INSTITUTIONAL INTERACTION IN THE BUSINESS ENVIRONMENT: EASTERN EUROPEAN VERSUS WESTERN EUROPEAN COUNTRIES

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The interplay of formal (laws, regulations) and informal institutions (culture, tradition, norms of behaviour) has shown to be initially underestimated in the recent economic, political, and social transformation of Central and Eastern European countries. This predominantly led to a uniform approach that undervalued intangible legacy and consequently could neither predict nor address the divergence of the countries' development and evolution of their business systems. Dominant national culture has been recognized as a very influential factor of institutional change. Considering that a favourable business environment is vital for economic progress, "institutional stickiness" of business-related laws and regulations and culture is thoroughly researched. It is further linked with the overall quality of the business environment and the level of economic development. This article suggests that a favourable business environment is expected to be found in societies characterised by a weak power distance, high individualism, low uncertainty avoidance and indulgence instead of restraint. Yet, opposite characteristics are found in numerous transition countries. Hence, the findings suggest a lesser likelihood of successful institutional import from Western to Eastern European societies.

Keywords: culture, institutions, business environment, transition, post socialism.

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1. INTRODUCTION

In Central and Eastern Europe, institutional design seems to be highly influenced by the complex legacy.[1] It has now been widely accepted that "no size fits all" when implementing institutional reform.[2] Transition experience confirms several factors as essential for institutional change: the existing belief system and its evolution[3], trust[4] and culture.[5] In post-socialist societies, the prevailing culture is considered to be the main cause of increased transaction costs of institutional restructuring.[6]

The discussion on the interaction between formal and informal institutions is increasingly emphasising the importance of the harmony between formal

1 Elster, J.; Offe, C.; Preuss, U., *Institutional Design in Post-Communist Societies: Rebuilding the Ship at Sea*, Cambridge, UK, Cambridge University Press, 1998.

2 Murrell, P., *Can Neoclassical Economics Underpin the Reform of Centrally Planned Economies?*, Journal of Economic Perspectives, Vol. 5, No. 4, 1991, pp. 59 – 76; Roland, G., *Understanding Institutional Change: Fast-Moving and Slow-Moving Institutions*, *Studies in Comparative International Development*, Vol. 38, No. 4, 2004, pp. 109 – 131; Nye, J., *Institutions and Institutional Environmen*t, in E. Brousseau & J-M. Glachant (Eds.), *New Institutional Economics - A Guidebook*, Cambridge, Cambridge University Press, 2008, pp. 67 – 80; Kornai, J., *What Does 'Change of System Mean'?*, in J. Kornai (Ed.), *From Socialism to Capitalism*, Budapest, Central University Press, 2008, pp. 123 – 150; Rodrik, D., *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth*, Princeton, NY, Princeton University Press, 2009.

3 North, D. C., *Understanding the Process of Economic Change*, Princeton, NY, Princeton University Press, 2005; Alston, L.; Melo, M.; Mueller, B.; Pereira, C., *Power, Beliefs and Institutions: A Conceptual Framework*, paper presented in the lecture "Power, Beliefs and Institutions: Understanding Development in the Modern World", Conference "The Legacy and Work of D. C. North: Understanding Institutions and Development Economics", Center for New Institutional Social Sciences, Washington University, Saint Louis, MO, USA, 2010.

4 La Porta, R.; Lopez-de-Silanes, F.; Shleifer, A.; Vishny, R. W., *Trust in Large Organizations*, American Economic Review, Vol. 87, No. 2, 1997, pp. 333 – 338; Dixit, A. K., *Lawlessness and Economics*, Princeton, NY, Princeton University Press, 2004.

5 Roland, G., *op. cit* (fn. 2); Guiso, L.; Sapienza, P.; Zingales, L., *Does Culture Affect Economic Outcomes?*, Journal of Economic Perspectives, Vol. 20, No. 2, 2006, pp. 23 – 48; Tabellini, G. *The Scope of Cooperation: Norms and Incentives*, Quarterly Journal of Economics, Vol. 123, No. 3, 2008, pp. 905 – 950; Skokic, V., *Tourism entrepreneurship in transition economies: Unpacking the socio-economic contexts*, Doctoral dissertation, University of Strathclyde, 2010; Arias, O., *Culture Matters: The Real Obstacles to Latin American Development*, Foreign Affairs, Vol. 90, No. 1, 2011, pp. 2 – 6.

6 Pejovich, S., *Understanding the Transaction Costs of Transition: It's the Culture, Stupid*, Forum Series on the Role of Institutions in Promoting Economic Growth, Mercatus Center, George Mason University, Washington, D.C., USA, 2003.

and informal institutions for the purpose of achieving intended economic results.[7] When new formal institutions fit well with existing informal institutions, it is most likely that their implementation will run smoothly and that they will yield benefits resulting in improved economic performance. Along those lines, the Institutional stickiness framework is developed aimed at explaining "the ability or inability of new institutional arrangements to take hold where they are transplanted".[8] That framework was further developed by quantifying both formal and informal institutions and acknowledging that informal institutions largely influence economic development.[9] The findings confirmed the Institutional stickiness paradigm, emphasising that "the success of formal institutions depends on the ability to map onto informal rules"[10] and

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7 Greif, A., *Cultural Beliefs and the Organization of Society: A Historical and Theoretical Reflection on Collectivist and Individualist Societies*, Journal of Political Economy, Vol. 102, No. 5, 1994, pp. 912 – 950; Ensminger, J., *Changing property rights: Reconciling formal and informal rights to land in Africa*, in J. N. Drobak & J. V. C. Nye (Eds.), *The Frontiers of the New Institutional Economics*, San Diego, CA, Academic Press, 1997, pp. 165 – 196; Williamson, O., *The New Institutional Economics: Taking Stock, Looking Ahead*, Journal of Economic Literature, Vol. 38, No. 3, 2000, pp. 595 – 613; Teubner, G., *Legal Irritants: How Unifying Law Ends Up in New Divergences*, in P. A. Hall & D. Soskice (Eds.), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford, Oxford University Press, 2001, pp. 417 – 441; Nee, V., *The New Institutionalism in Economics and Sociology*, CSES Working Paper Series, Paper No. 4, Ithaca, NY, Centre for the Study of Economy and Society, Cornell University, 2003; Aligicia, P. D., *Learning in time: new institutionalism and the Central and Eastern European economic reform experience*, Global Business and Economics Review, Vol. 8, No. 1/2, 2006, pp. 25 – 43; Easterly, W., *Institutions: Top Down or Bottom Up?*, American Economic Review, Vol. 98, No. 2, 2008, pp. 95 – 99; La Porta, R.; Lopez-de-Silanez, F.; Shleifer, A., *The Economic Consequences of Legal Origins*, Journal of Economic Literature, Vol. 46, No. 2, 2008, pp. 285 – 332; North, D. C., *Institutions, Institutional Change and Economic Performance*, New York, NY, New York University Press, 2008; Nye, J., *op. cit*. (fn. 2); Roland, G., *The Long-Run Weight of Communism or the Weight of Long-Run History?*, in G. Roland (Ed.), *Economies in Transition: The Long-Run View*, United Nations University – World Institute for Development Economics Research, Basingstoke, UK, Palgrave Macmillan, 2012, pp. 153 – 171; Šimić Banović, R., *Cutting the red ribbon but not the red tape: the failure of business environment reform in Croatia*, Post-Communist Economies, Vol. 27, No. 1, 2015, pp. 106 – 128.

8 Boettke, P. J.; Coyne, C. J.; Leeson, P. J., *Institutional Stickiness and the New Development Economics,* The American Journal of Economics and Sociology, Vol. 67, No. 2, 2008, p. 332.

9 Williamson, C., *Informal institutions rule: institutional arrangements and economic performance*, Public Choice, Vol. 139, No. 3, 2009, pp. 371 – 387.

10 *Ibid.*, p. 383.

at the same time implying that the most appropriate institutional mix is difficult to identify and transplant from one country to another.[11] The framework in this research is based on institutional stickiness and it is focused on the business environment (Figure 1).

2. MAPPING THE KEY FACTORS OF THE FRAMEWORK

Numerous authors agree with Estrin's[12] statement that "[i]mproved company performance must be at the heart of any successful transformation from a command to a market-oriented economy." In line with that, Berglof *et al*.[13] stress that "one way in which the state can enable markets to function properly is by creating a favourable business environment." Yet, it has been shown that the claim on the linear trajectory from socialist towards capitalist system was misleading[14] and that (pure) import of formal institutions did not produce expected outcomes. Reflecting on institutional stickiness in the business environment of transitional versus developed societies may highlight some of the key issues of the observed deficits.

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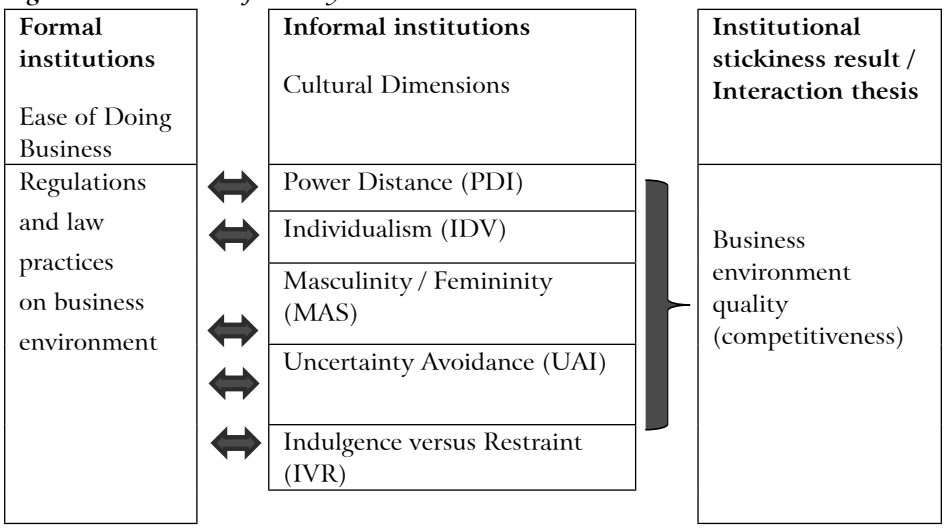
11 *Ibid.*

12 Estrin, S., *Competition and Corporate Governance in Transition*, The Journal of Economic Perspectives, Vol. 16, No. 1, 2002, p. 101.

