

# CULTURE'S CONSEQUENCES FOR ECONOMIC DEVELOPMENT: AN EMPIRICAL EXAMINATION OF CULTURE, FREEDOM, AND NATIONAL MARKET PERFORMANCE

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## ABSTRACT

*In this study we empirically examine the role of culture in encouraging or discouraging country-level economic performance. We find that, when it comes to economic growth, not all cultures are created equal. For the global company and the practicing manager, our results indicate that cultural values appear to have some statistically significant and operationally meaningful economic effects. We also evolve and test a more encompassing framework within which cultural and political factors continuously interact to enable or discourage growth. Our interactive model explains fully 51 percent ( $p \leq .01$ ) of the country-to-country variance in per capita GDP growth over the two decades studied. We discuss implications for business at the macro- and micro-levels, and propose that any fully specified analysis of managerial prescriptions and proscriptions must consider the effects of culture and the process of culture change.*

## INTRODUCTION

At the dawn of the twenty-first century the world remains starkly divided between rich and poor, democratic and authoritarian, just and unjust, orderly and chaotic. Extant contrasts are so dramatic that it becomes clear to even the casual observer that we live in highly disjunctive times. There exist all manner of explanations with regard to underlying causal factors. Geography, climate, previous colonization and the vagaries of history loom large in contemporary explanations of economic divergence. However, culture's consequences for development have been given short shrift. The possible reasons for this are manifold, however Patterson (2006) concluded that "the main cause for this shortcoming is a deep-seated dogma that has prevailed in social science and policy circles since the mid-1960's: the rejection of any explanation that invokes a group's cultural attributes—its distinctive attitudes, values and predispositions, and the resulting behavior of its members..." (p. 13). Why this rejection? Culture is difficult to address on several levels: it is

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definitionally problematic; it is directionally ambiguous—simultaneously affecting and affected by a host of contextual factors; it is difficult to objectify and assess; and it carries with it the ability to unfairly stereotype and deeply anger. It is also unsettling to many scholars and policymakers. It challenges the basic assumptions of, at one extreme, market economists, and Marxist thinkers at the other, who share a metatheoretical belief regarding the temporal primacy of economic and political initiatives over social values and individual attitudes. However, that culture is difficult to address fails to compromise its possible explanatory power, and today's multinational executives are obliged to consider all factors affecting market growth and management practices and structures. We suggest that in our increasingly globalized world, culture (Wehner, 2006) and economics can be seen as two of the more powerful forces shaping human behavior (Throsby, 2001). Understanding these factors is an essential prerequisite of fully specified managerial analysis (see, for instance, Fan and Zigang, 2004). Others have attempted to similarly examine the role of culture, relying on anecdotal evidence and parallel case studies. We, however, use a multidisciplinary perspective, an empirically derived schematic of culture, and a widely accepted quantitative assessment of 34 countries. We also seek, for the first time, to examine culture's consequences for markets while controlling for political and economic freedom.

