

# Societal Integration in Countries Ranking Similarly in Ease of Doing Business Index

Ritika Saini, SyeedunNisa

**Abstract:** Countries across the world differ in terms of macro-environmental factors. These differences reflect in their performance as well as growth and development. Most efficient countries have some common characteristics that make them distinct as compared to less efficient countries.

Every year World Bank ranks countries on Ease of doing business Index. The present paper is an attempt to see if like other macro environmental factors (per capita income corruption etc.), there is any pattern in culture/social dimensions as well in two different groups of countries, i.e. countries which are ranked high and those which are ranked low on Ease of Doing Business Index.

The data is taken from World Bank's website. Top and bottom ranking countries were analyzed as two separate groups on two different parameters from Hofstede's cultural dimension framework, viz., Individualistic vs. Collectivist and Power Distance.

**Keywords:** Ease of Doing Business, Hofstede' cultural dimensions, Power distance, Social integration, World Bank ranking.

## I. INTRODUCTION

Every business entity is affected by various factors, both within and beyond the control of the firm. Competition (industrial), Legal policies (legal), Government attitude (political), Society (social), economic trends (economic) etc. are some of the dimensions of the same environment. All these factors affect business to a large extent. So, we can say that business environment has direct implication on the way business is conducted in all parts of the world. Every year World Bank comes up with the list of countries in terms of Ease of Doing Business. The index has been around for quite some time now, since 2004 to be accurate. The index currently ranks 190 countries over 10 different parameters, namely Starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. Basically the index considers the existing laws of all these 190 countries and analyses their simplicity or complexity level.

Therefore, one thing that can be simply observed here is that as per the concept of Business environment, all of the parameters considered under the Ease of Doing Business index falls in the legal dimension.

Being relatively new, these rankings are being explored through different perspectives all around the world. This particular paper is an endeavor to study these rankings from a cultural perspective and observe the similarities and patterns in the cultures across the selected nations. The quest is to discover if the similar ranking countries (in the index) have some common cultural features. The underlying belief that laws of a nation are more or less a 'reflection of its culture only, serves as a motivator in this attempt.

## II. INTERNATIONAL BUSINESS ENVIRONMENT AND EASE OF DOING BUSINESS

Today, we live in a 'Global Economy'. The products we use in our day-to-day lives are manufactured, assembled, packed in different locations and consumed in an entirely different location. Today business knows no geographical boundaries when it comes to raw material, labor, cost, markets and so on. In an environment like this, the international performance of a business entity is influenced by various factors, a country's social structure, its culture, its legal system, economic conditions etc. are a few of them.

Yet, these all factors are to be examined from the Host nation's perspective as well. As nations are not working in seclusion, they are integrated economies and in this manner it is compulsory to have favorable condition across the borders to encourage International Trade. Legal and Regulatory condition assumes a critical job here as access to a nation's market is fundamentally subject to its laws and guidelines. Talking about laws, one thing to keep in mind is that the understanding of all the laws including the Home Country's Law, Host Country's Law and International Laws are of immense importance.

World Bank each year ranks 190 countries on simplicity of Business laws. The Ease of Doing Business markers depend for the most part on legislations, rules and guidelines: an approximate of 66% information grafted in the Doing Business pointers rely on the reading of the law. The report says that the four basic sources the doing business index depends on are, the relevant laws and regulations, Doing Business respondents, the governments of the economies covered and the World Bank Group regional staff.

An improvement in Ease of doing business pointer may result from numerous intuitive changes in nations' business surroundings as they influence both residential economies' activities and international trade. For instance, an improved Ease of doing business pointer in a nation may cause a better FDI, which thus may expand the level of competition in domestic markets. Eventually, it may lead to a fall in prices and thus an increase in the purchasing power which will finally result in higher consumption in the economy.

