

# Culture, competitiveness and wealth

*Executive summary*

Presentation by **PwC Greece**  
January 2019



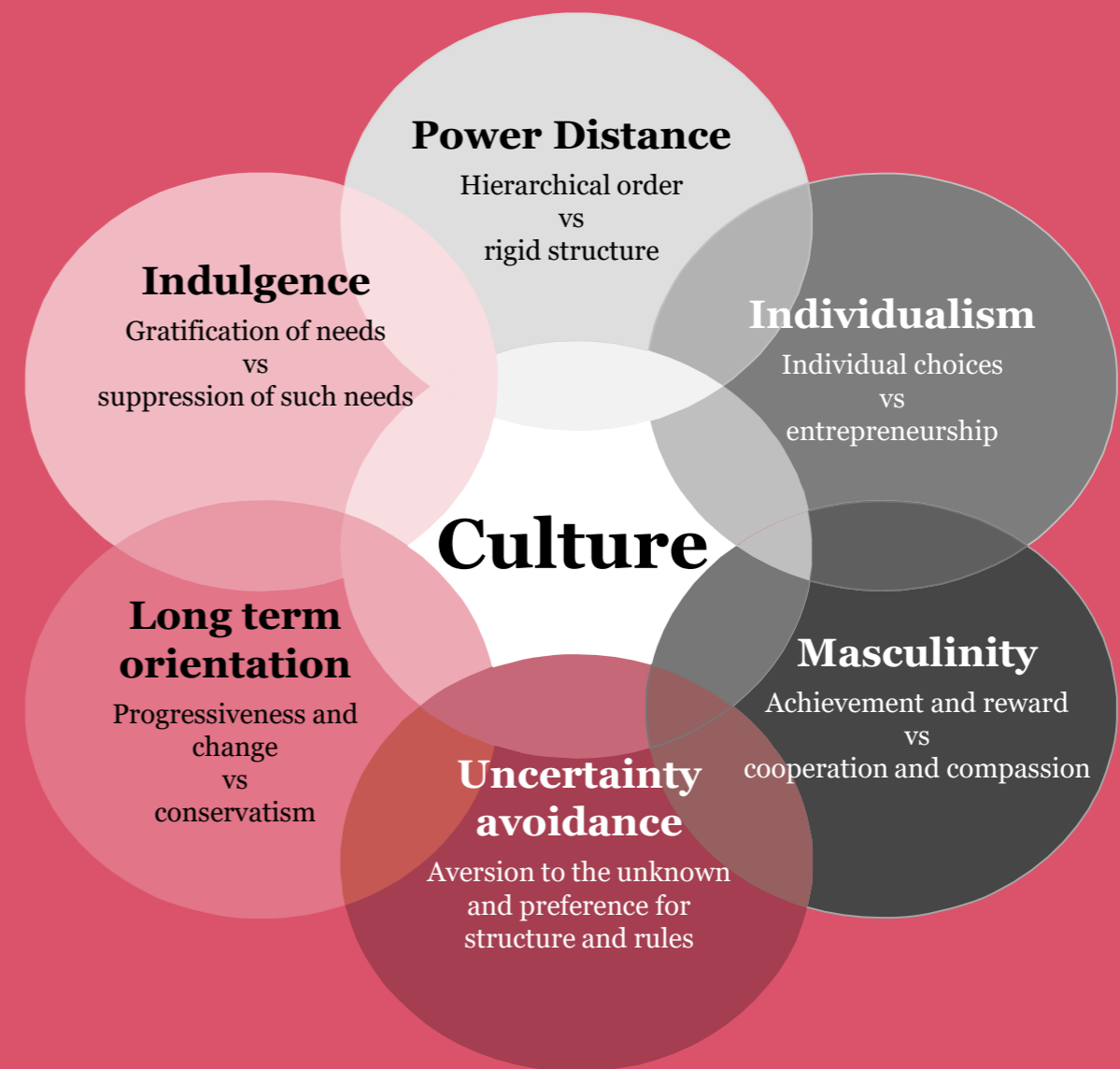


Culture is defined as the collective mental programming of the human mind which distinguishes one group of people from another.

