INFLUENCE OF CULTURE ON CORRUPTION WITHIN THE OECD COUNTRIES

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Abstract: The paper asks how culture influences corruption within a country. We focus particularly on the effect of cultural dimensions of individualism, long-term orientation and of indulgence on the corruption perception level, on the sample of OECD member states. Using descriptive, correlation and regression analysis we were able to conclude that countries with low level of individualism show high level of corruption. The long term orientation (vs. short term orientation) did not have a significant statistical impact on the corruption level in the reviewed countries. Finally, empirical evidence did not prove that a high level of indulgence is related to a high level of indulgence is related to a high level of corruption.

Keywords: Corruption, culture, individualism, long term orientation, indulgence

1 Introduction

With the aim to explain specifics in corruption across countries, various factors influencing corruption have been analyzed in the literature such as the level of economic development, income inequality, size of government or culture. Among scholars, there is a group of those who consider culture to have a major influence on political, social and economic behavior (e.g. often cited Moynihan (2010) wrote: "The central conservative truth is that it is culture, not politics, that determines the success of a society. …"). The first definition of culture is ascribed to Taylor (1889), according to whom: "Culture or Civilization, taken in its wide ethnographic sense, is that complex whole which includes knowledge, belief, art, morals, law, custom, and any other capabilities and habits acquired by man as a member of society." Consequently, many scholars have referred to culture as to the "values, attitudes, beliefs, orientations, and underlying assumptions prevalent among people in a society" (Harrison and Huntington, 2000). Hofstede (1994) emphasized that culture is acquired by individuals by means of their membership to a group of people. He used the word culture in the sense of "the collective programming of the mind which distinguishes the members of one category of people from another. The category of people may be a nation, a region or an ethnic group, women or men … , old or young …, a social class, a profession or occupation …, a type of business, a work organization or part of it …., or even a family."

Keeping in mind that there are multiple approaches to culture definition, it is not necessary for this study to provide an exhausting overview of them. In the following text we concentrate on the approach of institutionalists and particularly new institutional economic theory. Building on our previous work in which we studied inter alia the quality of institutional environment within economies, in this study we focus on informal institutions of culture and corruption with the aim to determine which cultural factors and in what way they influence the level of corruption, thus also the quality of institutional environment within countries. We concentrate on cultural dimensions of long term orientation, indulgence and individualism because research on their impact on corruption is either missing, or it did not provide clear conclusion so far. It enables us to understand in wide context the role of culture and to suggest effective strategies to combat corruption. Our study helps to clarify that it is important to investigate corruption as having negative impact on institutional environment, manifested by increased transaction costs. In the literature review, we provide an overview of explanations for relationships among institutions, institutional environment, culture and corruption. Using this approach, our research methodology is described and hypotheses are established. Finally, the results, conclusions and implications are presented.

2 Literature review

The institutionalists are those who put culture into relation with institutions. Still, they consider culture to be a much broader concept than institutions (Hamilton, 1957: "… culture is a synthesis - or at least an aggregation - of institutions… The function of each is to set a pattern of behaviour and to fix a zone of tolerance for an activity or complement of activities"). Institutions are cultural constructs (both Hamilton and Veblen emphasize the role of habit and customs in institutions). The relationship between culture and institutions in this meaning was explained by Etounga-Manguelle (2000): "Culture is the mother, institutions are the children."

A different approach to the relationship between culture and institutions is taken by the new institutional economics that distinguishes between formal and informal institutions and organizations (Liška, et al. 2011). Formal institutions are those with a legal basis. Informal institutions can be described as elements of culture such as language, customs, traditions, taboos, codes of conduct or social networks. Institutions change over time, they interact with each other and thus form an institutional environment. Corruption is considered to be an informal institution having a negative impact on the institutional environment. With certain simplification, corruption can be understood as misuse of power over somebody else's property or rights aimed at achieving personal benefit. Corruption should cause very high transaction costs in economics. (Okruhlica, 2013). Liška et al. (2011) describe corruption as a non-market but economic transaction that is a result of a rational calculation of economic entities. Even though it is based on the principle of utility, we believe it has intrinsic features of coercion.

