

# An **enabling culture** for economic and business development: Are policy interventions possible?

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## Executive Summary

In many developing countries, the size of businesses remains micro or small and thus these enterprises capacity to contribute to economic growth and employment creation continues to be limited. Also, in most developing countries, poor people who are economically active at the bottom of the pyramid (especially also in rural areas) usually don't get the opportunity to participate in and profit from the economic growth sectors of their countries.

Policy makers strive to reform the business environment to render it more enabling for business development and success. This paper is looking at the question, if the culture of a society can enable or hinder the development and success of businesses (chapter 1) and gives examples on how culture actually strongly influences attitudes towards business and business behaviour – which in the end leads to more or less business success and economic growth.

If an enabling environment for business development and success can actually be created and what the major entry points are is discussed in chapter 2. This is followed by the presentation of tools, which policy makers can use to bring about a more enabling culture for business success. In chapter 3a a summary is given of an analysis instrument of culture with respect to attitudes and values towards business and for the elaboration of a policy for an enabling culture, which partly was tested by ILO in Sri Lanka. It is then discussed, what interventions would be possible on the basis of this analysis and a two-prong strategy is suggested: on the one hand, enhancing cultural features, which are positive for business development, and on

the other hand, changing specific values, which are detrimental for business development and success (chapter 3b). Finally, it is discussed, in which way, cultural change can be measured and what time frames need to be considered (chapter 3c).

### **Hot Topics:**

- Why should enterprise size matter? Research shows that most employment is created in businesses of small to medium size and that the biggest GDP contribution comes from medium to large size enterprises. So size matters. Looking at developing countries, businesses usually remain (too) small. The paper argues, that cultural features like values and norms of the society concerning business success might be one of the major reasons for this lack of business growth.
- How to promote public-private dialogue? In chapter 2, the paper discusses the connection between the introduction of formal institutions by the state (like laws or policies) and the creation of new informal institutions (relating to networks, business behaviour) by different stakeholders as a reaction to the change in transaction costs (e.g. gain or loss of power), which the change of the formal institutions brought about. In chapter 3b it is then suggested, to make the change of transaction costs a subject of the public-private dialogue in order to bring about the support of private actors of and prevent unforeseen counteraction to the new formal institutions.
- How to demonstrate a demand for reform of the business environment? Clear examples on how culture impedes business development and how this actually effects the well-being of the country and how some business people succeed while strongly pertaining to important values of the society, allow a strong demonstration of the need for reform to ordinary people as well as to business people of a country. These examples can be derived from the culture analysis presented in chapter 3a.
- What is the connection between the informal economy and the business environment, and what initiatives can be taken to formalise the informal economy? The lack of social and cultural capital of people, who are economically active outside of the established growth sector of a country, prevents them to participate in and profit from economic growth. In chapter 1, some cultural examples for this lack of participation and for low formalisation rates are given, in chapter 3b, possibilities to create social and cultural capital are discussed.
- What are the full local dimensions of business environment reform programmes? Some cultural features can be observed nation-wide, others are clearly bound to a specific community (ethnic, religious, geographic). To truly know what the cultural features are, which support or prevent business development or success, a cultural analysis needs to be done on the level of the different types of stakeholders of the society, who will be defined according to their gender, ethnic group, religion, age, activity etc.. This need to capture the heterogeneity of the stakeholders brings about the need to go local in the analysis. The results of the cultural analysis will then allow to define, how specific the interventions in business culture should be and thus how “local” these interventions must be.

# 1 Is it necessary to take culture into account when creating an enabling environment for economic and business development?

Policies for creating an enabling business environment: which goals do they have? For this paper it is assumed that policies for creating an enabling environment for economic and business development specifically aim at encouraging business innovation (products and processes), business start-ups, business growth (incl. enhanced market potential), the formalisation of businesses, the upgrading of business productivity, the supply capacity and the product quality. In more general terms, it is assumed that these policies want to achieve an improvement of living standards (or at least the meeting of basic needs like food, shelter, health, basic education) of a country's population, e.g. through employment creation or the increase of the competitiveness of the national economy.

## Culture?

All human beings are creating, living and working in a system of cultural and social structures or institutions which regulate how they live their lives and how they live together with other people. Culture includes world-views, values, norms, habits, attitudes ...

What is the role of culture with regard to economic and business development? Culture can impede, allow, enable or even encourage business growth, business start-ups, the formalisation of businesses and their productivity and innovation. It also influences, if economically active people at the bottom of the pyramid are able to participate in the economic growth and development of a country and to profit from it.

## Culture and Business / Economic Growth

According to the paper cited in Box 1, **firms** start small and **stay small** in Africa, which is why they never realise their full potential to invest, to export and to innovate and which is why they continue to produce at low productivity levels. The reasons given by researches as well as African business people are among others lack of loan capital, insufficient demand, competition from imports. But what are the reasons for these?

- Why is it that small firms which are in existence since a long time, don't accumulate capital which allows them to grow? A culture based answer could be, because they have to cater for demands by their extended family and therefore just accumulate enough to survive. Or because it is safer for the social survival – jealousy of other members of the society - not to stick

## **BOX 1: The importance of firm size in Africa**

Recent findings in Africa, emphasise that “the largest and most productive firms also display the highest growth rates and contribute disproportionately to aggregate growth. This leads to divergence between firms at the top and at the bottom of the distribution. Small firms reach rarely the top of the size and productivity distribution (Van Biesebroeck, 2005, p.546)” The author also states that in Africa size is unusually important for success (a company which invests, start exporting, and adopt new technologies). The “Labor productivity for firms that exist 20 or more years is noticeably higher than for firms in the other age group. (p.554).” However, the total factor productivity is higher in micro enterprises (35% of the studied micro-enterprises), and even higher in small enterprises, the reason being that credit constrained firms, which small companies, are forced to operate with less capital. The author continues to say that “In Africa transitions between size classes are extremely rare. Three-quarters of firms remain in their initial size category after 4 years, and even after 8 years are still in the same category. ... a full 70% of all large firms at the end, were already large at the beginning (p. 568).” An important positive contribution of small firms is to employment, where they contribute relatively more to than large firms. And it is also interesting to note, that the author found in his studies that “size is uncorrelated with value added growth (p.566). Reasons given are lack of credit, insufficient demand, difficulty obtaining raw materials, competition from imports, taxes infrastructure, utility prices (p.574).

out too prominently by being too successful.<sup>1</sup>

- Why is it, that companies continue to produce the same product even when the demand is low? Is it maybe, because children of this society are brought up to ask no questions and to accept ways of doing things without actually knowing why things are done in this way. An attitude which later leads to the problem, that entrepreneurs don't ask for the preferences and changing tastes of their clients and just continue to do things as they had learnt to do it.
- Why is it, that entrepreneurs in some societies don't learn from their competitors and the more successful competing products and try to beat them on their own grounds? The cultural reason might be that the entrepreneurs were brought up in a stabile hierarchic society where people think that the more powerful will always remain powerful. Or their world view (often transmitted by religion) tells them that business success is always based on exploitation and someone should be content with what life gives them (Buddhism) or that business success is based on sorcery (often in Africa).