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At last, this dynamic situation results in quicker monetary/economic growth. Ease of Doing Business estimates parts of business guideline influencing household little and medium-measure firms defined based on standardized case scenarios and situated in the biggest business city of every economy. Ease of Doing Business covers 11 areas of business regulation across 190 economies. Ten of these areas—starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency—are included in the distance to frontier score and ease of doing business ranking. It also measures features of labor market regulation, which is not included in these two measures



Figure 1: What is measured in ease of doing business?

Source:

<https://www.worldbank.org/en/region/eca/brief/doing-business>

### III. LITERATURE REVIEW

Culture is a vague notion. However, many researchers have tried to define it in formal way, like, culture can be interpreted as the social norms and the individual beliefs that sustain Nash equilibria as focal points in repeated social interactions (Tabellini, 2005) [16]. A more general definition is “culture refers to common sets of beliefs that shape the behavior of individuals of a society” (Granato, et.al, 1996) [2]. Hofstede (2001) successively took his concept of culture to international arena, and called it such a collective programming of mind which differentiates between the members of one group/category of people from another” (Hofstede, 2001:9) [4]. He further elaborates that this sort of programming commonly takes place at the initial stages of life (Minkov & Hofstede, 2011) [8], and continues to later stages of life, thus forming a behavioral pattern of individuals who are part of a particular society (Mueller & Thomas, 2001) [9].

Recently, there has been an increasing engrossment in the role played by culture in the process of economic development. Huntington (1998), with his common assertion (importance of culture in economic development),

has set new methods of explaining the differences in economic growth across countries [5].

There are questions which still lack a concrete answer like, why do the countries differ? Why do some countries progress more than others while? However, what we do know is that a lot of factors have an important part in a country’s economic performance. Porter (1990) made a list of “factor conditions”, such as climate, sophisticated skills, demographics, infrastructure, natural resources, location, communications, infrastructure and research facilities [14]. Still, many researches are of the view that some countries are culturally more open to economic development than others (Inglehart, 1990) [7]. Also the opinion that a nation’s “societal profile” is one of the key “determinant” (Porter, 1990) of economic performance is seemingly gaining support [14]. There is no evidence to doubt that cultural differences significantly impacts a country’s economic performance (Granato et. al., 1996) [2]. As per Parsons (1964), a common code of norms mediate interface between individuals of a society [12]. Acting as per the normative standards can be justifies as acting in accordance with the cultural attitudes (Shoham & Malul, 2012) [15]. Hence, cultural elements are also assumed to mould the economic environment (Freytag & Thurik, 2007) [1]. Hofstede’s (2001) five cultural dimensions can be understood as:

PARAMETER	STUDIES
<b>POWER DISTANCE</b>	defines the level by which a society accepts power’s unequal distribution
<b>INDIVIDUALISM/ COLLECTIVISM</b>	Individualism: loosely knit social framework while collectivist cultures’ characteristic groups.
<b>MASCULINITY/ FEMININITY</b>	Masculinity: extent of values in a society that are “masculine”, (assertive, and aggressive). Feminine values will be modesty, solidarity etc.
<b>UNCERTAINTY AVOIDSANCE</b>	extent of people feeling threatened by uncertain and ambiguous situations
<b>LONG TERM ORIENTATION</b>	Far sightedness in a society: perseverance, persistence and a strong propensity of investment vs. low propensity to invest and focus on fast results

### IV. RESEARCH PURPOSE

As earlier discussed, the purpose of this research paper is to investigate the extent to which cultural differences and similarities (according to Hofstede’s parameters of under Individualism vs. Collectivism & Power Distance) can explain variations in their ranking in Ease of Doing Business Index. **Individualism** is the opposite of **collectivism**. Collectivism is the degree or intensity by which individuals feel integrated into various groups. On the **individualism** side we find societies where the ties between people are loose: people are expected to look after themselves and their immediate families. According to Ghosh (2011) **Power distance** as a concept is majorly negative for organizational progress, employee’s participation and overall health of the organizational. Also, this construct is highly correlated with collectivism.