The institutional environment is strongly determined by the level of transaction costs of market entities and the whole society. The theory of transaction costs was elaborated by Coase (1937), according to whom transaction costs include "the marketing costs (that is, the costs of using the price mechanism) and the costs of organizing of different entrepreneurs." These costs arise due to existence of so called governance structures established in the economy to govern the flow of transactions, particularly to prevent deliberate contract breach by one of contractual parties. Examples of these costs are information-searching costs, legal advisory, accounting, controlling, or security costs. The contractual parties have limited rationality in the real world, they are risk-neutral and they are capable of opportunistic behavior towards the other party, inter alia corruption behavior (Williamson, 1990).

In the literature, various factors influencing the level of corruption in the society have been studied. In line with the new institutional economics, the causes of corruption have the form of both formal and informal institutions. For example, Fishman and Miguel (2007) studied parking violation behavior of diplomats in the New York City. They found, that legal enforcement reduces violations, however, diplomats from high corruption level countries had significantly more parking violations, and these differences persisted over time. According to Lipset and Lenz (2000), cultural values (such as strong familial orientation) and institutionalized norms (democracy and rule of law) help in explaining different levels of corruption. A strong evidence was found by Treisman (2000) for the proposition that a number of institutional and cultural factors were influencing the level of corruption.

We expect a lower level of transaction costs in an institutional environment both informally and formally mitigating the risk of unethical behavior, such as unilateral contract breach or corruption. Governance structures should be cheaper in this environment. From this reason we believe it is important to investigate the informal institution of corruption.

There were several attempts to quantify culture in order to input it into statistical models and study its impact. Still, the

institutionalists consider attempts to quantify culture for inconclusive. Possibly the best-known measures of culture are those of Hofstede (2002). Originally, he defined and measured the four national cultural dimensions (power distance, individualism, masculinity, uncertainty avoidance) that were later on expanded by the dimensions of long term versus short term orientation and indulgence versus restraint (for more details see Table 2). Hofstede's dimensions have been used in impressive amount of empirical research. Accomplishments and challenges of 180 empirical studies incorporating Hofstede's measures of culture published in top-tier management and applied psychology journals were reviewed by Kirkman, Lowe, and Gibson (2006).

An alternative set of cultural dimensions was identified by Trompenaars and Hampden-Turner (1994). They used 7 dimensions (dilemmas) to explain cultural differences among nations with respect to relationships of individuals to other individuals, to the time and to natural conditions. They also created national indices for each dimension in order to undertake a cross-national comparison. Different approach to the cross-national investigation of human beliefs and values is represented by the World Values Survey consisting of nation-wide representative surveys conducted in 80 countries, including interviews with almost 400,000 respondents. Since 1981, six waves have been conducted. Questions related to social values, attitudes and stereotypes, organizational membership, corruption etc. An analysis of in this way obtained data made by Inglehart and Welzel asserts that there are two major dimensions of culture: traditional values versus secular-rational values and survival values versus self-expression values. "Any source of quantitative information about culture will have its weaknesses. None of the authors … claim to have perfectly captured culture and, in fact, all recognise the impossibility of doing so. … Still, the information they provide helps to make culture more understandable and at least opens the possibility of incorporating more cultural information in empirical and theoretical models…. Quantification of culture is still very early in its … development" (Adkisson, 2014).

Table 1 provides an overview of empirical cross-country studies that tested influence of national cultural dimensions on corruption based on correlation and regression analyses between selected Hofstede's cultural dimension scores and the Corruption Perception Index score.