So making capital available to businesses (in Africa and elsewhere) is not sufficient, if it is not combined with an enabling cultural environment, which culturally and socially rewards business success and business growth.

*“(...) A final accounting of peasants decision making requires the incorporation of political economy variables (like social roles and values), as these set the actual preference for the trade-off between drudgery and leisure in the utility function. For the hierarchical Shan, there is more individual return to drudgery in the form of wealth exchange for prestige, while for the egalitarian Lisu, there is not.”, so the attitudes towards business growth is different between these two people according to how high they value status and prestige.*<sup>2</sup>

This is also a result of the research of Devarajan and Easterley. Lack of **economic growth** in Africa is also often attributed to the lack of investment. In their research, Devarajan and Easterley, however, come to the conclusion that “higher investment in Africa would not, by itself, produce faster growth. Africa's low investment and growth rates, therefore, seem to be symptoms of underlying factors. (...) Unless some or all underlying factors that made investment unproductive in the past are addressed, the results may be disappointing.” Some of these “underlying factors” might be informal socio-cultural institutions, disturbing formal institutions: for example the article speaks about “inexplicable” facts such as the allocation of labour from high to lower (labour) productivity sectors within manufacturing – a behaviour, which might well relate to some underlying culturally imprinted relations and obligations within the society.

### Culture and Business Start-up

**Business start-ups** happen more easily in economic cultures of traditional traders, which value financial and business success (e.g. Muslims in Sri Lanka or some Western African societies) than in cultures e.g. of traditional farmers which have different concepts of economic success or success in life (e.g. Eastern European societies or some Buddhist societies). Often these economic cultures imprinted by certain typical occupations like trading and farming are supported in their economic values by religious beliefs, which enable the individual member of the society to consciously justify and explain economic behaviour and values which in fact were learnt unconsciously during their socialisation as a child. Different options of making a living are presented to young people by their parents, teachers and other close relations. If one of these options is actually business and if prospective business people

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<sup>1</sup> Chabal, 1999

<sup>2</sup> Chayanov about Thailand in Ensminger, 2002

can find social support as well as advice within their community depends on the values and attitudes towards business of these communities.

### Formalisation

Also, not all cultures and social systems are open to **formalisation**, including business formalisation. In her famous polemic book, Axelle Kabou says that Africans actually prefer the prevailing framework of informal, familial and clientelistic networks and that they refuse a rational approach to organisation. Also Daloz and Chabal stress the “significance of the process of **informalisation** and the reluctance to institutionalise” in Africa. The authors diagnose in Africa the “inability or unwillingness to institutionalise more formal and more impersonal social relations. The primacy of the informal is deriving from a different logic and resulting in a distinct type of modernity which goes against the grain of most existing models.”<sup>3</sup> This is a lesson which needs to be integrated in policies which aim at bringing about a higher ratio of formalised businesses in Africa and other societies, which cherish informal interactions.

### Innovation

The **innovation** capacity of a society, too, is depending on values, norms and attitudes learnt as a member of a specific society. Especially, the acceptance of trial and error, the exploring of unusual ideas, the questioning of the traditional ways of doing things and the acknowledgement of the actual need for improvement shape the ability of a society or group to acquire knowledge, to induce innovation, to undertake risk and creative activities of all sorts.

*Culture is conservative, tending to look back in order to offer the individuals and the groups an anchor in known values. Globalisation, on the other hand, is forward oriented, a child of the economy, business and technology, all of which are constantly striving for innovation. No wonder that globalisation produces the fear of innovation.*<sup>4</sup>

In general, the ability to react to external (economic) influences such as globalisation and the ability to innovate are related to the ability to change social and cultural institutions in a society. The sources of change can be external influences such as the effects of globalisation or internal influences such as artists, inventors and people following unusual ideas (dreamers). The acceptance of these kind of people (“dreamers”) in a society are also an indication of how able a society will be to innovate and integrate change. A comparison of opinions of a Hindu priest and a Muslim teacher concerning “purposeless dreaming” showed, that in the world-view of the Hindu religion, a dreamer can easily be accepted as socially useful and find his acknowledged place in society, thus spurring the economic success of their caste with new ideas; the respective Muslim teachings only allowed for a very limited “dreaming” and a strong rooting of the individual in every day life and the existing business environment was demanded, which leads to driving Muslim trading community, but a low level of innovation.

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<sup>3</sup> Chabal, Daloz, 1999, p.128 and p.132

<sup>4</sup> p.191, Leimgruber, 2004

### Inclusion of the people at the bottom of the pyramid

Policy makers are usually aware of the importance to create formal institutions (e.g. laws and regulations, transparent, state administration processes), but often it's the informal socio-cultural institutions like norms and habits which allow the formal institutions to function and have an impact. Also Elbadawi (see Box 2) suggests that apart from the improvement of the institutional quality and of the regulatory, the **social cohesion**, especially by reducing wealth

#### **BOX 2: Growth promotion in the Arab world**

In a recent article, the author (Elbadawi, January 2005) asks, why has growth collapsed in the Arab World? He identifies two causes: “the (weak) quality of institutions (measured by the rule of law); and the capacity of a society to manage the impact of exogenous shocks (...). (p.317)” The author suggests that “Arab countries of all income levels need to continue to improve the overall enabling environment for economic growth. Of particular importance is enhancing the institutional quality, increasing accumulation of human capital, and maintaining macroeconomic stability. (p.319)”, the latter including reducing the incidence of regional and civil conflicts. The author then lists suggestions for policy makers such as investing in the high economic density at coastal lines and along banks of sea-navigable rivers, provision of infrastructure, enhancement of competitiveness of the Arab World by “an explicit agenda for the acquisition of technical know-how”, since the technological gap in comparison to Eastern Asia is widening and creating an conducive regulatory environment, e.g. for the definition and enforcement of property rights and land titling. He also points out that social cohesion is central to sustain economic growth, however, impaired in the Arab world “by low standards of political rights throughout the region and high social diversity (e.g. meaning wealth inequalities) in a few others. (p. 321)” The author concludes that enhancing social cohesion in the Arab world might be “the area of both public policy and popular activism (which) would yield the highest return for economic and political development. (p. 321)”, also with respect to globalisation's destabilising shocks.

inequalities, needs to be promoted. In order to do this, policy makers will have to look at cultural norms and common laws which prevented the reform of property rights and at the values, world views and habits which reduce social cohesion. A high level of social division (e.g. many social strata, castes or a high level of ethnic division or immigration) often brings about rent seeking attitudes, so that only policies which bridge the cultural gaps between the different groups of the society can bring about an improvement of formal institutions, built to enhance economic growth. A positive example here is Botswana. The country is endowed with a low level of ethnic division, which “inhibited the ethnically based rent-seeking common in the rest of Africa”, and continued to use the traditional institutions of accountability, “which held chiefs accountable to tribal members”, partly reflected in a relatively high level of press freedom<sup>5</sup>. An extreme example for the negative effects of the lack of social cohesion is corruption.