According to Hofstede (2001) [4], people belonging to societies having high levels of Individualism make more independent decisions, which in turn helps infastening the decision-making process. Additionally such people are more active in taking initiatives and expects others to have their own personal opinions. In professional settings, recruitment and promotions are supposedly based on skills and fair rules, and people generally work for longer hours. Consumers read books and hence are relatively more open to new technology. Politically, power lies with the voters. Laws & rights are same for everyone. There is a big chunk of budget that is spent on education, thus increasing the quality as well as the number of people interested and pursuing higher education.

H01: Individualism will be positively correlated with economic performance measures.

H02: Low Power Distance will be positively correlated with economic performance measures.

### A. METHOD

The present study is analyses a combination of two data sets. First one is from Hofstede’s studies on culture. The results displays the top and bottom ranking countries in Ease of Doing Business Index with their respective scores on Individualism vs. collectivism and Power Distance. The scores range from 1 to 100, 1 being the lowest and 100 being the highest value. The other data set is taken from the World Bank’s “Ease of Doing Business Index”, which analyzes economic performance of various countries based on several factors. For the clarity of observations and to make the paper self-explanatory, starting with the scores of top ranking nations of the Ease of doing business index seems to be a good step. And here, Top/bottom ranking nations are the nations which have top/bottom ranks in both i.e. Ease of Doing Business report of 2017 and of 2018 are taken.

Also, here we’ll like to mention that we have considered 20 top ranking countries where data on culture was available for 17 countries, but due to the fact that data for the particular parameter (i.e. Individualism vs. Collectivism and Power Distance) was relatively scarce in case of bottom ranking nations, we have considered 15 countries in bottom ranks, for which the required data was found to be available. These countries range from the rank 137 to 190.

## V. ANALYSIS AND OBSERVATIONS

### A. INDIVIDUALISM VS. COLLECTIVISM

#### 1. TOP RANKING NATIONS

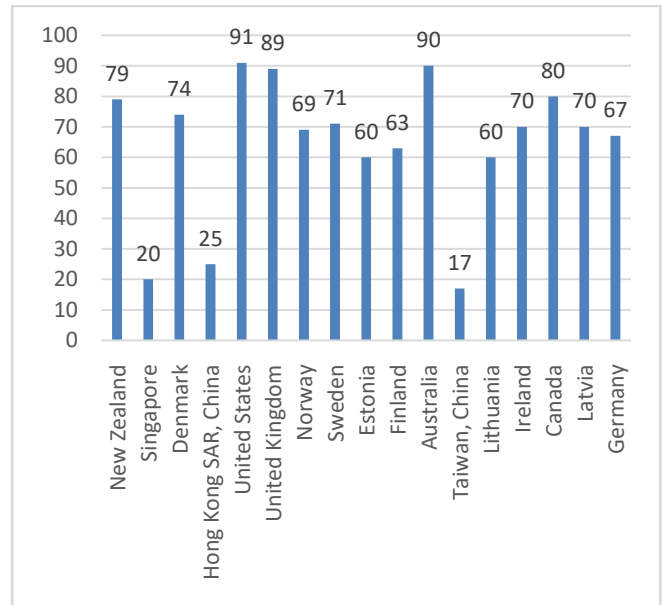
Since the World Bank started coming up with the Ease of Doing Business Index, it became easier for the countries to know where it lacks in terms of its legislations. A country now is in a position to relax its laws to provide a better business environment to its business houses. Some countries have been topping the list for a long time now. So it will be safe to say that these nations have a set of laws which are relaxed, but are that all? Do these laws or these ranks depict something else as well? Let’s find out.

Coming to the cultural side of the research, we took top 20 countries of the index (EoDB) and recorded their scores as per the Hofstede’s cultural study. Now we should know

here that this particular cultural study talks and give scores over 6 different parameters of culture. Out of which a pattern between these ranks and power distance have been already established (Nisa,S. and Saini R, 2019) [10].