Table 1: Empirical studies on relation of culture and corruption under review

Author/s (year of publication)	Sample	Data from	Dimensions tested and results
Husted (1999)	36 countries	Hofstede: 1997 CPI: 1996	power distance (+) individualism masculinity (+) uncertainty avoidance (+)
Getz and Volkema (2001)	50 countries	Hofstede: 1997 CPI: 1997	power distance (+) individualism masculinity uncertainty avoidance (+)
Park (2003)	37 countries	Hofstede 1983	power distance (+) individualism masculinity (+) uncertainty avoidance (+)
Davis and Ruhe (2003)	42 countries	Hofstede: 1980 CPI: 2000	power distance (+) individualism (−) masculinity (+) uncertainty avoidance
Robertson and Watson (2004)	not specified	Hofstede: 1997 CPI: 1999, 2000	masculinity (+) uncertainty avoidance (+)
Gonzáles-	67	2004	power distance (+)

Author/s (year of publication)	Sample	Data from	Dimensions tested and results
Trejo (2007)	countries		individualism (−) masculinity uncertainty avoidance
Murdoch (2009)	65 countries	Hofstede: 2004 CPI: 2007	power distance (+) individualism (−) masculinity uncertainty avoidance

Explanatory Notes: Underlined dimensions are those for which an influence on corruption perception has been proved; (+) positive relation exists, i.e. the higher is the level of the dimension, the higher is the corruption perception; (−) negative relation exists, i.e. the lower is the level of the dimension, the higher is the corruption perception.
Source: Own processing

As shown in the table 2, relevance was supportable for the four original Hofstede's dimensions. Among these dimensions, the power distance is the one with the strongest correlation with corruption. The influence of dimensions of masculinity and uncertainty avoidance on corruption was proven less strongly as for power distance (for the both dimension four studies found that there is significant relation, three studies, however, were not able to prove it). Finally, the least proven is the influence of individualism on corruption. Authors of only three studies under review found that higher individualism in a country is related to lower corruption. Different results of reviewed studies can be explained by several factors:

- Different size of analyzed samples and possibly high heterogeneity of the samples;
- Scores of analyzed variable of CPI may change over the time indicating an increase or decrease of perceived corruption. Cultural dimensions are assumed to change only very slowly;
- The measurement of the CPI is based on personal attitudes;
- Limitations of Hofstede's approach to measure cultural differences among nations. (Hofstede, 2002).

To understand better limitations of Hofstede's approach, we compared the results of presented empirical studies with two cross-national empirical studies that developed cultural dimensions using the World Value Survey. In both studies, these cultural dimensions were related to the CPI in order to investigate their impact on corruption. Lipset and Lenz (2000) used data from the World Values Survey 1990, and the CPI values from 1998. They asserted that countries with high levels of achievement orientation and low access to means, as well as countries with strong familial ties (collectivism by Hofstede), are prone to suffer from corruption. Akbar and Vujić (2014) based their analyses on the World Values Surveys 1999-2004 and 2005-2009, as well as the CPI for 2003 and 2006. They found that cultures with strong hierarchy and fatalism (power distance by Hofstede) are positively correlated with corruption whereas egalitarian cultures correlate with lower corruption. Thus, the findings of both studies support those presented in table 2.

3 Methods

Being aware of criticism of Hofstede's framework, we still use in our study the most recent quantification of his national cultural dimensions (The Hofstede Centre, 2017a) as a widely accepted study of cultures across nations (see Kirkman, Lowe, and Gibson, 2006). We use culture as an independent or explanatory variable, even though some authors emphasize that, particularly in the long run, it is influenced by other factors such as geography, climate, politics or history.

