

National Culture Dimensions and Macro-Indicators. Power Distance in Slovakia

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Abstract

With the increase in foreign direct investment and number of multinational companies establishing their subsidiaries in Slovakia, we argue that there is a need to assess the fit of the Slovak Republic into the national culture distance map to embrace foreign managerial practices. This article focuses on power distance dimension of Slovak national culture, as this is one of the key features in most managerial practices. We draw on the research findings of Hofstede and present a mathematical model to calculate power distance index (PDI) and suggest possible implications for implementation of foreign managerial practices in Slovakia.

Key words: *power distance, national culture dimensions, human resource management practices, Slovakia, hofstede*

JEL Classification: J50, J53

Introduction

The practices and specifications of human resource management in Central and Eastern Europe (CEE) have been a center of attention of researchers and academicians ever since the fall of the Iron Curtain. Focus of their research interests has been placed on various aspects of transformation of human resource management (HRM) systems in transitional economies ranging from attempts to create models identifying the stages of transformation of human resource systems (Prokopenko, 1994) to questioning the appropriateness of application of western HRM models in the particular CEE setting (Taylor and Walley, 2002) and identifying the impact of the macro-environmental variables on the development

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of human resource policies (Tung and Havlovic, 1996). Moreover, a study by Weidlich (2001) suggests that the employment mode (in the territory of Central Europe) has shifted from an egalitarian system towards a tournament – there has been growth in usage of pay-for-performance compensation models, rewarding individual performance and contribution. Furthermore, in promotion decisions presently seniority matters less than ability, resulting in a decline in the average age of managers and an increase in mobility between jobs.

The region of CEE, with clear divergent forces that shape its character (Mills, 1998) has naturally attracted much attention of researchers on the aspects of national cultures and their effects on managerial practices in the region. This notion comes from a general point presented by Hofstede (1993) that management theories and practices are constrained by national culture. Hofstede's work was followed by numerous studies presenting the national culture as a moderator in the acceptance of managerial practices in a particular culture setting (Schneider, 1986; Newman and Nollen, 1996; Ryan, McFarland, Baron and Page, 1999). In addition, empirical evidence confirmed that management practices, such as strategic decision making (Schneider and De Meyer, 1991), leadership style (Puffer, 1993) and human resource management practices (Luthans, Welsh and Rosenkrantz, 1993) differ by national culture. In addition to these findings, studies argued that national culture distance plays an important in implementation of managerial practices. National culture distance, as defined by Kogut and Singh (1988) represents distance in the norms and routines for organizational design, new product development, and other aspects of management that are found in the acquirer's and the target's countries of origin and determines a successful implementation of certain managerial approaches by multinational companies in a „host country“.

In similar countries, the procedures may be comparable and thus the implementation of new management ideas „smoother“, whereas in countries that are more different on national culture dimensions, there may be a need for larger modification of procedures from the home culture headquarters to the host culture business environment. This creates a need to assess the cultural dimensions of countries in transition in order to identify managerial practices compatible with the cultural environment. Simultaneously, understanding of the culture can help define adaptations of tools and procedures the multinationals present in the region embracing to fit the local cultural environment. A number of academics have addressed these issues in relation to management practices in Central and Eastern Europe: Hofstede's indices were applied to Polish managers, identifying a strong distrust for authority indicating high power distance (Nasierowski and Mikula, 1998); Czech managers were found to score high on individualism

(Trompenaars, 1993) contradicting the general belief that cultures of post communist countries are to be rather collectivist in nature. Moreover, from a broader HRM point of view, Tung and Havlovic's study (1996) compared HRM in transitional economies of Poland and the Czech Republic; Cyr and Schneider (1996) performed a thorough analysis of HRM functions in joint ventures among Polish, Czech and Hungarian companies and their western counterparts and suggested their adaptations; Child, Markozcy and Cheung (1992) found that limited participation of local managers in Hungarian joint ventures hindered learning and Mills (1998) pointed out that merging paradigms of HRM in the Czech Republic are primarily a function of the culture, history and values of the region, albeit adapted and influenced by external forces.