Here we study these ranking in the light of the degree of Individualism in the country. So, out of the top 20 countries, the cultural study under consideration gives scores to 17, which is a good number to proceed with.

The chart below depicts the individual scores of those 17 countries and also compares them to each other.



On observing the comparison presented by bar graph above, we discover that with the 3 exceptions of Singapore (with cultural score of 20), Hong Kong (score 25) and Taiwan (score 17), all remaining i.e. 14 countries have a score above 60. The mean score when included the scores of all 17 countries without any exceptions comes out to be 60.470 (approx.)

As the Hofstede’s insights give these score on a scale of 1-100, anything above 60 can easily be considered as HIGH. Hence, we see that more than 82% of the top countries considered are having a **high degree of Individualism** prevalent in its society.

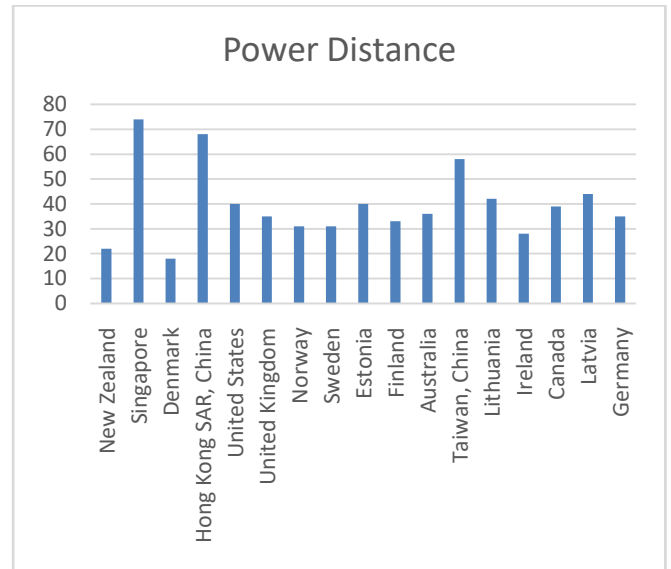
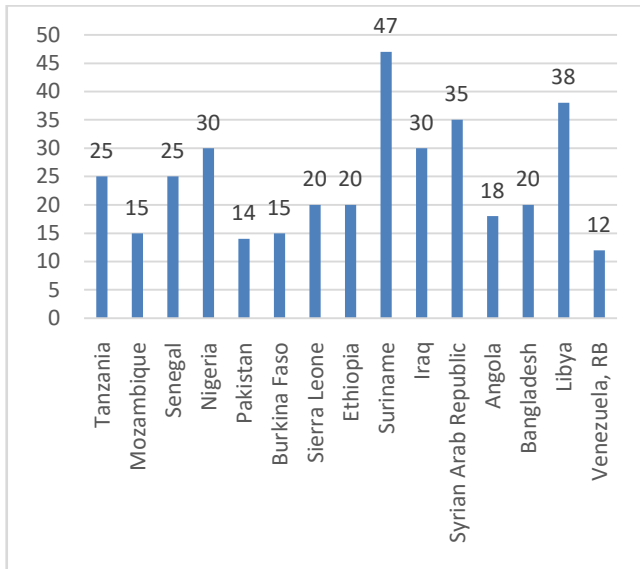
#### 2. BOTTOM RANKING NATIONS

While focusing on the bottom ranking nations, it was seen those countries were not considered/scored under the relevant cultural study. But to have a comparative sample size for this section as well, we didn’t confine ourselves to bottom 2 countries as it yielded only 5 countries with scores on Individualism vs collectivism. Instead we chose 15 such bottom ranking countries which were having the scores we needed to proceed with the study. These 15 countries’ ranks in the Ease of Doing Business index ranges from rank 137 to 190.

