmental problems, and support solidarity and local development and sustainability. Across the Atlantic, there are different themes that use a new approach called the enterprise project. The phenomenon of the company, its history, its values and culture are examined. Now it

is the logic of honor as understood by Philippe Iribane, or the soul of the enterprise, as developed by Alain Etchegoyen, that replace notions of economics, technology, commerce and industry. Leaders find themselves in focus groups, like Ganagobie led by a Benedictine father. Clubs reflect on meaning, and philosophical seminars, spiritual retreats complete the picture of a company in which nothing is alien that is human. However, financial aspects are more important than scholarship, the workshop or the office. These realities call into question the very meaning of the economic game and the place of business. Caught between economic and human constraints, social leaders are questioning roles, motivations and management practices. In addition, computers, machinery, methodologies and technological tools related to management science have positive effects on the process. Many professionals have now become mere technical operators and have seen their jobs disappear, disqualified or challenged.

ASSESSMENT OF ORGANIZATIONAL CULTURE AND ITS CONTRIBUTION TO THE CREATION OF COMPETITIVE ADVANTAGES

The concept of organizational culture is relatively new, hence it has many approaches and definitions. In order to avoid extensive citation of different definitions here, we will focus on the elements most frequently used in its description. As we understand, what distinguishes organizational culture is the system of assumptions, beliefs, values and norms of behavior that members of an organization develop and adopt through common experience and which are manifested through symbols, and which direct their way of thinking and behavior. From a scientific point of view and having analyzed the world literature, we conclude that the most important elements for understanding the concept of organizational culture are the following:

- Content – Organizational culture consists of cognitive structural elements of the members of an organization - its assumptions, beliefs, values, etc. In addition to the cognitive,

organizational culture consists of symbolic elements, such as language, material symbols, behavior patterns, etc.

- The social character Culture can be understood through social categories, i.e., that it only exists in terms of social groups such as organizations, social strata, professions, nations and the like.
- Effects organizational culture directs or determines the consciousness and behavior of people, and also leads all members of the organization to interpret and understand these phenomena in almost the same way.
- The origin One of the key characteristics of organizational culture is that it is created through a process of social interaction among members of the organization. The common meaning of things and phenomena, as well as common beliefs, values and norms of behavior can be achieved by the members of organization only through their interaction and communication during their work in the organization. Organizational culture is created through the shared experience of members of the organization which they acquire by solving everyday problems.

Reactions of the members of an organization are often the result of their interpretation of the world and events in it. Hence it is crystal clear that organizational culture directs and determines the daily behavior and activities of people in an organization. Imagine two normal cases - the case in which you are happy to go to work, where you find security, understanding and support, or that in which you get a stomach ache at the very thought of having to go to work and watch some people, listen to empty rhetoric or suffer some other things.

The definition of organizational culture is significantly easier if it describes the implementation of tasks, such as organizational changes. Put simply, when people believe in something, then they do not have to be so strictly controlled and will make an effort to work well. When they do not have to do something and are not forced to do it, when

they work willingly and happily, they will tend to facilitate the adopted course of action. Such organizational culture would result in higher productivity and better organizational performance. It was mentioned in the literature a long time ago, particularly in the field of management and organizational behavior. A better atmosphere at work leads to greater motivation, increased satisfaction and better performance. On the other hand, if employees do not believe in something (or do not see their position or role in it) they will not do anything to achieve it or may show visible resistance to it. It should be born in mind that if there is trust in an organization, inconveniences can be dealt with as a relatively normal and natural thing. In such organizational cultures, it is easier to achieve competitive advantage, often through differentiation (Porter, 1980, 1985) as employees thus have a greater sense of belonging to an organization and a stronger desire for its progress and success.

In order to help organizational culture achieve tangible and sustainable competitive advantages, management has to be in charge of its development. In order to achieve this, management must communicate with all employees using the variety of resources available to it through formal and informal channels of communication. It is extremely important to associate organizational culture with the essence of competitive advantage, which is an integral element of strategy and one of the most important factors in business success.

If the head of the organization (e.g., the general manager) is accepted as a leader, it is more likely that the organizational culture will support formulated goals and strategies that lead to the creation of competitive advantage. The vision of the general manager as a leader must be clear, comprehensible to all, motivational and should lead to the realization of tangible results that benefit the whole organization and all employees. In this way, trust is created between employees and leaders and a sort of "credit" has been given for further actions, new challenges and results. Of course, the responsibility for the proper combination of organizational culture and competitive advantage lies not only with the leader, but with lower levels of management as well, especially in large and complex organizations where there are

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elements of divisional, matrix or some other complex form of organizational structure. In such organizations, low level managers have an important personal role in the process of implementing change. They become local leaders of change, and their thinking and behavior towards the organization becomes a reference model for all employees in the sector they are running.