13 Berglof, E.; Bruynoooghe, L.; Harmgart, H.; Sanfey, P.; Schweiger, H.; Zettelmeyer, J., *European Transition at Twenty: Assessing Progress in Countries and Sectors*, in G. Roland (Ed.), *Economies in Transition: The Long-Run View*, United Nations University – World Institute for Development Economics Research, Basingstoke, UK, Palgrave Macmillan, 2012, p. 254.

14 Murrell, P., *op. cit* (fn. 2); Neuber, A., *Towards a Political Economy of Transition in Eastern Europe*, Journal of International Development, Vol. 5, No. 5, 1993, pp. 511 – 530; Roland, G., *Transition and Economics: Politics, Markets, and Firms*, Cambridge, MA, The MIT Press, 2000; King, L., *Postcommunist Divergence: A Comparative Analysis of the Transition to Capitalism in Poland and Russia*, Studies in Comparative International Development, Vol. 37, No. 3, 2002, pp. 3 – 34; Zupanov, J., *Od komunističkog pakla do divljeg kapitalizma* [*From communist hell to wild capitalism*], Zagreb, Hrvatska sveučilišna naklada, 2002; Mueller, K., *How culture shapes the post-communist transformations*, EMECON: Employment and Economy in Central and Eastern Europe, 2010, available at http://www.emecon.eu/fileadmin/articles/1_2010/emecon%201_2010%20M%C3%BCller.pdf (December 10, 2011).

Figure 1. *Framework for analysis: Institutional stickiness in the business environment*



The aims of this analysis[15] can be summarised as follows. First, institutional stickiness in the business environment is tested in a comparative perspective: European transition[16] versus developed countries. Second, informal institutions' role is explored seeking to answer if they are undermining or underpinning formal institutions, i.e. whether the formal institutions were well selected. The overall importance of the dimensions of culture for the business environment quality is investigated. Finally, the "interaction thesis", i.e. culture as the key transaction cost in transition, is examined and quantified.

2.1. Informal institutions: Culture

Culture with its slow-changing nature is recognised as a very influential factor in institutional change.[17] Cultural factors that determine the acceptance

[15] The initial research on the topic was conducted for the Doctoral Dissertation "Institutional Change in Transition Economies: Analysis of the Croatian Business Environment" defended at the Faculty of Economics, University of Ljubljana in December 2012.

[16] Some authors have recently started using the term 'post transition countries' for the group of countries that started their post-socialist transformation at the end of 1980s / beginning of 1990s. Hereinafter 'transition countries' will be used for that group of countries. This choice of wording was additionally encouraged by the same term used by established scholars in numerous works, most recently in the volume "*Economies in Transition: The Long-Run View*" edited by G. Roland (2012).

[17] Roland, G., *op. cit.* (fn. 2); North, D. C., *op. cit.* (fn. 3); *id.*, *op. cit.* (fn. 7); Guiso, L.; Sapienza, P.; Zingales, L., *op. cit.* (fn. 5); Tabellini, G., *Culture and Institutions: Eco-*

of formal rules are extremely important for the success of reforms.[18] Further research showed that out of all dimensions of culture only individualism has a strong effect on long-run economic growth.[19] Historical evidence shows the likelihood of individualist societies to be more efficient than the collectivist ones, particularly when widening their economic activities outside their core group.[20] No other cultural variable based on Hofstede dimensions[21] shows robust effects on growth, and in the same analysis only the power distance dimension negatively influences some specifications.[22] In order to measure informal institutions in her institutional stickiness model, C. Williamson[23] relied on the culture variable and used the World Values Survey data. In this research Hofstede's[24] data will be used.

As for business environment, Whitley's[25] business system approach shows markets, companies and economic outcomes to be socially constructed and embedded. Both economic structures and outcomes are strongly influenced by

nomic Development in the Regions of Europe, Journal of the European Economic Association, Vol. 8, No. 4, 2010, pp. 677 – 716; Aoki, M., *Institutions as cognitive media between strategic interaction and individual beliefs*, Journal of Economic Behavior and Organization, Vol. 79, No. 1 - 2, 2011, pp. 20 – 34; Jellema, J.; Roland, G., *Institutional clusters and economic performance*, Journal of Economic Behavior and Organization, Vol. 79, No. 1-2, 2011, pp. 108 – 132.

18 Aligicia, P. D., *op. cit.* (fn. 7).

19 Gorodnichenko, Y.; Roland, G., *Culture, Institutions and the Wealth of Nations*, NBER Working Paper No. 16368, 2010, available at http://www.nber.org/papers/w16368.pdf (April 20, 2011); *id.*, *Which Dimensions of Culture Matter for Long-Run Growth?*, American Economic Review, Vol. 101, No. 3, 2011, pp. 492 – 498.

20 Greif, A., *op. cit.* (fn. 7).

21 The researchers usually use four dimensions (IDV, PDI, MAS, UAI) that were initially created by Hofstede. In this research IVR is included as well. This is an additional dimension created by M. Minkov and included in Hofstede's main work. The sixth dimension (LTO) is not used because it still needs to be scientifically confirmed (Schachner, personal communication, 2012) and the data are in the fine tuning stage due to large (methodological and consequently numerical) differences.

22 Gorodnichenko, Y.; Roland, G, *op. cit.* (fn. 19).

23 Williamson, C., *op. cit.* (fn. 9).

24 Hofstede, G.; Hofstede, G. J.; Minkov, M., *Cultures and Organizations: Software of the Mind: Intercultural Cooperation and Its Importance for Survival* (3rd Ed.), New York, McGraw Hill, 2010; also published as Hofstede, G., *Official Website – Dimension Data Matrix*, available at http://www.geerthofstede.nl/research--vsm/dimension-data-matrix.aspx (February 23, 2012).

25 Whitley, R. (Ed.), *European Business Systems: Firms and Markets in Their National Contexts*, London, Sage Publications, 1997.

background and proximate social institutions and their interplay. Background (informal) institutions are mostly cultural ones whose roots may date all the way back to the pre-industrialisation period and related values are transferred through private communities and the education system. Proximate (formal) institutions, on the other hand, are a result of industrialisation and include political, financial and labour systems. Regarding transition countries, Pejovich[26] strongly argues that culture accounts for the main transaction costs in the transformation from a planned to a market economy. He justifies it by his interaction thesis, stating that a harmony between formal and informal institutions will result in low transaction costs, whereas the introduction of formal institutions that do not map well onto existing informal institutions will lead to high transaction costs. The latter was predominantly the case when the formal institutions of capitalism were imported into countries with a prevailing socialist culture.

2.2. Formal institutions: Business regulations and law practices

The importance of the legal setting is a widely recognised factor for the execution of economic activities.[27] More business-friendly can also be qualified as less burdensome.[28] Because of the business environment focus, WB Doing Business data will be used as a measure of the formal institutions in this research. It will be correlated with every single cultural dimension (Table 1).

The overall score named Ease of Doing Business is used because it captures the main regulatory milestones of doing business: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency (Doing Business, 2012). These indicators are not separately analysed or ranked in correlation with informal institutions

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26 Pejovich, S., *op. cit.* (fn. 6).

27 La Porta, R.; Lopez-de-Silanez, F.; Shleifer, A., *Law and Finance*, Journal of Political Economy, Vol. 106, No. 6, 1998, pp. 1113 – 1155; *id.*, *The Economic Consequences of Legal Origins*, Journal of Economic Literature, Vol. 46, No. 2, 2008, pp. 285 – 332; Djankov, S.; McLiesh, C.; Ramalho, R. M., *Regulation and growth*, Economics Letters, Vol. 92, No. 3, 2006, pp. 395 – 401; Aldashev, G., *Legal institutions, political economy, and development,* Oxford Review of Economic Policy, Vol. 25, No. 2, 2009, pp. 257 – 270; Dixit, A. K., *Governance Institutions and Economic Activity*, American Economic Review, Vol. 99, No. 1, 2009, pp. 5 – 24.

28 Djankov, S.; McLiesh, C.; Ramalho, R. M., *op. cit.* (fn. 27).

due to two reasons: first, it would not correspond to the overall scope of the analysis and second, the notion that "…setting up 'horseraces' between institutions is potentially misleading because these institutional variables may be correlated".[29] The components that could be considered at the first glance as missing in the framework will be used as control variables: GDP growth and GDP per capita PPP.

Table 1. *Business environment: Institutional matrix*

		Formal institutions: Ease of doing business regulations and law practices	
		less business-friendly	more business-friendly
Informal institutions: Cultural dimension X	high score	group of countries	group of countries
	low score	group of countries	group of countries

Data sources for all analysed countries (EU countries, Serbia and the Russian Federation) are listed here:

- Formal institutions: IFC/ WB Doing Business Reports 2006-2011 – rankings
- Informal institutions: Hofstede's Cultural Dimensions (data for 2010, valid for last three decades at least, based on initial and verified by replicated studies) – scores
- Result of the institutional stickiness in the business environment: WEF Global Competitiveness Reports 2006-2011
- Control variables: GDP growth and GDP per capita PPP – IMF World Economic Outlook 2012

3. EMPIRICAL ANALYSIS: DOING BUSINESS AND CULTURAL DIMENSIONS

For the Doing Business degree rankings the min-max data normalization is executed for the years 2006 – 2011, i.e. Doing Business Reports from 2007 to 2012. In order to group the countries according to their overall Doing Business features, hierarchical clustering was the next step and the Ward method

[29] Jellema, J.; Roland, G., *op cit.* (fn. 17), p. 109.

was used. A dendrogram shows that the optimal number of clusters is two. First cluster covers fifteen countries considered more business friendly (from Austria to UK in Table 2), whereas the second cluster consists of thirteen countries (from Bulgaria to Spain in Table 2) considered less business friendly. The obtained difference between two clusters was tested with ANOVA. It was clearly shown that they differ significantly, $F\,(1, 26) = 43.978$, $p < .001$ (Appendix). In Table 2, transition countries are put in bold. It becomes evident immediately that they prevail in cluster 2 consisting of less business friendly countries. Further research is expected to show the dominant features of informal institutions that might be associated with (the lack of) business friendliness in both transition and non-transition countries. The same as with the ease of doing business level, hierarchical clustering was used in order to group countries according to five cultural dimensions. The relation of the Doing Business degree and every single cultural dimension was then further investigated.