In his article on Russian **corruption** networks, Heiko Pleines differs between aggressive corruption, where large enterprises strive for receiving public money, in order to survive economically and defensive corruption, where enterprises try to avoid taxes and tolls. He also points out that no industry wide co-operation between enterprises is possible, since they are in competition for the favours of the corrupt state departments and officials. Small enterprises and newcomers, who don't have contacts in the relevant corruption networks, like foreign investors, are/were severely weakened as is the whole economy, especially also the poor<sup>6</sup>.

A society, in which corruption prevails, lacks on the one hand efficient sanction systems which render transaction costs of private rent-seeking behaviour high, and lacks on the other hand compatibility with the informal, cultural institutions of a society, usually being even in conflict with these informal institutions<sup>7</sup>.

The degree of compatibility with dominant social and cultural institutions – which is especially low in the case of lack of social cohesion and corruption - is often the factor which

<sup>5</sup> p. 554, Devarajan, 2005

<sup>6</sup> Pleines, 2001

<sup>7</sup> Ahrens, 2001

determines how well traditional societies and disadvantaged groups, which live on the margins of the society (the poor / the people living at the bottom of the pyramid), are able to **participate** in the market economy. The cultural institutions of the economically dominant groups determine, if people at the bottom of the pyramid can actually profit from opportunities, which the market economy – often brought to them through globalisation – offers, or if they are at least able to continue making a living at a similar level.

**Social and cultural institutions?**

“If we accept the definition of institution as the rules of the game – both formal rules (laws) and informal constraints (conventions, norms of behaviour and self-imposed codes of conduct), it is possible to classify culture as a form of institution.”  
p. 48, Maignan, 2003

As was pointed out above, culture and the social system is not only important in relation to traditionally living ethnic groups, and in relation to other vulnerable groups (e.g. informal sector entrepreneurs) or disadvantaged groups (e.g. women entrepreneurs) – as is often assumed. It is, as the discussion about business growth and start-up, formalisation and innovation shows, also important for established small and medium sized enterprises. Mummert postulates that the intensity of market processes depends on the structure of traditionally transmitted social norms and values apart from resource endowment and innovation rate – thus stating the relatively high importance of culture vis-à-vis other features of an enabling business environment.<sup>8</sup>

The answer to the beginning question of this chapter therefore is: **yes, it is necessary to take culture into account** when elaborating a policy for an enabling business environment,

- because culture determines, how successful a society will be in the market economy (see the discussions above) and
- because culture influences, how people react to policy interventions. The values and norms of people determine, if they will take advantage of the offered opportunities (e.g. change of the licensing process) or if they will actually work against the goals of the policy interventions.

The workings of cultural change are discussed in the next chapter.

## **2 Is it possible to create an enabling cultural environment for business and economic development?**

Cultural change, which is the change of values and norms, occurs constantly in all cultures. In some cultures, change happens more rapidly, others cling longer to traditions – but **culture change cannot be avoided**. Can the change of culture be manipulated and consciously be brought about? Yes, it can and it has been done often throughout history by governments and rulers and recently is strongly done by media. A positive example of this is the change of values which has taken place concerning baby seats in cars in Europe. While 30 years ago, it was perfectly normal that a small child would sit or stand in the front seat of a car, today, a parent, who allows that and doesn't put a secured baby seat will not only be prosecuted by law, but is also subject to bad judgements on their morality by the society. This example shows, how values can be consciously changed and also, that the change of values and culture are a long-term process, 30 years being a relative short period of time in this context.

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<sup>8</sup> However, “It is important to note that the positive relationships between social capital and developmental outcomes are not only the results of social capital by itself, but of its complementarity with other capital investments such as infrastructure or credit.” p. 24, Carroll, 2001

Also, the implementation of policies for the creation of an enabling business environment are introducing change. Usually, the change suggested by policies orbits around gaps and bottlenecks, which prevent the smooth functioning of the economy. The state's role, which is partly enacted in policies, is to determine the institutional arrangement of economic and political institutions in a way to create **incentives for the private actors in form of positive transaction costs**, to abide to the formal institutions<sup>9</sup> introduced by the state (e.g. regulations for economic transactions).

Transaction costs in this context are defined as emotional loss (feelings like sadness, anger, regret, fear), social loss (of respect, reputation and power) and financial loss). Often the most important type of transaction costs are the loss of power through the change in **power relations** between major stakeholders: “(...) whose behaviour needs to change if different outcomes are to emerge”<sup>10</sup>, who needs to give up decision power and choice opportunities. Usually, the dominating group of a society forms and determines the processes making up the economic culture, such as processes of communication, of decision making, of economic exchange, of value addition and of co-operation with other groups of the society. “... when it comes to the economic ethic of a religion, much importance must usually be attached to the social strata to which the carriers of a religion belong. For Hinduism, it was the hereditary caste of cultural literati; for Buddhism, contemplative and mendicant monks; and for Christianity, itinerant artisan journeymen.”<sup>11</sup>. Transaction costs for the dominating group change, when informal institutions change – **these groups have to give up something for another group to gain**. Policy interventions change relative prices and transaction costs in order to reach specific objectives, thus specific attitudes and behaviour of the stakeholders must change as well (and even the norms and values) and in this way lead to the restructuring of (tacit) political and economic contracts, which are the make-up of the social and cultural system. Policies need to acknowledge these changes and try adapt to them, in order to create as much as possible a win : win situation for all stakeholders.