Geert Hofstede  
Social psychologist

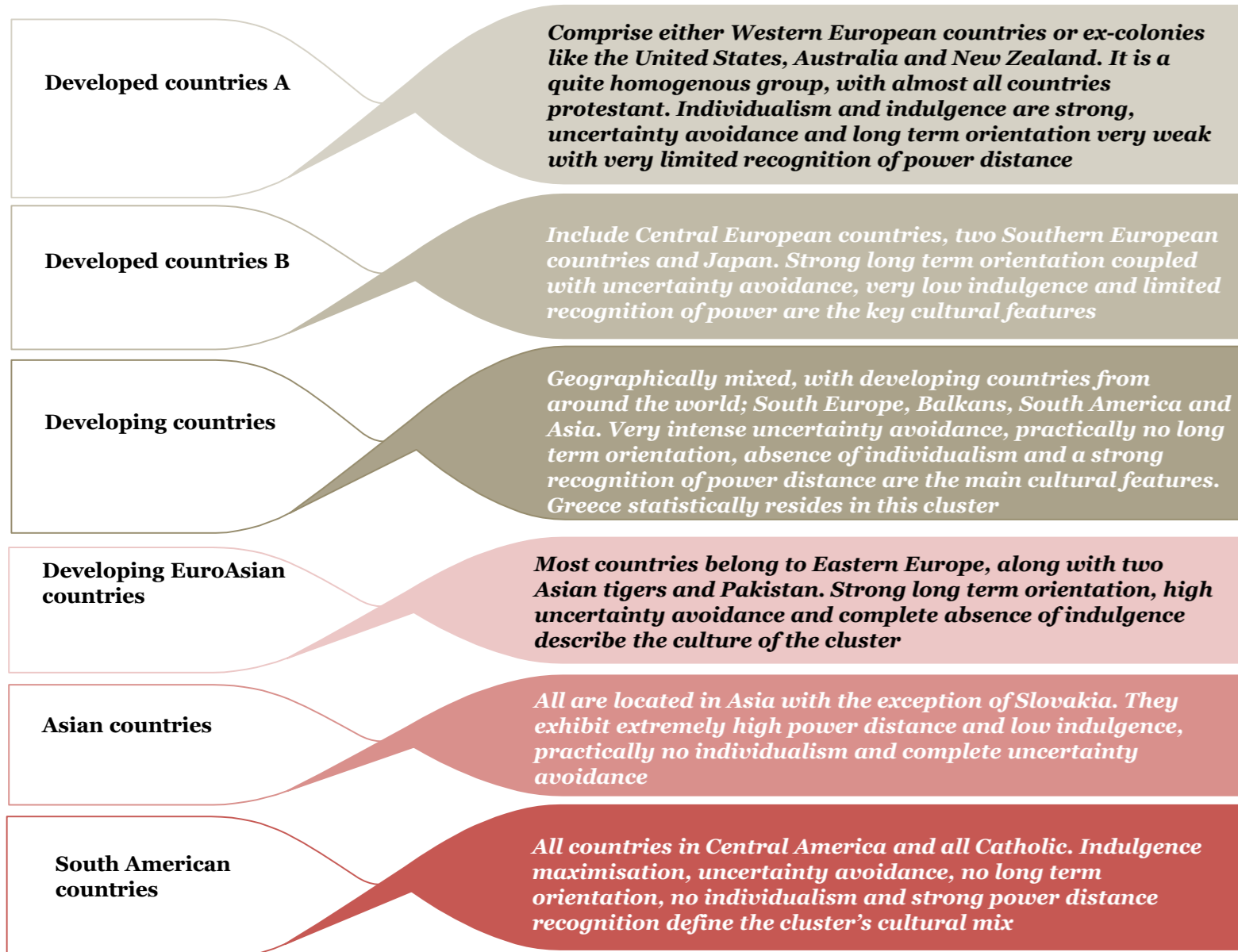
Culture influences patterns of thinking which are reflected in the meaning people attach to various aspects of life and which become crystallised in the institutions of their society. Society organizes itself through laws and institutions, which reflect the underlying common values of the people.