It is well known that organizational culture is created through a process of generating shared assumptions, beliefs, values, norms and symbols, and their acceptance by all or most members of an organization. On the one hand, it is created through the group (collective) problem solving that employees face in the organization. One group of problems is also related to the need of external adaptation, which involves finding a place in their environment. On the other hand, strategy as a managerial decision is a way of achieving goals and responding to external factors, above all, to the competition (Coulter, 2008). We have already pointed out that the essence of strategy is to create competitive advantages. Regardless of the source of advantage (cost, differentiation, or a combination of these, [M. Porter]) the probability of success in business is significantly increased to any organization that manages to link the process of creating organizational culture and competitive advantages in a single flow

Organizational culture can either help or hinder the implementation of formulated strategies. If the shift is planned from one group of products or markets to another at the corporate level, it will result in a number of organizational decisions, some of which will be reflected in organizational culture. For example, abandoning low cost as a source of competitive advantage and orientation towards differentiation will bring about changes in the culture, since it would involve the adoption of new marketing principles, different market segmentation, a new position of the buyer, a different intensity and style of marketing communications, a different treatment of their expectations, etc. If the requirements of a demanding international market become more important, it can produce additional needs and requirements for adapting the organizational culture. We can say that the relationship between strategy and culture is similar to that between strategy and structure, which was analyzed a long time ago in the history of management (Chandler, 1990). On the one hand, the structure and culture influence the strategy, while on the other hand, new strategies lead to the need for changing the existing structures and cultures. Of course, these processes are mutually interconnected and affect each other.

For example, if changes are necessary in the reward system, they should be introduced in line and complete. By this, we mean that stimulating reward systems are aligned with all organizational units, to take into consideration the specific nature of the work process, and that such contributions are included in all parts of the organization (Redžepagić S., 2007). An increase in the range of salaries and the introduction of a bonus system may allow one to earn more, if he works more and achieves better results, for example, in manufacturing or sales. However, such a system may not be appropriate for the employees in the technical and administrative areas, where the staff must also have the opportunity to express their individuality and contribute to the overall performance of the organization. Thus a variety of systems of incentive are necessary. For example, rewards should be provided for savings in materials, energy, and maintenance costs, as well as rewards for extra effort, overtime, for technical and / or technological solutions and innovations, including awards for conducting market analysis and contributions that result in the higher productivity of the company.

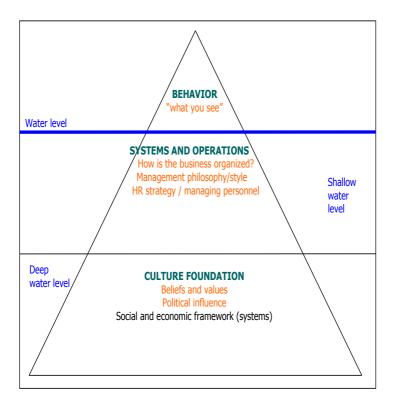
One of the recommendations that can lead to a better climate in the organization is that each individual contribution must be respected in its entirety, or else it will not be repeated. If it becomes a part of the culture, but also an element of the implementation of strategy, then it receives the status of generally accepted principle that can lead to a synergy of small improvements. In such circumstances, people who have not cared to fully engage because the results of their work may not have been sufficiently evaluated can change their attitudes and values, which may result in better performance of the organization. Techniques such as "quality circle" can help even more in the process

of connecting change in organizational culture and creating permanent competitive advantage.

CULTURE IN BUSINESS AS AN ICEBERG

Culture can be seen as an iceberg. Certain elements of culture are visible to the bare eye and easily noticeable, while most of it is hidden "under water" – deeply rooted in the value system of the organization. The importance of certain elements of culture can be especially noticeable in the strategic management of projects, especially at international level, in which there are different forms of associations from different parts of the world. In such cases, great attention has usually been paid to tangible elements of the agreement, such as price, terms and various contractual and financial documents, while the culture is rarely discussed. However, a number of studies suggest that many problems arise later in the implementation of strategic decisions just because of the discord of cultures. There are many such examples, including the merger of Chrysler and Daimler Benz and many others.

In Figure 1 we see that what is visible to the bare eye is the behavior of the organization. That also includes symbols, ways of dressing and other visible forms of culture. What lies below the water level is often more important. There are fundamentals of organizational culture, values, beliefs and so on. Organizations should explore cultural differences before they take any action with other organizations at home or abroad. This means that one needs to make a "review of culture" in order to identify significant differences in culture.



