

# Conspiratorial Trade: The Role of Culture and Informal Economic Activity on Economic Growth

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**Abstract:** This paper uses the regulative and normative institutional perspective typically employed by institutional economics and incorporates a cultural/cognitive view by comparing Hofstede's five cultural dimensions with level of informal economic activity on percentage growth in GDP from a sample of 26 countries. Overall, results suggest that culture is more influential on economic growth in high rather than low informal economically active nations. Further, results suggest an interaction effect such that in high informally active economies, power distance and long term orientation were positively related to economic growth and masculinity and individualism were negatively related. Implications for future research are discussed.

## Introduction

A strong assumption in economics models is that rational actors behave according to incentives in their environments with the intention of maximizing their welfare. From this basic premise, institutional economics has looked at the systems and nature of these incentives and their impact on economic growth with the idea that the primary reason for economic growth is determined by the structure of these incentives (Olson, 1996) and that strong rules and laws support economic growth (North, 1990).

While this view of institutions as rules for behavior provides a strong foundation for explaining antecedents to economic growth, recent criticism of the strong assumptions of rationality and self interest used in economic models has suggested that these assumptions may moderate the explanatory power of institutions with respect to economic growth (March, 2006). Moreover, the recent economic downturn has led to the growth of unregulated markets for the provision of jobs, goods and services suggesting that economic activity persists without formal regulation (Barta, 2009). While the bases of much of

institutional theory is how and how much do normative and regulative structures promote economic growth, little work has been done to examine the impact of fit between regulative institutions of an environment and cultural, cognitive and normative dispositions of the environment's actors on economic growth.

This next step in the investigation of the role of institutions in economic growth is necessary due to the gaps in understanding what provides economies with weak regulatory environments the structure for economic growth. A prevailing view towards economic growth is that weak regulatory environments lead to informal economic activity which inhibits economic growth (Barta, 2009). However, recent looks at economic development have examined differences in regulatory environments and suggested that some economies may still manage large degrees of growth despite the lack of optimum regulative institutions (Prahalad, 2006). This paper will look at the interaction between cultural normative institutions of the actors and the regulative institutions of the state on economic growth. Using a model of strong societies and weak states (Migdal, 1988), a relationship between culture and economic growth can be demonstrated and shown to be contingent upon the robustness of the regulative institutional environment. As an extension to Busenitz, et al.'s (2000) look at entrepreneurship with respect to various institutional levels, this study uses a measure of normative regulative mismatch as a moderator for the influence of culture on economic growth. This mismatch theorized by Migdal is prevalent in developing nations and what North (1990) suggests happens during political transitions where exchange persists

thanks to some informal means of creating trust.

### **Review of Relevant Literature**

Institutional economics focuses on regulative frameworks which reduce transaction costs and create incentive systems to generate economic growth. "New" institutional economics points towards two avenues by which institutions facilitate economic growth. One is that formal and informal incentive systems act as the driver for entrepreneurial behavior in an economy (Coase, 1998). Given that nations vary with respect to the effectiveness of their institutional environment so will their growth. The munificence of a nation towards entrepreneurship for either creating or exploiting innovations to create value which is a driver for economic growth lies in the web of rules and norms (Baumol, et al., 2007). Another way institutions facilitate growth is by reducing transaction costs. Regulative institutions fostering economic activity are provided by formal legalistic structures which support contracts and allocate capital towards productive collective action and intertemporal ventures where a risk is taken with the expectation of future rewards (Sobel, 2008). Having regulatory structures that both maintain efficient markets for goods as well as contract enforcement mechanisms reduce the uncertainty of entrepreneurs' and firms' task environment (Prahalad, 2006). Formal contract enforcement ultimately relies on the existence of a state which can apply coercive measures to achieve compliance (North, 1990). It also provides for the protection of property rights, which provides easier access of

capital for entrepreneurial development (DeSoto, 2000).