In 1980, Geert Hofstede, first articulated the theory that national culture can be described along six dimensions. Through extensive field research in 61 countries with questionnaires administered in large samples of the population, these six dimensions, which constitute the operational definition of culture, were measured in a statistically significant manner:



# Cultural affinities

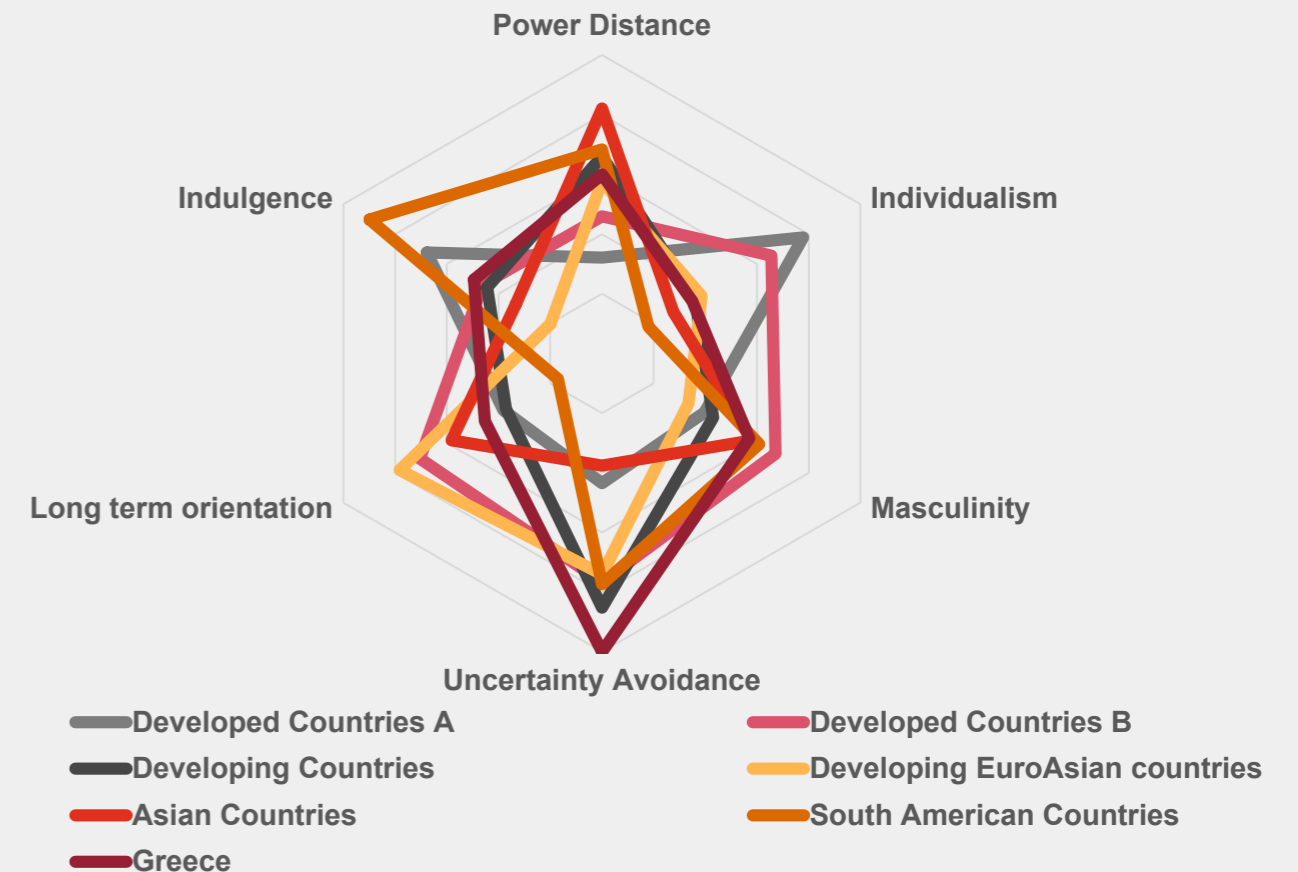
Countries “naturally” group together in terms of cultural dimensions. Principal component statistical analysis suggests that out of the sample of 61 countries come six distinct clusters.



# Cultural clusters

## 6 Cultural clusters and 2 supra-clusters

Countries can be grouped into two supraclusters on the strength of the link between competitiveness and wealth; the Developed World and the Developing World, the fastest of the two supraclusters, in gaining wealth through improvements in competitiveness is the Developing World



Source: Hofstede, G., Hofstede, G. J. & Minkov M. (2010). *Cultures and organizations: Software of the mind*, 3rd Edition(2014 data)