Table 2 Description of independent variables (IV) and dependent variable (DV)

Variable	Description
Power Distance (IV)	It assesses the distribution of one member´s impact on the whole society. It represents the degree to which the members of a society with lower influence accept an uneven distribution of influence in society. In the cultural environment with low value of power distance, people try to reduce the heterogeneity of the impact distribution. The dimension ranges from 0 (low power distance) to 100 (high power distance).
Individualism (IV)	Members of society in individualistic cultures are concerned about their self-interest. In countries with high collectivism the loyalty to all members of a society prevails. The dimension ranges from 0 (Collectivism) to 100 (Individualism).
Masculinity (IV)	This dimension evaluates whether a society is dominated by masculine (ambition, courage, assertiveness, etc.) or feminine (co-operation, modesty and care for the lifestyle quality) patterns of behaviour. The dimension ranges from 0 (Femininity) to 100 (Masculinity).
Uncertainty Avoidance (IV)	Expresses the attitude towards the future, its control and the feeling of anxiety that is associated with uncertainty. Higher values indicate more rigid patterns of behaviour, formal and informal standards. The dimension ranges from 0 (low uncertainty avoidance) to 100 (high uncertainty avoidance).
Long Term Orientation (IV)	A society with a low score respects tradition, custom. It is more averse to social change. On the contrary, a society with higher score is more pragmatic towards the future. A modern education system is being implemented as a form of preparation for the future. The dimension ranges from 0 (short-term orientation) to 100 (long term orientation).
Indulgence (IV)	Indulgent societies are more open and more ready to meet their needs, including the need of having fun. Restraint societies regulate their behaviour by stricter standards and norms. The dimension ranges from 0 (restraint societies) to 100 (indulgent societies).
CPI2016 (DV)	The Corruption Perceptions Index (CPI) developed by the Transparency International quantifies the level of corruption in the monitored countries through subjective evaluation by experts. Although the index is oriented towards the public sector, we assume that the private sector is exposed to a similar level of corruption as an informal institution in a particular institutional environment. Index scores range from 1 to 100 where the higher the score represents the less corruption perception.

Source: Own processing by The Hofstede Centre (2017b), Zorkóciová (2016) and Transparency International (2016a).

As indicated in the previous text, the influence of several cultural dimensions on the level of corruption is accepted by some scholars. However, for the rest of them, the evidence is either missing (long term orientation, indulgence) or is not clear (individualism). Therefore, we propose three hypotheses.

Husted (1999) and Gonzáles-Trejo (2007) assumed that a higher level of individualism should lead to a lower corruption rate in the country. The same assumption was made by Jha and Panda (2017). To express the value of individualism, they used an index of historical prevalence of infectious diseases and a measure of genetic distance between the populations in a country from that in the United States. They found that more individualistic countries have lower levels of corruption perception. This can be explained by the fact that members of

collectivistic societies are likely to be influenced by other members of the family or society. However, other empirical studies did not prove this relationship. From this reason we made the following hypothesis which we are verifying using the current data on homogeneous sample of OECD member countries:

Hypothesis 1: Countries with low level of individualism show high level of corruption.

The verification of the influence of both the long term orientation and indulgence on corruption has been, so-far, excluded by authors from the analyses due to the limited number of available observations (Getz and Volkema, 2001; Murdoch, 2009) or due to assumption of absence of any relationship between these variables. According to Husted (1999): "Although one might associate a long-term orientation with a lesser likelihood to participate in corrupt transactions, upon examining the individual elements of the two poles, it is difficult to see how one set of values or the other would have any impact on corrupt behaviour. Should stability (short-term orientation) have a different impact on corruption than persistence (long-term orientation)? Values at both ends of this dimension could either foster or reduce corruption." Therefore, we propose the second hypothesis:

Hypothesis 2: The cultural dimension of long term orientation (v. short term orientation) does not have a significant statistical impact on the corruption level in the country.

Hofstede (2015) described a society with a high value of indulgence as the one in which it is important to have friends. Ethical and moral discipline is relaxed and crime rate is high. On the contrary, within restraint nations, strict moral discipline and low crime rate is accompanied by a larger police force. The description of the cultural dimension of indulgence leads us to the third hypothesis:

Hypothesis 3: Countries with high level of indulgence show high level of corruption.