While the support of trust and lowered transaction costs is described by the presence of a strong formal institutional environment, institutions are seen in the larger literature on institutions through varying theoretical lenses which Richard Scott (2001) calls the “three pillars”: regulative, normative and cultural/cognitive. Regulative views of institutions, typically deployed in economics, hold institutions as “rules of the game” where a third party, the state, acts as a rule maker, referee and enforcer (Scott, 2001). Actors behave according to the stable systems of rules backed by enforcement. Normative institutional views, as typically used in sociology, focus more on the actor’s shared values and norms. Social life is governed by perceived obligations and standard prescriptions for action. Normative systems specify how things should be done as well as what goals are legitimate. Actors behave by adhering to roles and adopting the values of their social environment (Scott, 2001).

Cultural cognitive institutional perspectives, also based in sociology literature, treat institutions as systems of meaning. Actors behave according to the shared interpretations which they use to create sense of their environment. Because of their shared basis of reality and expectations, order is created and collective action is accomplished by the accumulation of expectations which come from many similar interactions between actors over time (Scott, 2001; Berger & Luckman, 1967).

The existence and enforcement of laws, as what is the focus of regulative institutional views, is insufficient to explain a munificent institutional environment. The nature of the laws themselves may either

create an uncertain environment as is the case with corruption (Mauro, 1995), an ambiguous environment where the laws require costly and uncertain interpretation (Prahalad, 2006) or an environment in which regulations and taxation inhibit business activity (Schneider & Enste, 2000). Regulative environments need to “fit” the normative and cultural/cognitive institutional environment. If the regulative environment does not fit the social institutional environment, economic activity may still persist, but along channels outside the regulatory environment. In the absence of regulatory structure, these channels are supported by informal constraints, which are more influential in shaping actors’ behavior than are formal rules from the regulatory environment (North, 1990).

Numerous examples of economic activity persisting despite impediments of ineffective and even hostile regulative institutions point towards normative and cultural instruments such as shared values and informal contract enforcement as a substitute for regulative institutional structures (e.g., Williams & Round, 2007). A key difference between the regulative versus the normative and cultural/cognitive facets of institutional environments is that in many cases the regulative institutions are used as instruments of change towards the normative as well as the cultural cognitive institutional structures (Schatz, 2004).

This regulative to normative/cultural cognitive institutional fit can be conceptualized as a state to society relationship (Migdal, 1988). Regulative structures, as the state, impose order on the actors in a society. A strong state which facilitates economic activity minimizes the reliance on social mechanisms as catalysts for economic activity (Prahalad, 2006). Similarly, in a situation where the state is

weak, the characteristics of the society will have a more critical impact on economic growth. Using informal economic activity as an indicator of the (lack of) effectiveness of the regulative environment (the strength of the state) and using culture as an expression of the nature of the society:

**H1:** *The intensity of the regulative environment moderates the effect of culture on economic growth, so that in low informal economically active environments, culture has no significant relationship with economic growth, but in high informal economically active environments there will be a significant relationship between culture and economic growth.*

### **Cultural Variables and Informal Economy**

The purpose of this study is to show the moderated effect of cultural variables which are established in current cultural literature. To accomplish this end, Hofstede's five cultural dimensions are used to describe the social institutional environment and its impact on economic growth. Hofstede linked five dimensions of culture to work related values in one organization across nations. Similar to work done in examining culture's relationship to corruption (Husted, 1999), this study uses these five work-related cultural values to examine the relationship between culture, informal economic activity and economic growth.

Power distance (PD) is the tolerance of members of a society to inequality. These inequalities can include prestige, wealth or power (Hofstede, 2001). One of the themes of anticorruption movements is equal access to resources and influence. Disparate

treatment of individuals or businesses leads to inefficient allocation of resources (Mauro, 1995) and loss of credibility for legal institutions that provide the trust mechanisms necessary for economic growth (Kaufmann, 2002). Despite the corrosive nature of PD's relationship with economic growth and corruption, it does offer a convention for creating order between actors in the absence of strong legal institutions that would otherwise guide behavior. Maintaining this order may require strong role expectations between actors, where the contestation of these roles by others would consume resources as well as increase the uncertainty and perception of risk in actors at large. These conventions provide a basis for interaction that would be unnecessary in a more developed legal institutional environment. Hofstede suggests a trade-off between the loss of innovative effort and the gain from coordination of economic activity by specific actors (Hofstede, 2001). In a strong society where the state is weak, however, the institutions that support technological innovation by allowing economy of scale returns to the innovator will be weak. This is due to normative environments being relatively idiosyncratic to their own, smaller, environment. This would make the coordination mechanism of PD more relevant for growth in high informally active economies.

