

*Culture of Enterprise Initiative Student Essay Contest 2006:  
'Can Character and Communities Survive in an Age of Globalization?'*

**The Culture of Success: Cultural Foundations for Competitiveness in the Global Economy**

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## I. Introduction

子曰：道之以政，齊之以刑，民免而無恥；

道之以德，齊之以禮，有恥且格。

- 孔子，「论语」为政第二第三句

If the people are ruled by laws and punishment,

they will seek to avoid punishment but not truly have moral character.

If the people are ruled by virtue and propriety, they will themselves wish to be moral.

- Confucius, Analects 2:3

In ancient China, the philosopher Confucius noted that the intrinsic motivations that arise from the cultural foundations of a community, are often of greater importance to society's moral character, than extrinsic motivations like the legal system. In the age of globalization, with the advent of the global economy, cultural foundations remain equally important, and it is the culture of enterprise – the set of ethical values, traditions, customs, and practices of a society best suited to meet the demands of global competition – that will determine what communities will best survive in our dynamic, modern age. This essay aims to address i) the culture of enterprise: the cultural foundations of the social institutions and norms that the market economy depends on, ii) the clash of cultures: the cultural foundations of communities that lend advantages in the global economy, iii) the decline of cultures: the cultural foundations of communities deleterious to economic competitiveness, and iv) the culture of success: possible policy solutions towards the ideal cultural foundations of a competitive community.

The culture of enterprise exists in varying degrees among various communities, and perhaps the one I know best is my own: Singapore. In my opinion, despite the usual charge from the

local literati about the lack of a national identity, there is a culture unique to Singapore, and it is not merely the multicultural, multiethnic immigrant society emphasized by local propaganda. This unique culture is composed of two opposing cultural forces in Singapore, the culture of enterprise and the culture of authority. The culture of enterprise is a natural result of the economic insecurity of a small island city with no natural resources or sufficient fresh water supply, and the hard work and entrepreneurship demanded of its people to survive. The culture of authority is an artifact of the post-colonial struggle to contain the Communist insurgency in the Malayan peninsula<sup>1</sup>, and the ruling party's subsequent need for political stability. For most of its short history, these two cultures have coexisted, and much of the the 'Singapore success story' from 'Third World to First'<sup>2</sup> is rightly attributed to its visionary leadership's commitment to smart, pro-market economic policies, though it certainly had inherent cultural advantages (such as its majority Chinese population, and the legacy of British colonial rule). However, whether Singapore continues to succeed will depend on which cultural force now dominates. Will the culture of authority, and its reliance on bureaucracy and economic micromanagement, stifle entrepreneurship and the creative innovation needed to compete in a knowledge economy? Will the culture of authority, and the illiberal practices of its government (such as employing defamation suits to silence critics) alienate its most able and mobile citizens? Though I will return to Singapore below, this question of culture will determine whether Singapore as a community will survive in an age of globalization: whether or not the culture of enterprise will dominate.

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1 See Bloodworth (1986) for an excellent discussion of the struggle of the nationalist People's Action Party to outmaneuver the Communist United Front, which sets the context for the culture of authority.

2 The title of Lee Kuan-Yew's memoir (2000). He was Prime Minister of Singapore from 1959-1990 and presently holds the specially-created post of Minister Mentor.



## II. The Culture of Enterprise

As the New Institutional Economics movement (such as the work of Ronald Coase, Oliver Williamson, Douglas North et al) has shown us, *institutions matter* – markets can only operate efficiently in an institutional environment that includes a formal system of property rights and the enforcement of contractual agreements, which reduce transaction costs and create the liquidity that markets need.

As Hernando De Soto notes, this institutional environment in the West is the 'mystery of capital' that allows capital formation to occur, and that the inability of much of the developing world to benefit from their transition to capitalism is due to the lack of these institutional arrangements that allow capital formation. He focuses extensively of the lack of a formal system of property rights where “because the rights to these possessions are not adequately documented, these assets cannot be readily turned into capital, cannot be traded outside of narrow local circles where people know and trust each other, cannot be used as collateral for a loan, and cannot be used as a share against an investment... Without representations, their assets are dead capital.”<sup>3</sup> De Soto also focuses on the significant transaction costs in the developing world, such as the staggering amount of corruption and bureaucracy that makes the most basic tasks of private entrepreneurs, such as registering a business, beyond any reasonable cost and timeframe. Much of the implementation of the New Institutional Economics in the development community has therefore been to build or reform these institutions in the developing world.