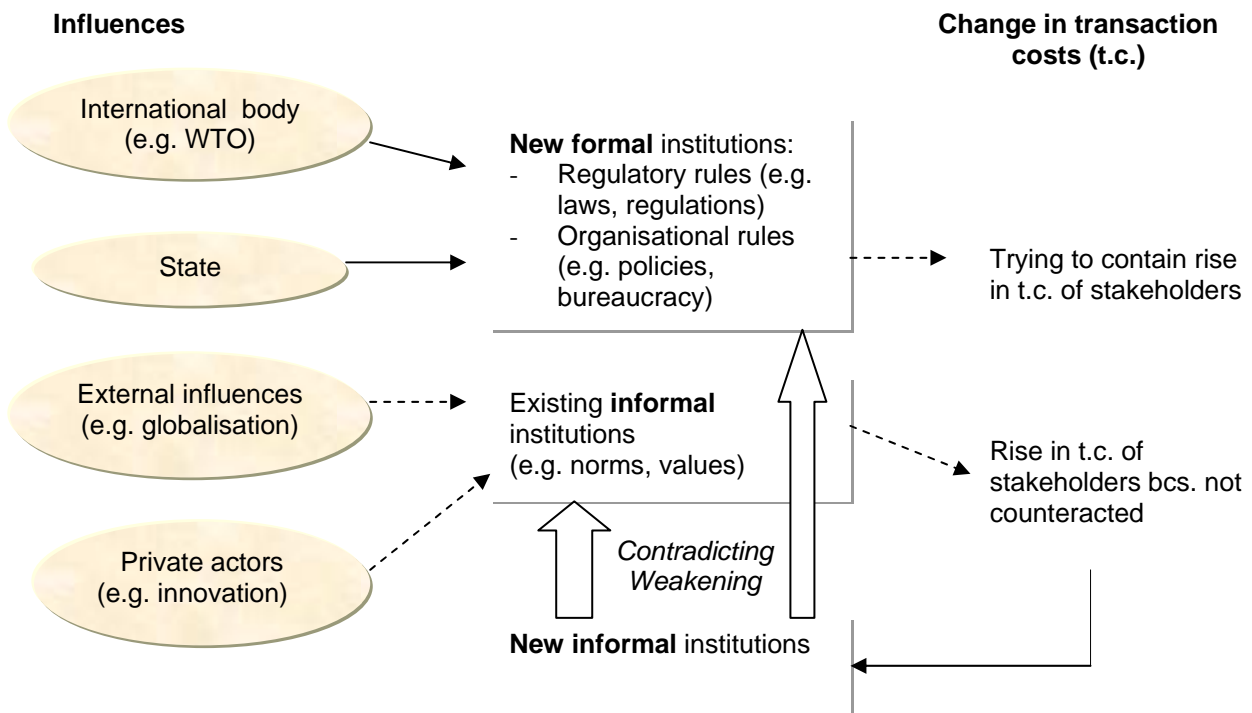
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<sup>9</sup> Formal and informal institutions are expectations for a certain behaviour, which can be sanctioned, if not kept. They are the rules of the game ranging from values and social norms, contracts between trading partners to laws and the constitution of a country.

<sup>10</sup> „A Handbook for Value Chain Research“, 2002, p. 44

<sup>11</sup> Max Weber cited in Swedberg, 2003

Apart from state regulations and policies, change can also be introduced by **external influences** as from globalisation or by the endeavours of **private actors** of the society such as innovators or artists – both can result in a rise in economic insecurity, in complexity and in a shift in power relations, which lead to rising transaction costs. If members of the society react to that with the creation of new informal institutions (e.g. norms and rules for behaviour), they might be useful and rational for the individual member, but inefficient for the whole economy. So the risen transaction costs and the new informal institutions to tackle them can cause the undermining of the state’s authority by privately organised and sanctioned institutions<sup>12</sup>.



So the entry points of the change of informal institutions, which is at the same time a change of the socio-cultural environment, is the need felt by private actors because of a change in transaction costs or a need discovered by the state on the basis of rational analysis. In one case described above, informal institutions were created, which the state cannot accept because it is undermined by them. In the other case, the change of formal institutions by the state e.g. through policies might not be accepted by members of the society and the new formal institutions might not be used or acknowledged or implemented, because informal institutions are in conflict with them. When a society is changing (change being caused internally or externally), usually the establishment of formal institutions like laws and **regulations** (“Ordnungsregeln”) are less likely to cause conflicts with informal institutions than the establishment of new formal rules which **organise** the (economic) processes in a society – like by policies, which solicit the reaching of certain goals or prescribe specific strategies (“Organisationsregeln”)<sup>13</sup>. This requires particular attention to informal institutions and the transaction costs of the stakeholders involved, when policies – e.g. for creating enabling business environments – are implemented.

<sup>12</sup> One example of this is the creation of mafia like organisations or youth gangs.

<sup>13</sup> Ahrens, 2001

Therefore, **transaction costs** are the starting point for integrating culture when policies for the improvement and creation of an enabling business environment or when certain economic attitudes should be emphasised or changed by a “cultural” intervention.

### 3 Are there tools available for creating an enabling cultural environment for economic and business development?

#### 3a *An efficient analysis of culture: can approaches for policy makers be suggested?*

In general, in order to design a policy to reach a certain goal, **two approaches** are followed:

1. studies are undertaken, to understand the target groups’ needs and opportunities (profiling of target groups) and
2. workshops are held, to get to know the target groups’ opinion.

Into both approaches, an analysis of cultural features can be integrated.

**Example for Profiling - Step 1:** *Assessing the size of the small enterprise sector and its contribution to national development*

As a first step, you should prepare a profile of the small enterprise sector detailing:

- Size of the small enterprise sector, i.e., number of establishments based on size (i.e., micro, small and medium)
- Geographical distribution of small enterprises
- Variations found among public- and private-owned enterprises
- Sector distribution of small enterprises according to service, trade and major manufacturing sectors
- Profile of small enterprise owner-managers in terms of gender, and levels of education and literacy
- Contribution of small enterprises to national social and economic development goals (e.g., employment, productivity, gross domestic product)

To prepare this profile, you will need to consult with a range of existing data sources. These will include:

- Household surveys
- Establishment surveys
- Census surveys
- Labour administration data sources
- Social security institutions

from: White, 2004

Study and **profiling** of the target groups: people carrying out business activities are a heterogeneous group. They range from growth-oriented female and male owned micro, small and medium enterprises (MSMEs) and large enterprises to producer groups (e.g. co-operatives) and household enterprises including small-scale farmers and survival-oriented micro-enterprises of poor and disadvantaged groups such as women and youth. The profiling of the **target groups** will follow the general aim of the policy. For example, if the policy aims at creating an enabling business environment for raising employment, the profiling would include an analysis of the cultural environment (according to the criteria below), which influence business growth and thus employment creation by the different target groups. The general profiling which precedes the closer cultural analysis can identify the target groups and regions which deserve a closer cultural look.

**Methods**<sup>14</sup> for analysing the cultural features are

- open **interviews** with members of the stakeholders, which are
  - on the one hand powerful groups of the society, opinion leaders and people with direct influence on the target group (e.g. husbands on women, who plan to start a business)
  - and on the other hand, the target group itself and of their typical social role as business actors (e.g. what is the typical social role of a young man in rural areas, who has started a business)
- analysis of cultural features by **reference persons**, who are explained the background of the cultural analysis in more detail;<sup>15</sup> and analysis through reference groups using analysis of cultural features by reference persons, who are explained the background of the cultural analysis in more detail;
- analysis through **reference groups** using at the higher levels of consciousness, organisation development tools<sup>16</sup>; at the lower levels, tools must be used, which allow communication with the non-conscious level of people, such as games and role plays;
- analysis of the verbal (e.g. analysis of sayings) and non-verbal **language** and of communication strategies;
- **observation** of behaviour in social situations relating to business, which express attitudes
- **statistical** analysis of existing material (e.g. applications for best entrepreneur) or of questionnaires with multiple choice (for finding out about conscious norms, expectations, social roles, beliefs, ideologies)

The **contents of analysis**: Research the values and norms, social roles (e.g. distribution of labour and patterns of work), the power relations and the processes with regard to the criteria – should be chosen in respect to the goals of the policy - so that the cultural institutions (informal rules) relating to the policy, can be analysed.

