

Does low Power Distance Culture Contribute to Lower Long Term Unemployment?

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According to Hofstede [1], there are five main dimensions on which country cultures differ. One of these dimensions is power distance, "which is related to the different solutions to the basic problem of human inequality". Low Power Distance Index score in the society means that it discourages growth in inequality in terms of power and wealth of its people [2]. The exact definition of power distance used by Hofstede [1] is that it is a difference between the extent to which a boss can determine the behaviour of a subordinate and the extent to which a subordinate can determine the behavior of a boss. In practice low power distance leads to flat organisations, fewer supervisors, subordinates who are not afraid to disagree with managers and expect their bosses to consult important decisions and delegate important work [2]. Hierarchy is actually perceived just as a convenient arrangement. High Power Distance Index score in the society means that it discourages questioning the power of superiors as hierarchy assures order in a society. In organizational structures this leads to a view that to contradict your boss means to look for another job [1].

What is the possible channel through which low power distance culture can contribute to lower long-term unemployment? Low power distance may encourage subordinates to gain more skills and increase their work commitment. The more the manager delegates responsibility to subordinates the more they learn in terms of hard skills as well as soft skills. Allowing subordinates to present their own arguments regarding their work and regarding company's policies usually brings higher motivation for work, broadens subordinates' mind in terms of their job context, gives them more valuable experience and raises their management skills. In the end they become more valuable to the employer and on the job market.

What lies behind the low power distance "managerial thinking" is that subordinates are not expected to be "meek and obedient" but on the contrary, they are expected to be responsible for their work to as high degree as possible, even if it means disagreement with a boss. High power distance "managerial thinking" assumes that an average person prefers to be told what to do and wants to avoid responsibility. Such two opposite points of view are also considered in terms of reasons for unemployment. Does an individual bear own responsibility for being unemployed or is it mainly the business cycle to blame? [3-5]. Some governments in their fight with unemployment put emphasis on a more personalized approach to unemployed with the use of Active Labour Market Programmes [6]. These policies have actually an underlying assumption that the unemployment is to a greater extent a consequence of individual's shortcomings [3]. These might be motivational problems, low adaptability to new circumstances, unwillingness to learn, lack of proactive personality, lack of perseverance, low self guidance, irresponsibility, unreliability [5,7,8]. So current Active Labour Market Policies (ALMP) in Europe are helping unemployed not only in gaining literacy, numeracy skills or other vocational skills but pay attention to their motivation and soft skills such as leadership, management, anger management, communication skills [6].

Low power distance type of relationship between a manager and a subordinate could be treated as a latent type of Active Labour Market Policy. Managers who allow subordinates to participate in decisions on how to do the job, with what resources, in fact give them a bit of their managerial responsibilities. Thus encourage them to learn more

of managerial skills such as problem solving, analysing information, interpersonal skills, critical thinking or learning skills, which are the most important when one needs to be able to adapt to new circumstances. Adaptiveness is actually one of the key factors that help decrease the skills mismatch problem on the job market. Mismatch between skills of the supply side and the requirements of the new job offers rises when people are slow in adapting to new technologies and industrial shifts.

Thus the hypothesis is that low power distance type of relationship may benefit subordinates in the way that in the end it reduces their probability of being unemployed in the long-term. The stated hypothesis follows the concept that cultural factors are among root causes of economic performance. Guise et al. (2006) give several examples of channels through which culture may affect economic outcomes. Values coming from religion or taught by parents influence economic preferences (e.g. the level of savings, income distribution), the general level of trust and in the end economic behaviour. Franke et al. [9] claim that cultural values explain more than half of cross national variance in economic growth in their sample.

Country Level Data

When comparing long-term unemployment (more than 12 months) rate with the Power Distance Index (PDI) one can notice that countries with low PDI usually had also low average unemployment rate (Figure 1). Countries like Austria or Denmark with the PDI below 20 had also one of the lowest average long-term unemployment rate of about 1.15% over the period of 2003-2012. The correlation between the two indicators is significant and equals 0.67.