Slovakia

From the geographical point of view, we feel that much of the academic focus, when considering the Vishegrad four (V4) countries of Poland, the Czech Republic, Hungary and Slovakia has been placed on the first, bigger-in-size, three, with the latter fourth member lagging behind. There could be numerous explanations behind this status quo, although it would be unfair to claim that no research has been done on Slovakia. However, the research on Slovakia with focus on management style has been quite sparse. Letiche's (1998) description of three case studies (western partnered joint venture, a wholly owned subsidiary of a western firm and locally owned firm) could be considered a „benchmark“ for a picture of HRM practices in Slovakia, even though one could argue, considering the above mentioned dramatic changes in Slovak business environment, that this picture is a bit out of date. More recent study of Smith and his colleagues (Smith et al., 2002) examining the relationship between the sources of guidance in work situations by managers revealed high reliance on their own experience and training of Slovak managers but even stronger reliance on their superiors. Additionally, Slovak managers tend to rely on subordinates in introducing new work procedures.

In terms of national culture in Slovakia work of Perlaki (1994) and more recently of Kolman, Noorderhaven, Hofstede and Dienes (2003) focused on the aspects of Hofstede's dimensions. These studies, though pioneering, are only partially focusing on understanding of the impact of national culture on the managerial practices in Slovakia and focus more on depicting the the national culture dimensions. Perlaki, being the first to attempt to classify nature of Slovak culture, only estimates the position of the country relative to Hofstede's classification. Kolman et al. make their conclusions based on an analysis of a sample of

approximately 100 respondents from each of the V4 countries. Their conclusions suggest that Slovakia compared to the Czech Republic, Poland and Hungary is quite different especially on power distance index. Authors believe that Slovakia is a country with high power distance in relative position of other three countries, which would suggest, among other things, high respect for authority and little participation in decision-making in Slovak organizations.

We believe that Slovakia's position on this particular national culture dimension is, as of today, much closer to the relative scores of other three countries of the V4. We present this argument based on the following facts: (1) Kolman and his colleagues performed their research in 1998. Slovakia has undergone dramatic economical and political changes since 1998 and especially with the increase of foreign investments the business environment has altered. (2) Kolman et al. use a sample of university students in their research, 86 percent of which (in Slovakia's case) were between 20 – 24 years of age. We feel that a sample of this kind does not provide an accurate picture of a business environment and its relevant national culture dimensions. Moreover, students have, in our view, tendency to express their views in a matter of „what should be“ instead of „what is“ and thus deviate the results. Last but certainly not least, our previous studies on HRM practices in Slovakia (Luptáková and Vargic, 2001) suggest power distance much closer to the scores of other V4 countries.

With the recent economic developments Slovakia has gained on its importance within the business environment of V-4 and deserves much more attention from researchers and academics. Slovakia has seen the growth in foreign direct investment (FDI); since 1998 through 2002 the volume of FDI has grown seven fold to the USD 4.0 bn and Slovakia is considered a regional leader in economic growth and a magnet for foreign investment (Economist, 2003). The gradual increase in number of foreign companies establishing their subsidiaries underlines the need to focus on characteristics of Slovak national culture and the style of management of Slovak managers.

The increasing number of multinational companies of varied home countries establishing their subsidiaries in Slovakia creates a need for further debate on Slovak national culture and poses a question of feasibility of their „foreign“ management practices. Additionally, it creates a need to position Slovakia relative to other countries on cultural dimensions, not just to describe it alone. Moreover, since this is a region of fast economic improvement more frequent adaptation of the original findings is necessary. Understanding of Slovak national culture and its impact on managerial practices shall determine the degree to which foreign companies entering Slovakia need to adjust their formal human resource policies to the local needs.

Aim of this Work

This article contributes to the debate on power distance in Slovakia by presenting a hypothesis of the score of power distance via analysis of macroeconomic indicators. It is in line with our previous works, which map communication (Luptáková and Vargic, 2001) managerial style (Vargic and Luptáková, 2003) and selected practices of Human Resource management in Slovakia (Luptáková and Vargic, 2003) and is set on course to establishing solid ground for further debates on power distance in Slovakia. Power distance, along with other national culture dimensions, plays an important role in intensifying process of internationalization of Slovak business environment and thus we believe every venue that will contribute to this debate is of major significance, especially taking into consideration the academic neglect of Slovakia. Hence, the concept introduced in this article should be viewed as a initial part of larger scale on-going research.