**H2a:** *There will be a positive relationship between PD and economic growth in nations with high levels of informal economic activity.*

Uncertainty Avoidance (UA) is "the extent to which the members of a culture feel threatened by uncertain or unknown situations" (Hofstede, 2001). UA reflects a

society's expectations of the future and suggests a predisposition towards ambiguous situations. Strong emotions are attached to out of character situations whereas in low UA societies unknowns are often left unspecified. High UA societies consider unknowns as potential dangers. An actor perceiving the world as a hostile place where one needs protection to succeed would be less disposed towards the maverick activities associated with entrepreneurship described by Schumpeter. Moreover, sources of investment would similarly view the environment as dangerous and would view potential opportunities with a stronger bias towards not investing, thus reducing the pool of investment capital available for entrepreneurs. This as a result would reduce the economic growth of a nation (Baumol et al., 2007).

From a transaction cost perspective, UA would make actors more sensitive towards opportunistic behaviors from unknown others, where the potential for malfeasance due to information asymmetries would reduce the ability to trust unknown and even known partners. This reduction in the pool of options for engaging in business activity constricts optimal resource deployment, reduces the specialization of labor and forces many activities in-house (Williamson, 1975). Furthermore, this reduced scope of transaction partners leads to a constricted knowledge network, reducing the number of weak ties which reduces the potential pool of novel ideas from which to innovate, further reducing entrepreneurial opportunities (Burt, 2005). In a strong regulatory environment, the uncertainty is reduced by the ever present existence of a third party, the government, which can enforce contracts by a clearly understood

set of laws (Prahalad, 2006). In a weak regulatory environment, uncertainty is shunned in that it reduces the ability for one to coordinate with others. Pursuing ventures which create uncertainty also reflexively makes others more uncertain in their appraisal of one's self. Venkatesh (2006) demonstrated a strong indifference towards taking risks and initiating new ventures in the South Side of Chicago, where there is little formal institutional support for economic activity. This was implicated as one of the reasons for the lack of growth in the area.

**H2b:** *There will be a positive relationship between uncertainty avoidance and economic growth in nations with high levels of informal economic activity.*

Individualism-collectivism (IC) on the national level describes "the relationship between the individual and the collective in society" (Hofstede, 2001). This cultural relationship has implications for individuals and their families, friends, and organizations. Some cultural researchers suggest that a possible opposite pole to individualism, collectivism, comprises the tendencies for individuals to subordinate their personal goals for the collective (Triandis, 1990). Others make the distinction that strongly interdependent individuals, like who would be found in some collectivistic cultures (Smith, et al., 2006) don't subordinate their goals but rather adjust their preference sets to match those that their close others possess (Markus & Kitayama, 2003). This adaptation of preferences to those close others would tend to lead individuals to favor friends' and relatives' interests during decision making activities like what would be found in

business or governmental hiring or contracting decision situations. In the eyes of an individualist, this favoritism would be suspect in that the “subordination” of one’s goals would be irrational unless explained through a self interest perspective where the actor was calculating future pay-offs from the crony based allocation of resources.

In either case, the rationality is imputed by the observer. The difference is the attribution of utility function of the actors by the observer. In a society where this is prevalent, observing others behaving similarly towards their own close relationship networks would also be observed as rational behavior, consistent with cultural norms and not a signal of the degree to which an individual will pursue their self interested behavior but rather the indication of an individual fulfilling their role as a friend or family member. It would be understood that these linked individuals would have a preferential level of trust as a network. This level of particularized trust would make economic activity which puts the actors at risk of sanction from the regulatory environment less risky if using personal networks than in a culture which maintains weaker relational ties (Tilly, 2005). In highly developed legal institutional environments this particularized trust is less essential allowing individual actors to develop their own unique preferences (Nisbett, 2004; Triandis, 1990) making informal activity more costly for the actors in the compromises to their personal preferences as well as more risky knowing that the other actors are similarly doubtful of both the utility of a cooperative arrangement and the likelihood that the arrangement will last without the other partner defecting first. However, in a weak regulative environment, this particularized

trust brought about by collectivist values and interdependent shaping of utility functions would support economic growth.