Microdata

In European Social Survey there are two questions that had been asked in several rounds and which also reflect on the type of relationship between a subordinate and a manager. The questions are:

- How much the management at your work allows/allowed you to decide how your own daily work is/was organized?
- How much the management at your work allows/allowed you to influence policy decisions about the activities of the organization?

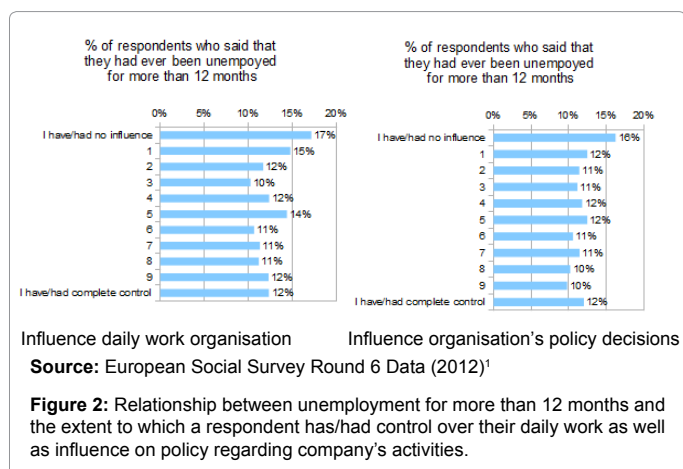
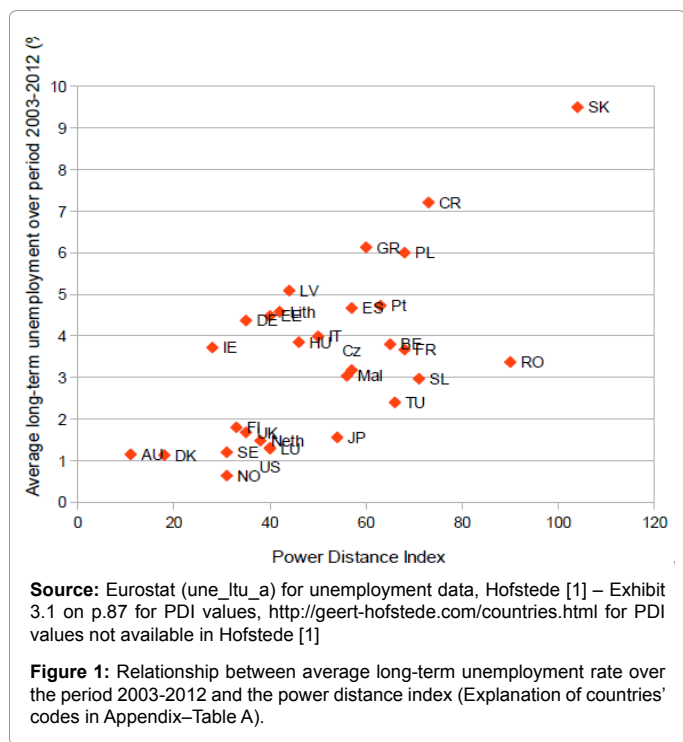
Answers were given on a scale, where 0 means – I have/had no

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influence and 10 means – I have/had complete control. These questions are different from the ones used to construct a Power Distance Index. Hofstede [1] built PDI index based on three survey questions regarding: being afraid to disagree with a manager, perception of a manager as an autocratic person and preference for specific style of decision making by a manager. However questions used in European Social Survey (ESS) touch also the managerial style that the respondent was facing. The more the person is allowed to decide on the way their daily work is organized and the more management allows to influence policy decisions the more likely that a respondent was facing a consultative manager with whom a subordinate is not afraid to disagree. The correlation between the two variables (calculated averages for countries) and the PDI was equal -0.73 (organization of daily work) and -0.62 (influence policy decisions) calculated for 15 countries.