## CULTURAL DIMENSIONS IN MANAGERIAL LIFE

Much of what we know, or believe we know about culture and its possible consequences for the way we live and work derives from Hofstede's (1980) original research (Bing, 2004). Hofstede argued that "people carry 'mental programs' which are developed in the family in early childhood and reinforced in schools and organizations" (p. 11). Believing that these mental programs contain a component of national culture, Hofstede formulated a four-dimensional empirical model of cultural differentiators. Factors identified include power distance, individualism-collectivism, uncertainty avoidance and masculinity-femininity. Hofstede's research was path-breaking in conceptually differentiating national cultures and suggesting ways in which these differences may have consequences for people and organizations. Widespread use of his dimensions in behavioral and organizational research is testimony to the overall appeal of his work. In the last year alone, his cultural factors have been related to perspectives on and determinants of business ethics (Schepers, 2006; Su, 2006; Smith & Hume, 2005; Swaidan & Hayes, 2005), consumer decision-making and advertising (Mikhailitchenko & Whipple, 2006; Bang, Raymond, Taylor & Moon, 2005; Leo, Bennett & Hartel, 2005; Malai & Speece, 2005; Yoo & Donthu, 2005), new product development (Garrett, Buisson & Yap, 2006; Dwyer, Mesak & Hsu, 2005), international negotiations (McGinnis, 2005; Rammal, 2005), joint ventures (Ritchie & Eastwood, 2005), management control (Garg & Ma, 2005; Lere & Portz, 2005), information technology (McCoy, Everard & Jones, 2005), QA/TQM (Jabnoun & Khafaji, 2005), industrial relations (Black, 2005), leadership (Littrell & Valentin, 2005), and incentive preferences (Rehu, Lusk & Wolff, 2005). While numerous replications attest to the validity and reliability of his findings (see Sondergaard, 1994), it is important to recognize that a certain amount of controversy still surrounds the derivation of Hofstede's dimensions as well as their application. For example, it may realistically be suggested that each of Hofstede's bipolar factors should be conceptualized, rather, as a two-dimensional space, e.g., it may be theoretically possible for a nation to score highly on both individualism *and* its counterpart, collectivism. Indeed, Purcell (1987) represented this factor in just such a manner, contending that Japanese firms often choose to emphasize aspects of individual employee development and, at the same time, cooperative collectivism. Placement of these attributes at opposite ends of a continuum may reflect a Western bias inappropriate to research in the East. In fact, Hofstede and Bond (1988) developed the Chinese Value Survey specifically because of this concern. Their analysis indicated that the 22 countries sampled differed in four primary ways. These factors were determined to be similar to the power distance, individualism-collectivism and masculinity-femininity variables identified earlier, but one unique factor, Confucian dynamism—which Hofstede (1991) later referred to as long-term orientation—was found. Yeh and Lawrence (1995), investigating this particular variable, determined that individualism-collectivism and Confucian dynamism may well be the same factor or, at a minimum, that they are so highly related as to confuse their relationship with any third variable (see also Fang, 2003). Thus, in our empirical examination, we rely on Hofstede's original findings vis-à-vis the factor structure of culture.

### Power Distance

Hofstede's (1980) power distance factor references the extent to which members of a society accept that power and all that is associated with it is distributed unevenly. According to Hofstede, in a high power distance society an order of inequality exists in which everyone has his or her rightful place; dependence characterizes the majority of the society's members, and independence the elite minority; superiors and subordinates are differentiated in other-than-hierarchical ways; and power is a basic fact of society that antedates good or evil. In such a society, powerholders are entitled to privileges denied the powerless; coercive and referent power are emphasized; others are viewed as a threat to one's power and rarely are to be trusted; and latent conflict characterizes the relationship between the powerful and the powerless. In a low power distance society, beliefs exist that inequality is to be minimized; the interdependence of members replaces the dependence of the majority; superiors and subordinates are considered alike; and all members have equal rights. Additionally, in low power distance societies legitimate and expert power are emphasized; people at various power levels feel less threatened and are more prepared to trust each other; and latent harmony exists between the powerful and the powerless. Based on the rigid structures and relationships characteristic of high power distance cultures, the relative unwillingness of the powerful to value what less-powerful others bring to the economic table, and the intrinsic acceptance by its victims of this systematic discrimination, we offer the following hypothesis:

**Hypothesis 1: High power distance will tend to negatively affect national economic performance.**

### Individualism-Collectivism

According to Hofstede (1980), the level of individualism or collectivism characterizing a culture reflects the nature of the relationship between the individual and the collectivity which prevails within that society. High individualism implies a preference for a loosely knit social framework within which people are supposed to take care of themselves and their immediate families only. Collectivism indicates a preference for a tightly knit social framework within which individuals are emotionally integrated into an extended family or other in-group that will protect them in exchange for unquestioned loyalty. In individualistic cultures this self-orientation, or "I" consciousness, results in an emotional independence of the individual from organizations and institutions; an emphasis on individual initiative, achievement and rights; and a universalistic feeling that value standards should apply to all. Collectivistic cultures are characterized by a "we" consciousness that translates into the emotional dependence of the individual on society; a felt need to belong; the willing subordination of individuality and a private life; and, crucially, a particularistic belief that value standards differ for in- and out-group members. We suggest that social mobility, the pursuit of self-interest, the psychological independence of the individual, and the emphasis on initiative, achievement and equity characteristic of individualistic cultures, will cause the individual to apply his or her labor where it will earn the highest available return. Conversely, the in-group/out-group distinctions so strongly maintained in collectivistic cultures will be disabling for many, particularly for those who traditionally lack access to the levers of power. Thus, we suggest the following:

**Hypothesis 2: A collectivistic orientation will tend to negatively affect national economic performance.**

### Uncertainty Avoidance

Uncertainty avoidance addresses the extent to which people in a society feel threatened by unstructured or ambiguous situations. Hofstede (1980) found that this anxiety expresses itself in emotionality and aggressive tendencies; in strict codes of behavior; a belief in absolute truths; and an intolerance of deviant behavior and ideas. In societies high in uncertainty avoidance the ambiguity inherent in life is experienced as a continuous threat that must be countered, and there exists both a sense that conflict and competition unleash

aggression and should therefore be avoided; and a strong need for consensus, law and order, and a regulated and secure life. Conversely, in societies low in uncertainty avoidance life's vagaries are more easily accepted and each day is taken as it comes; there is a belief that conflict and competition can be contained on the level of fair play and used constructively; and there exists a greater willingness to take risks, to dissent, and to live with as few rules as possible. Based on the rapidly and sometimes discontinuously changeable times in which we live, and the unwillingness of societies high in uncertainty avoidance to take risks and explore alternative structures, processes and relationships, we offer the following hypothesis:

**Hypothesis 3: High uncertainty avoidance will tend to negatively affect national economic performance.**

## **Masculinity-Femininity**

Hofstede's (1980) choice of the terms "masculinity" and "femininity" to differentiate cultures based on the items comprising this factor is an unfortunate one. Each descriptor carries with it, indeed implies, sex-role stereotypes that may be inaccurate and polarizing, and which unnecessarily politicize the construct. It is perhaps the most misunderstood of Hofstede's dimensions (Rich, 2000), and Hofstede himself took pains to remind his readers that femininity is not the same as the ideal of feminism. In brief, Hofstede's typical masculine society is characterized by a relative emphasis on achievement and competitiveness; a money and "things" orientation; the independence ideal; and sympathy for the strong and for the successful achiever. Importantly, it is also one in which sex roles are sharply differentiated. Men are expected to compete and to behave assertively and act powerfully. Women are expected to care for the softer, emotional side of life. Hofstede's feminine society features more complete sex role overlap. It is precisely this difference in recognizing what women are capable of contributing in the economic arena that we believe will differentiate wealth creation in masculine versus feminine cultures. Thus, we suggest the following:

**Hypothesis 4: A "masculine" orientation will tend to negatively affect national economic performance.**

## **The Role Of Freedom**

In exploring the linkage of economics and politics, scholars have largely focused on sequences within which economic events influence political outcomes (Hirschman, 1994). These linkages have been explored with increasing levels of rigor and dramatically uneven results. Przeworski and Limongi's (1993) comprehensive review of the literature is discouragingly inconclusive, and this inability to establish the relationships sought may be partly responsible for the paucity of recent studies. While direct effects may be difficult to demonstrate, we propose that political and economic freedom may play a more subtle role than previously proffered. We suggest a more encompassing model within which cultural and political factors continuously interact to enable or discourage growth. We also suggest that the free expression of important underlying cultural factors may be incrementally determinative of national market development. Thus, we argue in favor of a moderating influence versus a direct effect, integrating culturalist and statist perspectives in a unique way. We propose the following:

**Hypothesis 5: Political and economic freedom will interact with cultural factors, moderating culture's consequences for national economic performance.**

## MEASURES AND RESULTS

Examining the 34 countries remaining independent since Hofstede's original survey data were published in 1980, correlational analysis (see Table 1) indicates that, as we hypothesized, cultures characterized as meritocratic (Hypothesis 1;  $p \leq .01$ ), individualistic (Hypothesis 2;  $p \leq .01$ ) risk-takers (Hypothesis 3;  $p \leq .05$ ) experienced the most robust rates of per capita GDP expansion over the two decades studied.

