Chapter 11

National Culture and Its Relationship With Innovation and Corruption

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ABSTRACT

Innovation is a driver of economic growth, wealth and prosperity. On the other hand, corruption emerges as a worldwide problem responsible for sapping resources, inequality, human suffering and poverty. This study hypothesizes that national culture, measured using Hofstede’s six cultural dimensions, have an impact on corruption and innovation, and that highly corrupt nations are less innovative. Data were obtained from Hofstede’s, Transparency International, and Global Innovation websites for the year 2012. The findings support the claim that most national culture aspects have an impact on corruption, although their impact on innovation is less measurable. Corruption was found to have a strong and negative effect on innovation. Our results draw attention to the usefulness of Hofstede’s six-dimension framework in research and the need for further analysis on how corruption influences innovation through mechanisms other than national culture.

INTRODUCTION

National culture is a set of characteristics, attitudes, norms and values that distinguish members across organizations, institutions or countries (Hofstede, 2001), influencing all aspects of social and individual life. Cultural differences can be one explanation as to why some nations exhibit higher levels of economic development or corruption than others. For example, societies that emphasize freedom and creativity are expected to be more innovative than strictly formalized cultures. Corruption is also expected to be higher in cultures where individuals focus on power rather than on human relationships.

Culture is the foundation on which a society is built and has an impact on people’s lives. The individual’s role in society is likely to influence the decision to create new businesses, to act entrepreneurially and to live within the boundaries of the law. Extant research examining the culture-innovation link is extensive (e.g., Azar & Droogendijk, 2016; Dantas, Moreira, & Valente, 2015; Efrat, 2014; Gaygisiz, 2013; Mihaela, Claudia, & Lucian, 2011; Shane, 1992, 1993; Steel, Rinne, & Fairweather, 2012; Taylor & Wilson, 2012; Turró, Urbano, & Peris-Ortiz, 2013), however, most studies do not use the updated six-dimension of Hofstede’s cultural framework (which includes pragmatic versus normative and indulgence versus restraint to the previous power-distance, individualism, masculinity and uncertainty-avoidance dimensions), nor the Global Innovation Index (GII) that captures the multi-dimensional facets of innovation and provide the tools that can assist in tailoring policies to promote long-term output growth, improved productivity, and job growth; instead, the majority of studies carried out to date have used the ‘old’ four cultural dimensions and traditional measures of innovation (e.g., number of patents or investment in R&D) (e.g., Efrat, 2014). The relationship between national culture and corruption has also been subjected of several studies (e.g., Barr & Serra, 2010; Davis & Ruhe, 2003; Huster, 1999; Sanyal, 2005; Sims, Gong, & Ruppel, 2012; Yeganeh, 2014), nonetheless, extant research lacks the use of complete cultural frameworks and findings are still inconsistent.

Although research supports the relationship between corruption and innovation (e.g., Anokhin & Schulze, 2009; Ulman, 2013), no studies have used the Corruption Perception Index (CPI) and GII simultaneously. As such, the aim of this study is to address the above-mentioned gaps and: (1) model the culture-corruption-innovation relationship, in order to understand how culture influences innovation; (2) to provide additional findings on which cultural variables influence corruption; (3) to measure corruption and innovation using CPI and GII respectively, given they are some of the most up-to-date and comprehensive measures for those variables; and (4) finally, examine the relationships among national culture, corruption and innovation altogether. For that, Hofstede’s six cultural dimensions are going to be used to measure culture.

We have structured this book chapter as follows. After this introductory section, the background reviews literature on innovation, national culture, and corruption. The following section presents the theoretical assumptions and the hypotheses. Then, the method section describes the measures, the datasets used and the methodology adopted, followed by the results. Finally, we discuss the results found and present the conclusions.

**BACKGROUND**

**Innovation**

Innovation is a driver of economic growth, and prosperity (Turró et al., 2013). In a globalized world of commerce and trade, nations seek the “innovation imperative”, in other words, the need to produce successful innovation at individual, business, and national levels, as a way for nations and business to leave their mark in the world (Steel et al., 2012). Several definitions can be found in the literature regarding innovation. Schumpeter (1942) identified three stages when entering a technological market: invention, innovation and adoption. Invention is an act of intellectual creativity, as such, some inventions never go beyond ideas. Innovation occurs when an invention succeeds in the market. Finally, adoption is the acceptance of an innovation by the market. While inventions and innovations occur at the firm or industry