In the ESS respondents were also asked whether they had ever

¹ European Social Survey Round 6 Data (2012). Data file edition 1.2. Norwegian Social Science Data Services, Norway – Data Archive and distributor of ESS data.

been unemployed for more than 3 months. Those who did were asked if they had ever been unemployed for more than 12 months. About 28% of all 45998 respondents from 24 countries replied that they had experienced unemployment for more than 3 months. 14% experienced unemployment for more than 12 months.

Comparing the percentages of respondents who experienced unemployment for more than 12 months with their responses concerning level of influence over their daily work organization and influence over their organization's policy decisions one can notice some relationship (Figure 2). Among those who answered that they had higher influence over their work organization the percentage of those experiencing ever long-term unemployment was much lower. For example among those who rated their degree of control over daily work organization at 10 (full control) only 12% answered that they had ever been unemployed for more than 12 months. Among those who rated their level of influence very low (0) 17% said that they had experienced a long-term unemployment.

One can argue that the level of responsibility at work depends on education level of a person. Thus the correlation between unemployment and a degree of freedom at work would be spurious as both are influenced by education level. Indeed, data on the aggregated level presented in Hofstede [1] showed relationship between education and Power Distance Index score. In countries with average low Power Distance Index (PDI) score, e.g. Great Britain (PDI=35), the group of unskilled plant workers had actually higher PDI score (102) than the average PDI score in countries like Mexico (81) or India (77). In all presented countries higher-education, higher-status occupations produced lower PDI scores. Therefore education needs to be controlled when analyzing relationship between the degree of freedom at work and the long-term unemployment.

Another argument is that those in managerial positions have clearly more control over their daily work, have more influence on policy decisions and at the same time will be in a better position to find a new job.

To control for these factors a logit model has been constructed with the dummy variable equal 1 if a person has ever been unemployed for more than 12 months as a dependent variable (*unemp12m*). The set of explanatory variables contained: education level, age, an indicator of managerial position, an indicator whether a person felt to be discriminated, the type of organization that a person works/worked and countries dummy variables. An indicator of perceived discrimination was included as prejudice was found as one of the significant factors determining long-term unemployment [7,10]. The type of organization that the person is/was working for was included in order to account for the size of employment in public sector in a specific country as it is one of the instruments used to achieve welfare state [11]. Full list of control variables is presented in Table 1. The degree of control over daily work and degree of influence over employer's policy are the explanatory variables of interest. The results are printed in Table 2.

The overall quality of the model is not high. The pseudo R-squared equals 0.09, however it is not easy to gain high pseudo R-squared values for logit models and it might be worth to pay more attention to the statistical significance of the explanatory variables than the goodness-of-fit [12]. In the estimated model all the variables except for some of the country dummies are significant at 0.05 level.

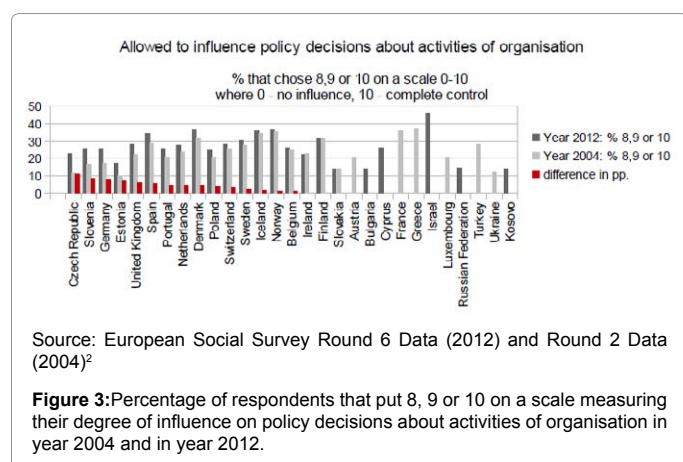
Both variables indicating the degree of self-control over daily work organization and degree of influence on policy decisions about activities of organization are significantly negatively correlated with