We focused on 35 countries grouped in The Organization for Economic Co-operation and Development (OECD) in order to obtain a more homogenous sample of observations than previous studies. To verify our hypotheses, we used quantitative statistical methods, namely the descriptive, correlation and multiple regression analysis. The results were interpreted in accordance with Pacáková, et al. (2009) and Lukáčik, Lukáčiková, Szomolányi (2011). The estimated linear econometric equation and model testing were calculated in Dell Statistica. The linear multiregional equation with multiple variables is formulated as:

$CPI2016 = Intercept + \beta_1 * Power\ Distance + \beta_2 * Individualism + \beta_3 * Masculinity + \beta_4 * Uncertainty\ Avoidance + \beta_5 * Long\ Term\ Orientation + \beta_6 * Indulgence + \varepsilon$

4 Results

We produced the descriptive statistics as presented in Table 3. We analysed 35 countries for all variables except for indulgence, for which the observation for Israel is missing. For this dimension, we analyzed only 34 countries. The average value of the CPI in OECD member countries for the year 2016 was at 68.6. This index was included into the model as a dependent variable. Cultural dimensions were used as independent variables. Most of them (except for power distance and long term orientation) produced negative left-skewed asymmetrical distribution of countries (there are more countries with lower values of variables than the average). A negative kurtosis was determined for all variables except for power distance (the set of resulting values has lower kurtosis than the normal distribution).

Table 3: Descriptive statistics

	Mean	Std. Err.	Skewness	Kurtosis	Count (N)
CPI2016	68.63	15.72	−0.56	−0.49	35
Power Distance	46.49	19.82	0.44	0.17	35
Individualism	60.46	19.81	−0.58	−0.46	35
Masculinity	48.51	25.41	−0.03	−0.68	35
Uncertainty Avoidance	67.23	21.10	−0.29	−0.92	35
Long Term Orientation	52.14	21.31	0.39	−0.85	35
Indulgence	52.26	19.56	−0.14	−0.48	34

Source: Own processing on The Hofstede Centre (2017a); Transparency International (2016b).

Table 4 shows a correlation matrix of defined variables at a probability level greater than 90 % (p<0.10000). Using correlation coefficients, we can estimate the degree of dependence between variables. A positive correlation coefficient, which indicates direct proportionality, was calculated for Individualism (medium-strong dependence) and Indulgence (weak dependence). Consequently, countries with higher value of individualism show higher value of CPI, i. e. lower level of perceived corruption. Power distance and Uncertainty avoidance showed an indirect, medium-strong relationship with the CPI. The higher value of these variables indicates more corruption perception in the country. The correlation coefficient was statistically insignificant for the long term orientation. This cultural dimension has been, so far, excluded from empirical studies due to the lack of observations and therefore its impact on culture is poorly understood.

Table 4: Correlation matrix

Correlations (Dataset OECD) Italic correlations are significant at $p < 0,10000$

	CPI2016
Power Distance	*r= −0.6765* *N=35* *p=0.000*
Individualism	*r=0.5560* *N=35* *p=0.001*
Masculinity	*r= −0.2957* *N=35* *p=0.085*
Uncertainty Avoidance	*r= −0.6231* *N=35* *p=0.000*
Long Term Orientation	r= −0.0742 N=35 p=0.672
Indulgence	*r=0.3926* *N=34* *p=0.022*

Source: Own processing on The Hofstede Centre (2017a); Transparency International (2016b).

Using all Hofstede's dimensions, we have compiled a multiple regression model in Table 5. Hence we were able to achieve a better model specification.