However, the institutions that enable markets to operate do not exist in a vacuum. As Jürgen Habermas notes, “A public sphere that functions politically requires more than the institutional guarantees of the constitutional state; it also needs the supportive spirit of cultural traditions and

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3 De Soto (2000), pp. 6.

patterns of socialization, of the political culture, of a populace accustomed to freedom.”<sup>4</sup> Cultural foundations, such as the attitudes of the electorate, are necessary for a liberal, participative democracy to function and sustain its institutions, and despite Habermas's opinions on capitalism, we can extend his analysis to infer that cultural foundations are necessary for the development of the institutions that enable markets.

As Don Lavoie and Emily Chamlee-Wright explain, “there needs to be a shared culture of respect for certain contractual and property rights, and some sort of forum – such as a common law court system – at which to deliberate about just what our rights are, to adjudicate among parties in conflict, and to articulate common principles and standards of conduct.”<sup>5</sup> Indeed, the very foundation of economics, the concept of the rational self-interested *homo economicus*, is also defined by cultural norms, as “market behavior will reflect the specific social norms, institutions, value systems, and conventions of acceptable behavior that have emerged in that cultural setting. ...In short, “self-interest” is culturally defined.”<sup>6</sup> This is the culture of enterprise.

For Oliver Williamson, the culture of enterprise, or as he terms it, the “social embeddedness level” of “informal institutions, norms, customs, mores, traditions, religion”<sup>7</sup>, is the most fundamental level of the New Institutional Economics, which is “pervasively linked with complementary institutions” and the “formal rules of the game”. It thus follows that any policy that aims to introduce or reform institutions must consider the degree by which the culture of enterprise is present. That these will differ from community to community means that there must also be a different capacity for institutional reform towards survival in the global economy.

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4 Habermas (1992), pp. 453.

5 Lavoie and Chamlee-Wright (2001), pp. 68.

6 Ibid, pp. 43.

7 Williamson (2000), pp. 596.

### III. The Clash and Decline of Cultures

Different communities will differ in their cultural foundations, and some of these foundations will be advantageous in adapting to the demands of the global economy. As Max Weber argued in *The Protestant Ethic and the Spirit of Capitalism*, the Calvinist doctrine of constant labor in one's calling as the route to personal salvation, was a key cultural foundation for the economic success of Protestant compared to Catholic nations, where the culture of Protestantism inspired the hard work and asceticism necessary for economic growth.

These cultural foundations are by no means limited to the West – any culture that values meritocracy, respects achievement through hard work, and celebrates self-sufficiency will be well placed to develop a productive labor force – this culture rewards entrepreneurship and education. Any culture that emphasizes family ties and religious faith will see greater savings and investment instead of present consumption – this culture supports a long-term perspective and delayed gratification of the self. As Lavoie and Chamlee-Wright note, “Western child-rearing techniques which reinforce the value of self-reliance may tend to foster bold entrepreneurial behavior in adulthood. Kinship structure among many African tribes provides the networks through which business people can acquire training and start-up capital. Confucian philosophy which values long-term planning over short-sighted results may in part account for the high savings rate in some Asian societies. Different societies can emphasize varying aspects of markets by drawing upon their unique comparative cultural advantage.”<sup>8</sup>

The question is how efficient and effective these cultural foundations are in doing so – in a competitive global economy, only the best are able to survive by offering the highest quality at the lowest cost. The global economy demands openness to foreign trade, dynamism in responding to rapidly changing global circumstances, and a dedication to the bottom line. The most cosmopolitan, flexible, and open-minded cultures – cultures of enterprise – will thrive.

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<sup>8</sup> Lavoie and Chamlee-Wright (2001), pp. 65.

