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CAN HOFSTEDE'S CULTURAL DIMENSIONS HELP EXPLAIN DIFFERENCES IN THE MACROECONOMIC AND FINANCIAL STABILITY OF NATIONS? A COMPARATIVE ANALYSIS OF GERMANY AND GREECE

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ABSTRACT

The purpose of this thesis is to determine whether culture can explain the differences between the macroeconomic and financial stability of different nations. I use Geert Hofstede's cultural dimensions indexes of power distance, uncertainty avoidance, individualism and collectivism, and masculinity and femininity to perform a comparative analysis of Germany and Greece. Based on each country's scores for the four indexes, I look at whether particular characteristics attributed to each index can be observed in Germany or Greece. The goal is to find out which, if any, cultural dimensions can be used to explain the macroeconomic and financial differences between Germany and Greece.

TABLE OF CONTENTS

Chapter 1

Introduction

The Financial Crisis: A Brief Overview

Throughout 2006 and into early 2007 there was little reason to suspect that a financial crisis, much less one that would spread across the globe so rapidly and with such devastating effects, was around the corner. The world's major economies appeared healthy and strong—many were enjoying sustained economic growth, stock markets were performing well, and markets overall were liquid, allowing borrowers to obtain external funding and owners to convert their assets into more liquid mediums such as cash with relative ease. However, only a few months into 2007, problems and issues that had previously gone undetected or been ignored began to surface and quickly escalate, leading to possibly the worst financial crisis in our lifetime.

For all intents and purposes, the global financial crisis started in the United States with the housing bubble and widespread prevalence of subprime lending (by no means does the blame rest solely with the United States, however). In the time leading up to the crisis, U.S. housing prices were experiencing rapid price appreciation and subprime lending was growing quickly as well, rising to 25 percent of total mortgage originations by 2006 and representing an estimated 14 percent of the overall mortgage market in 2007 (Federal Reserve Bank of San Francisco 8). The first signs of trouble appeared in early 2006, when median housing prices fell 3.3 percent. This downturn accelerated in 2007, resulting in an increasing rate of defaults on loans and a collapse of the subprime mortgage market. Between February and March of 2007, more than 25 subprime lending firms declared bankruptcy, followed by the nation's largest subprime lender, New Century Financial Corporation (Council on Foreign Relations, CFR). Several months later, in late July, Bear Stearns announced the liquidation of two hedge funds that had invested in mortgage-backed securities (Federal Reserve Bank of St. Louis), a move signaling problems in the financial markets beyond the subprime loan industry (CFR).

Only days after the announcement by Bear Stearns, BNP Paribas, France's largest bank, suspended redemption on three investment funds after determining that it was unable to value them (CFR). Other European Union banks followed with similar announcements, indicating that problems were spreading beyond the United States. In September 2007, the Bank of England received authorization from the Chancellor of the Exchequer "to provide liquidity support for Northern Rock, the United Kingdom's fifth-largest mortgage lender" (Federal Reserve Bank of St. Louis). Five months later the bank would be taken into state ownership by the Treasury of the United Kingdom. On March 14, 2008, Bear Stearns was granted an emergency loan from the Federal Reserve Bank of New York and two days later was purchased by JPMorgan Chase. On September 15, Lehman Brothers filed for the largest bankruptcy in American history, causing panic in the markets and greatly exacerbating the financial crisis. Just a few weeks after the collapse of Lehman Brothers, the Irish government made the decision to guarantee bank deposits, setting off criticism from EU partners and encouraging individual European countries to safeguard banks (CFR). Efforts to reassure the financial markets and prevent further fallout through international cooperation failed and in late January of 2009, the government of Iceland collapsed. In the following months, the contagion would continue to spread, hammering Greece, Spain, Ireland, Portugal, and to an extent Italy (known as the PIIGS). What started as a housing downturn in the United States had become a global financial crisis and a European sovereign debt crisis.

Germany and Greece: Two Very Different Stories

Though the financial / sovereign debt crisis negatively impacted all European nations, the extent of the damage varied widely among them. Some were able to recover relatively quickly without extreme damage to GDP, employment, government budgets, etc., while others continue to struggle with high unemployment, shrinking economic output, unsustainable debt and deficit levels, significant austerity measures, and the social unrest that accompanies such problems. There is a clear divide between the countries requiring financial assistance and those providing the funding.

The best example of two nations on very opposite sides of the spectrum with regard to economic health is Germany and Greece. Germany is Europe’s largest economy and the largest contributor to the European bailout funds, while Greece currently ranks as one of the weakest countries and is by far the largest recipient of bailout funds. The situations in these two countries since the start of the crisis are discussed in greater detail in the following subsections.

Germany

Despite the financial crisis, through mid-2012 Germany's economy has remained quite resilient, as evidenced by a variety of economic indicators. In 2008, the first full year of the crisis, the country's real GDP grew 1.1 percent over the previous year, while unemployment dropped from 8.7 to 7.5 percent. It is important to note that a number of other European countries also experienced economic growth; however, many saw their economies contract, including France, the United Kingdom, and all the PIIGS except for Spain. The following year all but one European nations experienced economic contraction and unemployment rose in every country. However, since the start of the crisis, 2008 was the only year that Germany saw its economy shrink. With growth rates of 4.2 percent in 2010, 3.0 percent in 2011, and projected growth of 0.8 percent in 2012 (Eurostat), the German economy has been credited with pulling up combined GDP growth of the entire eurozone. Unemployment has also remained extremely low, dropping to 5.9 percent in 2011 from 7.1 percent a year earlier (Eurostat). Germany has also successfully managed its public finances. Though public debt as a percentage of GDP rose from 66.7 percent in 2008 to 83.2 percent in 2010 as a result of increased spending and contributions to European stability funds, it has since decreased and is projected to be at 78.9 percent in 2012. The same trend holds true for the government fiscal balance (surplus / deficit as a percentage of GDP), which dropped from -0.1 percent in 2008 to -4.3 percent in 2010 before increasing to -1 percent in 2011 (Global Finance). Due to its economic and fiscal strength, Germany has been able to maintain its pristine AAA and Aaa ratings from Standard & Poor's and Moody's, respectively. However, because of its status as the largest economy in the eurozone, Germany is also the largest financial contributor to the European stability funds, having provided roughly 20 percent of the €60 billion European Financial Stabilisation Mechanism. Additionally, the German government has a maximum guarantee commitment of approximately €211 billion to the European Financial Stability Facility, representing 27 percent of total contributions (Bundesministerium der Finanzen). Germany's economic performance has firmly placed it at the top in Europe. Its 2011 GDP was €2,592.6 billion, representing a little below 21 percent of the EU-27 GDP of €12,649.8 billion. The country is also by far the largest European exporter, with a 2011 trade balance of €156.9 billion, far ahead of the second ranking Netherlands' trade balance of €44.8 billion. For comparison, the EU-27 trade balance in 2011 stood at €-159.6 billion (Eurostat).

Greece

As mentioned previously, the situation in Greece is the polar opposite to that of its neighbor to the north and the term "Greek crisis" has become a part of everyday language. Greece has been in recession since 2008, when GDP decreased by 0.2 percent over the previous year. In 2009 the country saw its GDP shrink 3.3 percent and in 2011 the economy contracted yet another 6.9 percent. Forecasted growth is -4.7 percent for 2012, followed by no change in 2013. Unsurprisingly, the recession has caused unemployment to more than double over a five year period, from 8.3 percent in 2007 to 17.7 percent in 2011, second only to Spain (Eurostat). Furthermore, the crisis exposed the weakness of government finances, which are currently in shambles. Already in 2008, government debt as a percentage of GDP stood at 110.7 percent—if all the goods and services produced in one year could go toward paying down the country's debt, the government would still owe money to its creditors. This figure ballooned to 160.8 percent in 2011 and is expected to improve only slightly for this year, decreasing to an estimated 153.2 percent. The government has also been running high budget deficits, with the fiscal balance plummeting from -9.7 percent in 2007 to -15.6 percent the following year. It has since been on the rise, though it is forecast that Athens will still be running a 7.2 percent deficit in 2012 (Global Finance). In large part due to the plethora of negative economic indicators, Greece has seen its sovereign debt rating reduced to junk status, with Moody's providing its lowest rating of C and Standard & Poor's rating the country at CCC. This in turn has caused a spike in the yields on Greek bonds to unsustainable levels, making it all but impossible for the government to obtain capital from the markets and forcing it turn to the European Union for a bailout. As of August 3, 2012, the total lending commitment of eurozone members to Greece stands at €144.6 billion, of which €73.9 billion has already been disbursed (European Union), making Greece by far the largest benefactor of the European stability funds.