**H2c:** *There will be a positive relationship between collectivism and economic growth in nations with high levels of informal economic activity.*

Masculinity-femininity (MF) distinguishes assertiveness from culture of nurturance. As Husted suggests, assertiveness relates to “a focus on material success” instead of quality of life (Husted, 1999). A value of pursuing success would offer a strong incentive for pursuing and exploiting entrepreneurial opportunities in a nation. As pointed out in growth literature, not all entrepreneurial activities yield benefits to the society at large. An example is the difference between innovative and exploitative entrepreneurship, where the former results in technology spillovers, while the latter would offer primarily transactional benefits for the entrepreneur (Baumol et al., 2007). Moreover, aggressive pursuit of self interest may lead to either entrepreneurial activity, or it may lead an individual towards government administrative activities within which they would be able to accomplish their personal enrichment through corruption (Husted, 1999). The consequences for actors in a high masculinity culture are conflicting, leading to no clear reason to believe there would be a general effect on economic growth or a situational effect from regulatory normative incongruence.

**H2d:** *There will be no significant relationship between economic growth and national levels of*

*masculinity in nations with high levels of informal economic activity.*

The last dimension, long term orientation (LTO) is “the fostering of virtues oriented towards future rewards, in particular, perseverance and thrift.” LTO’s opposite pole, short term orientation, stands for the virtues related to the past and present. Long term advantages involve building resources and embarking on venture in which the chain of events that lead to their end is less clear (Hofstede, 2001). Building enduring value producing ventures requires time and resource commitments (Porter, 1991). Long term orientation also suggests a strong intertemporal view of savings where the savings rate of an economy relies on a utility function of savers across their life cycle and that savings rates seem to be a function of culture (Van Den Berg, 2001). In a strong regulatory environment, these activities may be accomplished by formal institutions. The existence of the institutions may cause a means-end cycle where they induce actors through incentives and controls to participate in these activities irrespective of their personal values or natural inclination towards considering such actions. In a weak state/regulatory environment, actors look at success and long term viability in terms of their position or status within networks (Hofstede, 2001). The prevalence of networks and the extent to which they influence an actor’s or business’ viability is a result of predicting the behaviors of other’s in the network as well as being predictable one’s self (Venkatesh, 2006). Not possessing the foresight or optimism of planning for the next move with respect to one’s present network is a strong disadvantage and leads actors to churning

within a social/economic context without the ability to create value (Venkatesh, 2006).

**H2d:** *There will be a positive relationship between long-term orientation and economic growth in nations with high levels of informal economic activity.*

## **Method**

The nature of informal economic activity makes its measurement challenging. Measures have included surveys, comparing income and expenditure, discrepancy between official and actual labor force, physical currency demands as well as the measurement of transactions compared with GNP (Feige & Ruban, 2007; Schneider & Bajada, 2005). Schneider’s estimate of shadow economies in 145 countries was used as the dependent variable for informal economic activity. This was correlated with Hofstede’s cultural dimensions from his multi-national survey of primarily IBM employees which derived four cultural dimensions. He later incorporated a fifth from Chinese Culture Connection 1984 analysis of Confucian Dynamism which Hofstede later termed “Long Term Orientation”. Hofstede’s estimations for African, Arab and Asian cultural scores were also used for analysis as proxies for cultural scores within the respective regions. This is particularly relevant with respect to long-term orientation, which has 26 scores. By incorporating the regional scores the number was increased to 34. The per capita gross national product (GNPPC) was based on the World Bank’s 2000 World Development Report. A total of 26 countries possessed data for all seven variables for this test.