- the contents of the interviews<sup>17</sup> are
  - the elaboration of a *business trajectory* describing the decision making processes leading to the start, diversification, innovation and growth of the business (with target groups, which are already in business)
  - this also includes the discussion of decision making processes pertaining to business decision making (economic exchange, value addition, co-operation)
  - discussion of decision making options of potential starters
  - discussion of the *social network* and the web of *power relations* of the target group
- discussion and analysis of **values** involved in decision making and of the opportunities and constraints perceived as such by the interviewed person due to his/her values and the values of his/her influencers (e.g. teachers, religious leaders, media)
- analysis of the **transaction costs** necessary to overcome the barriers and of the benefit expected from the different opportunities or choice options (see diagram below).

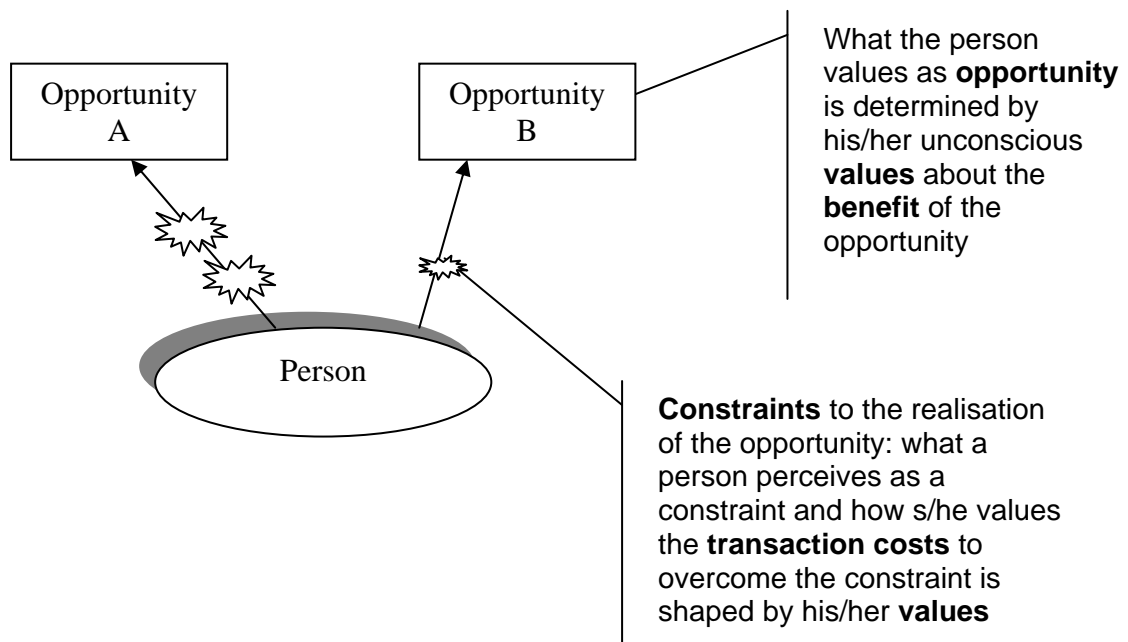
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<sup>14</sup> Some of the methods mentioned were developed and applied in the ILO project “Enter-Growth: Enterprise for pro poor growth” in Sri Lanka led by Roel Hakemulder.

<sup>15</sup> Local cultures are so different from each other and an outsider, like maybe a policy maker, can never fully understand them: a reference person, informed about the culture as ‘insider’, but also fully understanding the goals of the policy maker, can support the policy maker design a reform programme taking into account culture;

<sup>16</sup> Organisation development tools as described e.g. by Geert Hofstede (Hofstede Onion), were used for the assessment of a cultural value as “what is success in life” in focus groups by the ILO project “Enter-Growth: Enterprise for pro poor growth” in Sri Lanka.

<sup>17</sup> This was developed together with Nireka Weeratunge and Chris Seeley



*Values play a major and independent role in society as a whole as well as in the economy, and they basically determine if a potential course of action will be taken or not. Structural conditions make development possible; cultural factors determine whether the possibility will take place.*<sup>18</sup>

The **values** which are defining, what an opportunity is and what a constraints is, and which determine, how high the transaction costs and benefits for seizing the opportunities are, stem from different **domains**<sup>19</sup>:

1. the religious and philosophical domain (e.g. religious teachings in relation to wealth, effort, failure)
2. the family and community domain (e.g. how important is it that I contribute to festivals of the community or to the marriage costs of one of my employees)
3. the business domain (e.g. values pertaining to business success, innovation, knowledge and information, competition, reciprocity, observance of contracts, observance of duties, employees, quick gains vs. long-term gains, fairness, trust ...)

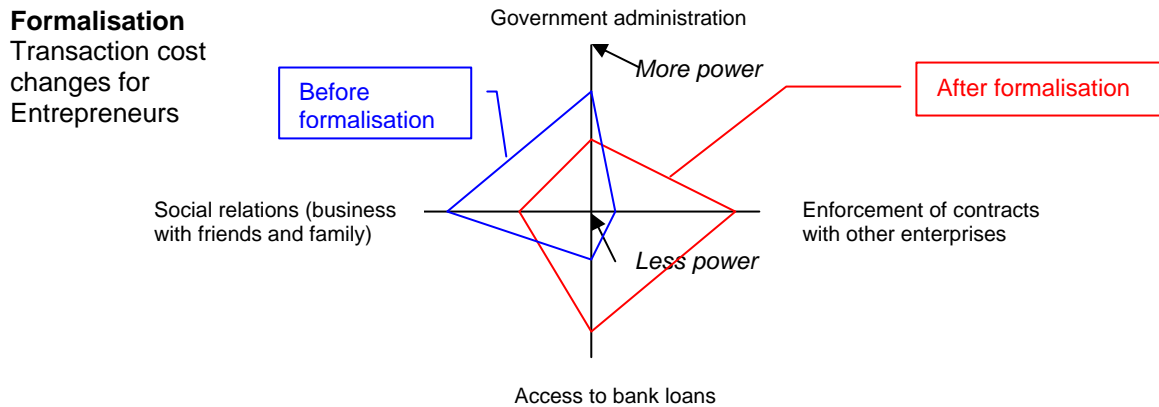
Additional to these general values, which influence business attitudes and behaviour, there are values directly influencing **business decisions**. A way to look at these values is to analyse, which values lead to business decisions, which bring about positive financial indicators and thus a potential for growth. This analysis can be done by linking values to the **indicators pyramid** of ROA or ROE, thus analysing values pertaining to re-investment of profits, debt, holding of stock, building up of fixed assets, customer care and quality of products, employees, supplier credit etc.. The quality of these indicators determines the business's capacity to grow – thus the values of the manager and business owner, leading to positive indicators are crucial for business growth. This is then followed by an analysis, if the target group actually shares these “business success values” or not and why not.