Culture and Economic Analysis

A Brief Introduction

For a number of reasons, modern economists have, until recently, largely ignored the role that culture may play in determining or helping to explain economic outcomes.

According to Guiso et al., one reason for this reluctance is the “very notion of culture: it is so broad and the channels through which it can enter the economic discourse so ubiquitous (and vague) that it is difficult to design testable (i.e., refutable) hypotheses” (2). Fernández, meanwhile, notes the “difficulty in rigorously separating the effects of culture from those of institutions and traditional economic variables” (1). Furthermore, the prevailing belief was that culture and economics were two separate and independent fields of study. In the late seventies, Nobel Prize winning economists George Stigler and Gary Becker even went as far as to claim that economists who argued with cultural factors thereby only disguised the failings of their analyses (qtd. in Storbeck). This propensity by modern economists to ignore the relationship between culture and economics is surprising given the long history of writers that addressed this issue (Smith, Mill, Marx, Weber, Gramsci, Polanyi, etc.). However, in the last several decades, interest in the role of culture has been revived and a number of well-known economists are now studying culture as an important variable in shaping economic outcomes. These include, but are by no means limited to, Nobel Prize winning economist and Columbia University professor Edmund Phelps, Luigi Guiso at the European University Institute, Paola Sapienza of Northwestern University, Luigi Zingales of Harvard, Raquel Fernández at NYU, and Yuriy Gorodnichenko and Gérard Roland at UC-Berkeley.

Defining Culture

As mentioned previously, the notion of culture is very broad, allowing for multiple definitions of the term. A well-known anthropological consensus definition states that:

> Culture consists in patterned ways of thinking, feeling, and reacting, acquired and transmitted mainly by symbols, constituting the distinctive achievements of human groups, including their embodiments in artifacts; the essential core of culture consists of traditional (i.e., historically derived and selected) ideas and especially their attached values. (Kluckhohn, 86)

Guiso et al. define culture as "those customary beliefs and values that ethnic, religious, and social groups transmit fairly unchanged from generation to generation" (2), whereas Fernández believes culture to be the "differences in beliefs and preferences that vary systematically across groups of individuals separated by space (either geographic or social) or time" (2). Finally, Geert Hofstede, a leading economist on the study of culture, treats culture as "the collective programming of the mind that distinguishes the members of one group or category of people from another" (9).

As the above paragraph shows, there is no one, clear definition of culture, but rather a common consensus as to what constitutes culture. In very general terms, a common thread linking the numerous existing definitions for culture is the idea that each culturally similar group of people follows a set of beliefs and values and has a mindset that differentiates it from all the others. When asked, each person will define culture in a slightly different manner, but the general idea will be the same. Therefore, rather than attempt to define culture in my own words, I accept the definitions of culture noted above.

Methodology

The purpose of this paper is to perform a qualitative analysis of national culture and its potential impacts on the nation's economic performance by studying the current situations of two specific countries, Germany and Greece. Due to the potentially large scope of such an analysis, I have decided to limit my focus to four of the cultural dimensions described by Geert Hofstede in his scholarly book *Culture's Consequences: comparing values, behaviors, institutions, and organizations across nations*. These dimensions are power distance, uncertainty avoidance, individualism and collectivism, and masculinity and femininity. I have chosen to focus on this particular book for several reasons. Geert Hofstede is a leading researcher in the field of cultural economics and his publication of the above-named book has made his name synonymous with comparative intercultural research. Additionally, he developed the first empirical model of dimensions in national culture, which are discussed in great detail in his book. The dimension scores for each country have been determined through extensive statistical analysis and research and have been validated by data from various independent sources. Finally, because of the specificity of the dimensions and a standardized method for scoring a large number of countries, particular economic outcomes can more easily be traced to a specific cultural dimension or score. For each of the four cultural dimensions studied, I attempted to determine what, if any, aspects of the German and Greek economies could be explained by the dimension. This was done by searching for articles on various aspects of the two countries' economic and political situations, such as government stability, respect for and enforcement of laws and regulations, and interactions between the public and government. The goal was to determine whether the specific situations in each country could be traced back to that country's respective cultural dimensions scores. Cultural dimensions scores were calculated for 50 countries and 3 regions that were chosen from a database of a large-scale IBM survey and that met specific criteria as determined by Hofstede (2001, pp. 51-52).

My findings indicate that differences in the economic performance of Germany and Greece can be attributed to their cultural dimensions scores. Of the four dimensions I studied, power distance and uncertainty avoidance have the greatest impact on economic performance. Individualism and collectivism also plays a role in the economic situation in each country, though not nearly to the same extent as the previous two. I found that the fourth cultural dimension, masculinity and femininity, does not help to explain the economic differences between Germany and Greece. This is due to the characteristics attributed to masculine and feminine societies and the fact that the countries have similar scores on this index.

Chapter 2

Power Distance Index

Explanation

“All animals are equal but some animals are more equal than others” (Orwell 108). This is perhaps the most famous quote from George Orwell’s *Animal Farm*, and it is directly relevant to the concept of power distance (PDI). Society is inherently unequal and this human inequality is the basic issue involved. A concise definition of power distance, proposed by Geert Hofstede, is “the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally” (2001, p. 98). The greater the power distance is in a country, the greater the extent to which its citizens expect and accept the idea of unequal distribution of power and the greater the actual observed inequality. The following are a few general distinctive societal norms that tend to be present in low- and high-PDI countries. In a low-PDI society, inequality is viewed as a necessary evil that should be minimized, whereas a high-PDI society believes it to be the basis of societal order. Hierarchies exist in both types of societies, though low-PDI countries construct them as a matter of convenience while high-PDI countries see superiors as superior persons. Another interesting distinction between these two extremes is the idea of power legitimacy. Overall, people react to legitimate and illegitimate power in the same way, but power needs more legitimization in low-PDI countries than in those with a high PDI (Hofstede 2001, p. 97).

Power distance can be observed in all facets of society, but the two most relevant for this paper are work and organization, and political systems. I have chosen to focus on work and organization because of the significant economic impact of businesses and because the structure of a company can affect its performance. Political systems are relevant since government stability and policies play a major role in the development of national economies. In work and organization, a higher PDI translates to more hierarchical levels, more personnel in management and specialist roles, and delegation of power rather than responsibility. In lower-PDI countries, respect relations are independent of rank, subordinates can sometimes be correct, and a boss can do the work of a subordinate without loss of prestige (Hofstede 2001, p. 102). In the political system, power distance refers to the relationship between authority (government) and citizen. There appears to be a strong correlation between a country's PDI and the structure of its government. Higher-PDI countries present "a polarization between left and right with a weak center" (Hofstede 2001, p. 111) whereas lower-PDI countries tend to produce "more votes to center parties or support to center tendencies within broad left and right parties" (Hofstede 2001, p. 111). Furthermore, the governments of higher-PDI countries tend to the right of the middle (de-emphasizing equality) while lower-PDI countries are to the left of the middle (emphasizing equality). Since higher-PDI cultures exhibit greater levels of power inequality, it is a reasonable expectation that their governments will place less emphasis on equality. Governments of lower-PDI cultures should therefore be expected to emphasize equality, mirroring the more equal distribution of power present in the society. Another important fact to note is that “smaller power distances are associated with a certain consensus among the population that reduces the chance of disruptive conflicts” (Hofstede 2001, p. 111). Historically, countries in the lower third of the PDI have experienced less instances of political violence, while countries that since the 1970s have suffered from revolutionary changes in government and tend to be less stable (Greece included) are found in the middle of the range. One final point to note is that corruption is more prevalent in countries with higher power distances due to reduced checks and balances on the use of power, which leads to stronger temptation for those in power to enrich themselves through illegal means (Hofstede 2001, pp. 111-113)[1]. The reduction in checks and balances occurs because government officials are able to restrict entities or change rules that may place them under greater scrutiny or reduce their power. Because of the high power distance, the ability of the general population to prevent such actions is greatly limited. In lower-PDI countries, the spread between the most and least powerful members is smaller and so there is less ability to take actions that would increase power distance and enrich government officials. Power distance scores ranged from 11 to 104, with a mean of 57.