Table 2. *Countries according to business friendliness level*

Ward method	**Cluster 1 (more business friendly)**	**Cluster 2 (less business friendly)**
	Austria	**Bulgaria**
	Belgium	**Croatia**
	Denmark	**Czech Republic**
	Estonia	Greece
	Finland	**Hungary**
	France	Italy
	Germany	Luxembourg
	Ireland	**Poland**
	Latvia	**Romania**
	Lithuania	**Russian Federation**
	Netherlands	**Serbia**
	Portugal	**Slovenia**
	Slovak Republic	Spain
	Sweden	
	United Kingdom	
Doing Business Normalization – Mean	88.57	60.60

3.1. Power Distance and Doing Business

Power distance as a cultural dimension is explained as "the extent to which the less powerful members of institutions [family, school, community] and organizations [work places] within a country expect and accept that power is distributed unequally".[30] Through those dimensions, the relations of leaders and subordinates are primarily explored. Bosses in countries with high PDI are usually characterised by autocratic or paternalistic behaviour and they emotionally manage employees that are either dependent or counterdependent on them. Centralisation is desired and there exists a significant number of supervisory personnel. Managers are focused on formal rules and on their bosses. Superiors are most likely to enjoy privileges and status symbols that are considered to be normal. On the contrary, countries with low PDI may be portrayed by a consultative style of leadership and decision-making that enables the subordinates to freely express their opinions, even if they are fully opposed to their manager's. Decentralisation is desired and a large number of supervisory personnel is not needed. Managers rely on themselves and their subordinates, and subordinates expect continuous and pragmatic interaction. Privileges and status symbols are most commonly disapproved.[31]

The afore-described relations in the workplace are likely to be seen as a reflection of the power relations in society in general. When observing those relations in a wider context, it becomes evident that people in the countries with small power distance tend to minimise inequalities and expect interdependence of less and more powerful people. Therefore, the following groups are usually treated as equals: parents and older family members versus children, teachers versus students, patients versus doctors, etc. Hence, two-way communication and proactivity are strongly encouraged. On the other hand, people in countries with large power distance are most likely to expect inequalities and do not question hierarchy; they feel comfortable with it instead. The desired values of expectedly inferior groups are obedience, respect and passivity to a large extent, i.e. the behaviour of the followers towards the gurus. Moreover, in large power distance countries people use only a few sources of information and are convinced that the ones they use provide them with reliable information. They are unlikely to discuss politics and disagreements on it usually lead to violence. One party usually dominates in the political system. Alternatively, there are strong left and right wings.[32]

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30 Hofstede, G.; Hofstede, G. J.; Minkov, M., *op. cit.* (fn. 24), p. 61.

31 *Ibid.*, Chapter 3.

32 *Ibid.*

With a view to exploring the power distance differences and similarities of the selected countries, they were grouped into two clusters according to a high, i.e. low PDI score (Table 3). Both clusters consist of 14 countries; the average score of low PDI countries is 35.07 whereas the average score of high PDI countries is 73.21. ANOVA shows a high level of statistical significance regarding the difference between the two clusters, $F\ (1, 26) = 63.116$, $p < .001$ (Appendix).

Table 3. *Countries according to the Power Distance Index*

Ward method	**Cluster 1: low PDI**	**Cluster 2: high PDI**
	Austria	Belgium
	Denmark	**Bulgaria**
	Estonia	**Croatia**
	Finland	**Czech Republic**
	Germany	France
	Hungary	Greece
	Ireland	**Poland**
	Italy	Portugal
	Latvia	**Romania**
	Lithuania	**Russian Federation**
	Luxembourg	**Serbia**
	Netherlands	**Slovak Republic**
	Sweden	**Slovenia**
	United Kingdom	Spain
PDI Mean	35.07	73.21

As seen in Table 3, transition countries are mostly characterised by larger power distance; only Estonia, Hungary, Latvia and Lithuania have a lower power distance score. In order to identify the linkages between PDI scores and normalized Doing Business rankings, the results were summarized in a 2x2 table (Table 4). The initial findings suggest that more business friendly countries have a lower PDI and vice versa.

Table 4. *Power distance and business friendliness: count of countries*

		Ward Method		
		low PDI	high PDI	Total
Ward Method	more friendly	11	4	15
	less friendly	3	10	13
Total		14	14	28

Note: The numbers in the table are the countries counted according to indicators presented in the table.

Group centroids enable grouping the countries according to both business friendliness and power distance in the society (Figure 2). It is useful to see not only the exact countries being part of a certain group, but also the distances from other groups and countries according to the given variables. Previous clustering data showed the dominance of transition countries in the high PDI cluster. Figure 2 pinpoints Russia, Central and South East European countries scoring highest among transition countries while Baltic countries tend to be closer to most of the Western European low-PDI countries. This finding, as one of the crucial ingredients of informal institutions, may also contribute to their affiliation with liberal market economies as seen in the varieties of capitalism approach.[33] Nevertheless, most of post-socialist countries still seem to be highly influenced by the legacy of rather distant relations of leaders versus subordinates despite previously (nominally) existing egalitarianism. The strong traces of a nomenclature system still appear to exist in most of the transition countries, with Russia being the "overachiever" in keeping that inheritance. It is therefore plausible to consider this finding as being in tune with its affiliation to a patrimonial capitalism type of a country.[34] The values underlying large power distance in a society appear to underpin clientelistic relations and parasitic behaviour both of elites and to a smaller extent their close subordinates. The contemporary position of the subordinates might be seen as an extension of a past role of the state as a "nanny" of the employees[35] who are actually willing to trade their rights and opportunities to express their opinion for a lifelong job protection. On the other side, the background of numerous members of the political and economic elites is questionable in many aspects. Still, they use and increase their privileges and status symbols, and also behave in a symbolically powerful manner. Paradoxically, the non-elites usually consider all those signs of power to be normal. The Latin proverb *Quod licet Iovi, non licet bovi* seems to be fully misunderstood in transition societies. Furthermore, voters tend to vote for the same parties over the years and at the same time passively accept the businesspeople obviously connected with them. A reflection of large power distance in a society may be found in some aspects of the rise of nationalism at the beginning of transition. At that time, it was deemed

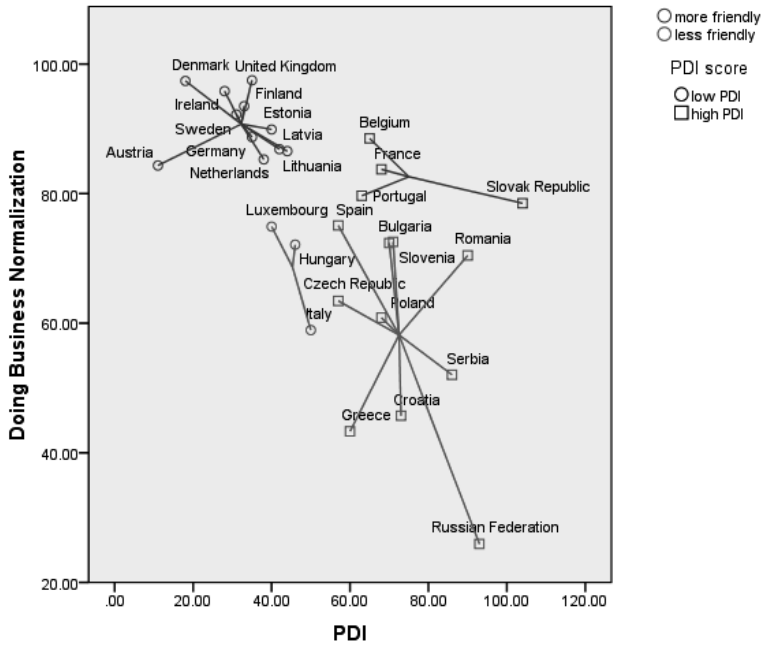
[33] Feldmann, M., *Emerging Varieties of Capitalism in Transition Countries: Industrial Relations and Wage Bargaining in Estonia and Slovenia*, Comparative Political Studies, Vol. 39, No. 7, 2006, pp. 829 – 854.

[34] King, L., *op. cit.* (fn. 14).

[35] Zupanov, J., *op. cit.* (fn. 14).

as an act against the country to question obvious corrupt behaviour with the nationalism veil, particularly when it involved the most powerful society members. Those circumstances enabled fraud during privatisation, unskilled people to obtain and keep top positions, and numerous smaller gains for the ordinary people who, under the protection of the most powerful ones, strongly emphasised their love for the country and their victims in that regard.

Figure 2. *Power distance and business friendliness*



3.1.1. Power Distance, Legal Setting and Competitiveness

In the next step, these groups of countries (low / high PDI and more / less business friendly) are further associated with their competitiveness scores. As seen in Table 5, the group averages of competitiveness scores are in tune with the previous "rankings" of the groups according to business friendliness, i.e. the most competitive countries have a low PDI and more business friendly laws and regulations and the group of the least competitive countries is the one with a high PDI and low business friendliness.

Further analysis using Pearson Chi-Square Test and Fisher's Test confirm those findings. As can be seen in Table 6, both tests confirm a statistically si-

gnificant difference in distribution among categories: high / low PDI and more / less business friendly.