A recent World Bank study notes that the Japanese business philosophy is based on “total quality management, *kaizen* (continuous improvement), *kanban* (just-in-time inventory), lean production, and cycle-time reduction”, best manifested in the Toyota Production System<sup>9</sup>. These cultural traits enabled Japanese manufacturers to take the lead in operational cost-efficiency, and was an essential contributing factor to the success of the Japanese automobile industry. This business culture and its advantages have been widely imitated in the West and the rest of Asia. Other communities possess excellent cultural foundations for the reduction of transaction costs. As Lan Cao notes about Asian immigrant communities in the West, their “social capital base of social norms, identity, and trust functions, in essence, as the equivalent of economic collateral” that allows them to “lower the screening, monitoring and enforcement costs associated with formal institutional lending”<sup>10</sup>. The culture of close-knit community ties allows these marginalized groups to contract with each other, pool capital, and monitor each other effectively, even outside the formal banking system.

Not all cultural foundations will be advantageous in the global economy. As Joseph Schumpeter wrote in *Capitalism, Socialism and Democracy*, “Capitalism, then, is by nature a form or method of economic change and not only never is but never can be stationary. This process of Creative Destruction is the essential fact about capitalism.” Just as natural selection applies to evolution, creative destruction applies to economies, where the best firms and the best ideas succeed, and the rest fall behind. This applies equally to cultures as well. Inefficient cultures (such as those with more corruption and nepotism) will lose on cost. Closed, inward-looking cultures will be less likely to look to foreign markets. Biased or prejudiced cultures (towards minority ethnic groups, women, homosexuals etc) will pay a high opportunity cost by underinvesting in valuable businesses and talents. The discipline of the market punishes suboptimal cultural practices.

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9 Shibata (2006), pp. 84.

10 Cao (1998).

Consider the 'Asian Values' debate of the 1990s, of which Lee Kuan-Yew was a particularly vocal advocate, where the rise of the Asian Tigers (Korea, Taiwan, Hong Kong and Singapore) suggested that so-called 'Asian Values' based on Confucianism had enabled these countries to succeed economically. As Fukuyama argues, “developed cultural systems like Christianity, Islam, and Confucianism are highly complex. On a theoretical level it is hard to predict how they will lead to particular political or institutional outcomes. A good illustration of this may be found in the implicit debate between the two Lees, Senior Minister Lee Kuan-Yew of Singapore and President Lee Teng-Hui of Taiwan. Lee Kuan-Yew has attracted considerable attention by arguing that Confucianism supports a certain kind of political authoritarianism. Lee Teng-Hui has called on *his* Confucian scholars to prove just the opposite - that there are, in fact, precedents for democracy in Confucian thought. Strategies like this are adopted in all cultural systems. Christianity can be and has been made to support slavery and hierarchy and authoritarianism as well as the abolition of slavery and the promotion of democracy and equal rights. Arguing from cultural principles is therefore not a useful or productive way to proceed.”<sup>11</sup> Though I believe that cultural arguments are useful to our analysis, I agree that cultures are not monolithic, homogeneous entities easily collectively labeled like 'Asian Values' – they are complex webs of several, sometimes conflicting cultural traits. Therefore, we must take a more critical approach to analyzing cultural effects by identifying specific cultural traits.

There is much in the cultural foundations of Asian countries that supports economic competitiveness, but not all of those cultural traits had positive effects. Consider the Japanese business culture of lifelong employment with the firm, which has led to a much lower level of labor mobility, and is potentially allocatively inefficient. The business culture of seniority-based promotion has made the most productive, most talented young professionals leave for Western firms. The business culture of long-term relationships between assemblers and suppliers has made eliminating underperforming

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11 Fukuyama (1997), pp. 148

subsidiaries politically difficult. The business culture of friendly domestic shareholders opposed to foreign takeovers has hindered competitive pressures from operating. That these business cultures are already starting to decline in Japan supports the idea that not all cultural traits are advantageous in the global economy, and that communities that cling to them will fall behind. Zielenziger suggests that one of the reasons for the relative dynamism of the South Korean economy compared to Japan is that “on some deep level, Korea embraced Western ideals as well as Western implements, while Japan appropriated the tools of the West while renouncing the culture that helped create them.”<sup>12</sup> Though it should also be noted that not all Korean business practices are competitively sustainable either, such as the dominance of the *chaebol* family-owned conglomerates and their complex web of subsidiaries.