Germany

Germany ranks among the lowest power distant countries studied, with a score of 35. Politically there is a high level of decentralization in Germany, with individual states

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1 Though perceived and actual corruption are greater in high-PDI countries, Hofstede notes that uncertainty avoidance (UAI) has the strongest influence on corruption (173). I have therefore chosen to discuss the issue in chapter 2.

retaining a significant amount of autonomy and control over governmental matters. The country is also supported by a large and strong middle class. In the workplace, employees have extensive co-determination rights that must be taken into account by management. The communication and meeting style tends to be direct and participative, with subordinates expecting to be consulted before a decision is made (Hofstede 1991, pp. 27, 36).

A major driver of the German economy is the nation's enterprises, especially in the industrial, technical, and service sectors, which are known worldwide for producing high-quality goods and services. As mentioned above, Germany's low PDI score means that employee co-determination rights are quite extensive, a fact evidenced by the existence of the German *Betriebsrat*, or works council. It can be argued that the use of the *Betriebsrat* system is one reason for the success of Germany's businesses. The current Works Constitution Act (*Betriebsverfassungsgesetz*) was implemented in 1972 and strengthened legislation already in place (Addison 73). The Act greatly extended the information and consultation rights of the *Betriebsrat* "in respect of management decisions that would involve changes in capacity, working operations, and production processes" while also strengthening the "existing co-determination rights of the works council by providing for adjudication in the event of impasse" (Addison 74). Areas in which the *Betriebsrat* has full rights of co-determination are prescribed by law and include the setting of working hours, regulation of overtime and reduced working hours, and "remuneration arrangements, including the fixing of job and bonus rates and other forms of performance-related pay" (Addison 77). Furthermore, all *Betriebsrat* expenses are borne by the employer and its members must be provided paid time during working hours to fulfill their duties, thus ensuring the relevance and continued existence of the *Betriebsrat*.

The German corporate board structure provides employees with additional co-determination rights. By law, German public corporations are required to have a dual board system—a management board responsible for managing the corporation and a supervisory board to oversee members of the management board. Any enterprise with more than 500 employees is required to fill one third of supervisory board seats with employee representatives. For corporations with more than 2,000 employees, one half of the board must be composed of employee representatives. The remaining members are elected by the corporation's shareholders (German Corporate Governance Code 1). These rules ensure that employees are properly represented at the highest levels of the enterprise and that their input is heard and their concerns are addressed.

The rights offered to employees through the *Betriebsrat* system and Corporate Governance Code, along with the low power distance in German culture, must be an important factor in the success of German enterprise and, by extension, the German economy as a whole. Due to high co-determination rights, employees have greater say in business operations and can, to a certain extent, influence the direction of the firm. It is also more difficult for employers to make decisions favoring short-term gains over long-term success since the *Betriebsrat* is present to raise objections and has the ability to go to court should it not be able to reach a consensus with management. The ability of the *Betriebsrat* to influence remuneration agreements reduces the risk of pay disparity within the company and the ability of management to set compensation rules tied to short-term performance while neglecting the long-term, as has occurred in the past in the United

States, for example. The requirement of management to consider employee opinions and suggestions results in workplace rules that benefit both employees and the firm. By partaking in the decision-making process, employees can be expected to accept company rules and be more content with their jobs, resulting in higher workplace morale and increased productivity.

Another product of Germany's low power distance is the makeup of management within an organization, especially in companies with a strong industrial focus. German organizations shy away from separating technical expertise and management—this holds true for both small family firms and giant concerns. In small firms, for example, it is not uncommon for the owner to be responsible for product engineering. Larger firms are more structured, but organization charts are not applied to the extent seen in places such as the United States or United Kingdom. "Hierarchies are flat, with technical expertise as close to the shop-floor, and as close to the production / line hierarchy, as possible" (Warner and Campbell 97). The majority of German managers are also trained as engineers, many are graduates of the craft apprenticeship training system, and career paths and promotions in larger firms tend to occur internally. A high proportion of the directors of larger companies have doctorates, which points to the value placed upon technical education. One final point of importance is that authority is based upon knowledge and not simply hierarchical rank (Warner and Campbell 97-98). Because members of management have high levels of technical knowledge and perhaps even doctorates and they rose through the ranks within the company, they have a better understanding of the corporation and its operations than would an outsider hired simply for management expertise. This leads to more informed business decisions and a greater chance of success due to the high-level of knowledge possessed by the decision-makers.

As mentioned previously for the political implications of power distance, voters in lower-PDI countries are more likely to elect center parties or provide support to the center leaning members / ideas of broad left or right parties. This is indeed the case in Germany, where a majority of the Bundestag seats are occupied by members of parties with center tendencies. Of the 622 seats in the Bundestag, 478, or approximately 77 percent, are held by members of center-left or -right parties. The remaining seats belong to The Left Party and Alliance 90 / The Greens, both of which are considered left-wing parties (German Bundestag, European University Institute). This tendency of voters to elect representatives near the center or center-left of the political spectrum may help explain the strength of the middle class and the emphasis on equality in German society. Furthermore, for the past several decades most German governments have consisted of a coalition of two parties. This necessitates compromise between opposing ideologies and viewpoints, which in effect moderates policy-making.

The idea that smaller power distances are associated with a lower risk of disruptive conflicts also holds true for Germany. Though protests do occur (e.g. against nuclear energy or the new main train station in Stuttgart), they are generally peaceful and do not cause major disruptions to the functioning of society. Many times, citizen grievances are taken to heart by politicians and resolved democratically, such as the decision to place to a vote whether or not to continue the construction of Stuttgart's new main train station. Very rarely do protests turn violent and disruptive, something that is considered socially unacceptable by the large majority of Germans.

Greece

With a score of 60, Greece is on the higher end of the PDI, indicating the belief in Greek society that hierarchy should be respected and inequality is acceptable. Power holders have more benefits than the less powerful in society, a fact justified by the different distribution of power. In the workplace, it is not uncommon for the boss to take complete responsibility and attempt to control all aspects of the business (Hofstede 1991, p. 35).

Whereas German companies are run efficiently and successfully contribute to the national economy, Georgas notes that "the current status of management and organization in Greek private enterprises and the public sector" is generally understood to be underdeveloped (109). Aside from banks, multinational corporations, and some large industries, a large number of Greek businesses are run much like an extended family, with the owner-manager making all the decisions, delegating authority only reluctantly, controlling all aspects, and involving himself in all the day-to-day details of employees (Georgas 109). This characterization is in line with the observation that hierarchies are more important and delegation of power is more prevalent in higher-PDI countries. In 1989, 99.5 percent of Greek businesses employed less than 100 people. 97.2 percent employed less than 20 personnel, while 45 percent were one-man enterprises (Georgas 109). The statistics were almost unchanged in 2012, when 99.9 percent of Greek businesses were classified as small and medium enterprises, and 96.6 percent were micro companies (European Commission – Enterprise and Industry DG). Almost all of these companies are family owned and operated, and there is reluctance to permit anyone other than family members to run them. The head of household is usually the owner and principle manager, while other family members, relatives, and close friends fill other important roles based on their hierarchical role in the family or friendship. The typical manager will attempt to control all details and problems of the enterprise, leaving little time or energy for organization and planning. This in turn leads to the use of instinct rather than long-term planning to run the enterprise and stifles growth opportunities, since the manager does not have time to explore them. Growth is also prevented due to the fact that most owners cannot imagine someone from outside the family running their business (which would mean giving up control), and so they are content with the small size of their operations. These small businesses are therefore restricted to a single activity in areas of low technology and a very limited consumer base, usually the local village or neighborhood, resulting in extremely low levels of exports (Georgas 110). As a result, Greece maintains a consistently very negative trade balance. The structure of Greek enterprises may work within a closed internal market, but it makes the kinds of innovations and technical advancements that are necessary to compete in a global marketplace and promote economic growth almost impossible. Current management practices do not allow for effective integration into the international market, further reducing, quite dramatically, the competitiveness of and development prospects for the Greek economy.