Table 5. *Power distance and business friendliness: linkages with competitiveness*

		Ward Method	
		low PDI	high PDI
		Competitiveness Normalization	Competitiveness Normalization
		Mean	Mean
Ward Method	more friendly	88.19	79.76
	less friendly	75.02	63.13

Table 6. *Power distance and business friendliness: Chi-Square Tests*

	Value	Df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	7.036[a]	1	.008		
Continuity Correction[b]	5.169	1	.023		
Likelihood Ratio	7.373	1	.007		
Fisher's Exact Test				.021	.011
Linear-by-Linear Association	6.785	1	.009		
N of Valid Cases	28				

Table 7. *Power distance and business friendliness: Correlations*

		Doing Business Normalization	PDI
Doing Business Normalization	Pearson Correlation	1	-.641**
	Sig. (1-tailed)		<.001
	N	28	28
*Note: ** Correlation is significant at the 0.01 level (1-tailed).*			

Correlations Doing Business – PDI prove a negative correlation of business friendliness and power distance in a society at a high statistical significance, $r = -.641$, $p < .001$, i.e. more business friendliness is associated with lower power distance (Table 7).

Previously presented and elaborated linkages of power distance and doing business with competitiveness, combined with doing business and power distance correlations have at least two implications. One is that formal institutions imported from the Western countries (found mostly in the first quad-

rant[36] of Figure 2) are unlikely to be efficient in the transition countries (found mostly in the fourth quadrant of Figure 2 showing completely the opposite values from the first quadrant). Second, it can also be expected that underlying informal institutions are unlikely to support even the "home-grown" formal ones being intrinsically business-oriented. When trying to predict the future linkages between power distance and success of business environment reforms, it is interesting to note Hofstede *et al.*'s[37] assessment of the persistence of power distance relations over centuries despite the expected convergence due to globalisation. Nevertheless, due to their partial interconnectedness, it is valuable to test those implications on other cultural dimensions.

3.2. Individualism and Doing Business

In order to identify the relation between ease of doing business and dominance of collectivism or individualism in the investigated societies, the countries were first clustered based on their IDV score (Table 8). The second step was the exploration of their linkages with doing business level. Clustering by the Ward method resulted in two groups of countries. The first group consists of twenty countries with a higher IDV score (67.10 on average), i.e. a high level of individualism in a society. The second group includes eight countries having a lower IDV score (30.75 on average), i.e. prevailing collectivism in a society. This division of groups shows a high statistical significance according to ANOVA, F (1, 26) = 91.850, $p < .001$ (Appendix). The low IDV cluster consists of Southeast European transition countries, Russia, and two Mediterranean countries. However, six out of eight are transition countries. The high IDV cluster consists of Western European countries and Central European and Baltic transition countries. Despite the small difference in the absolute numbers, the relative numbers show a dominance of transition countries in the low IDV cluster.

Individualist societies are primarily characterised by loose ties between people, i.e. "everyone is expected to look after him- or herself or her immediate family".[38] On the contrary, in collectivist societies "people from birth onward

[36] The lines of the quadrants are not drawn in the graph. Hereinafter the positions of the quadrants are considered according to the common practice and the following wording is used: first quadrant – upper left, second quadrant – upper right, third quadrant – lower left, fourth quadrant – lower right.

[37] Hofstede, G.; Hofstede, G. J.; Minkov, M., *op. cit.* (fn. 24), pp. 86 – 88.

[38] *Ibid.*, p. 92.

are integrated into strong, cohesive in-groups, which throughout people's lifetime continue to protect them in exchange for unquestioning loyalty".[39] It is valuable to note that, with rare exceptions, large power distance societies are usually collectivist whereas small power distance societies are overwhelmingly individualist.[40] Most of the countries in the world are collectivist, and wealthy countries are predominantly individualist.[41] In individualist societies the interest of an individual prevails over the interest of the group and it is expected that all the members of the group have their own opinions. In collectivist societies instead, the opinion of an individual needs to be in line with the group opinion and it is a consequence of the way people are raised within their extended families from an early age. Individualist societies emphasise independence, self-supporting lifestyles and mostly extravert values. Those values are expectedly found in the working environment as well. In collectivist societies future employees are preferred if they are related to a specific in-group, and a family-like link is built with the employer, while in individualist societies it is a contract in the labour market that is in line with employer's goals. Professional mobility, self-actualisation and individual freedom are much higher in individualist societies. The role of the state in the economy is limited. On the other hand, in collectivist societies the state's influence in the economy is crucial, patriotism is an ideal, and harmony and consensus in society are highly desired.[42]

Table 8. *Countries according to Individualism Index*

Ward method	**Cluster 1: high IDV**		**Cluster 2: low IDV**
	Austria	Italy	**Bulgaria**
	Belgium	**Latvia**	**Croatia**
	Czech Rep.	**Lithuania**	Greece
	Denmark	Luxembourg	Portugal
	Estonia	Netherlands	**Romania**
	Finland	**Poland**	**Russian Federation**
	France	**Slovak Republic**	**Serbia**
	Germany	Spain	**Slovenia**
	Hungary	Sweden	
	Ireland	United Kingdom	
IDV Mean	67.10		30.75

[39] *Ibid.*

[40] *Ibid.*, pp. 102 – 105.

[41] *Ibid.*, pp. 91 – 97.

[42] *Ibid.*, Chapter 4.

When exploring the relation of Doing Business and individualism versus collectivism, the results in the 2x2 table suggest that countries with a dominant individualist culture are usually more business friendly than the countries with a prevailing collectivist culture (Table 9). These results are further verified by both Chi-Square and Fisher's tests (Table 10). Furthermore, the groups' average scores also show that the most competitive countries have the most business friendly regulations and prevailing individualism, while the least competitive ones are collectivist and have the least friendly legal setting for doing business (Table 12).

Table 9. *Individualism and business friendliness: count of countries*

		IDV score		
		high IDV	low IDV	Total
Doing business degree	more friendly	14	1	15
	less friendly	6	7	13
Total		20	8	28

Table 10. *Individualism and business friendliness: Chi-Square Tests*

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	7.596[a]	1	.006		
Continuity Correction[b]	5.460	1	.019		
Likelihood Ratio	8.210	1	.004		
Fisher's Exact Test				.011	.009
Linear-by-Linear Association	7.325	1	.007		
N of Valid Cases	28				

3.2.1. Individualism, Legal Setting and Competitiveness

Individualism and Doing Business show a positive correlation at a high statistical significance, $r = .587$, $p = .001$ (Table 11). This result, same as the linkages with competitiveness, was quite expected when taking into account Hofstede *et al.*'s[43] correlation of wealth of the countries and individualism and Gorodnichenko and Roland's[44] finding on the IDV dimension being the only one with a strong effect on economic growth. For further analysis it is impor-

[43] *Ibid.*

[44] Gorodnichenko, Y.; Roland, G., *op. cit.* (fn. 19).

tant to consider (again) that "[i]mported economic theories are unable to deal with collective and particularist societies".[45]

Table 11. *Individualism and business friendliness: Correlations*

		Doing Business Normalization	IDV
Doing Business Normalization	Pearson Correlation	1	.587**
	Sig. (1-tailed)		.001
	N	28	28

*Note: **. Correlation is significant at the 0.01 level (1-tailed).*

Table 12. *Individualism and business friendliness: linkages with competitiveness*

		IDV score	
		high IDV	low IDV
		Competitiveness Normalization	Competitiveness Normalization
		Mean	Mean
Doing business degree	more friendly	86.88	72.80
	less friendly	75.72	57.44

As seen in Figure 3, Croatia, Serbia, Greece, and the Russian Federation are the farthest from the individualistic societies with the most favourable regulatory business environment. Those countries, joined by Slovenia, Romania, and Bulgaria, are also affiliated with the high-PDI cluster. That makes their collectivism more stable and long lasting, hence less likely to move towards individualist values that appear to be a prerequisite for long-run economic growth and wealth. This is also worth considering as a missing link or key informal institution of South European / Mediterranean model of capitalism (as portrayed by Amable[46] and Cvijanovic & Redzepagic[47]), particularly when applied to transition countries in that region. The combination of a high PDI and a low IDV also explains the movements on the political scene; a high PDI mostly implies the dominance of one party, and in the initial transition years this was a very nationalist one, and the low IDV puts a patriotism stamp on it.

45 Hofstede, G.; Hofstede, G. J.; Minkov, M., *op. cit.* (fn. 24), p. 130.

46 Amable, B., *The Diversity of Modern Capitalism*, New York, NY, Oxford University Press, 2009.

47 Cvijanovic, V.; Redzepagic, D., *From political capitalism to clientelist capitalism? The case of Croatia*, Zbornik radova Ekonomskog fakulteta u Rijeci, Vol. 29, No. 2, 2011, pp. 355 – 372.

Due to national consensus building, at least a nominal one, it is expected that this is everybody's choice and a unanimous opinion. Further legacy-relevant features of a low IDV are a practically inseparable connection of individuals with the group, avoidance of disagreements with the majority and a vast influence of the state on the economy. Those factors reinforce egalitarianism and enable superiority of politics over numerous spheres of economic and social life. Strong presence and persistence of these informal factors were most likely to underpin the transformation of post-socialist countries towards political capitalism instead of entrepreneurial capitalism (as defined by Zupanov[48]). Those underlying factors help in keeping that model as *a status quo* which by now has shown a series of downsides, yet the wealthy elites and mostly poor, but inert ordinary people do not show enough or any initiative to change it. Furthermore, these two poles in Southeastern Europe: the rich, powerful elites massively using clientelistic relations on one side, and the majority of citizens living in modest conditions, but with lifelong expectations of job and social protection by the state, on the other, are likely to converge towards patrimonial capitalism in Russia (as pictured by King[49]). Both the cultural dimensions and the economic and political movements in those societies appear to indicate that inclination. Bearing in mind Hofstede *et al.*'s[50] point on resistance of collectivism, especially when combined with large power distance, and its relation with economic wealth, it is highly probable that in Southeast European countries fast changes resulting in entrepreneurial capitalism or some other capitalist form based and developed on individualist values are not feasible. In retrospective, this combination of informal institutions being fully opposite to the Western set of IDV and PDI values also explains the impossibility of import of Western formal institutions and the switch from relation-based to rule-based governance. Furthermore, it can easily be argued that non-responsiveness and lacking accountability of governments in transition countries is supported by high power distance and collectivist values of population. In other words, citizens easily accept that kind of government behaviour and rarely react to it or question the fulfilment of pre-election promises.