<sup>18</sup> p. 238, Swedberg, 2003

<sup>19</sup> Elaborated by Nireka Weeratunge in cooperation with the author.

After analysing the values, one knows which transaction costs are involved for the decision maker and one can analyse how high these are in comparison to other alternatives or to the transaction benefits.

### *Analysis of the change of transaction costs target groups, active in business*



This is a visualisation of an analysis of transaction costs in relation to a change in licensing processes by a government. Transaction costs to formalise clearly shift: but in the example shown above, the gain is balanced by the loss, which renders the advantages of the change of the formalisation process doubtful.

The approaches to culture analysis discussed above can be integrated in studies which are carried out in the context of the policy elaboration or they can be used in a separate culture study. Reference groups are used in these approaches, but also the usual policy elaboration process of presenting the results of studies to stakeholders in **country wide workshops** before formulating the policy can be used to discuss and analyse further values pertaining to business behaviour. In these workshops, it will be especially important to discuss the strategy (policy) and actions which should follow the results of the cultural analysis with the stakeholders.

### **3b Are interventions to create an enabling culture possible?**

The main intervention point for policy makers is **lowering the transaction costs** for attitudes and behaviour which lead to business start-ups and business growth, to the creation of employment, to economic growth, to business innovation, to the formalisation of businesses etc.. This can be done by either

1. building on existing cultural values, norms and attitudes, which are in support of positive business behaviour, by enhancing these, or by
2. changing cultural values, norms and attitudes, which are particularly hindering a positive economic and business development.

### **3b – 1 Enhancing existing cultural features to build an enabling cultural environment for business development**

The cultural analysis has filtered out **values**, which are **strong** in a society, and which can actually be enhanced to **serve** the purpose of business development. So it might have become clear that affiliation and opportunity is highly valued in a society: to enhance the affiliation value, more and different kind of people could be included in the existing social networks (see social capital building below); to enhance the opportunity seeking value, policies to promote youth could build on this value (see legitimisation below). This is to say, that the contents and the focus of the interventions proposed below are based on the results of the cultural analysis.

In order to **avoid conflicts of changed formal rules** with on the one hand newly created unfitting informal rules or on the other hand with existing informal rules, it is therefore necessary to reduce transaction costs, which are created by formal institutions such as policies<sup>20</sup>, through building on and enhancing existing cultural values. Two strategies to do this, can be followed:

#### **1. Legitimation** of new formal “organisational” rules (such as policies), by

- clearly articulating advantages of new institutions
- *clarifying* them to different groups of the society
- intervening with *top-down* (e.g. media campaigns) and *bottom-up* (entrepreneurs and their clients; their families and communities;) approaches
- knowledge on *informal rules and institutions* can be used in convincing the public by either
  - enhancing the informal institutions and building on them or by
  - pointing out the conflict with them and explaining, why the change became necessary and what advantages the change will bring in future.

#### **2. Building social capital** by

- convincing the *powerful groups* of the society (e.g. by lowering the transaction costs for them as well as for the not so powerful ones, whereas the second group should receive a higher reduction of transaction costs);
- *building trust*<sup>21</sup> between social groups (social cohesion), so that coordination and cooperation problems can be surpassed, by
- involving *local government* and *marginalised* groups. Additionally, if the informal rules are well known,
- suggesting policy interventions which build on *strong values of the targeted marginalised group* and thus a strength of the group (e.g. if ‘common’ sense and practical approaches are highly valued, business growth should not be enabled by business advice on recurrent basis, going out to the people), by
- analysis of the *change of transaction costs* for the different stakeholders on the basis of the analysis of informal institutions above and find ways to make them more attractive to the ‘loosing’ groups despite of the change;

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<sup>20</sup> Formal institutions could also relate to contract adherence, hierarchies, administrative rules

<sup>21</sup> By building social virtues like honesty, keeping of commitments, reliable performance of duties, reciprocity, but also by preventing the building of internal cohesion of a group through the cultivation of hostility and suspicion to outsiders.

**Social capital?**

At least a minimum reservoir of trust, moral standards and reciprocity must prevail. Given the resources of an economy (physical capital, human capital, natural endowments, technology ...) trust allows a more efficient use of these resources, thus increasing its economic performance. Trust may be viewed as a lubricant of the market system (Fukuyama 1995 cited in Maignan, 2003). Guiso et. Al. (2000) find close correlation between the degree of social capital and that of financial development across Italian provinces. Also in Tanzania it was established that village level social capital was a key contributor to household welfare (Carroll, 2001).

Social capital building needs a long-term perspective to become truly effective, the building of it, however, is started out by short-term activities related to legitimisation activities and consultation with and between different groups of the society. In the longer term, social capital is created for example by education and training (children and adults), by formal institutions which ensure property rights and security and by preserving a sphere for individual action (not too much functions taken over by the state).

The inclusion of **marginalised groups**, mentioned above, should not only be an inclusion in the consultation process, but should go beyond that by actually handing administrative and fiscal authority over to them (the capacity to do so needs to be built within the local or marginalised communities). In this way, local communities are given the opportunity to decide themselves, how to react to external and internal challenges (e.g. changes of informal institutions, thus of the socio-economic environment) by using their ingrained knowledge of their group's culture. This would support the building of social cohesion on the local level and would allow for reaching out to marginalised groups on the local level, which usually cannot be reached.

*“The globalisation of the neoclassical economy is still propagated as the only code to universal happiness, but the lack of solidarity, which goes along with it, begins to worry people to an increasing degree. Maybe, the economy will have to turn back to the local and regional scale and come closer to the citizens. The dropouts on all social levels are an indicator for this need.”<sup>22</sup>*

Another aspect of inclusion of marginalised groups and thus of social capital building is the fact that „... a group's hold over power and resources will be stronger the more widely held it's view of the world is.“<sup>23</sup> Thus a basis of social cohesion building is that the dominating social groups are prepared to acknowledge and respect the world view of the weaker groups.