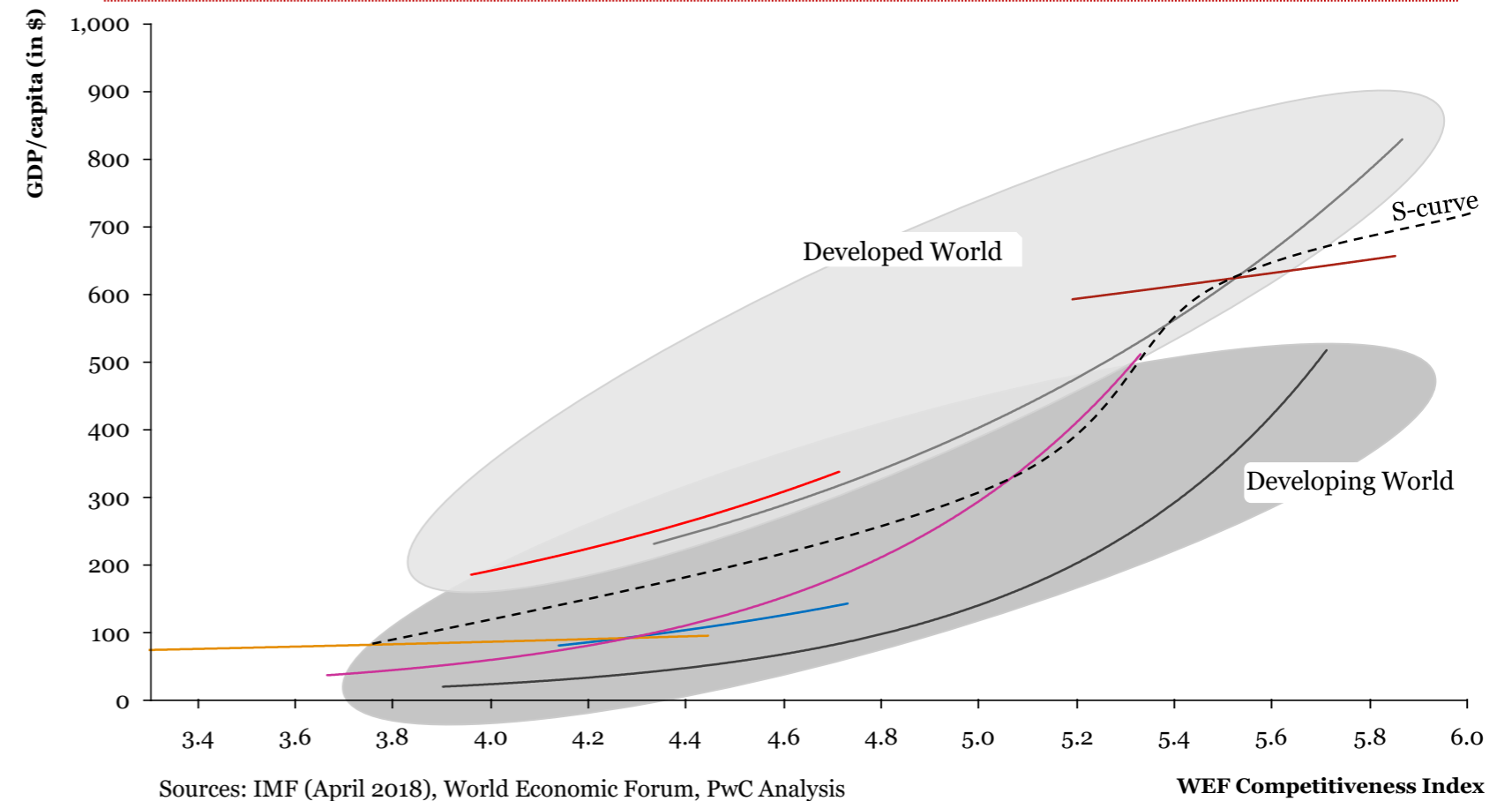