Source: Authors based on analysis of the literature

In the analysis of the iceberg model, one should start from "what" is happening at each level, and then go deeper into the analysis in order to answer the question as to "why" something is going on. From Figure 1, the following three levels can be identified:

BEHAVIOR – the tip of the iceberg consists of those elements of culture which individuals can perceive through their senses. This may be the language used or the behavior of people during social events, such as various conferences, meetings and so on. This element

provides only a superficial understanding of the culture. Behavior is what we can see, but at this stage we cannot interpret or determine their true cause.

SYSTEMS AND OPERATIONS – at this level, it is possible to determine how the systems and operations, or processes within an organization, work. For example, if it is based on respect for hierarchy and rules, it is likely that its operations will have a structure with rigid control and a management culture that is not prepared to tolerate different opinions. At this level, we can observe the organizational structure, management philosophy and strategies related to human resources.

CULTURE FOUNDATION – at the deepest level of analysis of organizational culture, it is based on an understanding of fundamental values and beliefs that exist in an organization. They may include, for example, the perception of correct and incorrect attitudes regarding various issues. Such fundamental beliefs are implicit, created through the social climate, legal and political frameworks, economic conditions, etc. At the national level, it is very difficult to determine the cultural "why", i.e., without a deep understanding of history and tradition of a nation, it is difficult to give an explanation for certain values or beliefs.

Top managers are the first level that must detect certain problems and differences related to culture, and find out the deeper roots of certain types or forms of conduct by the employees. They also must take action to create a positive organizational culture. Failing that, an unhealthy culture may develop with a distorted system of values that becomes the new standard of behavior. Such cultures may later be in conflict with the desires of managers to achieve certain goals or strategies.

There are many sources in the literature as well as on the Internet that offer information and different explanations of cultural differences in the approaches to business in different countries. They include many issues, ranging from access to decision-making and problem-solving to how and when to schedule meetings, how to treat women, dress code, whether some gifts are acceptable and which gifts, form of addressing partners, ways of concluding a contract, the manners of decent behavior, etc. The global business environment, in which there are no barriers to doing business, knowledge of these features is imperative for any organization, and possibly for any serious management team. For example, it is very important to pay attention to religious and national holidays in the countries with which one is doing business, as well as the working hours when one wants to make an appointment, as well as relationships between the genders. Specifically, considering the example of some Arab countries and their business cultures, we notice that women have little role in social life, and almost none in the business world. Hence it would be highly inappropriate to send a woman to talk with a business partner because, regardless of her ability, she would have very little chance to successfully perform her job.

Why do some nations have less productive cultures?

There is agreement on the factors which determine prosperity, and on the beliefs, attitudes and values which support economic progress. Why, then, do we have unproductive culture? Why do they persist in certain societies? Do individuals and companies consciously act in ways that are contrary to their economic interests? The answers to these questions are complex and represent a fertile area for research. There are several general responses, including the following:

- The economic culture of the nation is deeply affected by the prevailing ideas or paradigms on economics. There are many different theories about prosperity, ranging from those on central planning to import substitution and the accumulation factor. These ideas have become deeply rooted in societies through the education system, the influence of intellectuals and government, and in many other ways. What people think they need to be prosperous influences the way they behave in many ways. And beliefs are reflected in attitudes and values. Unproductive economic culture, therefore, does not come from deeply rooted social elements, but out of ignorance or

unfortunate circumstances guiding people with wrong theories. The appearance of wrong theories is sometimes a purely ideological issue, but sometimes they are the consequence of maintaining some form of political control.

- Economic culture depends largely on the past and the present microeconomic context. Individuals can act in ways that harm the collective interests of society or national interests. It rarely happens that individuals consciously act in unproductive ways that damage their individual interests or the interests of the company. The role of cultural attributes is therefore difficult to separate from the influence of the broader business environment and social institutions. The way in which people behave in society largely depends on the signals and incentives present in the economic system in which they live. Enterprises in developing countries often behave opportunistically and do not have long-term plans. That may be rational in an environment in which government policy is unstable and unpredictable. The preference of companies to seek benefits is often related to the political system that rewards it. National characteristics that are ascribed to culture, therefore, often have economic roots. That can be illustrated by the examples of the system of working in the same enterprise throughout one's career and the high savings rate in Japan. It is difficult to separate the behavior resulting from the culture from behavior that is caused or encouraged by the economic system. History, in this sense, leaves a deep imprint on the economic culture. The dependence of culture on circumstances confirms the success of people from poor countries who have moved to a different economic system (i.e., certain immigrants from El Salvador who made a success in the United States).
- The choice of social policy may have a strong impact on economic culture because of its effect on the economic context. A good example is the policy of creating social security networks. It has a direct impact on work, the tendency of individuals to save and the willingness to invest