Models to communicate across cultures can also be used for **communication** between different social groups within the same culture. For cross-cultural communication, Vincent Merk deems it necessary that “...people refer more and more to various values, norms and communication models and practices to fully master communication across cultures.”<sup>24</sup> He suggests the three R model:

- *Recognition* : developing cultural awareness, to what culture you belong, of what culture you are a product.
- *Respect* : showing respect and tolerance for the other party and the other culture
- *Reconciliation* : of differences, extremes, dilemmas and not imitation of the other's norms, values and attitudes. “What is needed is an approach where the two opposing views can come to fuse or blend – where the strength of one extreme is extended by considering and accommodating the other.”<sup>25</sup>

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<sup>22</sup> p.118, Leimgruber, 2004

<sup>23</sup> Fevre, 2003

<sup>24</sup> p.2, Merk, 2003

<sup>25</sup> p.7, Merk, 2003

### 3b – 2 **Changing some cultural features to build an enabling cultural environment for business development**

The second strategy – changing cultural features which are detrimental to business development - brings about the problem of identity. It is “through the assumption of identities that values and other ways of making sense get into peoples heads (where these values can motivate their behaviour). Identities are the carriers of values – for example, the values of economic rationality – into the hearts and minds of individuals and, thence into the motivations that shape their behaviour”.<sup>26</sup> Therefore, if one wants to change the cultural system built by a hierarchy of conscious and unconscious institutions (see ‘culture iceberg’ below), one will take influence on the features of people’s identity. And this is, where strong barriers to change will arise. But also, where the best opportunities to promote them lie.

#### **What is identity?**

“The problem which many people find in discovering their ‘own’ identity may in part arise from the consequences of trying to be consistent over time and from a wide range of images they have had to present to survive in a complex and changing social environment. The link ‘who am I?’ and ‘who are we?’ is therefore one of not merely consensual but also conflict-laden forum if not handled properly. Personal, subjective identity consists of the meanings and images we have found accurately to represent us in the past, and social identity consists of the negotiated position between our personal identity and the meanings and images demanded of us in our current context.” (p.6, Hamde, 2004)

For example in an Indian trade union, female workers were brought together to discuss common problems and possible solutions. The result was that this “promotes self-recognition and worker identity amongst members which in turn empowers them to claim economic and cultural recognition in the public sphere.”<sup>27</sup> A similar effect was observed in a project for women micro entrepreneurs and producer groups in Zanzibar by ILO using a similar self-consulting approach. “(Because of) the important role that the experience of love (friendship), rights and solidarity play in

promoting work life reform amongst marginalised workers and demonstrated the close relationship between the moral sphere of personal integrity and the material sphere of economic development and well-being; (therefore) strategies to promote well-being and economic security must address the cultural realm of moral injury.”<sup>28</sup>. So **strengthening of the identity and self-image** in respect to economic activities leads to a positive change and improvement of these economic activities.

Another way of improving economic results, is actually **building values** which lead to these (example: German artisan workers’ attitudes). This would mean to take influence on individuals at times and occasions, when identities are built. Fevre maintains that companies actually do that on a regular basis:

*“Social relations in capitalist societies do not always produce the identities that capitalism requires. But if such identities are lacking, then there is nothing to prevent employers and others attempting to manufacture new identities which are more fitting to the economic ends they have in mind. Seen in this light, much of the ‘training’ which takes place in modern corporations is really a matter of being drilled in a new identity.”*<sup>29</sup>

<sup>26</sup> Fevre, 2003

<sup>27</sup> Hill 2001 cited in Fevre, 2003, p. 168

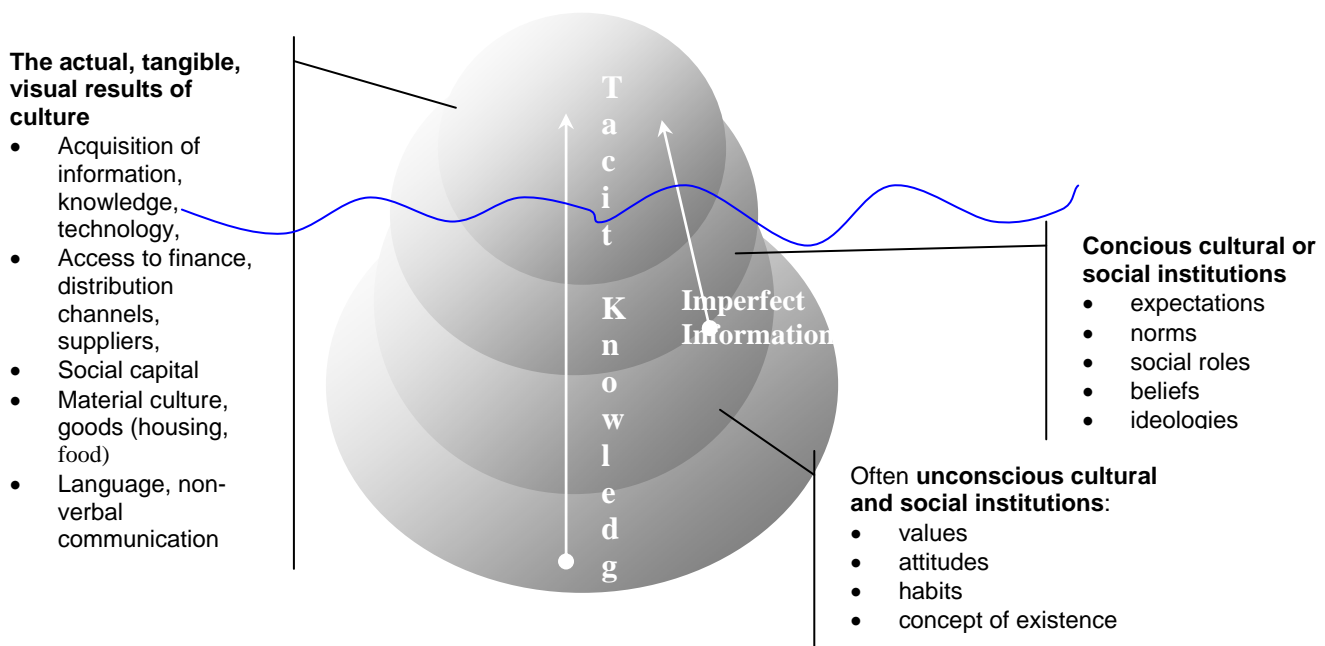
<sup>28</sup> Hill 2001 cited in Fevre, 2003, p. 169

<sup>29</sup> p. 171, Fevre, 2003

If done in a transparent way and by giving the reasons for it, a government could implement a policy with the aim to change certain values of the member of the society (e.g. social marketing campaigns with respect to HIV/AIDS to change sexual attitudes and behaviour). Certainly, the danger of manipulation and totalitarian control mechanisms must be avoided.

*“The kind of value system that is essential for a ‘firm-type economy’ must accomplish two interrelated tasks, he (Clifford Geertz) argues. On the one hand, it has to allow self-interest to dominate economic activities within certain moral bounds. And on the other hand, it has to assign a legitimate place to business in society’s values at large.<sup>30</sup> The synthesis results in a trade-off between maximising one’s material well-being and other internalised values, such as loyalty, honesty and altruism.<sup>31</sup>”*

### ***The cultural ‘iceberg’***



The building of identity also involves the acquisition of **tacit knowledge** on a variety of themes, which might become important later on for achieving economic success. The **‘cultural’ capital** acquired during childhood within ones family and social group, helps later to build ones own social networks and trust from people with similar social background and ‘cultural’ capital and some of the economic and professional tasks can just easier be tackled by people with the respective tacit knowledge involved with these tasks. An example for this is a child observing its parents to raise cattle or a child observing their mother being a medical doctor. Both children will have acquired tacit knowledge on their parents trade, which later on makes it easier for them to perform similar tasks.