After selecting the countries to be considered, we again build a simple chart which shows the separate scores and compares them as well.



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As can be easily observed in the graph above there is no score even crossing 50. With a **Mean** score of **24.27**, the countries with the bottom ranks shows a **LOW** level of individualism, or to put it in other words, the countries with bottom ranks in the Ease of Doing Business depicts a strong pattern of having a **HIGH degree of Collectivism** prevalent in their societies.

We discovered support for the hypothesis, hinting that Individualism is positively correlated with economic performance of a country. Hofstede (2001), also talks about such positive relation between the two. Societies with high level of individualism accelerate the process of decision making as people tend to make more independent decisions [4]. Such societies expect others to have personal opinions and thus people are willing to take initiatives. In professional settings, recruitment and promotions are supposedly based on skills and fair rules, and people generally work for longer hours. (Grenness, 2015) [3]. As can be observed, a substantial variation in the scores in terms of Individualism among high and low performing (on EDBI) countries. Almost, all the high ranked countries in Ease of doing business score above 60 in Individualism vs. Collectivism while most of the bottom ranking countries score less than 50.

The societies in these countries are similar and are close knit. There is a very low degree of individualistic interest. The bottom ranking societies of the index are more on family and work groups oriented and put these two above their individual needs and desires.

### VI. POWER DISTANCE: (HOW SOCIETY HANDLES INEQUALITY)

“**Power distance** Index measures the extent to which the less powerful members of organizations and institutions (like the family) accept and expect that **power** is distributed unequally.” (Geert Hofstede’s study) [18]

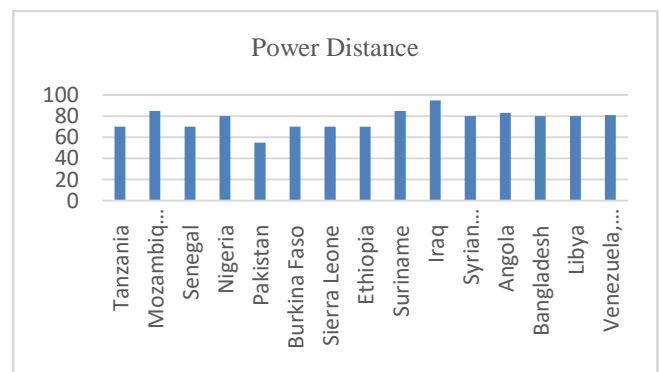
#### VI.1 Top 20 ranks as per EDBI 2017

A higher value of Power Distance represents that the society in question accepts the existing order, whereas a low value signifies that the particular society strives for equality and does not easily accepts the existing order.

The graph above shows the countries on the X-axis and the value of power distance on the Y-axis (where the values range from 0-100). The countries are some of the top ranking nations as per the Ease of Doing Business Index (17 out of top 25 countries as per the 2017 index). Also these countries majorly belong to the High income group. As can be observed from the graph, out of 17 countries, only 3 countries (Singapore, Hong Kong SAR & Taiwan, China) are above the score value of 50. In other words, more than 80% (14 out of 17) countries in the top ranking group experience a low (score of less than 50) Power Distance in their societies.

This patters showcases that the countries with the simplest legal frameworks (in terms of business laws) experience a struggle for equality in their societies.

#### VI.2. Bottom 20 ranks as per EDBI 2017



The graph above shows the countries on the X-axis and the value of power distance on the Y-axis (where the values range from 0-100). The countries are some of the bottom ranking nations as per the Ease of Doing Business Index (ranks ranging from 137 to 190; as per the 2017 index). Here this is important to know that these 15 countries are the only countries in the mentioned range of ranks that are assigned scores for power distance under the Hofstede’s cultural study. Also these



countries majorly belong to the low income and low middle income groups. As can be observed from the graph, out of 15 countries, there is no (zero) country that is below the score value of 50. Every country is above the score value of 50. In other words, 100% countries in the sample of bottom ranking countries experience a high (score above 50) Power Distance in their societies.