**Results**

The data were split into two sets of high and low levels of informal economic activity according to the median level of informal economic activity in the nations. The first regression was conducted with all hypothesized variables, PD, UA, IC, MF, LTO, and a control variable, the 1980 per capita GNP and per capita growth as a dependent variable on the low PCTIE data set. With an N= 14, the full model led to an adjusted R square of .080, with UA as the only significant variable (p = .081). Using backwards regression (Husted, 1999), non-significant variables were removed with the intention of arriving at a reduced model. No significant factors remained after removing each non-significant factor on subsequent regressions.

A second regression test was performed on the high informal economic activity set of data with the full model, yielding an adjusted R square of .919. PD (p = .073), IC (p = .011), MF (p = .011) and LTO (p < .001) were all significant at the p < .10 level. UA (p = .197) and the control variable GNPPC 1980 (p = .331) were not. Another regression was performed without GNPPC, leaving UA (p = .256) not significant. A final

regression was performed without UA, leaving PD, IC, MF and LTO significant at the p < .1 level. Refer to Table 1.

The emergence of significant variables in the high informal economic activity nations, while not in the low informal economic activity nations supports hypothesis 1, that strong regulative institutional environments moderate the influence of culture so that in nations with high amounts of informal economic activity, culture has a stronger effect on economic growth. Hypothesis 2a is not supported. Power distance is significant, but it is not positively related to economic growth in high informal economic activity societies. Hypothesis 2b that UA is positively associated with growth was not significant. Hypothesis 2c, that collectivism is associated with economic growth in high informal economic activity environments was supported. The hypothesized null-relationship, hypothesis 2d, between MF and economic growth is not supported, MF showing a positive relationship with economic growth. Hypothesis 2e was supported. LTO is positively related to economic growth in high informal economic activity environments.

**Table 1**

R	R Square	Adjusted R Square			
.970	.940	0.913			
			Standardized Coefficients		
			Beta	t	
				Significance	
			Constant	-0.924	p = .038
			Power Distance	-1.864	p < .1
			Individualism	-6.996	p < .001
			Masculinity	4.135	p < .01
			Long Term Orientation	11.593	p < .001

## Discussion

This paper adds to the literature on institutions and economic growth in three ways. First, typical views of economic activity hold that activity outside the realm of regulative institutions, or contrary to the regulations themselves as a source of economic loss. Much of the work of corruption literature treats the regulatory system as exogenous to the corruption issue and consider an individual as a player within a system of rules and expected payoffs (e.g. Mauro, 1995). This is a reasonable view if the assumption that actors are rational and the ends they seek are along similar utility functions. As mentioned earlier, these are large assumptions, and are based on an ontology of social constructions. Given the nature of knowledge, the influence of these social constructions on any social science researcher is inescapable (Ailon, 2008). This recent caution related to Hofstede's cultural dimensions has been mentioned before with respect to economic and managerial theory. As by pointed by management critics, many of the assumptions about rationality and actors in behaving in social spheres are built on assumptions that are as much ideology as reality (Rocha & Ghoshal, 2006). This ideology becomes real via what Ghoshal called the "double hermeneutic" where observation become prescription. Ferraro et al. (2003) similarly pointed out that the definition of "rationality" is a self fulfilling prescription. Once rationality is defined, the "irrational" is also socially defined as inferior, and as with socially constructed realities, it becomes real. As a result, some of what economic and organizational literature has deemed universal is less relevant to settings which have been

outside the influence and attention of economic and organizational researchers.

By assuming that actors' rationality is in relation to the normative and regulatory institutions with which they behave, this study takes the perspective that the actors are rational relative to the cultural normative setting within which their rationality evolved. It is the regulative system where an actor operates which may not be rational with respect to the normative and cultural logic within which the actors are embedded. Contrasting to the view of economic growth being related to a regulatory environment that promotes legalistic behaviors, this paper extends the work by Schneider and Enste (2000) who suggest that informal economic activity is an indication of normative based values which support types of economic activities that are impeded by the regulatory environment. This also supports more recent work suggesting that entrepreneurial activity emerges from these kernels of conspiratorial economies, later becoming the sources of regulatory transformation (Choi & Thum, 2005).