Power Distance

Hofstede has shown, that different cultures posses' different distribution of power in their organizational and social hierarchies and that the power distance norm can be used as a criterion for characterizing societal cultures (Hofstede, 1983). When applied to organizations, the concept of power distance influences managerial practices, human resource management systems, the degree of centralization and the amount of participation in decision-making (Newman and Nollen, 1996). Power distance (index) measures the extent to which less powerful members of organizations accept an unequal distribution of power (Hofstede, 1991). It is the degree to which employees are (un)willing to accept higher authority and/or (un)willing to express their own ideas when talking to the person possessing formal authority.

In small power distance countries (low power distance index) superior-subordinate relationships are theoretically close and less formal in nature; in high power distance index cultures these relationships are expected to be more distant, hierarchically ordered and reserved. High power distance index (PDI) scores indicate a preference for autocratic and paternalistic management style, whereas low PDI should be more compatible with managerial consultation and approachability (Offerman and Hellmann, 1997) where the people are more inclined to express their own ideas and discuss openly the strengths as well as weaknesses of an idea or a person. Furthermore, in small power distance index countries there is limited dependence on the part of subordinates upon their managers and a preference for discussion. The emotional distance between them is relatively

small; subordinates will quite readily approach and contradict their bosses. In large power distance countries, there is a considerable dependence of subordinates on managers.

Most managerial practices and human resource activities that form a part of managerial work incorporate tools that require managers to communicate with their subordinates delegating work, assessing performance, distributing rewards, or suggesting possible career moves. Manager-subordinate relationships influence the acceptance of human resource practices by the employees, and the level of trust towards the organization and its systems. A conclusion may therefore be drawn that the most important aspect of culture, which influences the success in the implementation of foreign practices, is the aspect that embraces direct relationships between managers and subordinates. In Hofstede's classification of culture this relationship is described as power distance.

Power distance index, thus, represents the style of management of those who manage; the level of participation in decision-making they encourage, or openness and informality of communication within companies. It also portrays the environment to which particular managerial practices are tailored and provides a certain level of explanation for the application of certain human resource policies. These aspects are also reflected in individual managerial style and more over in particular HRM practices, such as performance appraisal.

Comparison of Macroeconomic Data as Indicator of Power Distance

Hofstede (1991) identifies basic elements to differentiate national cultures: power distance, individualism vs. collectivism, uncertainty avoidance, and masculinity vs. femininity. As for power distance, which is the subject of our study, he claims (p. 44):

„...the country's PDI score can be fairly accurately predicted from the country's geographical latitude (higher latitude associated with lower PDI), its population size (larger size associated with higher PDI) and its wealth (richer countries associated with lower PDI)... latitude, population size and per capita gross national product predict 58 per cent (of the variance in PDI). If one knew nothing else about these countries other than those three hard to fairly hard data one would be able to make a list of predicted PDIs.“

This notion is supported by further evidence from other authors. Koopman and his colleagues, in their findings from the GLOBE research project indicate, that climate, topography, and the indigenous economy affect traditions linked to behaviours and practices that are functional in primitive agrarian versus hunter-gatherer societies (Koopman, Den Hertog, Konrad et al., 1999). Their findings

are in alignment with works of Van de Vliert and Van Yperen on relation between the ambient climate and work stress (Van de Vliert and Van Yperen, 1996) and of Peterson and Smith (1997) who established that this relationship is mediated over cultural dimension of power distance.

Methodology

Following these findings, we have decided to place Slovakia among other countries in the list correlating updated macroeconomic data. We expect this gives us a rather precise estimate where Slovakia fits and what is its PDI score. For this analysis, we have used Hofstede's ranking of states (Hofstede, 1991) and assigned each country¹ the macroeconomic data that Hofstede finds correlating with power distance: size of the country, its geographic location, and wealth of the country.² However, as Hofstede does not specify exactly what type of macroeconomic data he finds correlated to the power distance index, we have analyzed various indicators and come to the conclusion that for the purpose of this study we would use the following:

1. size of population as indicator of country's size;
2. geographic location of the capital city of the country;
3. GDP per capita in the year 2000 as an indicator of the wealth of the country (Table 1).

For the purpose of including Slovakia on PDI chart we needed to express PDI as a function of the three variables mentioned above. To obtain this function, we used a mathematical method of linear regression. We suppose that the original set of PDI values is not precise, but rounded to integers.