The patterns shown by both, the top ranking group as well as the bottom ranking group is prominent and shows that the countries with the simplest legal frameworks (in terms of business laws) experience a struggle for equality in their societies. On the other hand countries ranking in the bottom of the index with low incomes and strict laws for business experience an acceptance of the existing order in their society.

We found support for our hypothesis proposing that Low Power Distance will be positively correlated with economic performance measures. As per the study by Hofstede (2001), people belonging to societies having a higher Power Distance score are more accepting of the hierarchical order. People holding powerful positions are at liberty to privileges that are often denied to the others. In such societies, the administrative elites are generally not representative of the overall general population, and therefore important decisions for the society are made by a selected few [4]. Additionally, such societies tend to be relatively more corrupted than those with lower scores (Husted, 1999) [6]. This asymmetrical distribution of power also paves the way for obedience, making it a central value (Tabellini, 2009), and in the opinion of Williamson and Mathers (2010), the existing literature advocates that higher levels of obedience has a negative impact on the economic development of the country [17].

## VII. CONCLUSION

As has been established by far, purpose of this study is to test if culture could throw light on variations in the Ease of doing business ranking of countries. Here we would recommend, that the linkages proved in this study must be carefully interpreted. Because obviously, only culture cannot be the reason behind the variations in ranking in Ease of Doing Business Index.

Nonetheless, the study proves and further propose to definitely consider culture while explaining the factors affecting Economies Business ranking. Present study shows that there is a relation between Ease of Doing Business ranking and Hofstede's Cultural dimensions. In other words, Ease of Doing Business Index rankings represent the cultural background of a society as well, and not only the legal dimension. Individualistic societies are performing better as compared to collectivist societies, thus Individualistic score high on Ease of Doing Business ranking. This may be because Individualism encourages creativity and personal excellence. In collectivist societies, there is likely to be low motivation for employees to work and also there are low chances of achieving peak performance because their individual efforts are often overlooked. Further, this approach might hinder creativity and innovation. For instance, if an employee has a good idea but the remaining team disapproves of it, he may give up on doing things better.

A society having high score of power distance observe an order of inequality in which everyone has his/her pre-

specified (by the society) roles. The majority of such society's members are characterized by the dependence while the minority by the independence. Discrimination among the superiors and subordinates can be witnessed in ways that are beyond just hierarchical. Power becomes the basic fact that precedes good or bad. In societies like these, privileges are confined only to the power holders, coercive power is prevalent and people are considered to be envious and a threat. These societies also stand testimony to latent conflicts amongst the power holders and the powerless.

On the opposite end a society with a low power distance strives for minimizing the inequality, the majority's dependence is replaced by the interdependence of members. There is low discrimination between superiors and subordinates, with equal rights for all members. Also, here the emphasis is on legitimate and expert power, people are more trusting of each other and hence feel less threatened. Which also results in a latent harmony between the power holder and powerless. In the rigid structures & relationships of a higher power distance culture, there is a relative unwillingness of the power holder to appreciate the contribution made by the less-powerful in the economy, and hence there is an intrinsic acceptance of this discrimination by the victims.

There is a prominent pattern in the countries with similar ranks in terms of their cultural backgrounds as has been established in the study via its comparisons and results.

There can be further studies in the future using additional samples from other regions, which may lead to additional insights on the relationship established here. Also, it is enough reason to believe that more detailed studies in the majorly neglected field of culture and economics, can pave the way for more revealing outcomes in explaining the economic performance of countries. Concluding, we suggest that those companies, which are aiming to establish themselves in different countries, or the governments looking for any kind of international partnerships, must know that the cultural characteristics of a society may, to some extent, indicate challenges and difficulties in achieving economic goals. Hence, the results here should help business practitioners to get a better understanding of culture as related to business performance.

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