



# How are cultural dimensions and governance quality related to socioeconomic development?

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## ABSTRACT

This study presents evidence about relations between national cultural dimensions, socioeconomic development and governance quality. Relations between Hofstede's dimensions, Schwartz cultural values, Worldwide Governance Indicators (WGI) and UNPD Human Development Index (HDI) were analysed by using correlations, multiple regression analysis, moderator and mediator analyses as well as path analyses. Correlation results showed that WGI, indulgence, harmony, affective and intellectual autonomy and egalitarianism were positively and power distance, embeddedness, and hierarchy negatively related to HDI. Regression analyses and moderation analyses showed that WGI moderated the relations between HDI and indulgence, embeddedness, intellectual autonomy and affective autonomy. In path models using structural equation modelling techniques, the effects of power distance and individualism on HDI were fully mediated by WGI whereas indulgence vs. restraint and long-term orientation had significant paths only to WGI. The effect of Schwarz's embeddedness dimension on HDI was partly mediated by WGI. In both models, WGI was strongly related to HDI. These results emphasize the importance of the quality of governance in socioeconomic development.

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## 1. Introduction

We can claim that culture as the set of shared attitudes, values, goals, and practices that characterizes an institution, organization or group, influences all aspects of a society's and an individual's life. Cultural differences are likely to explain differences across nations in socio-economic development. For example, collectivist cultures emphasizing an individual as a member of a collective rather than an individual are likely to encourage harmony within the group and loyalty to common values and practices whereas in individualistic cultures individuals are expected to take care of themselves and their immediate families only (Hofstede, 2001). This difference in a person's role in community can be expected to influence how such issues as education system, health care and social services are organized in a country in addition to economic performance. Since culture is in this way the basis on which the society is built and which is reflected in various aspects of the societal life, we can expect that cultural values are linked to human development and the governance quality of the country.

### 1.1. Human development

Long time national development was seen solely as welfare economics focused on such macroeconomic indicators as national income and its growth. This narrow overly technical approach was criticized, for example, by Amartya Sen, who defined human development as the process of enlarging a person's "functioning and capabilities to function, the range of things that a person could do and be in her life" (Sen, 1989). Hence, in Sen's capability approach, the focus is on what individuals are able to do instead of focusing on wealth or utility as satisfaction or desire fulfilment received by consuming a good or service. Sen defines functioning as "an achievement of a person: what she or he manages to do or be" reflecting the "state" of that person whereas "capabilities" refer to the set of potentially achievable "functionings" of a person (Sen, 1985). Thus, welfare includes both achievements and potential achievements (Kuklys, 2005). The first Human Development Report published by UNPD in 1990 was based on Sen's model of capabilities and functionings and, thus, aimed at shifting "the focus of development economics from national income accounting to people centred policies" (Ul Haq, 1995). The Human Development Index is published annually in Human Development Report by UNPD and the last edition (2011) of the index is calculated by taking into account a long and healthy life (health), access to knowledge (education), and a decent standard of living (income) (United

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Nations Development Programme, 2011). The health index is based on life expectancy; the education index is a composite of the mean years of schooling and expected years of schooling; and the income index includes Gross national income at purchasing power parity per capita (United Nations Development Programme, 2011). Based on HDI, countries can be grouped to countries with very high human development, high human development, medium human development, or low human development.

### 1.2. Indexes of culture: Hofstede's cultural dimensions and Schwartz value dimensions

While during last two decades the HDI has become a most widely used indicator of human development (Sotelo and Gimeno, 2003), the situation is much less clear in terms of cultural indicators. Among others, Hofstede's dimensions of national culture (Hofstede, 2001) and Schwartz cultural value dimensions (Schwartz, 1994, 2006) have both been used as proxies of national culture characteristics in socioeconomic research. Interestingly, these models have not been studied before as possible correlates of Human Development Index scores.

Hofstede (2001) called culture as “the collective programming of the mind that distinguishes the members of one group or category of people from another” (p. 9). The centre of the mechanism of culture is “a system of societal norms consisting of the value systems (or the mental software) shared by major groups in the population” (p. 11). Hofstede (2001) presented the fundamental problems of societies by investigating culture through four empirically identified dimensions, which are power distance (the extent to which the less powerful members of organizations and institutions accept that power is distributed unequally), individualism (the extent to which people are expected to stand up for themselves and to choose their own affiliations), masculinity (the value placed on traditionally male values like competitiveness, assertiveness, ambition, and the accumulation of wealth and material possessions), and uncertainty avoidance (the extent to which members of a society attempt to cope with anxiety by minimizing uncertainty; preference of rules and structured circumstances). Recently, Hofstede et al. (2010) added two new dimensions to their cultural model: the long-term orientation (LTO) and indulgence vs. restraint (IVR) dimensions. According to Hofstede et al. (2010), societies with a short-term orientation have a strong concern with the absolute truth, are normative in thinking, have great respect for traditions, and focus on achieving quick results. In societies with a long-term orientation, the truth depends on situation, context and time. Thus, long term orientation is characterized with an ability to adapt traditions to changed conditions, a strong interest in saving and investments, and perseverance in achieving results (Hofstede et al., 2010). Societies high in indulgence dimension allow relatively free gratification of basic human drives and enjoying life and having fun whereas societies with restraint suppress individuals' gratification of needs by regulates it by means of strict social norms (Hofstede et al., 2010).