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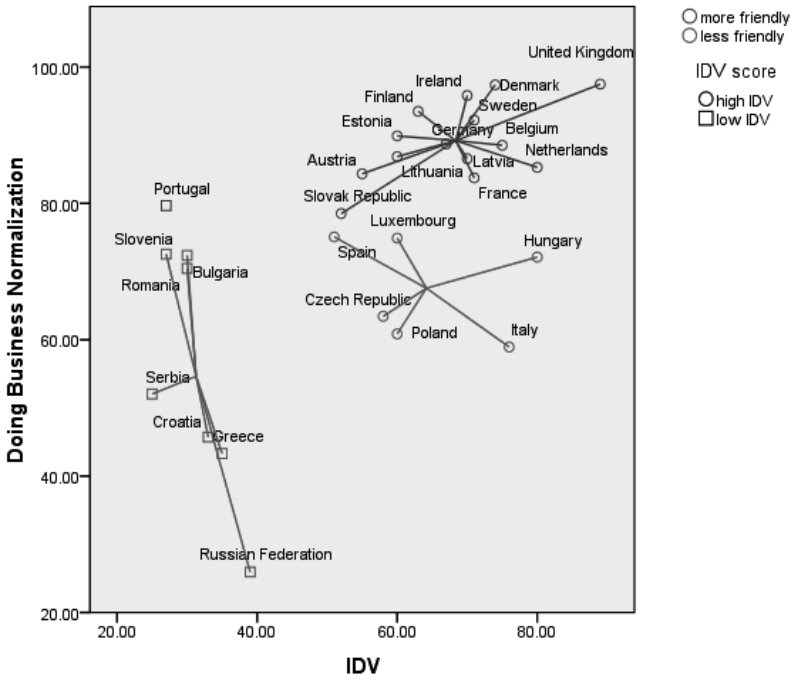
48 Zupanov, J., *op. cit.* (fn. 14).

49 King, L., *op. cit.* (fn. 14); *id.*, *Central European Capitalism in Comparative Perspective*, in R. Hanké, M. Thatcher & M. Rhodes (Eds.), *Beyond Varieties of Capitalism*, New York, NY, Oxford University Press, 2007, pp. 307 – 327.

50 Hofstede, G.; Hofstede, G. J.; Minkov, M., *op. cit.* (fn. 24), pp. 134 – 135.

Figure 3. *Individualism and business friendliness*



3.3. Masculine versus Feminine values and Doing Business

Selected countries were clustered into the groups with higher and lower MAS scores. This process led to a group of twelve countries possessing a high MAS score and a group of sixteen countries with a low MAS score (Table 13). A one-way ANOVA was used to test for differences between the two clusters. There is a significant statistical difference, F (1, 26) = 52.032, p < .001 (Appendix). There is a prevalence of transition countries in the low MAS cluster with only the Czech Republic, Hungary, Poland and the Slovak Republic being part of high MAS cluster.

Table 13. *Countries according to Masculinity Index*

Ward method	**Cluster 1: high MAS**	**Cluster 2: low MAS**
	Austria	**Bulgaria**
	Belgium	**Croatia**
	Czech Republic	Denmark
	Germany	**Estonia**
	Greece	Finland
	Hungary	France
	Ireland	**Latvia**
	Italy	**Lithuania**
	Luxembourg	Netherlands
	Poland	Portugal
	Slovak Republic	**Romania**
	United Kingdom	**Russian Federation**
		Serbia
		Slovenia
		Spain
		Sweden
MAS Mean	69.08	28.44

While noting the increasing change in gender roles around the world, Hofstede *et al*.[51] stresses that in his initial survey masculinity versus femininity was the only dimension in which women and men consistently gave different answers. In short, regarding work men are focused on high earnings, recognition, advancement to higher-level jobs, and challenge as an essential part of the job. On the other hand, women's priorities are good relationships at work, job security, and a living area that suits their family needs. Consequently, societies are considered to be masculine "when emotional gender roles are clearly distinct: men are supposed to be assertive, tough and focused on material success, whereas women are supposed to be more modest, tender, and concerned with the quality of life".[52] On the other side, in feminine societies emotional gender roles overlap, hence "both men and women are supposed to be modest, tender, and concerned with the quality of life". Even though it might seem that individualism versus collectivism is to a great extent connected with masculinity versus femininity, this is not the case. The former reflects the positioning of an individual not concerning his group ties versus the positioning of an individual

[51] *Ibid.*, pp. 136 – 139.

[52] *Ibid.*, p. 140.

based on in-group connections and interactions. The latter emphasises ego set against relations with others, regardless of their group affiliations. Nevertheless, a relation was found between a high IDV and a low MAS, like in the case of Denmark, and it is linked with an emphasis on well-being. On the other hand, societies being preoccupied with survival are usually collectivist and masculine societies.[53]

3.3.1. Masculine versus Feminine Values, Legal Setting and Competitiveness

The 2x2 table shows equal distribution of high MAS countries into more and less business friendly, whereas nine low MAS countries are more business friendly and seven are less business friendly (Table 14). That table linked with competitiveness averages appears to straightforwardly indicate only that the least competitive countries are less business friendly and have a low MAS score (Table 15). The initial impression that the most competitive countries are more business friendly and score high on masculinity is eliminated when considering a tiny score difference between more business friendly countries with a low MAS score. Finally, there is no statistically significant correlation between masculinity and doing business (Table 16).

Table 14. *Masculinity and business friendliness: count of countries*

		MAS score		Total
		high MAS	low MAS	
Doing business degre[e]	more friendly	6	9	15
	less friendly	6	7	13
Total		12	16	28

Table 15. *Masculinity and business friendliness: linkages with competitiveness*

		MAS score	
		high MAS	low MAS
		Competitiveness Normalization	Competitiveness Normalization
		Mean	Mean
Doing business degree	more friendly	86.90	85.30
	less friendly	71.53	61.03

[53] *Ibid.*, p. 146.

Table 16. *Masculinity and business friendliness: Correlations*

		Doing Business Normalization	MAS
Doing Business Normalization	Pearson Correlation	1	-.143
	Sig. (1-tailed)		.234
	N	28	28

Due to the non-existing correlation between doing business and the MAS dimension, the dimension itself will not be further elaborated. It only remains to draw a parallel between its key values[54] and the proclaimed values of the socialist system. The overlaps of feminine values and values from the previous system primarily include an emphasis on relationships and quality of life rather than career goals, equality-based instead of equity-based rewards, preference of leisure time over money, working in order to live and not vice versa. Furthermore, these characteristics contribute in portraying the most common post-socialist type of business environment.

3.4. Uncertainty Avoidance and Doing Business

Uncertainty avoidance is "the extent to which the members of a culture feel threatened by ambiguous or unknown situations".[55] People in countries with low uncertainty avoidance consider uncertainty to be a normal part of everyday life, feel comfortable with unfamiliar situations and new products and technologies, have flexible rules in their private sphere, and are curious about different things and situations. Conversely, people in countries with high uncertainty avoidance perceive uncertainty as a threat, are able to accept only known risks, products and technologies, have strict private rules and consider unknown phenomena to be dangerous. In their professional life, people in low UAI countries change their jobs more often than in high UAI countries and are inclined towards the necessary rules only rather than having numerous nominal rules like in high UAI countries. Low UAI countries produce more innovations, while high UAI countries are better at implementation. Employees in low UAI countries are most likely to be motivated by achievement and esteem whereas in high UAI countries they will be motivated by security and esteem. In a wider social context, it is valuable to note that high UAI countries show to be more fertile environments for extreme political parties, homopho-

[54] *Ibid.*, Chapter 5.

[55] *Ibid.*, p. 191.

bic and xenophobic movements. Moreover, countries with strong uncertainty avoidance and strong collectivism, i. e. not accepting differences and primarily identifying with in-groups, usually deny or tend to eliminate ethnic, linguistic, or religious minorities.[56]

Countries are grouped into clusters with a high level and a low level of uncertainty avoidance (Table 17). In the sample, there are thirteen countries characterised by high uncertainty avoidance (average score of 91.31) and fifteen with low uncertainty avoidance (average score of 55.13). ANOVA indicates that the difference between groups is statistically significant, F (1, 26) = 47.652, p <.001 (Appendix).

Table 17. *Countries according to Uncertainty Avoidance*

Ward method	**Cluster 1: low UAI**	**Cluster 2: high UAI**
	Austria	Belgium
	Czech Republic	**Bulgaria**
	Denmark	**Croatia**
	Estonia	France
	Finland	Greece
	Germany	**Hungary**
	Ireland	**Poland**
	Italy	Portugal
	Latvia	**Romania**
	Lithuania	**Russian Federation**
	Luxembourg	**Serbia**
	Netherlands	**Slovenia**
	Slovak Republic	Spain
	Sweden	
	United Kingdom	
UAI Mean	55.13	91.31

3.4.1. Uncertainty Avoidance, Legal Setting and Competitiveness

The outcome of linking the clusters of less / more business friendly and low / high uncertainty avoidance countries into a 2x2 table suggests that more business friendly countries are the ones with lower levels of uncertainty avoidance (Table 18). This finding is verified when linking those clustered data with average competitiveness scores, yet with a somewhat smaller difference

[56] *Ibid.*, Chapter 3.

compared to high UAI / more business friendly countries (Table 19). Still, that statement is further confirmed by Chi-Square tests (Table 20). Doing Business and UAI show quite a strong negative correlation at a high statistical significance, $r = -.679$, $p < .001$ (Table 30).