Politically, the polarization between left and right with a weak center, which would be expected of a high-PDI country, is present in Greece. Four of Greece’s seven major parties are left-wing, including the Panhellenic Socialist Movement (PASOK), which dominated the government between 1981 and 2004. The party currently in power, Nia Demokratia (ND) has developed a more centrist view but is still to the left of center. Though the remaining two parties are roughly at the center of the political spectrum, they are largely irrelevant and receive very few votes during elections.

More important than the ideologies of the various Greek parties is the relationship between the people and the state. Higher-PDI countries have historically experienced more instances of political violence and Greece is an example of such a country. Though political violence generally refers to actions by the government or its representatives, I believe that it can also be used to describe violent actions on the part of citizens, especially when they cause harm and destruction. In this sense of the definition, Greece has in recent years been plagued by numerous instances of political violence. Since the onset of the global financial crisis in 2008, Greek citizens have protested against the crisis itself, corruption, and the sharp rise in unemployment, among other things. When the government agreed to harsh austerity measures in exchange for a desperately needed bailout, more protests erupted. Many became violent as rioters clashed with police and set fire to buildings and vehicles, causing extensive damage and disrupting the ordinary day-to-day.

To provide a better sense of the extent of the Greek riots, I have chosen to briefly describe several of the larger ones. The most significant riots to date began on December 7, 2008 in response to the police killing of a 15-year-old boy and lasted nearly two weeks, primarily in Athens. Thousands of students protested, clashing with police, firebombing buildings, and “occupying more than a hundred schools and at least fifteen university campuses” nationwide (Democracy Now). The riots, the worst in several decades, resulted in roughly 400 protestor detentions and caused an estimated $2.5 billion in damage, including approximately $265 million in Athens alone (Reuters, Anast). Eighteen months later, in May 2010, three people were killed in a firebomb attack on a bank in riots that had erupted amidst a 48-hour national strike in response to budget cuts announced by the government. Stones, marble from buildings, and Molotov cocktails were thrown at riot police, who responded with tear gas and stun grenades. Around 100,000 people took to the streets in Athens and another 20,000 in northern Thessaloniki. "The strike shut down airports, ferry ports, schools and government services and left hospitals staffed by emergency medical staff" (Murphy). Television and radio stations and ancient sites including the Acropolis were also closed (Murphy). In late June 2010, another 48-hour strike in Athens by labor unions with a crowd of roughly 20,000 turned violent when hundreds of youths began attacking riot police (Maltezou and Papachristou). Fifty stores were damaged and more than 300 people injured, including 131 police officers and 181 civilians (Flock). Yet another major riot occurred in early February 2012 after approximately 100,000 people marched on Athens to protest an upcoming vote in Greek parliament that would approve additional austerity measures. Police and rioters clashed again, exchanging gasoline bombs, rocks, and tear gas. At least 70 protestors were hospitalized, 67 people were arrested, and 68 police officers required medical attention. 48 buildings were burned and dozens of cafes and stores were smashed and looted (CBC). Most recently, tens of thousands of people protested the October 9, 2012 visit to Athens by German Chancellor Angela Merkel. Though the demonstration was for the most part peaceful, demonstrators did try to push through barricades and a small number of protesters threw stones and Molotov cocktails at riot police. The demonstrations and riots of the past several years have been costly to the government and businesses while showcasing citizens' dissatisfaction with government institutions and corruption.

Conclusion

My findings suggest that power distance is an important factor in explaining the economic and political differences between Germany and Greece. As a low-PDI culture, Germany has taken steps to ensure the success of its enterprises through employee co-determination rights, including the *Betriebsrat* and the requirement that employee representatives make up a specific proportion of the supervisory board of any public corporation. The technical expertise of many managers allows them to make more informed business decisions that are more likely to result in long-term success. Germans tend to elect center leaning politicians, resulting in a greater emphasis on equality and reducing the risk of violent disruptions within the country. The country's history of coalition governments serves as a method of moderating policy-making.

Greece's status as a high-PDI culture has negatively impacted business and politics. The majority of Greek enterprise is small businesses run by an owner-manager who tries to control all aspects and is reluctant to delegate authority. Because owners cannot envision an outsider running their company, they are content with the small size of their business. Owners manage with instinct rather than long-term planning, stifling growth and resulting in many low-technology businesses with very limited consumer bases. In Greek politics, there is a strong polarization between left and right, with few politicians in the center. The relationship between government and citizen is very strained, and in recent years Greece has experienced a number of large riots. Given the characteristics attributed to low- and high-PDI cultures, the situations in Germany and Greece can be explained relatively well with power distance.

Chapter 3

Uncertainty Avoidance Index

Explanation

A basic fact of human life is that the future is uncertain. It is always moving away from us and we do not know what will happen one day, one week, or one month from now. According to Hofstede, “extreme uncertainty creates intolerable anxiety” (2001, p. 146) and human society has created ways to cope through the use of technology (all human artifacts), law (all rules governing social behavior), and religion (all revealed knowledge of the unknown). Technology helps to defend against the uncertainties of nature, law is in place to protect us from the uncertainties of the behaviors of others, and religion aids in the acceptance of uncertainties that cannot be defended against (Hofstede 2001, p. 146). However, despite all our innovations, uncertainty will always remain a fact of life.

Uncertainty avoidance (UAI), as defined by Hofstede, is “the extent to which the members of a culture feel threatened by uncertain or unknown situations” (2001, p. 161). The greater the extent to which the uncertainties or unknowns threaten a society, the higher its UAI, and vice versa. Higher-UAI societies are generally more conservative and exhibit a stronger desire for law and order, whereas lower-UAI societies are more open to change and new ideas. People in low-UAI countries, as employees and as citizens, feel they have a greater ability to “influence their lives, their superiors and authorities, and the world at large” (Hofstede 2001, p. 161) than do people in high-UAI societies (Hofstede 2001, pp. 160-61).

Uncertainty avoidance plays an important role in a country’s political system and legislation, and this will be the focus of this chapter. In 1963, Almond and Verba conducted a study in five countries of subject competence, the extent to which respondents believed they could participate in local political decisions versus leaving these decisions to specialists (217-229). Hofstede later determined that there is a significantly negative correlation between UAI and subjective competence, with citizens of higher-UAI countries feeling less able to participate in local political decisions. Results of the World Values Survey also correspond to country UAI scores. Confidence in the civil service and the police were both negatively correlated with UAI, meaning that citizens of high-UAI countries exhibited less confidence in these institutions. This negative correlation with UAI “confirms the sense of alienation toward the government system in more uncertainty-avoiding national cultures” (Hofstede 2001, p. 171). There is also a significant correlation between corruption and UAI. Each year, Transparency International releases a Corruption Perceptions Index[2] (CPI) that ranks countries by their level of corruption. Lower UAI reduced perceptions of corruption significantly and has the strongest influence on explaining corruption perception. This relationship can be explained by referring back to the concept of subject competence. If citizens feel less able to participate in political decisions and the prevailing feeling is that decisions should be left to the experts, authorities will be more tempted to accept bribes, citizens will have fewer opportunities to check up on government officials, and levels of both actual and

2 CPI scores range from 0 (highly corrupt) to 10 (very clean).

suspected corruption will be higher. The U.S.-based Heritage Foundation annually publishes the *Index of Economic Freedom*, which scores countries on ten economic factors.[3] There exists a negative correlation between CPI and economic freedom, which makes sense since less corrupt countries would be expected to allow greater economic freedom. A final item to consider is that legal alienation ("feeling that the law is usually against me") and (no) rule of law (it's "okay to break a law I consider unjust") also strongly correlate with UAI. Individuals in high-UAI countries more often feel that the law is against them and that there is nothing wrong with failing to abide by an unjust law (Hofstede 2001, pp. 171-74). The range of UAI scores was 8 to 112.

Germany

With a score of 65, Germany is among the uncertainty avoidant countries (Hofstede 2001, p. 151). However, its UAI score places the nation in the bottom half of the countries and regions studied and it would therefore be incorrect to classify Germany as a high-UAI country; a more accurate classification would be moderate-UAI. Bureaucracy, rules, and laws are an important aspect of German culture. When it comes to thinking, presenting, or planning, Germans strongly prefer deductive rather than inductive approaches (Hofstede 2001, p. 178).