**Table 1: Intercorrelation Matrix**

<i>All Countries:</i>	(1)	(2)	(3)	(4)	(5)	(6)
GDP Growth (1)	1.00 <sup>***</sup>					
Power Distance (2)	-.48 <sup>***</sup>	1.00 <sup>***</sup>				
Individualism-Collectivism (3)	.50 <sup>***</sup>	-.65 <sup>***</sup>	1.00 <sup>***</sup>			
Uncertainty Avoidance (4)	-.37 <sup>**</sup>	.31 <sup>*</sup>	-.39 <sup>**</sup>	1.00 <sup>***</sup>		
Masculinity-Femininity (5)	-.15	.17	-.06	.18	1.00 <sup>***</sup>	
Freedom Status Index (6)	-.46 <sup>***</sup>	.52 <sup>***</sup>	-.62 <sup>***</sup>	.10	-.03	1.00 <sup>***</sup>

\*  $p \leq .10$   
 \*\*  $p \leq .05$   
 \*\*\*  $p \leq .01$

While none of the culture-level variables achieved significance in a multiple regression format (see Model 1, Table 2), this was largely due to our use of countries as the level of analysis and the associated modest statistical power of the analysis to detect significant effects (see Cohen, 1992). However, the  $R^2$  (adjusted) of .24 ( $p \leq .10$ ) suggests the possible influence of cultural values on the dependent variable. (Due to the size of the sample relative to the number of variables in the analytic model, alpha of .10 was accepted as statistically significant.) Adding Freedom House's well-regarded, highly popular "freedom status index" as a control results in a statistically insignificant .03 increase in  $R^2$  (Model 2, Table 2). However, supportive of Hypothesis 5, multiple hierarchical regression analysis highlights the interactions of uncertainty avoidance ( $p \leq .01$ ) and masculinity-femininity ( $p \leq .05$ ) with the freedom status index (Model 3, Table 2). The comprehensive interactive model explained fully 51 percent ( $p \leq .01$ ) of the variance in per capita GDP growth over the twenty years following the publication of Hofstede's (1980) seminal work, a statistically significant .24 jump over the main effects ( $p \leq .05$ ).

**Table 2: Multiple Hierarchical Regression Analysis**

	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>
Power Distance	-39.20		
Individualism-Collectivism	37.57		
Uncertainty Avoidance	-25.89		
Masculinity-Femininity	-11.03		
Freedom Status Index		-558.54	
Power Distance x Index			9.71
Individualism-Collectivism x Index			-26.17
Uncertainty Avoidance x Index			-34.89 <sup>***</sup>
Masculinity-Femininity x Index			-41.22 <sup>**</sup>
$R^2$ (Adjusted)	.24 <sup>*</sup>	.27 <sup>*</sup>	.51 <sup>***</sup>
Delta $R^2$ (Adjusted)	.24 <sup>*</sup>	.03	.24 <sup>**</sup>

\*  $p \leq .10$   
 \*\*  $p \leq .05$   
 \*\*\*  $p \leq .01$

To more fully explore the interaction of culture and freedom, we employed these same analytic techniques following a median-split of the data on the freedom status index. As is evident in Table 3, for the 17 "free countries" in the sample the power distance and individualism-collectivism variables were significantly

related, correlationally, to national economic performance ( $p \leq .10$  and  $p \leq .05$ , respectively). In the less-free “other countries” only masculinity-femininity appeared statistically meaningful ( $p \leq .05$ ).

**Table 3: Intercorrelation Matrix**

<b>Free Countries:</b>	(1)	(2)	(3)	(4)	(5)	(6)
GDP Growth (1)	1.00***					
Power Distance (2)	-.43*	1.00***				
Individualism-Collectivism (3)	.55**	-.45*	1.00***			
Uncertainty Avoidance (4)	-.30	.69***	-.45*	1.00***		
Masculinity-Femininity (5)	-.11	-.23	-.30	.49**	1.00***	
Freedom Status Index (6)	-.50**	.68***	-.44*	.48**	.17	1.00***
<b>Other Countries:</b>						
GDP Growth (1)	1.00***					
Power Distance (2)	-.22	1.00***				
Individualism-Collectivism (3)	.02	-.51**	1.00***			
Uncertainty Avoidance (4)	-.26	.24	-.10	1.00***		
Masculinity-Femininity (5)	-.51**	.36	.01	-.15	1.00***	
Freedom Status Index (6)	-.18	.23	-.14	-.37	.17	1.00***