Table 5: Multiple regression linear analysis

N=34	Regression Summary for Dependent Variable: CPI2016 (Dataset OECD) R= 0,81321399 R2= 0,66131699 Adjusted R2= 0,58605410 F(6,27)=8,7868 p<0,00002 Std.Error of estimate: 10,254			
	b	Std.Err. (b)	t(27)	p-value
Intercept	*63.12360*	*19.17797*	*3.29146*	*0.002780*
Power Distance	*−0.35092*	*0.12893*	*−2.72189*	*0.011227*
Individualism	0.20054	0.12829	1.56313	0.129668
Masculinity	*−0.14182*	*0.07764*	*−1.82666*	*0.078828*
Uncertainty Avoidance	−0.06750	0.13065	−0.51664	0.609611
Long Term Orientation	*0.18257*	*0.10212*	*1.78780*	*0.085039*
Indulgence	*0.22842*	*0.12012*	*1.90166*	*0.067936*

Source: Own processing on The Hofstede Centre (2017a); Transparency International (2016b).

Based on the coefficient of determination (R2), the model explains 66.13 % of input data. According to F-statistics, the model is statistically significant with 99 % probability (p <0.00002). With at least 90 % probability, the estimations of the intercept and of parameters of power distance, masculinity, long term orientation and indulgence were statistically significant. According to the T-statistics, the statistical significance of these estimations was, however, marginal for almost all of parameters.

If the long term orientation score increases by 10 units, the value of perceived corruption index will grow by 1.8 units. This is reflected in the corruption perception level decrease. Similarly, if the value of indulgence increases by 10 units, the modelled CPI will increase by 2.3 units. The regression model returned results similar to the correlation analysis, but the regression analysis indicated a statistical significance for the long term orientation with 90 % probability. Moreover, contrary to the correlation analysis, individualism and uncertainty avoidance were not estimated with statistical significance when using regression analysis.

The results can be summarized as follows in the table 6.

Table 6: Summary of results

Dimension	Hypothesis*	Corr. Analysis*	Regr. Analysis*	Conclusion
Power Distance		+	+	
Individualism	1(−)	−	0	Accepted
Masculinity		+	+	
Uncertainty Avoidance		+	0	
Long Term Orientation	2(0)	0		Accepted
Indulgence	3(+)	−	−	Rejected

*Explanatory Notes: * − indicates an indirect proportionality to corruption (i.e. direct proportionality to CPI), + indicates a direct proportionality to corruption (i.e. indirect proportionality to CPI), 0 indicates statistically insignificant dependence*
Source: Own processing

5 Conclusions

The aim of this study was to determine which cultural factors and in what way influence the level of corruption in the economy. Existing literature provides insight on how corruption is influenced by particularly power distance, but also by masculinity and uncertainty avoidance. In our analysis we, therefore, focus on the cultural dimensions of individualism, long term orientation and indulgence.

We accepted hypothesis 1 according to which countries with low level of individualism show high level of corruption. The correlation coefficient proved that medium-strong direct dependence exists between the variables of individualism and CPI.

We also accept the second hypothesis proposing that the cultural dimension of long term orientation (v. short term orientation) does not have a significant statistical impact on the corruption level in the country. Although, on the basis of regression analysis we observed a slight decrease in corruption in countries with higher level of long term orientation, the statistical significance of this estimation was very marginal. Therefore, there is a need for further research in this area based on either different sample of countries, or future data.

The third hypothesis should be rejected. Despite of theoretically grounded expectation that countries with high level of indulgence show high level of corruption the correlation and particularly the regression analyses showed positive correlation between variables of indulgence and CPI. It means that countries with higher level of indulgence are less corrupt.

Results of our analysis lead us to conclusion that the cultural dimensions of individualism and indulgence have impact on corruption perception within the OECD countries. Countries with high level of both individualism and indulgence show low level of corruption. This enables us to suggest that, from a long term perspective, it is possible to face corruption by influencing culture. It is generally assumed that national culture may change only very slowly. For example, Akanji (2017) considers a cultural change for possible, even though difficult. In our opinion, the decisive role in this change should be played by education. This conclusion is in line with Casson (2006) according to whom values and beliefs are memorized by individuals, and are transmitted to the next generation through parenting and education. Moreover, the study of Lv (2017) showed that nations should invest in education and human skills to reap the benefits of lower corruption levels.

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