Given its UAI score, Germany would be expected to score relatively well on the Transparency International CPI. This is indeed the case—of the 183 countries assessed, Germany is ranked the fourteenth least corrupt with a score of 8 (Transparency

3 Scores range from 0 to 100, where 100 represents the maximum freedom.

International). Of the countries ahead of Germany, eleven have also received UAI scores. All were lower than that of Germany, which one would like to see given the negative correlation between CPI and UAI. Even though Germany is considered a very clean country, not all government officials follow the rules and some will inevitably attempt to take advantage of their positions of power. What differentiates Germany from corrupt countries in this respect is how such a situation is handled. Whereas corrupt governments could care less about alleged misuse of power for personal gain, in Germany such an action will not be tolerated and the allegedly corrupt official will be investigated and, in the case of wrongdoing, prosecuted.

A recent example of German intolerance of corruption is the scandal involving former president Christian Wulff. Prior to becoming president, Wulff had served as governor of the state of Lower Saxony, whose capital is Hanover. In early January 2012, police raided the offices of Olaf Glaeseker (Wulff's spokesman until December of the previous year) on the request of public prosecutors from Hanover, who suspected him of corruption and bribery. Media reports and official investigations led to suspicions that Glaeseker had improperly funded a series of conferences and allowed an event manager to receive hundreds of thousands of euros that had been provided by business sponsors at a single 2009 event. Authorities suspected that in exchange, the event manager made his holiday home available free of charge for Glaeseker and his wife. Though there was no indication that Wulff was involved, he was under fire separately for a private €500,000 home loan he had received from a friend. Wulff was accused of misleading the Lower Saxony state parliament in 2010 when he stated that he had no business relations with the man who had financed the loan via his wife. He faced further pressure for failing to fully address all questions surrounding the loan and other financial benefits he may have received due to his political position. Accusations also surfaced that Wulff had accepted free vacations at the holiday homes of friends and acquaintances (Spiegel). On February 17, 2012, Wulff stepped down as a result of the corruption claims against him and a request from prosecutors that his immunity be lifted (BBC).

An example of the distaste for corporate corruption is the recent bribery case involving Siemens AG, the biggest and one of the most expensive bribery scandals in Germany. The scandal broke in 2006 and resulted in the investigation of over 300 people. It is alleged that between 2000 and 2006, the company "bribed officials approximately 4,000 times to the tune of 1.3 billion euros" hoping to win contracts abroad (Deutsche Welle). Projects suspected to have been awarded as a result of the kickbacks or bribes include traffic-control systems in Russia, commuter rail in Venezuela, and power plants in Israel (O'Reilly and Matussek). On December 15, 2008, Siemens agreed to pay the German government €395 million, which came on top of a €201 million fine that had been levied against the company in 2007 for misconduct at its former telecommunications unit. In the U.S., the company was fined $800 million, "nearly 20 times more than any other foreign company has faced in the US for corruption" (Deutsche Welle). These two cases illustrate the fact that anti-corruption laws are in place and acted upon when corruption is discovered. The procedures for investigating and prosecuting corrupt individuals or firms are followed when illegal acts are suspected, demonstrating that when discovered, corruption will not be tolerated by the Germans.

On the *Index of Economic Freedom*, Germany is ranked as the 26th freest economy in the world and is classified as "mostly free." The study notes that the “foundations for long-term competitiveness and dynamic growth have been deeply rooted in the high quality of the judicial regime, which upholds a strong rule of law” (The Heritage Foundation). The country has a strong and well-functioning legal framework, ensuring that contractual arrangements are secure and commercial law is respected. Property and intellectual rights are respected by a highly professional judiciary. Germany is also praised for its open-market policies and the efficiency of its regulatory system. Dynamic growth is supported by a strong investment regime that treats foreign and domestic investors equally, and the financial sector is competitive and offers a full range of services. The regulatory regime allows for “dynamic and innovative business formation and operation” (The Heritage Foundation), and starting a company is a straightforward process. Monetary stability is well maintained and labor relations are sound, with employers and employees working together to adjust wages and working hours to changes in the economy (The Heritage Foundation). The data provided in the *Index of Economic Freedom* confirms that Germany is an economically free country and very open to business. Enforcement of rules and regulations along with low corruption allow for businesses and the economy to thrive.

Greece

Greece tops the uncertainty avoidance list with a score of 112, meaning that Greeks are very uncomfortable in ambiguous situations. The high UAI means that, as with Germany, bureaucracy, rules, and laws are very important to the Greeks, particularly in the context of European integration and EU membership (though obeying laws does not seem to be as important). Greeks are also a highly demonstrative and passionate people whose emotions are easily seen in their body language (Hofstede 1991, pp. 115, 126). This could serve as an additional explanation for the numerous demonstrations, protests, and riots that have occurred over the past several years.

Corruption is a significant problem in Greece and it is without a doubt one of the contributing factors to the Greek crisis. With a score of 3.4, Greece ranks 80th on the CPI and is the second most corrupt nation in the EU & Western Europe region (Transparency International). There are many examples of corruption in Greece, but perhaps the most relevant to the current situation the country finds itself in are the deliberate mismanagement and misrepresentation of government finances, the use of state resources to secure votes, and the widespread acceptance of bribes—all three of which are often intertwined with each other.

Mismanagement of a household, business, or government budget can lead to financial disaster, which is precisely what happened in Greece. According to one senior International Monetary Fund (IMF) official, when the IMF went in to inspect the Greek books, they “couldn’t believe what they found” (qtd. in Lewis 44). The official claimed that the government had completely failed to keep track of expenses, saying that “they knew how much they had agreed to spend, but no one was keeping track of what he had actually spent” (qtd. in Lewis 44). On October 6, 2009, two days after winning the parliamentary election, Prime Minister George Papandreou was privately informed by the Bank of Greece governor that the government budget deficit was rising above 10 percent of GDP, far greater than the official figures of 3.7 percent (Bastasin 135). Less than two weeks later, on October 18, the new finance minister George Papaconstantinou informed his eurozone counterparts that the Greek deficit would reach 12.5 percent of GDP in 2009. The final official deficit for the year came out to 15.8 percent. Papaconstantinou named “a conscious misbehavior that he dubbed the ‘hiding’ of significant figures by the former government” (Bastasin 137) as one of the reasons for the large deviation. As he put it, “[There was] no Congressional Budget Office. There was no independent statistical service” (qtd. in Lewis 48). To serve its purposes, the party in power simply used whatever numbers it wanted. The disregard for honesty and solidarity with the European Union on the part of government officials was not something that suddenly happened prior to the crisis. It unfortunately appears to be ingrained in the Greek culture and has without question been present for many years.

The use of state resources to secure voter support during elections is another example of the corruption and dishonesty that is prevalent in Greek politics. Even though Greece had been warned by the European Commission of serious fiscal problems in 2008, Prime Minister Kostas Karamanlis dramatically increased public expenditures in the six months prior to the election. It also turns out that fudging the numbers around election time was common practice. In 2004, the ruling New Democracy party changed the law governing the national audit in order to make the deficit under the opposition party look larger. Three years later, before the 2007 elections, New Democracy once more changed the law to make its own deficit seem smaller (Bastasin 137). Another tactic used by ruling parties to garner support was the creation of many well-paying government jobs, some of them phony. One such example is an off-the books program at the Ministry of Agriculture that employed 270 people to digitize photos of Greek public lands. The problem was that none of them had any experience with digital photography (Lewis 48). With respect to wages, public sector pay is three times the private-sector average and over the past twelve years, the real public sector wage bill has doubled (Lewis 44). There was also a tradition of a thirteenth or fourteenth monthly salary for public workers, which further inflated salaries. According to former German deputy finance minister Jörg Asmussen, a civil service job paying €55,000 in Germany pays €70,000 in Greece, partly due to salary payments for months that do not exist (Lewis 140). A final technique used by the Greek government to win votes is to stop collecting taxes. In 2009, for example, tax collection disintegrated because it was an election year. As Papaconstantinou put it, “The first thing a government does in an election year is to pull the tax collectors off the streets” (qtd. in Lewis 49).