\*  $p \leq .10$   
 \*\*  $p \leq .05$   
 \*\*\*  $p \leq .01$

Multiple regression analyses on the parsed sample caused the power distance variable to lapse into statistical insignificance in the free half of the sample, while individualism-collectivism ( $p \leq .10$ ) continued as significant (see Table 4). In the group of less-free countries, uncertainty avoidance achieved significance ( $p \leq .10$ ) and masculinity-femininity remained an important explanatory variable ( $p \leq .05$ ).

**Table 4: Multiple Regression Analysis**

	<b>Free Countries</b>	<b>Other Countries</b>
Power Distance	-47.90	-38.56
Individualism-Collectivism	75.31*	-31.33
Uncertainty Avoidance	13.53	-50.93*
Masculinity-Femininity	5.86	-119.59**
$R^2$ (Adjusted)	.15	.23

\*  $p \leq .10$   
 \*\*  $p \leq .05$

## IMPLICATIONS FOR GLOBAL MANAGERS

This study extended earlier work into culture and its economic consequences by investigating the possible role of cultural factors in encouraging or discouraging national economic performance. Our theoretically grounded propositions received empirical support in several instances, each important to today’s multinational manager.

First, when it comes to economic growth and the development of markets, it appears as if not all cultures are created equal. We postulated that social mobility, the psychological independence of the individual, and the emphasis on initiative, equity and inclusiveness characteristic of individualistic cultures, would cause the individual to apply his or her labor where it would earn the highest available return. While not irrefutable, this study’s empirical results indicate that our assertion seems to have an element of truth to it. Also, as hypothesized, higher power distance scores appear negatively related to market growth. Women’s rights, the interdependence of the powerful and the powerless, and the enhanced mobility derived from an overriding belief in expert power all conspire to impel growth. Similarly, the willingness of a people to take

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risks (i.e., uncertainty avoidance) and accept the consequences of their risk-taking appears related to issues of economic growth and development. Less restrictive societal codes of behavior, willingness to question established “truths” and to experiment, to engage in and tolerate others engaging in unconventional behavior, and to possess or be interested in others’ unconventional ideas, all appear empirically tied to positive market performance.

Second, we suggested that, for the global business community, these direct relationships may themselves be misleadingly simplistic. We evolved a more encompassing model within which cultural and political factors continuously interact. We proposed that the free expression of important underlying cultural factors may be incrementally determinative of economic performance, arguing in favor of a moderating influence versus a main effect. On a macroeconomic and geopolitical basis this suggestion is supported. After accounting for culture-level factors, the utility of any propositions about the direct political prerequisites of market growth must be questioned. If a country’s movement toward greater individual freedom is viewed as the essence of political progress, and its advance toward a prosperous society as economic progress, this preliminary finding is of some moment, and perhaps enhances our understanding of the empirically ambiguous literature in the field. Exhorting countries to “get their act together” and establish democratic institutions has, to our way of thinking, profound standing vis-à-vis individual dignity and human rights, however freedom itself appears to have little direct influence economically after culture is considered. Importantly, our conjecture regarding the ongoing interaction of freedom and culture is strongly supported. Specifically, individualism-collectivism, uncertainty avoidance, and masculinity-femininity appear to interact with the freedom status index in rather complex ways. In relatively free countries we found that rewards based on merit and a lack of emphasis on in-group/out-group membership enabled greater growth. In less-free countries, the willingness to take risks and to live with overlapping sex roles and all of the associated benefits of that inclusiveness appears to drive development. One of the more salient trends in the industrialized world over the last two decades has been the tremendous influx of women into the labor market and, importantly, recently into higher-paid and higher-profile jobs. In modern industrialized countries this development has significantly affected the family (e.g., the acknowledgement of the second shift), the workplace (e.g., the introduction of family-friendly work policies) and the economy (e.g., access to a greater talent pool, increased labor availability generally and a reweighted mix of home-provided and market-provided goods and services), and recent trends promise even greater change. For example, in the relatively free, relatively high-growth United States, one-third of all married women already earn more than do their husbands. Moreover, in the U.S. there are roughly 20 percent more women than men graduating from universities (Elliot, 2001), foretelling meaningful changes in the general economy as well as in inter-personal relationships. While further research is required to draw strong conclusions, to the extent that less-free societies more fully recognize and utilize the talent that women bring to the economic table, our results indicate that their competitiveness and well-being will be enhanced. Absent such recognition, one wonders how less-free nations will ever compete.