The crucial part of this method is the decision regarding how we shall approximate the measured data. This decision is usually made rather freely and by estimate. In our case, the relationship between latitude and PDI (finite value of PDI on the equator and monotonous decline of PDI towards increasing latitude) suggests exponential dependence of PDI on latitude. However, the results of this approximation are not convincing enough. Although they copy the extreme values of PDI well, inside the interval of set of values the estimates are significantly different from the measured values. The estimates through goniometric and logarithmic functions show similar results. Therefore, we have decided to make estimates by a polynomial function.

¹ In the analysis, we have included neither groups of states for which it would be difficult to assign macroeconomic indicators (e. g. West Africa or Arab Countries) nor states that do not exist any more in their original form (e. g. Yugoslavia).

² www.countries.com and www.worldatlas.com (retrieved between 13th–17th December 2002).

Table 1

Hofstede's Rank	Country	Hofstede's PDI Score	Population Size*2001	Capital city	Geographical latitude of the capital city	GDP per capita 2000 (USD)	Estimated PDI
1	Malaysia	104	22,229,040	Kuala Lumpur	3n10, 101e42	10,300	75.0776
2/3	Guatemala	95	12,974,361	Guatemala	14n38, 90w31	3,700	72.2133
2/3	Panama	95	2,845,647	Panama	8n58, 79w32	6,000	73.0557
4	Philippines	94	82,841,518	Manila	14n35, 121e0	3,800	73.4321
5/6	Mexico	81	101,879,171	Mexico	19n24, 99w09	9,100	68.0720
5/6	Venezuela	81	23,916,810	Caracas	10n30, 66w56	6,200	73.0451
7	Arab Countries	80	—	—	—	—	—
8/9	Ecuador	78	13,183,978	Quito	0s13, 78w30	2,900	78.0934
8/9	Indonesia	78	228,437,870	Jakarta	6s10, 106e48	2,900	81.3806
10/11	India	77	1,029,991,145	New Delhi	28n36, 77e12	2,200	77.4875
10/11	West Africa	77	—	—	—	—	—
12	Yugoslavia	76	10,677,290	Belgrade	44n50, 20e30	2,300	—
13	Singapore	74	4,300,419	Singapore	1n16, 103e51	26,500	73.0066
14	Brazil	69	174,468,575	Brasilia	15s46, 47w55	6,500	72.3441
15/16	France	68	59,551,227	Paris	48n52, 2e20	24,400	39.3586
15/16	Hong Kong	68	7,210,505	—	22n17, 114e09	25,400	56.4752
17	Colombia	67	40,349,388	Bogota	4n36, 74w05	6,200	75.9094
18/19	El Salvador	66	6,237,662	San Salvador	13n42, 89w12	4,000	72.3309
18/19	Turkey	66	66,493,970	Ankara	39n56, 32e52	6,800	59.7844
20	Belgium	65	10,258,762	Brussels	50n50, 4e20	25,300	34.2687
21/23	East Africa	64	—	—	—	—	—
21/23	Peru	64	27,483,864	Lima	12s03, 77w03	4,550	73.1421
21/23	Thailand	64	61,797,751	Bangkok	13n45, 100e31	6,700	71.8242
24/25	Chile	63	15,328,467	Santiago	33s27, 70w40	10,100	59.7746
24/25	Portugal	63	10,066,253	Lisbon	38n43, 9w08	15,800	52.0408
26	Uruguay	61	3,360,105	Montevideo	34s53, 56w11	9,300	59.5769
27/28	Greece	60	10,623,835	Athens	37n58, 23e43	17,200	51.2988