Table 18. *Uncertainty avoidance and business friendliness: count of countries*

		UAI score		Total
		low UAI	high UAI	
Doing business degre[e]	more friendly	12	3	15
	less friendly	3	10	13
Total		15	13	28

Table 19. *Uncertainty avoidance and business friendliness: linkages with competitiveness*

		UAI score	
		low UAI	high UAI
		Competitiveness Normalization	Competitiveness Normalization
		Mean	Mean
Doing business degree	more friendly	86.57	83.44
	less friendly	78.18	62.18

Table 20. *Uncertainty avoidance and business friendliness: Chi-Square tests*

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	9.073[a]	1	.003		
Continuity Correction[b]	6.928	1	.008		
Likelihood Ratio	9.616	1	.002		
Fisher's Exact Test				.007	.004
Linear-by-Linear Association	8.749	1	.003		
N of Valid Cases	28				

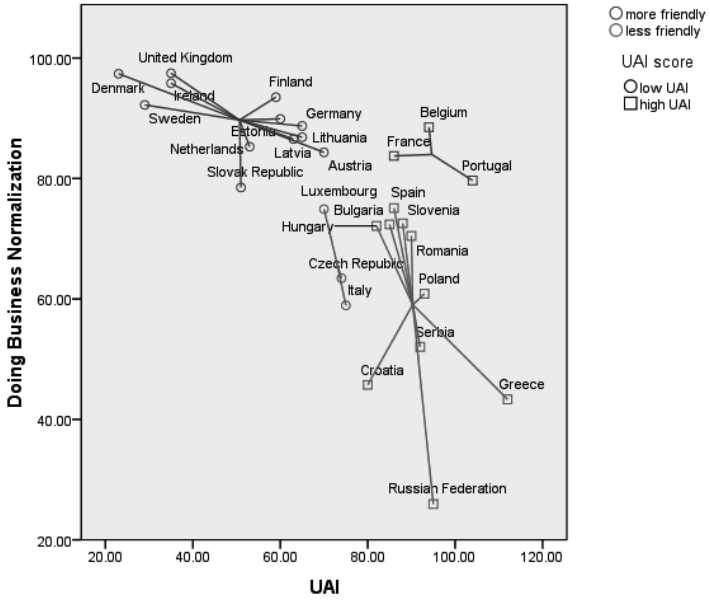
Table 21. *Uncertainty avoidance and business friendliness: Correlations*

		Doing Business Normalization	UAI
Doing Business Normalization	Pearson Correlation	1	-.679**
	Sig. (1-tailed)		<.001
	N	28	28
*Note: ** Correlation is significant at the 0.01 level (1-tailed).*			

All the data linking uncertainty avoidance with doing business and further associating it with competitiveness indicate that lower uncertainty avoidance is connected with more business friendliness. Those findings suggest that most of the transition countries, have informal institutions that are not supportive to business environment development. Furthermore, it shows that institutional stickiness of the formal institutions imported from the Western low UAI countries is unlikely to emerge. In addition to that, former Yugoslav countries are to be found in the high UAI cluster characterised by low tolerance for ethnic and religious minorities. It is interesting to note that high UAI countries were mostly hostile to foreign investors and preferred domestic ownership even when non-respectable businesspeople were taken into account. A high UAI combined with a high PDI is also reflected in a quasi existing civil society that is unlikely to have a qualitative leap in its development as long as such a strict and conservative notion of right and wrong is desirable, which tends to keep the existing state of affairs. This whole picture could also be explained as "the devil one knows" phenomenon complementary with "what is different is dangerous" as a key feature of strong uncertainty avoidance. In this context it is valuable to observe the case of Slovenia as the economically most advanced among the former Yugoslav republics and at the same time at the top among the new EU member states. Still, its collectivism, somewhat high power distance and strong uncertainty avoidance seem to influence its development and probably keep it at slower pace than it would be if those cultural dimensions inclined towards Western values. This finding is confirmed by Jaklič and Zagoršek's[57] analysis portraying background social institutions of the Slovenian business system that have been developing since the 19th century and are still to be found in (post)transition Slovenia. They assert several key characteristics as contextual factors: strong affiliation with the local community, persistence and distinctiveness of informal networks and the grey economy, unquestionable autonomy of managers with insufficient reference to owners' interests, and underdeveloped collaboration between companies from different communities and areas. These factors are fully in line with previously identified cultural dimensions' scores.

[57] Jaklič, M.; Zagoršek, H., *From strengths to weaknesses: historical development of shadow economy in Slovenia and its impact on national competitiveness*, in M. Cicic & N. Brkic (Eds.), *Transition in Central and Eastern Europe - Challenges of 21st Century*: *Conference Proceedings*, Sarajevo, Faculty of Economics, 2002, pp. 301 – 308; *id.*, *Rationality in Transition: Using holistic approach to rationality to explain some developments in the Slovenian business system*, Working paper No. 146, Ljubljana, Faculty of Economics, University of Ljubljana, 2003.

Figure 4. *Uncertainty avoidance and business friendliness*



It is interesting to note that strong uncertainty avoidance is predominantly spread among SEE and Mediterranean countries (Figure 4) which, according to Amable[58], indicate a very similar type of capitalism. In this type, uncertainty avoidance as a building block of national mindsets may explain the inclination towards high job protection despite a fall in productivity and a strong involvement of the state regarding social protection. Both aforementioned characteristics, job market restrictions in particular, put employers in an unfavourable position.

3.5. Indulgence versus Restraint and Doing Business

This cultural dimension is characterised by two poles: indulgence is defined as "a tendency to allow relatively free gratification of basic and natural human desires related to enjoying life and having fun" whereas restraint stands for "a conviction that such gratification needs to be curbed and regulated by strict moral norms".[59] Indulgent societies have a bigger ratio of citizens feel-

[58] Amable, B., *op. cit.* (fn. 46).

[59] Hofstede, G.; Hofstede, G. J.; Minkov, M., *op. cit.* (fn. 24), p. 281.

ing happy and healthy than restrained societies. People in indulgent societies mainly have a positive attitude, place leisure, friends and freedom of speech among their priorities. On the other hand, people in restrained societies perceive themselves as helpless and not able to manage their lives; they are also more pessimistic and cynical and overall do not consider themselves healthy. Keeping order in the society is considered highly important in restrained nations. Despite the impression that economic development should influence those perceptions, it is valuable to note that citizens of the former Soviet Union, same as Bulgaria and Romania, experienced significant growth rates in their transition period but have not yet changed their attitudes (associated with IVR).[60] In line with that, it is remarkable that all the transition countries except Slovenia fall into the low IVR cluster, i. e. are considered to be restrained societies.

The countries were clustered into groups with high and low levels of indulgence versus constraint, both groups consisting of fourteen countries (Table 22). The average score of the countries with a higher IVR is 57.97, while the countries with a lower IVR score average 24.52. ANOVA showed a statistically significant difference between the two groups, F (1, 26) = 87.029, $p < .001$ (Appendix).

Table 22. *Countries according to Indulgence versus Restraint*

Ward method	**Cluster 1: high IVR**	**Cluster 2: low IVR**
	Austria	**Bulgaria**
	Belgium	**Croatia**
	Denmark	**Czech Republic**
	Finland	**Estonia**
	France	**Hungary**
	Germany	Italy
	Greece	**Latvia**
	Ireland	**Lithuania**
	Luxembourg	**Poland**
	Netherlands	Portugal
	Slovenia	**Romania**
	Spain	**Russian Federation**
	Sweden	**Serbia**
	United Kingdom	**Slovak Republic**
IVR Mean	57.97	24.52

[60] *Ibid.*, Chapter 8.

3.5.1. Indulgence versus Restraint, Legal Setting and Competitiveness

Both the count of countries connecting doing business and IVR (Table 23) and the connections of those clusters with competitiveness scores (Table 24) suggest that more indulgent societies are more business friendly. This finding is further confirmed by Chi-Square tests (Table 25). Doing business and IVR show a statistically significant, moderate positive correlation, $r = .460$, $p < .01$ (Table 26). Following the findings on these cultural dimensions, the results of IVR linkages with doing business and competitiveness are expected. It becomes apparent that values underpinning loose societies contribute to better business environments. In the case of IVR, these include freedom, open-mindedness and assertiveness.

Table 23. *Indulgence versus restraint and business friendliness: count of countries*

		IVR score		Total
		high IVR	Low IVR	
Doing business degree[e]	more friendly	10	5	15
	less friendly	4	9	13
Total		14	14	28

Table 24. *Indulgence versus restraint and business friendliness: linkages with competitiveness*

		IVR score	
		high IVR	low IVR
		Competitiveness Normalization Mean	Competitiveness Normalization Mean
Doing business degree	more friendly	92.74	72.35
	less friendly	72.77	62.81

Table 25. *Indulgence versus restraint and business friendliness: Chi-Square tests*

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	3.590[a]	1	.058		
Continuity Correction[b]	2.297	1	.130		
Likelihood Ratio	3.673	1	.055		
Fisher's Exact Test				.128	.064
Linear-by-Linear Association	3.462	1	.063		
N of Valid Cases	28				

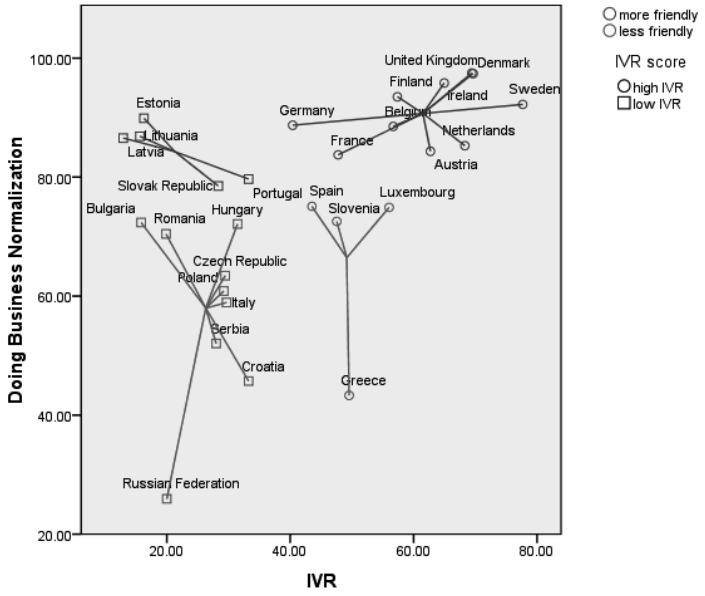
Table 26. *Indulgence versus restraint and business friendliness: Correlations*

		Doing Business Normalization	IVR
Doing Business Normalization	Pearson Correlation	1	.460**
	Sig. (1-tailed)		.007
	N	28	28

*Note: ** Correlation is significant at the 0.01 level (1-tailed).*

Figure 5 showing group centroids according to the IVR scores and business friendliness indicates that among the low IVR countries Croatia is the one with the highest IVR score. The Croatian and Slovenian highest scores among the transition countries may be explained by their development level as Yugoslav republics, relative openness at that time and the connected quicker adoption of Western values. Despite being relatively closer to Western countries according to some other cultural dimensions, the former Soviet republics, Romania and Bulgaria score lowest on the IVR dimension. This can most probably be attributed to their closeness in the socialist era. That closeness was reassured by the order and discipline in the society that, for no apparent reason, is still considered highly important in the low IVR countries.