<i>unemp12m</i>	dummy dependent variable equal 1 if respondent answered that they had ever been unemployed for more than 12 months
<i>wkdcorga</i>	Allowed to decide how daily work is organized. 0 – no influence. 10 – complete control
<i>iorgact</i>	Allowed to influence policy decisions about activities of organisation 0 – no influence. 10 – complete control
<i>edu1</i>	dummy variable equal 1 if respondent's highest level of education completed is pre-primary, primary and lower secondary education (levels 0-2 in ISCED coding)
<i>edu2</i>	(reference category) dummy variable equal 1 if respondent's highest level of education completed is upper secondary or post-secondary non tertiary education (levels 3-4 in ISCED coding)
<i>edu3</i>	dummy variable equal 1 if respondent's highest level of education completed is first and second stage of tertiary education (levels 5 and 6)
<i>age1</i>	age between 15 and 25
<i>age 2</i>	(reference category) age between 25 and 65
<i>age 3</i>	age above 65
<i>discrim1</i>	dummy variable equal 1 if respondent describes themselves as a member of a group discriminated against in their country
<i>jbspv1</i>	dummy variable equal 1 if respondent was responsible for supervising other employees
<i>tporgwk1</i>	Respondent works/worked for central or local government
<i>tporgwk2</i>	Respondent works/worked for other public sector
<i>tporgwk3</i>	Respondent works/worked for a state owned enterprise
<i>tporgwk4</i>	Respondent works/worked for a private firm or self employed or other
<i>country</i>	Country codes used in the model are in Appendix in Table B Reference country = DE (Germany)

Table 1: Description of variables.

Logit model				Marginal effects after logit model		
Variable	Coef	z	P>z	dy/dx	z	P>z
wkdcorga	-0.013	-2.000	0.045	-0.001	-2.000	0.045
iorgact	-0.033	-5.120	0.000	-0.003	-5.120	0.000
edu1	0.366	7.720	0.000	0.037	7.100	0.000
edu3	-0.352	-7.920	0.000	-0.032	-8.130	0.000
age1	-1.016	-14.990	0.000	-0.070	-21.040	0.000
age3	-1.147	-19.280	0.000	-0.081	-26.370	0.000
jbspv1	-0.354	-8.190	0.000	-0.031	-8.660	0.000
discrim1	0.798	13.990	0.000	0.097	11.180	0.000
tporgwk1	-0.215	-3.200	0.001	-0.019	-3.450	0.001
tporgwk2	-0.402	-7.070	0.000	-0.034	-7.960	0.000
tporgwk3	-0.357	-5.300	0.000	-0.030	-5.970	0.000
BE	0.018	0.170	0.867	0.002	0.170	0.868
BG	0.539	5.060	0.000	0.061	4.220	0.000
CH	-1.122	-6.120	0.000	-0.069	-10.200	0.000
CY	-0.250	-0.660	0.512	-0.021	-0.730	0.467
CZ	-0.785	-5.590	0.000	-0.054	-7.850	0.000
DK	-0.214	-1.320	0.188	-0.018	-1.430	0.152
EE	-0.226	-0.740	0.461	-0.019	-0.810	0.419
ES	0.467	7.610	0.000	0.051	6.620	0.000
FI	-0.003	-0.020	0.986	0.000	-0.020	0.986
GB	-0.614	-9.320	0.000	-0.048	-11.230	0.000
IE	0.115	0.730	0.466	0.011	0.700	0.485
IL	-0.291	-1.790	0.074	-0.024	-2.010	0.044
IS	-1.153	-1.230	0.220	-0.069	-2.140	0.032
NL	-0.804	-7.170	0.000	-0.056	-9.980	0.000
NO	-0.930	-4.240	0.000	-0.061	-6.470	0.000
PL	0.090	1.410	0.159	0.009	1.370	0.171
PT	0.121	1.170	0.240	0.012	1.120	0.261
RU	-0.741	-12.310	0.000	-0.060	-14.090	0.000
SE	-0.609	-4.280	0.000	-0.045	-5.530	0.000
SI	0.179	0.780	0.433	0.018	0.730	0.464
SK	-0.191	-1.270	0.206	-0.017	-1.370	0.172
XK	1.089	3.500	0.000	0.152	2.570	0.010
_cons	-1.081	-20.080	0.000			
Number of obs = 33802 LR chi2(33) = 2361.94 Prob > chi2 = 0.0000 Pseudo R2 = 0.0911 Log likelihood = -11785.363						