Tacit knowledge or cultural capital is not only acquired for occupational activities, but especially for a tacit understanding among the members of a certain group pertaining to religious beliefs, behaviour in social occasions, interests (e.g. arts, sports) and world view, daily life routines etc.. All of these are important for building trust and networks (thus social capital) and for orienting oneself in this world, also in this economic world. However, after

<sup>30</sup> p. 237, Clifford Geertz cited in Swedberg, 2003

<sup>31</sup> p. 14, Carroll, 2001

childhood, tacit knowledge is particularly difficult to acquire. It is comparable to learning pronouncing a language newly learnt as an adult like a mother tongue speaker.

“Junior members of the middle classes were less well equipped to find their way to more rewarding jobs because their parents only had working-class identities to offer them. Identities are a much less certain guide to values, and therefore to behaviour, if knowledge of them is derived second hand.”<sup>32</sup>

Nevertheless, some activities for policy makers to **create cultural capital** can be suggested:

- Value<sup>33</sup> and identity building in *education* (children) and training (adults) to change perceptions
- *Exchange programmes* for young people, to live and work for a period in values with another value system, in order to get some of the cultural capital of these families (e.g. children from farming families living and working for one month in a trading family).
- Value and identity building through *social marketing campaigns*<sup>34</sup> (involving all concerned stakeholders), attributing for example high value to people who give employment to others or who take innovation risks
- Programmes for the *exchange of cultural capital between existing firms*: e.g. programmes like the “Black Economy Empowerment” programme in South Africa, which leads to partnerships between established “white” owned companies, which hold the “cultural capital” of knowing, how to bid for tenders, with enterprises owned by black people.<sup>35</sup>
- *Positive provocation* in order to question own values through art, theatre, story telling, songs (use culture for cultural change)
- Allowing for social network building among marginalised groups of the society and for *strengthening their identity* (e.g. pointing out power relations and how they are created)
- Using change agents and *role models* from different groups of the society for value creation and identity building and for creating high values pertaining to social roles of entrepreneurs
- Creation of *incentives in the cultural system* and opportunities for the stakeholders, such as small enterprises, to display the behaviour the policy aims at (e.g. to invest productively, create jobs and expand) and to reduce the transaction costs pertaining to different behaviour (e.g. for complying with government hierarchies),
- Improving the hierarchical position of entrepreneurs in society by *public recognition* of their achievements (e.g. entrepreneur of the year not only nation wide, but also in small towns or rural communities) – more social capital

Especially, the strengthening of the self-image and identity of **economically active people at the bottom of the pyramid** will link these people to the growing sector of the economy. Also strengthening the values of people at the bottom of the pyramid, which are necessary for economic success in their society plus social capital building by building trust between them and other (economically more powerful) social groups of a society will enable policy makers

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<sup>32</sup> p.177, Fevre, 2003

<sup>33</sup> The value analysis suggested above (p. 7) needs to address relevant issues like innovation, growth, productivity, formalisation and start-up of businesses;

<sup>34</sup> see Chris Seeley: Social Marketing Campaigns concerning entrepreneurship in Ghana, ILO Working Paper

<sup>35</sup> The basis for this, however, is the acknowledgement of the economically dominating group that the economically weaker group needs to get a bigger share of the financial income pie.

to make poor people participate more in the economic growth of their country. These measures should be combined with a careful analysis, for whom transaction costs are rising when a government policy introduces new formal rules, e.g. pertaining to land ownership and land distribution, labour laws or access to education. This analysis would allow for measures to avoid counteracting behaviour by powerful groups in the society.

### **3c Can cultural change be measured and benchmarks be developed?**

In the analysis of cultural institutions, qualitative description of indicators is the first step. Here the most important approach is to do a baseline analysis with questionnaires pertaining to conscious values and compare the results with the results after an intervention has taken place. A comparison can also be done between the opinions expressed on specific values etc. by a specific target group (e.g. school leavers of a specific region) today and after a certain time span (e.g. 5 years). For some features, percentage changes, quantified degree of strength or weakness of a cultural trait or number representations etc. might be quantified<sup>36</sup>. Benchmarks for cultural features have partly been developed – e.g. Geert Hofstede’s comparison of the importance of different values like individuality or affiliation in different countries. But benchmarks of values which are more closely linked to business development and success still need to be established.

Since cultural changes take place at a slow pace and usually at least need one generation to be actually perceivable in a society, long-term approaches like following up life decisions of a chosen group of people need to be used.

## **Conclusions**

For policy makers, who plan for promoting an enabling cultural environment for business and economic development, implementation approaches and tools were discussed, specifying that each policy needs to integrate cultural aspects, in order to be successful. A two prong strategy was suggested, which on the one hand introduced approaches to enhance the existing culture by building social capital and social cohesion through acknowledging the change of transaction costs of different stakeholders; and which on the other hand suggested a cultural change by building cultural capital through the strengthening of identities and the promotion of business friendly values. The discussions in the paper should render it easier

- to identify entry points, where informal institutions are about to change (e.g. at porous structures, where changes are just starting or externally imposed (globalisation); where win : win situations can be created; where value creation is barred) and
- to mobilise change agents (e.g. opinion leaders, young people, pioneers) at all levels of the society,
- to deal with barriers to change (e.g. strong traditions, change in power relations)
- to specifically encourage innovation (preventing values), growth (not conducive social norms), productivity (unproductive power relations), formalisation (addressing wrong kinds of incentives) and start-up of businesses (by building cultural capital),
- to encourage co-operation between enterprises of different sizes and to link up micro and small enterprises (also from the informal sector) by building social capital

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<sup>36</sup> First attempts to develop a system and benchmarks for a cultural analysis and interventions based on it are currently carried out in an entrepreneurship development programme by ILO in Sri Lanka.

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- to link economically active people at the bottom of the pyramid to the growth sector of a country, by acknowledging that the vulnerability of these economic actors is also strongly influenced by their socialisation and identity and lack in social and cultural capital<sup>37</sup>.

The measures suggested in the paper are not ‘social engineering’, but rather activities to deal with influences on culture and society, which are taking place anyway, in a conscious way. This active approach intends to prevent negative effects and promote positive ones.

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<sup>37</sup> Six sustainable livelihoods capitals: Financial/economic, human, natural, physical, social, cultural (Workshop SEED/ILO in May 2005, participating Chris Seeley, Rie Vejs-Kjelgaard, Karin Reinprecht)

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