The third example of Greek corruption is the acceptance of bribes by government officials. It is simply assumed that anyone working for the government is supposed to be bribed. To get more attentive care in the national health system, for instance, Greeks pay their doctor cash on the side. This practice is so commonplace that it even has its own term, “fakelaki,” meaning small envelope. The knowledge of going rates is yet another testament to the ubiquity of bribery. Everybody knows, for instance, that €300 will buy an emission inspection sticker. To make matters worse for government coffers, tax collectors have earned a reputation for being the easiest officials to bribe. A typical solution to tax troubles is a three way split of the bill—one third to the government, one third to the tax collector, and the remaining third to be kept by the payer (Daley). Transparency International estimated in 2010 that the average Greek family paid €1,450 annually in bribes (Bastasin 141).

Aside from government corruption and bribery, there is also a culture of tax evasion amongst the population. This can be contributed to the high-UAI idea that it is okay to break the law. Examples of tax evasion are numerous and astonishing. In one year in the wealthy suburbs of Athens, 324 residents admitted to owning swimming pools (which increases tax liability) on their tax returns. A study of satellite photos showed that the total number was actually 16,974—less than 2 percent of swimming pool owners had checked the appropriate box when filing their taxes. A survey of 150 tax returns of doctors living in an upscale Athens neighborhood revealed that more than half claimed an income of less than €40,000. Thirty-four reported earnings of less than €13,300, which exempted them from paying any taxes at all. Many small business owners take cash payments and charge more if the customer asks for a receipt, leading to a large underground economy. Various studies have concluded that the Greek shadow economy represent 20 to 30 percent of GDP, compared to 7.8 percent in the United States. This blatant disregard for the law is costing the Greek government approximately €30 billion annually, money that would go a long ways in pulling the country out of the crisis (Daley).

Adding to its problems, Greece is ranked 119th on the *Index of Economic Freedom*, placing it in the "mostly unfree" category. It is ranked 39th out of 43 European countries and its overall score is below the regional and world averages. The study cites a weak judicial framework that is vulnerable to political interference and fails to protect property rights. Government bureaucracy is an obstacle to the regulatory framework and licensing requirements for new companies are burdensome. The investment sector, plagued by a lack of transparency and efficiency, is not conducive to investment growth (The Heritage Foundation).

Conclusion

My research indicates that uncertainty avoidance plays an important role in explaining the economic and political situations in Germany and Greece. As a moderate- to low-UAI culture, Germans have little tolerance for corruption and prosecute offenders in cases of misconduct. The country also ranks highly on the *Index of Economic Freedom* due to its strong judicial system, well-functioning financial markets, and competitive banking sector, all of which allow German enterprise and the economy to thrive.

From the issues described above, it is no surprise that Greece finds itself in an extremely difficult economic situation. The culture of corruption and lack of respect for laws stemming from high uncertainty avoidance have caused significant damage to the nation's financial and economic stability, and are hampering recovery efforts. Unless Greece can change the relationship between its citizens and the government, the fundamental problems will remain unresolved. The country must also work to improve its economic freedom in order to encourage foreign investment and a competitive business environment. A cultural shift is necessary to provide the framework for recovery and sustained economic growth, something that will require significant time and effort.

Chapter 4

Individualism and Collectivism

Explanation

Individualism and collectivism (IDV) refers to the relationship between an individual and the collectivity that is present within a society. As one would suspect, individualism and collectivism are contradictory terms; the more individualistic a person or society is, the less collectivist it can be, and vice versa. A society that is more individualistic will exhibit a tendency to place greater value and responsibility on the individual. Individual initiative, action, and interests are stressed and more economic independence rests with the individual. At the same time, the individual has a greater responsibility for his own well-being and that of his immediate family. An "I" consciousness is more prevalent and identity is based in the social system (Hofstede 227). By contrast, a collectivist society places more value on the group rather than individual identity or action. There is a greater sense of responsibility for other members of society and a greater feeling of unity amongst the population. Collectivist societies exhibit a "we" consciousness and follow the idea that identity is based in the social system. Low-IDV cultures can be described as a "Gemeinschaft" (community) whereas high-IDV cultures are more of a "Gesellschaft" (society) (Hofstede, 227). The distinction between individualism and collectivism is summarized well by the definitions proposed by Hofstede for each: "Individualism stands for a society in which the ties between individuals are loose: Everyone is expected to look after him / herself and her / his immediate family only. Collectivism stands for a society in which people from birth onwards are integrated into strong, cohesive in-groups, which throughout people's lifetime continue to protect them in exchange for unquestioning loyalty” (225).

Hofstede found that across Europe, a negative correlation exists between IDV and uncertainty avoidance (209). Based upon the analysis of UAI in the previous chapter, in which it was shown that low-UAI countries exhibit lower levels of corruption and greater economic freedom, both of which result in better economic performance, this negative correlation would suggest that higher-IDV countries tend to experience greater long-term economic growth and prosperity. This hypothesis is supported by the research of Gorodnichenko and Roland (2010), who found that “individualistic culture has a strong causal effect on economic development” (25). They further determined that, even after accounting for a number of alternative theories, individualism has a robust and quantitatively important effect on long-run economic growth (25). They used innovation to measure the effect individualism has on growth, looking specifically to the Economist Intelligence Unit (EIU) report ranking of the world's most innovative countries, which ranked 82 world economies based on the number of patents granted per million population. The most recent EIU report uses data from the years 2004 to 2008 and offers a prediction for the following five years, 2009 to 2013.

Germany

The range of scores on the IDV index was between 6 and 91. With a score of 67, Germany is an individualistic society. The ideal of self-actualization is strongly believed in (Hofstede 1991, p. 73) and personal freedom and achievement are emphasized. As a result, social status is often awarded to "personal achievements such as important discoveries, innovations, or great artistic achievements" (Gorodnichenko and Roland 2011).

In the EIU report on innovation performance, Germany is ranked as the sixth most innovative country, with just under 311 patents per million population and an innovation performance index of 9.40 (12). Over the five year period from 2009 to 2013, Germany is expected to rise two spots in the rankings and see 1.0 percent growth in its performance innovation index (13). This high level of innovation can be explained by the characteristics of an individualistic society as presented above. Due to the combination of social status and monetary rewards in high-IDV societies, individuals allocate more labor to innovative activities. This leads to higher rates of innovation and higher levels of long-run productivity and output (Gorodnichenko and Roland 2011). Economic output can be measured by GDP per capita, and the data shows that higher-IDV countries do truly have greater output. When compared to the EU-27 index[4], German per capita GDP has consistently ranged between 15 and 20 percent above the average (Eurostat). With the exception of Finland and Austria, the countries that have outperformed the EU-27 average by a greater percentage have scored higher on the individualism index. However,

4 GDP per capita in Purchasing Power Standards (PPS) index. The EU-27 average has been set to equal 0.

Finland and Austria are only two and three spots below Germany, and are both still considered individualistic societies (Hofstede 215).

Greece

Greece is a collectivist society, earning a score of 35 on the IDV index. From birth onwards, people are integrated into the strong and cohesive in-group that protects its members in exchange for loyalty (Hofstede 1991, p. 50). As a collectivist culture, Greeks are able to better internalize group interests, thus making collective action easier. As a result, however, conformity is encouraged while standing out from the crowd is discouraged (Gorodnichenko and Roland 2011).

Greece ranks significantly lower than Germany on the innovation performance index, which one would expect given the country's status as a low-IDV culture. With roughly 4 patents per million population, Greece is 32nd among the countries surveyed (EIU 12). Though its innovation performance index is expected to grow by 1.7 percent between 2009 and 2013, the EIU still anticipates that Greece will drop one spot in its rankings (13). These results make sense when taking into consideration the main characteristics of a collectivist culture with respect to innovation. Because of the reduced prospects of financial gain and social status rewards for innovation, there is less motivation on the part of the individual to spend time on innovative activities. Consequently, collectivist cultures will see lower rates of innovation and lower levels of long-run productivity and output. Economic output is truly lower for Greece, whose per capita GDP has historically been approximately 10 percent below the EU-27 average

(Eurostat). Of the European countries on the individualism index, all that have higher IDV scores also show higher per capita GDPs. Portugal, the one country more collectivist than Greece, has a per capita GDP lower than that of Greece, further lending evidence to the positive correlation between IDV and per capita GDP.