The second contribution this paper makes is as a preliminary test of a logical outgrowth of Williams and Round's study of Ukrainian entrepreneurs who were found to use the informal economy as a launch area for starting their enterprise to later become legitimate entity. Their contention is that nations typically punish informal enterprises to encourage formalizing the activity. They do this despite the possibility that these activities provide a breeding ground for entrepreneurial activity (Williams & Round 2007). If these new informal activities consist more of self employment (Davidsson, 2005) than of activities which lead to new innovations or the introduction of novel products, they

may offer little benefit to their respective economy. The indications that informal economic activity is inversely related to economic growth suggests that the nature of the activity may be diverse with respect to whether the entrepreneurs are really adding jobs or innovations to the economy. In undeveloped economies, this inverse relationship was not as clear as it was in developed economies, so the relationship and nature of the informal activities may be a consequence of economic development.

The third contribution is that this paper looks at culture with respect to economic growth through informal economic activity. Uncertainty avoidance being negatively related to economic growth would support an evolutionary economic view where economic development is from a large pool of diverse actors attempting to create ventures will lead to the environment discovering more suitable actors in a large pool than a small one. Low uncertainty avoidance would lead to a hesitation among actors to initiate new ventures. It also impedes existing ventures from engaging in more than incremental changes. High uncertainty avoidant cultures view risk as more hazardous and the stakes in failure as more harmful than low uncertainty avoidant cultures. New ideas are seen with suspicion, thus slowing the Schumpeterian mechanism for technological progress which facilitates economic growth.

In regulative framework of economic growth, individualism is seen as a requisite culture for growth (Hayek, 1948). This study did not find a positive relationship between individualism and economic growth in either the strong regulative environments. In the weak regulative environments, individualism was inversely related to economic growth, again

supporting the general hypothesis of the paper that normative and cultural institutional environments act as supports for economic actors in the absence of strong regulative institutions. While individualism may be a source of innovative actions, it may require the support of a strong institutional environment to foster cooperative action.

A collectivist orientation serves as a predisposition towards cooperative action if the utility functions of the actors are similar (Hardin, 1982). In individualist cultures, these individual preferences sets would tend to be static and possibly be shaped to be independent of other actors as a means of maintaining a unique niche/identity within a population (Markus & Kitayama, 2003). In many views of collectivist culture, collectivistic actors are more willing to subordinate their preferences for those of others (e.g., Triandis, 1989; Hofstede, 2001). In more recent examinations of collectivism, some cultural manifestations of collectivism are less resistant to are even actively engage in adjusting their preference sets to match those of others (e.g., Markus & Kitayama, 2003; Miller, 2003). This would allow the trust and cooperation between stakeholders to muster and deploy shared resources for entrepreneurial activity in a risky environment such as would be the situation of informal activity would entail. This was supported by the results, where individualism was negatively related to economic growth in nations with high informal economic activity.

The hypothesized relationship between masculinity and economic growth in high informal environments was that there was no relationship. The data suggest a positive relationship between the two. This is contrary to what Hofstede found

where masculinity was inversely related to economic growth. In his view, the presence of masculinity is either a cause or a result of the limited participation of women in the workforce (Hofstede, 2001). This constricted labor force affects economic growth if the cause-effect is that culture is driving the exclusion of women. There is also the possibility that to some extent the limited number of opportunities available for employment encourage specialization within the family relationship, and that this general lack of opportunities supports a cultural convention of women in familial roles, which would support the observation that masculinity is inversely related to national wealth, but not related to economic growth in other studies (Hofstede, 2001). Hofstede's focus is on role rigidity between gender roles. This may be the issue picked up by this factor in the informal activity context, in which social conventions are the foundation for providing the expectation needed to reduce uncertainty between actors.