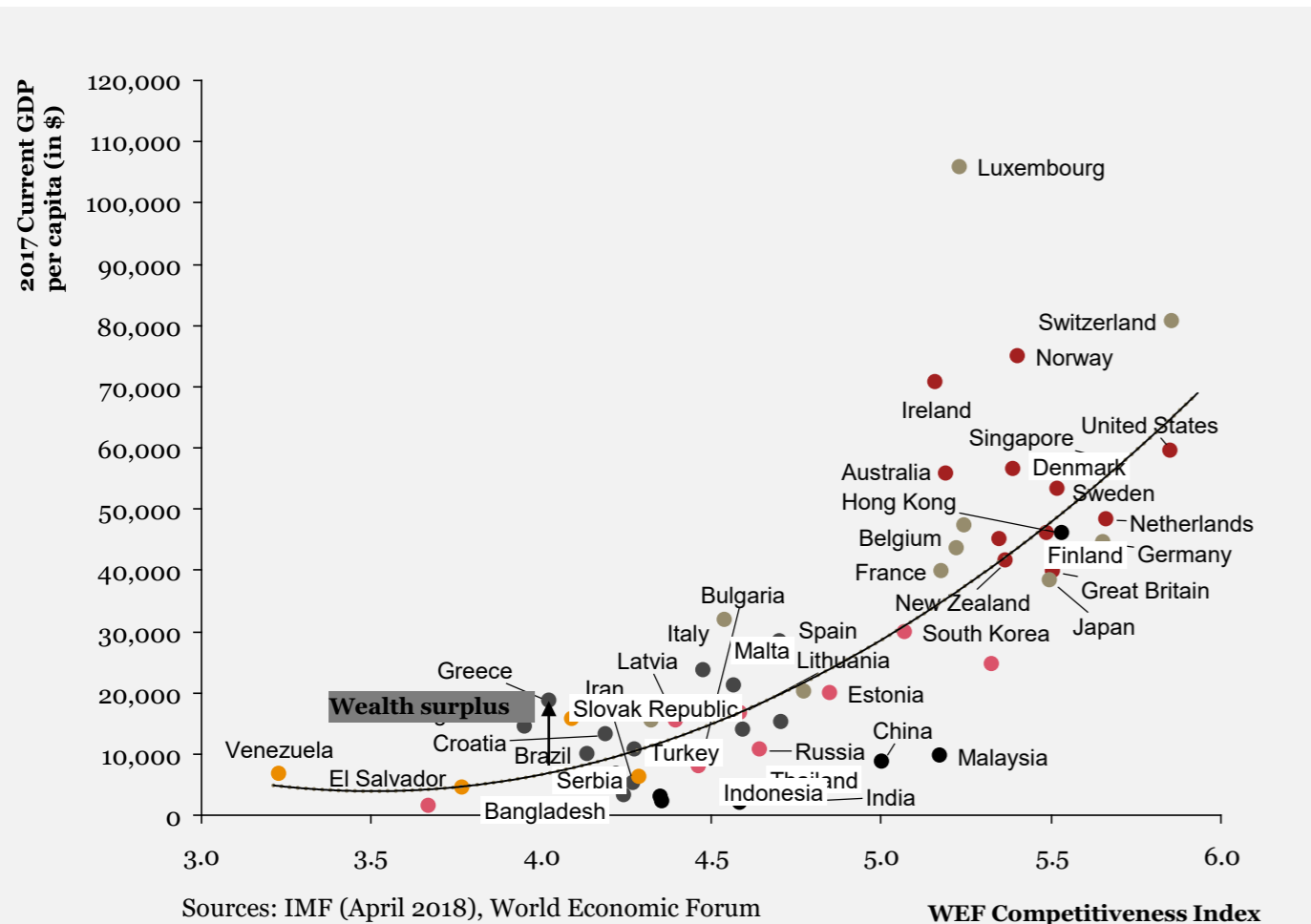
# Wealth and competitiveness