Conclusion

Individualism and collectivism is a strong determinant of innovation levels in specific countries. Individualistic cultures tend to reward personal achievements financially and with social status, providing individuals with the motivation necessary to allocate time to innovative activities. As a result, high-IDV countries are more innovative and exhibit greater long-run productivity and output. Collectivist cultures, on the other hand, do not place the same value on innovative activities, resulting in lower innovation and economic output. Furthermore, it has been shown that there is a positive correlation between IDV scores and per capita GDP. As a high-IDV country, Germany ranks near the top of the EIU innovation performance index and has a per capita GDP substantially higher than the EU-27 average. Greece, on the other hand, as a low-IDV country, is ranked relatively low on the innovation performance index and has a per capita GDP below the EU-27 average.

It is important to note that the correlation between IDV and GDP does not necessarily imply causation, and it is possible that other factors in addition to individualism and collectivism can explain the differences in innovativeness between Germany and Greece. One such factor that could lead to differences in innovation is combined public and private expenditures on research and development. In 2007, German research and development expenditures as a percentage of GDP were almost four and a half times greater than in Greece. Given the GDPs of each of these countries, this is a significant difference. Other factors could include differences in education, with the German system possibly placing more value on technical and science-related fields, and a potentially greater commitment on the part of German firms to place long-term growth and innovation ahead of short-term goals. This does not mean that IDV plays no role in differences in innovation, only that it may not be the sole reason for the observed differences between Germany and Greece.

Chapter 5

Masculinity and Femininity

Explanation

The duality of the sexes is a fundamental aspect of society and the basis for the idea of masculinity and femininity (MAS). As the terms imply, masculinity describes characteristics generally attributed to male behavior while femininity describes those generally attributed to female behavior. Men tend to place more importance on ego goals such as careers and money, whereas women are more concerned with social goals, including relationships, the physical environment, and helping others (Hofstede 279). It is important to note, however, that this does not suggest that males and females cannot or do not display behavioral characteristics of the opposite sex. It simply means that certain behaviors are more associated with one sex than the other, though the extent to which these behaviors are exhibited varies with each individual. As a dimension of national culture, Hofstede proposes the following definitions of masculinity and femininity: "Masculinity stands for a society in which social gender roles are clearly distinct: Men are supposed to be assertive, tough, and focused on material success; women are supposed to be more modest, tender, and concerned with the quality of life. Femininity stands for a society in which social gender roles overlap: Both men and women are supposed to be modest, tender, and concerned with the quality of life" (297).

The extent to which a national culture is masculine or feminine has some general implications for the workplace and politics, a few of which will be briefly discussed. According to Hofstede, high-MAS cultures typically place fewer women in management positions, successful managers are believed to have only male characteristics, and there tends to be a larger pay gap between men and women. Job stress is also higher, leading to more burnout among healthy employees. Low-MAS cultures, on the other hand, have more women in management and smaller wage gaps between genders. Successful managers are seen to have both male and female characteristics and lower job stress leads to reduced levels of burnout symptoms among healthy employees. In politics, high-MAS countries view the performance society as ideal, the poor are expected to deal with their own problems to a greater extent, and there is a higher percentage of poor and illiterate people. Low-MAS countries are supposed to exhibit the opposite characteristics, meaning idealization of the welfare society, more help for the poor, and lower levels of poverty and illiteracy. Additionally, low-MAS countries tend to have more women in government and elected political positions than high-MAS countries (323).

Given the above description of the traits of masculine versus feminine societies, I believe that this cultural dimension has very little impact on national economic development, especially in the cases of Germany and Greece. Workplace gender disparities have existed for a long time across the globe and to this day we still see the different expectations placed on men and women and significant wage gaps between them.[5] This has not, however, limited the ability of countries to experience economic

[5] There are, however, wide variations across Europe, most notably in the Scandinavian countries, where greater gender equality exists. This would be expected, given that they are low-MAS societies.

growth and development. In terms of the political differences between low- and high-MAS cultures, I believe that they have a greater impact on social situations than economic development. More importantly, though both Germany and Greece are high-MAS cultures, they exhibit characteristics that would be expected of low-MAS cultures. Finally, and most importantly, because Germany and Greece have similar MAS scores, it cannot be argued that this cultural dimension is responsible for the economic differences between the two nations. Following are brief explanations of the German and Greek scores along with a few areas where they differ from what would be expected from each country based on its score. MAS scores ranged from a low of 5 to a high of 95.

Germany

Germany is a high-MAS culture with a score of 66, placing it near the top of the list of countries ranked on this dimension. According to the characteristics of high-MAS cultures, the German mentality should be one of living in order to work. Additionally, one should see higher levels of burnout among healthy workers. Given the German work structure, however, it is difficult to see how this could be the case. It is common knowledge that Germans enjoy a high quality of life and good work-life balance. Of the 34 countries ranked by the OECD, in 2011 the average German worked 1,413 hours—only the Dutch worked less. Furthermore, the average German worker receives approximately six weeks of paid vacation annually. Given this information, it is difficult to argue that German workers are more prone to burnout than workers in lower MAS cultures.

In terms of political priorities and mores, Germany also does not follow the expectations for high-MAS cultures. As a high-MAS culture, the percentage of poor and illiterate people in Germany should be high. This, however, is not the case. Literacy in Germany is 99 percent (CIA) and as of the late 2000s, 8.9 percent of the population was considered under poverty level[6], placing Germany in the bottom half of countries surveyed. There is also a strong emphasis on social welfare, with public and mandatory private social expenditures equal to 26.3 percent of GDP in 2007 (OECD). The share of women in German politics is also increasing, contrary to what would be expected of a high-MAS culture. Most notable is Chancellor Angela Merkel, a female who has led the country since 2005. Of the sixteen German states, three are currently headed by women, and 33 percent of the German parliament is female (Deutscher Bundestag).

Greece

With a score of 57, Greece is also considered a high-MAS culture. In 2011, the average Greek worked 2,032 hours, the fourth highest among countries surveyed (OECD). In this regard, it is possible that burnout symptoms among healthy employees could be higher for Greek workers. However, Greeks receive 37 days of vacation annually (CNBC), allowing ample to time to recuperate from any job-related stresses.

As with Germany, Greece also does not exhibit the expected political characteristics of a high-MAS culture. Literacy stands at 96 percent (CIA) and as of the late 2000s, 10.8 percent of the population lived below poverty level, placing Greece only

6 Poverty rate after taxes and transfers, where the poverty threshold is 50 percent of the current median income.

four spots above Germany and still in the bottom half of the rankings. Social welfare is also important, with public and private social expenditures representing 22.8 percent of GDP in 2007 (OECD). Though the percentage of women serving in parliament is lower than in Germany, roughly one quarter of the Hellenic Parliament is made up of women (Hellenic Parliament).

Conclusion

I argue that the masculinity and femininity cultural dimension does not help to explain differences in the economic situations of Germany and Greece. I believe that the characteristics attributed to low- or high-MAS cultures have a greater impact on social situations in a given country than on economic growth, output, or prosperity. It would be difficult to argue that gender gaps in wages and management positions, the presence of women in government, or the interest of government in social welfare have a large measurable impact on the economy. Perhaps more important to this analysis is that Germany and Greece have similar scores on the MAS index, meaning that this cannot be the reason for the economic differences between the two countries.

Chapter 6

Conclusion

Concluding Remarks

The 2008 financial crisis had far-reaching effects throughout the entire world and put global markets into a state of turmoil. In Europe, it spread throughout the continent and morphed into a sovereign debt crisis that continues to threaten the stability of a number of nations and the existence of the euro. Though all Europeans nations initially felt the pain of the crisis, the extent of the damage and their ability to recover from it varied widely amongst them. Some were able to recover quickly and emerge with their budgets intact and little damage to their economies, GDP, or employment levels. Others continue to be plagued by a years-long recession that has caused significant declines in economic output and a large spike in unemployment rates. These countries face unsustainable debt and deficit levels and have been forced to enact harsh austerity measures in order to fix their finances, receive aid, and prevent a collapse of their governments.