29/30	Iran	58	66,128,965	Tehran	35n40, 51e26	6,000	62.1314
29/30	Taiwan	58	22,370,461	Taipei	25n03, 121e31	17,400	59.3976
31	Spain	57	40,037,995	Madrid	40n24, 3w41	18,000	49.7293
32	Pakistan	55	144,616,639	Islamabad	33n42, 73e10	2,000	66.6911
33	Japan	54	126,771,662	Tokyo	35n42, 139e46	24,900	49.0830
	Slovakia	52	5,414,937	Bratislava	48 N 15, 17E 12	10,200	52.0270
34	Italy	50	57,679,825	Rome	41n54, 12e29	22,100	45.7790
35/36	Argentina	49	37,384,816	Buenos Aires	34s36, 58w27	12,900	57.2170
35/36	South Africa	49	—	—	—	—	—
37	Jamaica	45	2,665,636	Kingston	18n0, 76w48	3,700	70.7155
38	USA	40	278,058,881	Washington, DC	38n54, 77w02	36,200	46.1310
39	Canada	39	31,592,805	Ottawa	45n25, 75w42	24,800	39.9644
40	Netherlands	38	15,981,472	Amsterdam	52n22, 4e54	24,400	34.4313
41	Australia	36	19,357,594	Canberra	35s17, 149e08	23,200	48.2848
42/44	Costa Rica	35	3,773,057	San Jose	9n56, 84w05	6,700	72.8404
42/44	Germany (West)	35	83,029,536	Berlin	52n30, 13e22	23,400	39.3222
42/44	United Kingdom	35	59,647,790	London	51n30, 0w10	22,800	39.1780
45	Switzerland	34	7,283,274	Bern	46n57, 7e26	28,600	33.7388
46	Finland	33	5,175,783	Helsinki	60n10, 24e58	22,900	29.6543
47/48	Norway	31	4,503,440	Oslo	59n55, 10e45	27,700	23.6511
47/48	Sweden	31	8,875,053	Stockholm	59n20, 18e03	22,200	31.4128
49	Ireland (Republic of)	28	3,840,838	Dublin	53n20, 6w15	21,600	36.1865
50	New Zealand	22	3,864,129	Wellington	41s18, 174e47	17,700	48.5572
51	Denmark	18	5,352,815	Copenhagen	55n40, 12e35	25,500	29.9127
52	Israel	13	5,938,093	* Tel Aviv	32n04, 34e46	18,900	53.6917
53	Austria	11	8,150,835	Vienna	48n13, 16e20	25,000	36.5093

* Density was calculated as the population size divided by the size of the country in km².

Source: <www.countries.com> and <www.worldatlas.com> (retrieved between 13th–17th December 2002).

The decision for polynomial was based on a well-proven ability of polynomials to extrapolate any set of values given. Using a polynomial of sufficiently high degree would match the original values with any precision desired, but intervals on which the function is monotonous tend to be even shorter and value difference between boundary values bigger (the graph includes more and steeper „hills“ on the same interval) with rising degree. This would have impact on predicting functional value in any new point. Consequently, to obtain a useful prediction, high-degree polynomials should be avoided. As a test we tried to make predictions using polynomial of as high as fifth degree, but the improvement in precision was so small, that, in our opinion, it is completely outweighed by the drawbacks of higher-degree polynomials usage described above. Therefore (and to keep the model as simple as possible) we decided to use a first-degree polynomial function of type

$$f(x, y, z) = a_1x + a_2y + a_3z + a_4xy + a_5xz + a_6yz + a_7xyz + a_0$$

where

x, y, z — our three variables,

a_0, a_1, \dots, a_7 — parameters.

We did not include any terms of $1/x$ or similar, because they make the function acquire very large values in points close to zero or even infinite value in zero, which is completely unacceptable in case of latitude and very doubtful in other used variables. First, we wanted to reach the closest possible estimates of the PDI value for all the countries in the Table using the chosen type of function (see column *Estimated PDI* of the Table 1). That means we had to minimize the sum of differences between estimates and respective original values. By doing so, we have obtained parameters in our function. Then we have entered data for Slovakia into the function (with previously calculated parameters) resulting in the score for *Slovakia is 52.0269 rounded to integer „52“*.

If we take a look at the Table, we can see the estimates on both extremes are only for orientation, but in the middle part of the original table, our estimates are quite precise. There are a few exceptions; however, these are of low significance, since we are not dealing with exact functional values, but with 58 per cent correlation. The weakness of the chosen type of function is that it decreases in reliability in predicting values when approaching the sides of original interval and proceeding beyond. The chosen type of function gives a pretty fair estimate of whether the PDI value is to be expected high or low. A good example that the function does not work well in extreme values of variables, especially latitude, is Costa Rica, latitude of which causes it to acquire much higher estimate than the original value found.

Another important noteworthy fact when discussing difference between the original list and our ranking is that the original Hofstede's research data are more than 20 years old, and we have used recent values for population and GDP per capita. This also could have impact on our estimates, though if we consider culture as changing and evolving very slowly in time, this has rather insignificant influence.