Figure 5. *Indulgence versus restraint and business friendliness*



In the application of the institutional stickiness perspective, it is highly unlikely to expect that formal institutions from the high IVR countries will work in the low IVR countries, which have vastly different informal institutions. The transition countries are almost fully distinguished from Western European countries in this cultural dimension.

3.6. Clustering according to all cultural dimensions: trying to create a cultural "ideal type" for doing business?

The result of capturing all the cultural dimensions simultaneously was the clustering of countries into two groups (Table 27). The first cluster is characterised by a low PDI, a high IDV, a low MAS, a low UAI, and a high IVR, and consists of eight countries (Austria, Denmark, Finland, Ireland, Luxembourg, Netherlands, Sweden and United Kingdom). The second one can be described by the opposite characteristics and consists of the remaining twenty countries. ANOVA was used to test for differences between the groups according to cultural dimensions. It showed a statistically significant difference among the two clusters according to all dimensions except for MAS (Appendix). This dimension was already indicated as the only one that does not correlate with doing business.

As indicated by the previous analysis by each single cultural dimension, a favourable business environment is expected to be found in societies characterised by weak power distance, high individualism, low uncertainty avoidance and indulgence instead of restraint. It is valuable to note that all the transition countries are in the second cluster featuring non-business friendly society characteristics. This finding reaffirms the unlikeliness of institutional stickiness that used to be denied by the proponents of the shock therapy approach. From the other point of view, it is highly probable that informal institutions in transition societies undermine the development of a favourable business environment.

Table 27. *Countries according to all cultural dimensions*

	Cluster 1: low PDI, high IDV, low MAS, low UAI, high IVR	**Cluster 2: high PDI, low IDV, high MAS, high UAI, low IVR**	
Joint	Austria	Belgium	**Latvia**
	Denmark	**Bulgaria**	**Lithuania**
	Finland	**Croatia**	Poland
	Ireland	**Czech Republic**	Portugal
	Luxembourg	**Estonia**	**Romania**
	Netherlands	France	**Russian Fed.**
	Sweden	Germany	**Serbia**
	United Kingdom	Greece	**Slovak Rep.**
		Hungary	**Slovenia**
		Italy	Spain
PDI Mean	29.25	64.10	
IDV Mean	70.25	51.30	
MAS Mean	40.50	48.00	
UAI Mean	46.75	82.00	
IVR Mean	65.76	31.44	

Additionally, the average normalised doing business and competitiveness rankings are calculated for both clusters covering all the cultural dimensions (Table 28). It shows that cluster one is both more business friendly in terms of laws and regulations in those countries and more competitive, which indicates the overall quality of a business environment. ANOVA confirms that there is a statistically significant difference in the clusters formed this way, both regarding doing business, $F(1, 26) = 9.764$, $p = .004$, and competitiveness, $F(1, 26) = 20.880$, $p < .001$ (Appendix).

Table 28. *Doing business and competitiveness for clusters based on all cultural dimensions*

		Doing Business Normalization	Competitiveness Normalization
		Mean	Mean
Joint	1	90.12	92.33
	2	69.77	70.34

3.6.1. Doing business and competitiveness

In order to test the relation between doing business and competitiveness, the existing more and less business friendly clusters were associated with their competitiveness results. The results show that the countries with a more business friendly legal setting on average score higher on competitiveness than the countries with a business disabling legal environment (Table 29). ANOVA confirms a statistically significant difference between these two groups, F (1, 26) = 21.428, $p < .001$ (Appendix).

Table 29. *Doing business clusters and their competitiveness*

	Doing business degree	
	more friendly	less friendly
	Mean	Mean
Competitiveness Normalization	85.94	65.87

As assumed, doing business and competitiveness are positively correlated. The results indicate a strong correlation at a high statistical significance, r = .734, p < .001 (Table 30). Yet, when cultural dimensions are introduced as a control variable, a statistically significant correlation is still detected, but it becomes rather moderate, r = .431, p = .02 (Table 31). Therefore, it indicates that part of variance is explained by cultural dimensions. Linking this finding with analysis on every single cultural dimension, it appears to be a quantitative contribution to Pejovich's[61] interaction thesis.

Table 30. *Doing business and competitiveness: correlations*

		Doing Business Normalization	Competitiveness Normalization
Doing Business Normalization	Pearson Correlation	1	.734**
	Sig. (1-tailed)		<.001
	N	28	28

*Note: ** Correlation is significant at the 0.01 level (1-tailed).*

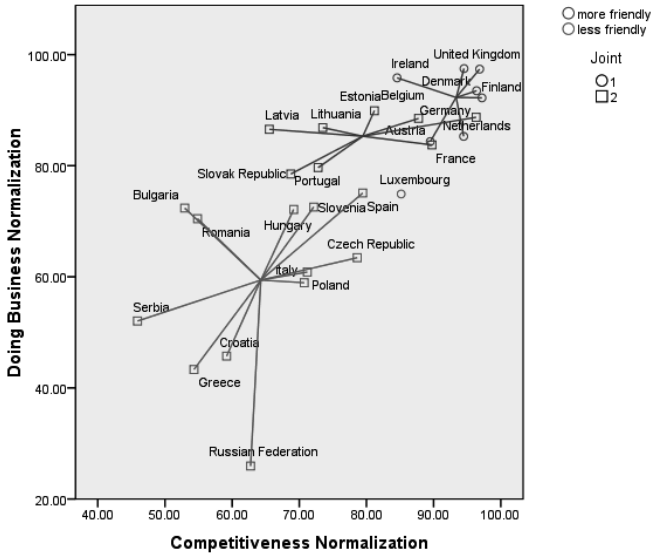
[61] Pejovich, S., *Law, Informal Rules and Economic Performance: The Case for Common Law,* Cheltenham, UK, Edward Elgar Publishing Limited, 2008.

Table 31. *Doing business and competitiveness: correlations with cultural dimensions as control variables*

Control Variables			Doing Business Normalization	Competitiveness Normalization
PDI & IDV & MAS & UAI & IVR	Doing Business Normalization	Correlation	1.000	.431
		Significance (1-tailed)	.	.020
		Df	0	21

Figure 6 shows the exact normalized rankings of the countries according to doing business and competitiveness and their division into groups based on higher / lower business friendliness and affiliation to previously defined clusters covering all cultural dimensions simultaneously. Besides Luxembourg, all other countries from cluster 1 overlap with the more business friendly cluster. Expectedly, the countries affiliated with cluster 1 and the more business friendly cluster are best positioned according to both indicators. Based on this and the previous clustering, covering each cultural dimension separately, it is plausible to consider Luxembourg an outlier in the less business friendly cluster.[62] This can be additionally confirmed by its economic development data. The same as in several previous benchmarks, Russia, Croatia, Greece and Serbia show the most unfavourable results.

Figure 6. *Doing Business and Competitiveness*



62 In C. Williamson's work (*op. cit.* (fn. 9), p. 377) Singapore as an obvious outlier was a very similar case.

3.7. Correlations: Doing Business and Cultural Dimensions

Table 32 summarizes the previously obtained data on the correlations between doing business and every single cultural variable. GDP growth and GDP per capita PPP are introduced as control variables. The same as for competitiveness and doing business, the data for these two control variables were taken for the years 2006-2011. It has been decided to use both control variables based on previous studies on institutions (like Acemoglu, Johnson & Robinson[63]; Easterly & Levine[64]) and their criticism (Sachs[65]). In addition, it is important to note that although panel analysis was used in several topic-related studies, it was not applied in this one because the cultural dimension variable is constant throughout all the selected years (and several decades). Its usage was therefore considered inappropriate.

As seen from the tables, the correlations remained statistically significant, apart from MAS that was not significant before. The correlations changed slightly when GDP growth was introduced as a control variable. GDP per capita PPP appears to be a more influential control variable for all the cultural dimensions. It appears that part of the variance is conditioned by this variable. It is therefore highly probable that the level of economic development partly explains the connection between doing business and the cultural dimensions. That statement is in line with Rodrik's[66] point on high quality institutions being possibly explained as both the cause and the result of economic prosperity.

Table 32. *Doing Business and Cultural Dimensions*

		PDI	IDV	MAS	UAI	IVR
Doing Business Normalization	Pearson Correlation	-.641**	.587**	-.143	-.679**	.460**
	Sig. (1-tailed)	<.001	.001	.234	<.001	.007
	N	28	28	28	28	28
*Note: ** Correlation is significant at the 0.01 level (1-tailed).*						

63 Acemoglu, D.; Johnson, S.; Robinson, J. A., *The Colonial Origins of Comparative Development: an Empirical Investigation*, American Economic Review, Vol. 91, No. 5, 2001, pp. 1369 – 1401.