The two countries that best represent this sharp contrast in economic health are Germany and Greece. While Germany emerged from the crisis largely unscathed, Greece has been on the brink of collapse since 2008, and the government has managed to stay afloat only due to emergency funds from the European Union, to which Germany is the greatest contributor. Apart from 2008, the German economy has continued to log positive growth, unemployment and public debt have decreased, and the fiscal balance has improved. Greece, on the other hand, has been in recession since 2008 and has seen its unemployment rate more than double and government debt skyrocket. Greek debt is rated at junk status and the government has had to approve a series of harsh austerity measures in exchange for continued financial aid.

This paper performed a qualitative analysis of national culture and its potential impacts on macroeconomic and financial stability by looking specifically at the cases of Germany and Greece. The scope of this analysis was limited to four cultural dimensions described in Geert Hofstede's scholarly work *Culture's Consequences: comparing values, behaviors, institutions, and organizations across nations*. These dimensions were power distance, uncertainty avoidance, individualism and collectivism, and masculinity and femininity. My goal was to determine whether the economic and political situations in Germany and Greece could be explained by the four cultural dimensions. My findings show that culture does play a role in the economic performance of the two nations. Power distance and uncertainty avoidance have the greatest impact on economic performance, individualism and collectivism has a slight impact, while masculinity and femininity does not help to explain the difference between Germany and Greece.

Power distance refers to the idea that power is distributed unequally within a society. A higher power distance means that the extent to which citizens expect and accept unequal distribution of power is higher. Germany has a low power distance and observed inequality in the country is relatively low. In the workplace, employees are given extensive co-determination rights through the *Betriebsrat* system and the corporate board structure. Managers often have a high level of technical expertise, allowing them to make better informed business decisions. The German government is made up of mostly center or center leaning parties that tend to emphasize equality, and the country's history of coalition governments further serves to moderate policy-making. Disruptive conflicts between citizens and the government rarely occur. The high power distance in Greece is reflected in its business and politics. Greek managers are quite ineffective and many businesses are restricted to a single, low technology activity and small, local markets. Greek governments tend to be left or right leaning (de-emphasizing equality) and tensions between citizens and the government are high, resulting in numerous violent protests.

Uncertainty avoidance is characterized by the extent to which uncertain or unknown situations threaten a society. Germany is a moderate-UAI country. Transparency International ranks it as one of the world's least corrupt nations, and recent events surrounding former president Christian Wulff and a Siemens corruption scandal demonstrate the Germans' intolerance for corrupt activities. Germany is also ranked as the 26th freest country on the *Index of Economic Freedom*. Of the countries ranked, Greece has the highest UAI score. It ranks 80th on the CPI and is the second most corrupt country in the EU & Western Europe region. Misrepresenting government finances, bribery, and tax evasion are all commonplace in Greece. The country is ranked 119th on the *Index of Economic Freedom* and categorized as "mostly unfree."

Individualism and collectivism refers to the relationship between an individual and the collectivity that is present within a society. Higher levels of individualism in a country have been shown to contribute to greater innovation. Germany is an individualistic society and the sixth most innovative country. Greece is a collectivist society and is ranked significantly lower on the innovation performance index.

Masculinity and femininity deals with the extent to which gender roles in a country overlap. Given the fact that Germany and Greece have very similar scores, I concluded that this cultural dimension cannot be the reason for the economic differences between the two countries. Furthermore, the characteristics attributed to high- or low-MAS countries appear to impact social rather than economic conditions. Lastly, though both Germany and Greece are high-MAS cultures, they exhibit certain characteristics that would be expected of low-MAS cultures. However, I do not believe that this discrepancy between expected and observed characteristics is enough to argue that the concept of masculinity and femininity is flawed or that it discredits the remainder of my findings. Due to the similar scores of Germany and Greece on this index, I conducted only a limited analysis of this dimension. I believe that expanding this analysis would reveal that the countries do indeed exhibit characteristics attributable to high-MAS cultures—this expansion would, however, not be relevant to the purpose of my paper. Additionally, the remainder of my research shows that the Hofstede dimensions are relevant and accurate. It would be a rash decision to simply discredit Hofstede's work, given that it continues to be cited and supported with great confidence by academic scholars.

Of the cultural dimensions studied, I am confident that power distance, uncertainty avoidance, and individualism and collectivism all have an impact on the macroeconomic and financial stability of a nation. Though culture may not be the only factor affecting economic performance, I believe it must be given consideration when examining economic differences across nations.

Limitations

This paper considered only the four original cultural dimensions proposed by Geert Hofstede. Other factors with the potential to impact national economic performance have not been evaluated. These include, but are not limited to, religion, geography, and national history, all of which could further help to explain economic differences between the two nations. Future research should address these and other areas to paint a more complete picture of the determinants of national economic performance.

Differences in education levels and curriculum could also play a significant role in the economic differences observed between the two countries. A study of the education systems and their impact on the characteristics and quality of the workforce is suggested. The strategies of companies in each country could be examined for differences in management styles and qualifications, corporate goals, operations, etc. that may be the reason for the comparatively better performance of German firms. A final suggested area of study is the impact of the Industrial Revolution on Germany and Greece and its role in shaping the economic mindset and system of each nation.

Another limitation of this paper is its focus on only two countries, Germany and Greece. A logical next step would be to expand the scope of the research to other nations to assess the applicability of my findings. Given current events, an analysis of the remaining PIIGS countries would be suggested. I would expect an analysis of these countries to yield results similar to those of Greece. The macroeconomic and political situation of Greece is a more extreme case, however, and I would therefore expect the results for the remaining PIIGS to be more moderate.

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ACADEMIC VITA

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EDUCATION

The Pennsylvania State University, University Park, PA Fall 2012
Schreyer Honors College
Bachelors of Science in Finance, German, Spanish, and International Studies
Minor in International Business

Berlin School of Economics and Law, Berlin, Germany 09/2010-02/2011

WORK EXPERIENCE

Exxon Mobil Corporation, Houston, Texas 05/2012-08/2012
Controller's Intern
- Identified and consolidated 45 EMIT billing exceptions totaling ~$265M
- Created a SharePoint process for archiving, viewing, and retrieving billing exception data
- Documented new business process and assigned roles & responsibilities to ensure its sustainability
- Conducted a training session for ~10 analysts and supervisors

Robert Bosch GmbH, Blaichach, Germany 03/2011-08/2011
Controller's Intern
- Revised complex cost control system for estimating and reporting manufacturing costs of ABS/ESP Generation 9 reference products
- Designed cost calculation data file in preparation for production of a new product
- Developed quantity analysis for business plan to compare distribution of production between 8 global production centers
- Created depreciation and cost of capital reports
- Completed over 100 product calculations and maintained standing data in SAP-CO module
- Worked on presentations for plant visits by top level management

Pennsylvania State University, University Park, PA 09/2008-present
Penn State Tennis Center Instructor and Facility Employee (average of 25 hours per week)
- Manage the tennis center, handle financial transactions and facility operations
- Plan and implement drills for junior development clinics (ages 4-16); conduct private lessons
- Resolve questions and needs of customers and members

Czech and Slovak Translations, Port Matilda, PA 01/2007-present
Editor/Translator
- Assist in editing, proofreading, and translating documents between Czech/Slovak and English

LEADERSHIP/ ACTIVITIES

Schreyer Honors College 01/2009-08/2012

Logistics Co-chair, Backstage Manager

- Manage logistics, supplies, and meals for 3 day orientation event for 450 new students

Freshman Registration Lead Mentor

- Coordinate 2 day scheduling and orientation event for 300 incoming Scholars

Spanish Club 08/2009-05/2010

Vice-president, THON Co-chair

- Helped plan and run club meetings and events to promote cultural awareness
- Organized fundraising efforts for pediatric cancer research and families affected by pediatric cancer

SKILLS

Language: Fluent in Czech and German; working towards fluency in Spanish
Computer: Excellent understanding of MS Word, Excel, and PowerPoint; SAP-CO (controlling)

AWARDS/ HONORS

UAS7/DAAD Study & Internship Program scholarship recipient
Stanley Townsend Award for Academic Excellence in German
Schreyer Honors College Academic Excellence Scholarship
Penn State Dean's List
Evan Pugh Scholar Award
Smeal College of Business Fall Commencement Student Marshal

MEMBERSHIPS

Beta Gamma Sigma International Honor Society
Delta Phi Alpha German Honor Society