Wealth measured in terms of PPP GDP/capita is positively and strongly related to a country's overall competitiveness as measured and published by WEF. Improvements in competitiveness by 1% could lead over the medium term to a 4.1% increase in wealth.

From a statistical point of view, the six clusters can be grouped into two supraclusters; the Developed and the Developing worlds. Increased competitiveness fuels wealth more intensely in the latter than in the former.

In general, competitiveness improvements add significantly to the wealth of the nations through an S-shaped curve with the very and the least competitive countries being less sensitive to changes. Within each of the six cultural cluster, there are significant variances of competitiveness and wealth suggesting that other forces, like technology, institutions and organizations are also in action. Shifts between cultural cluster may, in theory, lead to significant changes in wealth for a given level of competitiveness.



- Developed countries A
- Developed countries B
- Developing countries
- Asian countries
- Developing EuroAsian countries
- South American countries

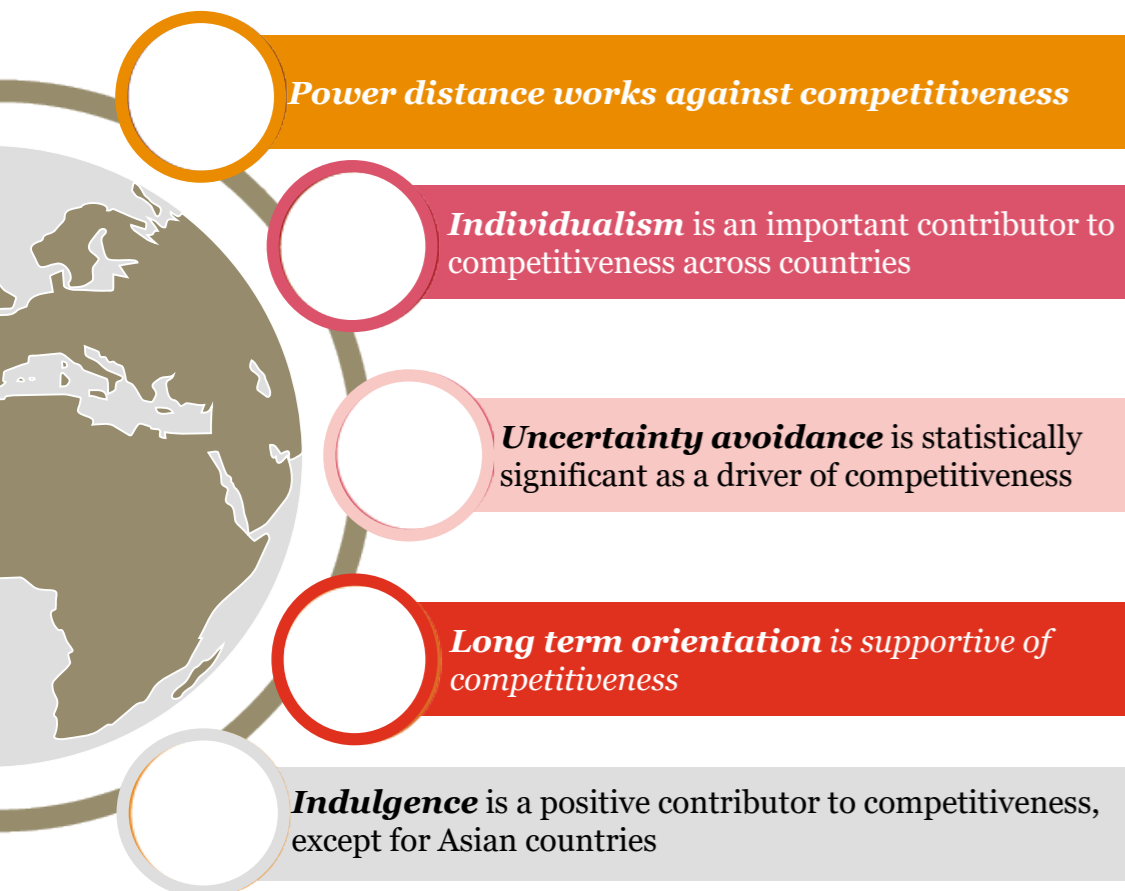
## Relationship between competitiveness and growth

Clusters	Developed countries A	Developed countries B	Developing countries 1	Developing countries 2	Asian countries	Developing EuroAsian countries	South American countries
Constant	9.410	3.662	4.683	2.424	-4.760	-2.430	7.662
Elasticity	0.818	4.189	3.553	4.448	8.771	7.759	0.814
Competitiveness Line	Weak and flat	Strong and mildly exponential	two distinct groups within the cluster which demonstrate strong but different links between competitiveness and wealth		strong and very exponential	strong and very exponential	very weak and flat

# Culture is a precursor to competitiveness

There are strong indications that the values and culture of a society have a significant impact on the competitiveness potential its economy. Competitiveness emerges from a combination of ideas, resources and processes in a given technological and social environment. Culture appears to be the predominant element of such an environment and thus to determine to a large extent competitiveness.

Statistically, all cultural dimensions, but masculinity, have an impact on competitiveness



*Cultural dimensions changes have, with the exception of power distance and uncertainty avoidance, a less pronounced impact on competitiveness as you move from cultures characterizing the Developing to those populating the Developed world*



## Policy making implications

Policy making should reflect a country's cultural dynamics and aim for competitiveness improvements within the prevailing culture, as well as longer term shifts in the cultural parameters strengthening competitiveness. Policies to further competitiveness should recognize whether the reforms they envisage require a strong cultural change or not. Within each culture, a country can cover some competitiveness improvement distance with policies should focusing on applying vigorously the cultural features, re-parametrising institutions and managing technology better.