64 Easterly, W.; Levine, R., *Tropics, germs, and crops: how endowments influence economic development*, Journal of Monetary Economics, Vol. 50, No. 1, 2003, pp. 3 – 39.

65 Sachs, J. D., *Institutions Don't Rule: Direct Effects of Geography on Per Capita Income*, Working Paper 9490, Cambridge, MA, National Bureau of Economic Research, 2003; *id.*, *Institutions Matter, but Not for Everything*, Finance and Development, No. 4, 2003, available at https://www.imf.org/external/pubs/ft/fandd/2003/06/pdf/sachs.pdf (April 15, 2015)

66 Rodrik, D., *op. cit.* (fn. 2).

Table 33. *Doing Business and Cultural Dimensions, GDP growth as a control variable*

Control Variables			PDI	IDV	MAS	UAI	IVR
GDP growth	Doing Business Normalization	Correlation	-.630	.566	-.117	-.683	.422
		Significance (1-tailed)	<.001	.001	.280	<.001	.014
		df	25	25	25	25	25

Table 34. *Doing Business and Cultural Dimensions, GDP per capita PPP as a control variable*

Control Variables			PDI	IDV	MAS	UAI	IVR
GDP per capita PPP	Doing Business Normalization	Correlation	-.557	.505	-.172	-.628	.287
		Significance (1-tailed)	.001	.004	.196	<.001	.073
		df	25	25	25	25	25

3.7.1. Correlations: Competitiveness and Cultural Dimensions

Table 35 shows correlations between competitiveness and all the cultural dimensions. Apart from MAS, correlations between cultural dimensions and competitiveness are mainly strong and positive. The only statistically significant and negative correlation is to be found between PDI and competitiveness. GDP growth and GDP per capita PPP are introduced as control variables.

As seen from the tables, the correlations remained statistically significant, apart from MAS, which was not significant before. Yet, a decreased intensity of correlations is evident when introducing GDP per capita PPP. Hence, the same as with the correlations of cultural dimensions with doing business, GDP per capita PPP appears to be an important control variable and part of explanation of the linkages explored. Still, same as in the previous doing business correlations, the cultural variables (apart from MAS) confirm their own independent contributions.

Table 35. *Competitiveness and Cultural Dimensions: Correlations*

		PDI	IDV	MAS	UAI	IVR
Competitiveness Normalization	Pearson Correlation	-.714**	.725**	-.108	-.639**	.725**
	Sig. (1-tailed)	<.001	<.001	.292	<.001	<.001
	N	28	28	28	28	28

*Note: ** Correlation is significant at the 0.01 level (1-tailed).*

Table 36. *Competitiveness and Cultural Dimensions: Correlations, GDP growth as a control variable*

Control Variables			PDI	IDV	MAS	UAI	IVR
GDP growth	Competitiveness Normalization	Correlation	-.734	.716	-.087	-.639	.722
		Significance (1-tailed)	<.001	<.001	.334	<.001	<.001
		df	25	25	25	25	25

Table 37. *Competitiveness and Cultural Dimensions: Correlations, GDP per capita PPP as a control variable*

Control Variables			PDI	IDV	MAS	UAI	IVR
		Correlation	-.560	.647	-.181	-.575	.474
GDP per capita PPP	Competitiveness Normalization	Significance (1-tailed)	.001	<.001	.183	.001	.006
		df	25	25	25	25	25

4. CONCLUSION

The analysis of the interplay between cultural dimensions (informal institutions) and doing business regulations (formal institutions) in EU countries, Serbia and the Russian Federation proved that a favourable business environment is expected to be found in societies characterised by weak power distance, high individualism, low uncertainty avoidance and indulgence instead of restraint. Yet, the opposite characteristics are found in numerous transition countries. This implies the unlikelihood of institutional stickiness (as defined by Boettke, Coyne & Leeson[67]), i.e. the impossibility of Western formal institutions to be successfully implemented in the Eastern transitional societies. Moreover, some of the combinations of cultural dimensions like low individualism and high power distance show to be extremely resistant so that no short- or medium-term change can be expected, and long-run change in this case is defined by centuries rather than decades. Besides the unlikeliness of institutional import, the success of "home-grown" reforms is also questionable due to a recognised passivity and a lack of openness to changes in most of the transitional societies.

Ease of doing business and competitiveness show a strong positive correlation, yet part of their relation is explained by cultural dimensions. When linking this finding with the analysis on every single cultural dimension, it appears to

[67] Boettke, P. J.; Coyne, C. J.; Leeson, P. J., *op. cit.* (fn. 8).

be a quantitative contribution to Pejovich's[68] interaction thesis pinpointing culture as the major, yet often denied and misunderstood, transaction cost in transition societies. Moreover, the level of economic development partly explains the connection between business friendliness and cultural dimensions. That statement is in line with Rodrik's[69] point on high quality institutions being possibly explained as both the cause and the result of economic prosperity. Overall, those findings also contribute to the account on (path-dependent) deep roots of economic development of both transitional and developed countries.

[68] Pejovich, S., *op. cit.* (fn. 6).

[69] Rodrik, D., *op. cit.* (fn. 2).

APPENDIX

Doing Business: More / less business friendly clusters

		Doing Business Normalization	
		Mean	Count
Ward Method	1	88.57	15
	2	60.60	13

ANOVA

Doing Business Normalization

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	5448.473	1	5448.473	43.978	<.001
Within Groups	3221.147	26	123.890		
Total	8669.621	27			

Power Distance and Doing Business

		PDI	
		Mean	Count
Ward Method	1	35.07	14
	2	73.21	14

ANOVA

PDI

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	10184.143	1	10184.143	63.116	<.001
Within Groups	4195.286	26	161.357		
Total	14379.429	27			

Individualism and Doing Business

		IDV	
		Mean	Count
IDV score	high IDV	67.10	20
	low IDV	30.75	8

ANOVA

IDV

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	7550.414	1	7550.414	91.850	<.001
Within Groups	2137.300	26	82.204		
Total	9687.714	27			

Masculine versus Feminine values and Doing Business

		MAS	
		Mean	Count
Ward Method	1	69.08	12
	2	28.44	16

ANOVA

MAS

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	11328.574	1	11328.574	52.032	<.001
Within Groups	5660.854	26	217.725		
Total	16989.429	27			

Uncertainty Avoidance and Doing Business

		UAI	
		Mean	Count
Ward Method	1	55.13	15
	2	91.31	13

ANOVA

UAI

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	9113.355	1	9113.355	47.652	<.001
Within Groups	4972.503	26	191.250		
Total	14085.857	27			

Indulgence versus Restraint and Doing Business

		IVR	
		Mean	Count
Ward Method	1	57.97	14
	2	24.52	14

ANOVA

IVR

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	7832.138	1	7832.138	87.029	<.001
Within Groups	2339.870	26	89.995		
Total	10172.009	27			

Clustering according to all cultural dimensions

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
PDI	Between Groups	6940.129	1	6940.129	24.255	<.001
	Within Groups	7439.300	26	286.127		
	Total	14379.429	27			
IDV	Between Groups	2052.014	1	2052.014	6.987	.014
	Within Groups	7635.700	26	293.681		
	Total	9687.714	27			
MAS	Between Groups	321.429	1	321.429	.501	.485
	Within Groups	16668.000	26	641.077		
	Total	16989.429	27			
UAI	Between Groups	7100.357	1	7100.357	26.427	<.001
	Within Groups	6985.500	26	268.673		
	Total	14085.857	27			
IVR	Between Groups	6732.341	1	6732.341	50.889	<.001
	Within Groups	3439.668	26	132.295		
	Total	10172.009	27			

Doing business and competitiveness for clusters based on all cultural dimensions

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
Doing Business Normalization	Between Groups	2366.977	1	2366.977	9.764	.004
	Within Groups	6302.644	26	242.409		
	Total	8669.621	27			
Competitiveness Normalization	Between Groups	2764.423	1	2764.423	20.880	<.001
	Within Groups	3442.245	26	132.394		
	Total	6206.668	27			

Doing business clusters and their competitiveness

ANOVA

Competitiveness Normalization

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	2804.148	1	2804.148	21.428	<.001
Within Groups	3402.520	26	130.866		
Total	6206.668	27			

Sažetak

Ružica Šimić Banović *

INSTITUCIONALNA INTERAKCIJA U POSLOVNOM OKRUŽENJU: ISTOČNOEUROPSKE PREMA ZAPADNOEUROPSKIM ZEMLJAMA

Interakcija formalnih (zakona, propisa) i neformalnih institucija (kulture, tradicije, normi ponašanja) bila je inicijalno podcijenjena u nedavnoj ekonomskoj, političkoj i društvenoj transformaciji središnje i istočne Europe. To je ponajviše rezultiralo univerzalnim pristupom koji je zanemario neopipljivo nasljeđe i stoga nije mogao predvidjeti ni primjereno analizirati divergenciju razvoja zemalja niti evoluciju njihovih poslovnih sustava. Prevladavajuća kultura nacije prepoznata je kao vrlo utjecajan faktor institucionalne promjene. Imajući u vidu da je povoljno poslovno okruženje ključno za ekonomski napredak, "institucionalna ljepljivost" kulture s jedne strane, a zakona i propisa koji se odnose na poslovanje s druge temeljito je istražena i zatim dovedena u vezu s ukupnom kvalitetom poslovnog okruženja i razinom gospodarskog razvoja. Zaključuje se da se povoljno poslovno okruženje nalazi u društvima koje karakterizira manja hijerarhijska distanca, snažan individualizam, nesklonost izbjegavanju nesigurnosti te naglašena otvorenost i zadovoljstvo stanovnika. No, brojne tranzicijske zemlje uglavnom se odlikuju suprotnim karakteristikama. Stoga konačni nalazi naglašavaju manju vjerojatnost uspjeha institucionalnog "uvoza" iz zapadnoeuropskih u istočnoeuropska društva.

Ključne riječi: kultura, institucije, poslovno okruženje, tranzicija, postsocijalizam

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