The Schwartz value dimensions are based on three main concerns that all societies have to confront and solve (Schwartz, 1992, 2006). The first concern (autonomy vs. embeddedness) is to define the relations and boundaries between the person and the group. In societies characterized by embeddedness, people are seen as entities embedded in the collective and the aim is to maintain the status quo and traditional order. In societies emphasizing autonomy, people are encouraged to pursue arousing, affectively positive personal experience (emotional autonomy) and their own ideas and intellectual directions independently (intellectual autonomy). The second societal concern is to guarantee that people behave in a responsible manner that preserves the social structure. This problem can be solved either by recognizing people as moral equals who should feel

concerned for the welfare of all (egalitarianism) or, alternatively, by relying on hierarchical systems of ascribed roles and accepting unequal distribution of power (hierarchy). The third societal problem (harmony vs. mastery) is to regulate people's treatment of human and natural resources. Harmony cultures emphasize fitting into the social and natural world, and encourage maintaining smooth relations and avoiding conflict. Mastery cultures encourage active self-assertion by individuals to master natural and social environment (Schwartz, 1992, 2006).

Only few studies have been conducted about Hofstede's cultural dimensions, Schwartz's cultural values and human development in macro level. Ros (2008) studied the relationship between the cultural theories of Inglehart (1997), Hofstede (2001), Schwartz (1994) and Triandis (1995) in a sample of 40 countries and found that economic growth correlated with materialistic values whereas human development was related to solidarity values (Ros, 2008). These results were in line with an earlier study by Gouveia and Ros (2000) which showed that Schwartz's model is better accounted for by macro-social variables (HDI included) whereas Hofstede's model is better explained by macro-economic variables. In another study, Basabe and Ros (2005) reported positive correlations between HDI and individualism ( $r=0.48$ ), intellectual and affective autonomy ( $r=0.45$ ), egalitarian commitment ( $r=0.36$ ) but negative correlations between HDI and power distance ( $r=-0.43$ ) and hierarchy ( $r=-0.63$ ). In her study about sustainable development and culture, Gouveia (2002) calculated correlations between Schwartz's dimensions of egalitarian commitment, intellectual autonomy, harmony and conservatism, and four indexes of development (economic, environmental, institutional, and social). The social and economic index correlated positively with egalitarian commitment and intellectual autonomy and negatively with conservatism (Gouveia, 2002). Sotelo and Gimeno (2003) chose a different strategy and studied the HDI and individualism relationship by using exclusively Hofstede's individualism scores in a sample of 51 countries. The correlation coefficient between HDI and individualism was 0.44.

Above mentioned studies about cultural models and human development all share the same strengths and weaknesses. Since these studies combine variables from several cultural theories, from Schwartz's and Hofstede's models, the data sets are inevitably small (except in Sotelo's and Gimeno's study which used only Hofstede's individualism score) and somewhat out-dated. For example, none of these studies included Hofstede's new scales. Moreover, the possible moderating or mediating variables between cultural dimensions and HDI were not included into models.

### 1.3. Indicators of governance

Economic literature of recent years shows clearly that the institutions exert a profound influence on economic performance and other measures of development (Licht et al., 2007; Rodrik et al., 2004). Differences in governance play an important role in explaining why the levels of economic and social development differ in great degrees between countries. In addition to economic policy choices, countries differ in their health and education policies as well as in the quality of services, which directly contributes to the HDI score of the country. In most (but certainly not all) countries, these institutions and policy regimes remain broadly similar over considerable periods of time. This is particularly the case for their constitutional and legal systems, but also for the extent of corruption in government and the quality of education and health care systems. The shortcomings in governance largely account for low incomes and, hence, low development levels (Rodrik et al., 2004).

Since 1996 World Bank has published Worldwide Governance Indicators (WGI), which measure six dimensions of governance (Kaufmann et al., 2008). These indicators are “Voice and Accountability” (VA), “Political Stability and Absence of Violence” (PV),

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