Hypothesis for Further Research on Power Distance in Slovakia

Taking into account all the limitations of the polynomial function use, we have formulated our hypothesis that Slovakia's PDI score achieves value of „52“. This puts Slovakia on the 20th position from the lowest PDI score, between Italy and Japan. Related to style of management, score of „52“ would indicate a tendency to open up communication, involve subordinates in decision-making and expect their contribution.

However, the value of „52“ also suggests rather observable demand for formality and authority. In other words, this suggests that while there is willingness from managers to have open discussions and involvement of the subordinates, on the subordinates' part, there is still certain passivity and respect for the superiors. On the other hand, the position is relatively close to the countries such as United States of America, the Netherlands, Germany, United Kingdom, or Belgium – the companies of countries which form a large part of foreign direct investment in Slovakia.³

Our previous research findings (Luptáková and Vargic, 2003) suggest that communication in Slovak enterprises is rather smooth, open and two-way. Moreover, the understanding and usage of performance appraisal systems suggest a tendency for participative management styles. These findings are in line with the calculated PDI value of „52“.

As various works suggest (e. g. Weidlich, 2001), significant socio-political changes in a country can have a profound influence on development of a national culture, especially the aspects related to management. Thus the changes from planned society to a market one, have changed not only a shift from collectivist to individualistic, and egalitarian to tournament but they have influenced other dimensions, such as power distance and uncertainty avoidance. The dynamics of

³ Statistical Office of the Slovak Republic (<http://www.statistics.sk/webdata/english/srsic02a/fdi.htm>, retrieved July 10, 2003) total of foreign direct investments in the Slovak Republic at the end of 2001 were USD 4,711 millions, divided among countries as follows: Germany 22.8 per cent, Netherlands 20.9 per cent, Austria 17.5 per cent, Italy 10.7 per cent, United States 6 per cent, Czech Republic 5 per cent, Hungary 3.9 per cent, United Kingdom 3.9 per cent, France 2.1 per cent, and other countries combined for 7.2 per cent.

influences between the changes in external environment, entrance of multinational companies into the territory and shift in cultural values needs to be examined more profoundly.

Discussion

Our results show that power distance index in Slovakia has the value of „52“ and thus places Slovakia among other listed countries. The value of „52“ is different than the value for the Slovak Republic presented by Kolman et al. We believe that the reason for this lays in the size and demographic composition of the sample, where the authors draw conclusions from a sample of 102 respondents, who are not yet in an employment relationship. Our approach models the macro-economic indicators that are believed to be correlated to power distance index (Hofstede). We believe this is a more precise approach although further attention should be paid to analyzing managerial practices and conducting a field study among organizations and managers.

Power distance value of „52“ puts Slovakia in the center of the original list. This position is close to the position of most countries that enter Slovakia in form of foreign direct investment. As national culture influences style by which people are managed and most management practices are reflected in power distance index, we believe companies will be more successful in „importing“ managerial practices into countries that have similar power distance index values.

The Slovak power distance index value is close to the values of countries such as the USA, the Netherlands, the UK or Germany that form the majority of countries establishing their businesses in Slovakia. Similarity of the PDI values suggests that the concepts commonly used by companies entering Slovakia are flexibly adapted in Slovakia and foreign companies do not witness major problems managing local workforce and implementing human resource management procedures.

All the introduced processes that deal with performance appraisal, competitiveness among employees, participative decision-making, employee initiative or employee empowerment are reflected in power distance aspect of the national culture. Slovakia will more readily embrace such practices and procedures that are „imported“ from countries closer in PDI values to the value of „52“. Managerial practices from cultures more disparate should be introduced with more care and caution.

In this article, the presented mathematical model is another tool to classify aspects of national culture and enrich understanding of transfer of management practices in a global business environment. This is vital not only for the success

of multinational companies entering new cultural environment, but it helps development of local managerial practices. The model itself does not serve as classification of different cultural environments, it forms a basis for further evaluations of managerial style in Slovakia. There is a need to conduct a more profound examination of actual managerial preferences concerning style of management and their attitudes towards systems such as performance appraisal or delegation, to test the value calculated value of power distance index in the territory of Slovakia.

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