Table 2: Logit model with dependent variable = 1 if respondent ever unemployed for more than 12 months.



the dependent variable – having ever been unemployed for more than 12 months. Their influence appears to be small but significant. Thus, the more a person has control over their daily work organization and the more influence on policy decisions the less probability that they encountered long term unemployment. Control variables behave quite as expected. Respondent with the lowest education level attained (*edu1*) has significantly higher probability of encountering long-term unemployment than those with at least upper-secondary or post-secondary education (*edu2* – as reference category). The difference in probability is 0.037 (marginal effect value). Those

with tertiary education (*edu3*) have significantly lower probability of entering long-term unemployment. Supervising other employees (*jbspv1*) decreases probability of being unemployed for more than 12 months by 0.031 (marginal effect value). Belonging to a group that is discriminated in a country (*discrim1*) increases the probability of being unemployed for longer time by 0.1 (marginal effect value). If a person was working in public sector or in state owned enterprise (*tporgwk1*, *tporgwk2*, *tporgwk3*) than the probability of having been unemployed for more than 12 months was also lower than for those working in private companies or were self-employed.

Dummy variables for all countries were added in order to control for special features of countries that might affect both the type of relationship between subordinates and managers and at the same time the long-term unemployment level. Estimating the model for each country separately revealed that in more than two thirds of countries at least one of the two variables had been significantly negatively correlated with long-term unemployment (results are not presented in the article but are available upon request). Thus it can be stated that the relationship exist also within countries and not only between countries. So this gives a better support for the argument that the type of relationship between subordinate and manager has an influence on the long term unemployment.

The question remains whether there can be any change in the prevailing type of relationship that occurs between subordinates and managers in a specific country. After all, this is an element of culture, thus one might suppose that it should evolve over centuries rather than years. But there are views that cultural dimensions adjust to economic conditions. Tang and Koveos [13] have constructed a model where Hofstede's cultural dimensions are explained by economic growth.

Comparing data from 2004 year and 2012 year in terms of question: How much the management at your work allows/allowed you to influence policy decisions about activities of organization, is quite surprising (Figure 3). Among four countries with the highest increase with respect to this indicator three of them are the ones which had undergone structural economic and political transformation in 90s (Czech Republic, Germany [East], Estonia). In Czech Republic the percentage of those having the feeling of influence on their organization's policy increased from 11.5% to 22.5% (by 11 pp). The second indicator of influence over one's daily work has risen as well. One of the largest increases could again be noticed in Germany.

Did these changes have effect on long-term unemployment? In Germany long-term unemployment fell from 5.9% in 2004 to 2.5% in 2012 (by 3.4 pp). In Czech Republic there was a decrease by 1.2 pp over this period. However there are also examples like Spain where both measurements, influence on policies in a company and self-control over work organization, increased but the long-term unemployment had also increased substantially over the same period. One will not be able to predict changes in long-term unemployment level based on power distance proxy indicators. There are too many other factors contributing to the changes. However, as there was found evidence in data that the relationship between the indicators related to power distance and long-term unemployment is significant, therefore it is worth monitoring these kinds of indicators in terms of long-term comparative unemployment analysis.

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² European Social Survey Round 2 Data (2004). Data file edition 3.3. Norwegian Social Science Data Services, Norway – Data Archive and distributor of ESS data.