Third, with regard to economics as a system of thought, the near-universality of the paradigm of voluntary exchange markets and the entirely rational, utility-maximizing and autonomous individual has shaped public policy debate the world over. However, according to some, contemporary economics is undergoing something of a crisis (Quddus, Goldsby & Farooque, 2000). While the causes of this crisis have thus far eluded consensus, the primacy of mathematics and highly formalized modeling as the bases for academic economics—at the possible expense of sociological, political, legal and other considerations—may well have contributed to the decline. It has become clear to many that the current approach fails to fully describe the complexity of worldwide economic performance (Nelson, 1996; Fukuyama, 1995; Knack & Keefer, 1995), nor is it adequate to describe micro-level behavior. For instance, culture may influence individuals’ objective functions and constraints (Sama & Papamarcos, 2000), explaining what, in rational, utility-maximizing neoclassical economics, would otherwise be considered puzzling behavior. Thiruvadhanthai (2000) observed that economic models that ignore cultural determinants are simply misspecified, and theorized, as did Simon (1976) earlier, that economic agents act in their own self-interest within the constraints of their abilities, substituting procedural rationality for substantive, and using heuristics and general rules as guides. So, although economic actors may be boundedly rational, these guides may very well have a basis in culture, and may influence any number of variables (see, for instance, Patterson, 2006). Examining Hofstede’s dimensions and how they are reflected in societies’ economic policies and normative responses and outcomes, as well as in individuals’ utility functions, extends earlier work into culture and its organizational and behavioral consequences, and may provide some insight into its possible role in influencing national market

development. Recasting economics in the light of intercultural theory establishes a provocative linkage. This interdisciplinary approach suggests that economic values may encompass cultural values, or vice versa, and that economists' focus on variables such as productivity, technology, levels of investment and capital flows may be somewhat incomplete. We therefore suggest that a view of economics which excludes culture's influences on the activities of individual economic agents and the institutions they build and inhabit is likely deficient, highlighting the possibilities of further qualitative as well as quantitative inquiry into development efforts.

Fourth, on another level of analysis, that of the worldwide development agent, the "mental programs" Hofstede (1980) asserted we all carry are given short shrift at the expense, largely, of the most vulnerable among us. We propose that in shaping strategies to alleviate poverty in the Third World, as well as to continue to improve the standard of living in the industrialized world, policy-makers need to consider the effects of culture and, perhaps, the process of culture change. It may be that ideas about utility-based preferences in cultural as well as economic theory will provide a basis for more inclusive thinking as well as theoretical completeness. Our research indicates that no single mode of development will be appropriate in all circumstances; rather, differing economic, institutional, and cultural conditions will determine the most efficacious approach in each instance, requiring, as Throsby (2001) observed, "a reorientation of development thinking from a uniform commodity-centered model...towards a pluralistic human-centered one" (p. 72). Earlier, to describe why some communities may view growth ambivalently and make different development choices, Ramsay (1996) suggested that we must explore a variety of factors, including the cultural context of each community involved. Specifically, cultural values and social practices may make some development choices more likely successful and others less. In some instances, the promise of market growth alone may not be persuasive to citizens who fear the end of their community as they know it. In one study by Ramsay, proposed projects were resisted because they were perceived as elitist in nature and as incompatible with a culture antithetical to material acquisition and competition.

Of course, interpretation of the linkages proposed in this paper must be made with caution. Cultures and markets are changeable, their relationship is dynamic, and they are surely each influenced by other factors, including demographics and advances in global communications. With multiple influences likely flowing in many directions simultaneously, a great deal of work remains to be done. However, the 21<sup>st</sup> century offers little if not a heightened need for a global business perspective, making efforts to understand our differences and similarities all the more worthwhile.

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