Institutional and economic reforms are typically culture driven, changing the prevail value hierarchy in ways reinforcing competitiveness. When a country reaches its own cultural limits to competitiveness, it could alter the cultural mix. This is a long process and policies attempting that require robustness, perseverance and time to bear fruits. In a converse manner, countries in a cultural drift may drop their competitiveness potential cluster

# Where does Greece stand?

In this context of wealth and competitiveness, Greece has more wealth than its relative competitiveness position would warrant and belong to a group of wealthy countries characteristics by a fairly uniform “developing” culture. Greece has a moderate score in most of the cultural dimensions, but has the sample’s highest score in uncertainty avoidance. Greece shows some distinct differences in long term orientation, individualism and recognition of power from a developed country culture

	Cultural Dimension	Greece’s current position	Competitiveness potential without cultural shifts <sup>(1)</sup>	Impact from cultural shifts <sup>(2)</sup>
1	Power Distance Acceptance of hierarchical order	Average	+19%	Limited (-0.083)
2	Individualism Driven by individual choices	Low	+12%	Very Limited (0.013)
3	Uncertainty Avoidance Conservative and rigid	Highest	+13%	Limited (-0.091)
4	Long term orientation Focus on managed change	Below average	+24%	Medium (0.101)
5	Indulgence Gratification of human needs	Average	+23%	Very Limited (0.027)

(1): represents the increase in competitiveness if the country were to be on the regression line for the current levels of cultural measurements

(2): represents the elasticity of competitiveness to changes in the measurements of the cultural dimension

In summary, the competitiveness enhancement policies for Greece fall into five broad categories



reduce power distance: flatten structures; strengthen networks; clarify decision making points



increase individualism: promote and reward entrepreneurship, research, sports, arts



reduce uncertainty avoidance: increase clarity of future decisions and their outcomes; strengthen risk mitigation



increase long term orientation: promote social mobility; promote education; strengthen all planning; strengthen long lead time processes



increase indulgence: set up gratification awards for economic and other achievement; channel indulgence in particular areas

# Greece has ample space to raise its competitiveness within the current cultural envelope

Taking a longer term the perspective cultural shift towards the developed countries will not lead to significant improvements in competitiveness. On the other hand, if Greece fails to focus on enhancing its cultural drivers, it may drift to a cultural mix consistent with a lower competitiveness profile and commensurably lower wealth.

Greece's competitiveness potential may be achieved by redirecting and strengthening institutions and by altering the society's value set. More effectiveness, better regulation, robustness and enforceability will facilitate the mobilization of resources and their concentration in areas where Greece has comparative advantages. Investment is the key mechanism through which competitiveness is embedded in the economy. Investment leads to growth, which leads to the creation and accumulation of wealth, thus closing the virtuous cycle towards the structural limits of the nation's culture. Focus on managed change, the removal of rigidities and constraints, battling with conservatism, fueling individual efforts linked to gratification will show themselves on further improved competitiveness. However, because of the current level of excess wealth relative to Greece's competitiveness, any improvements may not be reflected immediately on wealth

# Conclusions

Culture plays an important role in shaping up the competitiveness of countries and consequently in wealth creation. Competitiveness is driven by long-term orientation, individualism and indulgence and restrained by power distance and uncertainty avoidance. There are systematic differences amongst countries in the way cultural dimensions affect their competitiveness, but the 61 countries, for which there are cultural metrics can be grouped into six culturally distinct clusters. Each cultural cluster demonstrates a different relationship between competitiveness and wealth.

A country within a cluster may improve its competitiveness, and consequently its wealth through appropriate policies. By altering its cultural mix, a country may shift to a higher wealth potential, but it could also drift to one with lower potential. Greece's competitiveness drive is constrained by high uncertainty avoidance and limited long term planning and weak individualism. Nonetheless, it has a substantial competitiveness potential against every single cultural dimension which could be exploited by appropriately designed policies, aiming at moving away from conservatism towards managed change and organized and rewarded individual drive





[pwc.com](http://pwc.com)

© 2019 PricewaterhouseCoopers Business Solutions SA. All rights reserved. PwC refers to the Greece member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details. This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 158 countries with more than 250,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at [www.pwc.com](http://www.pwc.com).