As predicted, long term orientation is positively related to economic growth in informal contexts. Long term orientation involves connotations such as persistence, sense of shame, relational ordering by status and overall adaptability. This has created some difficulty in categorizing the dimension as it seemingly splits many of the Confucian values derived from which the environment that the dimension was created, onto opposite poles such as the concept of "face" and value of status (Hofstede, 2001). However, when viewed through a network lens (Burt, 2005), or an interpersonal lens (Nisbett, 2004), LTO supports the maintenance of social ties. The connotation of persistence (Hofstede, 2001) is a characteristic that may be internalized as what a determined individual would do.

But it may also be externalized, where others would provide the agency for an individual to accomplish their goals (Nisbett, 2003). This complements the connotation of shame (Hofstede, 2001), also an LTO characteristic, where if the individual fails to execute the agentic expectations of others, the sense that other's have discounted the individual's value serves as a sanction and would be dependent on one's membership and position within the network. This position is also related to status, another relational convention with respect to LTO. Personal adaptability (Hofstede, 2001) would seem to be a similar to the suggestion that some groups of individuals value individual malleability with respect to their personal preferences. This conceptual congruence to collectivism is why LTO has been criticized as being a variant of IC and not a distinct cultural value (Moon & Choi, 2001). That LTO was built on the factors listed above, of which are distinct from the IC dimension and do represent a significantly unique contribution to the variance in economic growth suggests that the LTO criticism is misplaced. Also, that LTO and IC accounted for distinct variance with respect to growth and informal activity in this study demonstrates that they are distinct dimensions rather than mild variations of the same construct.

### **Limitations**

In addition to possessing the typical shortcomings of making generalizations through the use of cross-sectional research designs, this preliminary look at the effect of culture and institutional environments via informal trade is limited by the small number of nations possessing both data on informal economic activity as well as

national scores for all of Hofstede's five dimensions (N= 26). This presents difficulty in demonstrating significance in findings as well as presents hazards when using stepwise regression techniques (Tabachnick and Fidell, 2001). In addition, the reasons for the scarcity of whole sets of data across all of the variables of interest is a symptom of convenience sampling from the larger universe of national cultures and economic measures, offering another potential limitation. Finally, the disparate ages of the data presented among both the cultural variables as well as the difference between the cultural and the economic variables makes causality less certain. A panel design would be helpful in making a stronger case for cultural and the institutional conditions mentioned in the study being an antecedent to economic growth and an opportunity for further study with the availability of longitudinal cultural data in the future. A case for projecting causal relationships between culture and outcomes has been made in consideration of the limited change of culture across time. Hofstede (2001) finds that cultural drifting occurs slowly over long periods of time, making culture measured at one point, a reasonable indication of cultural characteristics of a population for a period of a much as a generation.

## Conclusion

From current searches, this appears to be the first study to examine the relationship between culture, informal economies and economic growth. While work has been done with respect to cultural values and ethics (Scholtens & Dam, 2007; Davis & Ruhe, 2003), cultural values and corruption (Khatri, Tsang & Begley, 2006; Husted, 1999), a gap in international

literature persists in the examination of economic activity outside of those sanctioned by the state. Further theoretical grounding of informal economic activity with respect to innovative productivity, political climate as well as other conceptualizations of culture would add to the literature by further refining what this activity entails as well as its effect on economic growth. Plenty of work has been done through the rational choice perspective where activity of corruption is accomplished by threats and inducements of an individual (Frye & Schleifer, 1997). Yet, measures of corruption such as cronyism, nepotism, private-to-private corruption and collusion include activities which can be explained via cultural and structural perspectives in uncertain legal institutional environments are not yet well developed. Similar to this study, Busenitz, et al., (2000) examined institutional influences on entrepreneurship via a questionnaire with respect to the three institutional perspectives of regulative, normative and cultural cognitive influences. Unlike their study, this looks at a sample of countries from outside the western economically developed nations. An interesting outgrowth of this would be to use their measurement across a greater national frame. Finally, this study offers an answer for why informal economies exist, what facilitates participation in such shadow economies as well as their relationship with economic growth. Opportunities for future work on the relationship between informal economic activity, innovative and imitative entrepreneurial activity may shed light on the connections between culture and economic growth and would be a further answer to the call for more research by Hayton, George & Zahra (2002) for more

integration between cultural and regulatory influences on entrepreneurial activity.

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