in their own education, and indirectly affects many other aspects of national economic policy. Economic culture is learned directly or indirectly from the economy, with the exception of those beliefs, attitudes and values that do not come from personal or economic interest, but that are purely socially or morally motivated. Social attitudes on older people, the norms of personal interaction and religious theories are examples of social/moral attitudes and values which can independently shape economic culture. These attitudes and values also have an important role in setting the priorities of national social policy. Good examples of such cultures are some Scandinavian countries, which for years have had a regular system of social welfare, even compared with many of the former communist countries in Central and Eastern Europe.

All this suggests that economic culture is tricky and difficult to change. Beliefs, attitudes and values that are unproductive can change if they are not supported by a prevailing belief or real context faced by both citizens and businesses. However, experience in the past decade shows that, under favorable economic circumstances, a nation can quickly change its economic culture.

CULTURAL TYPOLOGY OF ECONOMIC DEVELOPMENT

The process of economic development can fall into crisis when a nation switches from one state to another, when many temptations appear. If the nation manages to resist them, it will be able to achieve new and better long-term development. Otherwise, serious problems may arise or positive effects may be short-termed. When a cycle that begins with more work and ends up bringing some benefits, people begin to feel a bit richer and may become less inclined to work. Consumption, on the other hand, may increase in such a way that the surplus decreases and development turns into enrichment. In addition, even when the surplus is growing, the nation may decide not to turn it into productive investment. Instead, it may be spent on those priorities

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that nations often use to meet their particular needs, such as building monuments, utopian plans for social security or simple corruption. Nations also may be tempted to retain the level of the achieved development through protectionist strategy or a policy that does not encourage entrepreneurship and investments.

The process of economic development may be defined as a continuous process of making decisions favorable to investment, competition and innovation that are made regardless of temptations which a country may face. The nation must go through moments of temptation that will not jeopardize its long-term sustainable economic development, which can be achieved only if certain cultural values dominate. Only those nations that have a system of values appropriate for making decisions that resists temptations are capable of sustainable and stable development.

There are two categories of values: intrinsic and instrumental. Intrinsic values are those which exist regardless of whether they bring benefit or seek a victim. Patriotism, as a value, requires sacrifice and sometimes may be unfavorable in terms of personal well-being. However, millions of people throughout history have given their lives for the defense of their countries. On the contrary, instrumental values are adopted because they bring immediate benefit. Assuming that a country is devoted to economic growth, it highlights work, productivity and investment in order to achieve this goal. If the decisions favorable to development are only reflections of instrumental economic values such as the accumulation of wealth, the commitment to the country will decline as soon as it reaches a certain level of wealth.

Why would a country behave as if it were poor after it has become rich? The revolution of economic development occurs when people continue to work, compete, invest and innovate even if they no longer need to do so in order to be rich. This is possible only when accepted values which promote prosperity do not disappear after prosperity has been achieved. Thus, values that prevail at the critical moment of decision making and contribute to economic development must be intrinsic rather than instrumental, because instrumental values are by definition temporary. Only intrinsic values are inexhaustible. Instrumental values last only as long as they are used, while intrinsic value remain forever.

CONCLUSION

It is difficult to separate a nation's behavior that results from the culture of behavior from that which is caused or encouraged by the economic system. Modern economic growth is directly related to capitalist institutions. However, there are different forms of economic systems that have a link between the real values that lie in the national culture and the nature of a successful modern business. Sometimes the differences between countries can be explained by geographic or religious factors. There are indications that the Muslim countries of North Africa and the Middle East recorded a long period of weak economic development in spite of their favorable geographical conditions (temperate zone, specifically the Mediterranean climate and coastal orientation). However, there is no evidence that they continued to show poor results after 1965, and several Muslim countries have significantly exceeded the world average rate of economic growth, at least during the last ten years.

The significance of international factors in social change has been very high, at least during the last two centuries, and is likely to be even higher in the future under the pressure of the globalization of society, politics and economics. The analysis of cultural explanations of economic performance is very important under the current conditions of global business. An interdisciplinary approach is definitely an unavoidable feature of modern management. Many organizations have international activities and orientations, and are forced to deal with different cultures. In addition, there is an urgent need to comply with organizational elements of national culture. Finally, we found that, in those organizations where there is harmony between the elements of organizational culture and the formulation of a strategy, durable competitive advantages may be created which lead to better business performance, and may have a positive impact on the national economy as a whole.

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