Foreigners who seek to do business in China will inevitably have to deal with its culture of *guanxi* or 'connections', a cultural trait present in several Asian communities. The emphasis on using personal networks to gain advantages in business and employment has hurt the efficiency of Chinese firms – the logical end of *guanxi* is nepotism and corruption. Firms with payrolls heavy with the family members of senior management will be less efficient and cannot withstand the rigors of the market. Fortunately, this cultural practice is waning as China becomes more integrated into the global economy – the first demand of foreign investors is often a full HR review. Perhaps more harmful are Chinese attitudes towards intellectual property, and the resulting weakness of institutions that rely heavily on intellectual property – business innovation, and investment in research and development suffer in China. Foreign firms will be reluctant to transfer technology to their Chinese subsidiaries, if they know that their patented innovations will be copied. Unless this aspect of Chinese culture changes, China may fall behind the West in economic growth.

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12 Zielenziger (2006). Presentation to the Weatherhead East Asia Institute in Columbia University, 28<sup>th</sup> Nov 2006.

#### IV. The Culture of Success

Given that the culture of enterprise is crucial to the institutions that underpin competitiveness in the global economy, it would be prudent to consider how communities can best adopt the culture of enterprise, and catalyze cultural change.

Williamson considers it “taken as given by most institutional economists” that cultural conditions “change very slowly – on the order of centuries or millennia”. Furthermore, these cultural foundations have “mainly spontaneous origins – which is to say that deliberative choice of a calculative kind is minimally implicated.”<sup>13</sup> Lavoie and Chamlee-Wright write that “Forcing African school children to read Confucius in hopes of creating an Asian work ethic will be about as successful as requiring middle-aged American factory workers to do morning group calisthenics. What is possible, however, is to identify what cultural advantages are at work within a particular society so as to tap into their potential.”<sup>14</sup> Though I agree that successful institutional reforms will have to consider the cultural conditions of the communities involved, and build on their strengths, it may be useful to go one step further and aim for cultural change as a fundamental driver of economic growth.

Contra Williamson, cultural conditions can and do change within the short-run, as we are seeing in Asia. Cultures are not static entities, they evolve according to the needs of the age, and in this age of globalization, they must evolve or fall behind. The culture of enterprise is to constantly reinvent itself, and so must the communities that strive to embody it. To return to my first example of Singapore, the culture of authority is changing in this lifetime because it must: the demands of the global economy require that Singapore invest heavily in public education, and the recruitment of the very best into the civil service. As the expectations of the electorate rise ever higher, the greater the pressures on the government to allow greater political freedom, in order to retain the most able and

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13 Williamson (2000), pp. 596-7.

14 Lavoie and Chamlee-Wright (2001), pp. 75.

mobile citizens. With each successive generation, a greater proportion of the ruling class will be composed of liberal elites, educated in Oxbridge and the Ivy League, thus as Lee Kuan-Yew's original 'old guard' hand over their seats to the next generation of leaders, the balance of power will shift ever further. The global economy has delivered its verdict: the culture of authority must give way to the culture of enterprise.

To attain the culture of enterprise, a community must be open to the rest of all communities, be willing to learn from the best practices of each culture, and adopt those learnings into its own culture. One possible policy mechanism for this is the free movement of labor, as immigrants bring their cultures with them into their host country, and add to the richness of the marketplace of cultures. Another possible policy solution is to aim towards a less incentive-distorting application of social safety nets, so that cultures deleterious to the community, such as the cultures of entitlement and welfare dependency, cannot remain. Most of all, the community must be committed to attaining the culture of enterprise, and be willing to critically examine its own cultural practices and whether they are beneficial or otherwise. It is this first step – humility and the willingness to change – that is the most crucial. As Confucius said, the extrinsic motivations of exogenous forces cannot truly change the hearts of the people. The culture of success must come from within.

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