

# What Culture Do We Need for Economic Development?

Dr. Vojko Potocan, University of Maribor, Maribor, Slovenia

## ABSTRACT

The important developmental starting-point of all and especially the advanced countries is the culture that represents all their subjects, fields and society levels. Recent research on sources of regional economic differences stresses the crucial role of culture, especially culture of the organizations—as most powerful institutions in modern society. For example, it finds that that the difference between US regions in terms of economic development results do not result from technology alone, but also from the development of culture. The level of development culture, and within it especially the economic cultures, importantly define the development and characteristics of organizations of all societies. The process of organizational development can be defined as the totality of the following phases: Supplying enterprise, Efficient Enterprise, Quality Enterprise, Flexible Enterprise, Innovative Enterprise, and Sustainable Enterprise. Each of these phases is based on a specific economical culture, which embraces different levels of transformation of important factors of organizations. This contribution discusses two theses: (1) the direction of development of a country is critically dependent on the influence of the surrounding culture, especially in the area of organization, and (2) working and behavior in organizations are importantly defined by the prevailing economical culture.

**Key words:** culture, development, innovation, holism, sustainable development.

## INTRODUCTION

A crucial economic culture trend reflect the economic development against the background of competitiveness phases from (1) the production factors phase via (2) technological investment phase and (3) the innovation phase to (4) the affluence phase (Mulej, 1979; Affuah, 1998; Rogers, 2003). The last one is comfortable and therefore aimed at by most humans but it destroys the culture of ambition since in this phase the people have no much more of everything, a situation that inhibits innovation, and this state of affairs causes trouble (Porter, 1990; Potocan, 2000; Lawrence and Weber, 2007).

Thus, the culture of the third (innovative) phase should be kept alive as long as possible to prevent the culture of complacency of the fourth phase from prevailing. The market pressure can help the culture of innovation become more and more holistic by requiring the development to include these phases: Supplying enterprise, Efficient Enterprise, Quality Enterprise, Flexible Enterprise, Innovative Enterprise, and Sustainable Enterprise. Market pressure does not allow for complacency, this is especially true for the most contemporary form of enterprise - the sustainable enterprise – where it leaves no room for complacency. It namely requires consideration of cost, business quality, range of “products”, the scope of attributes offered, uniqueness, and care for humankind’s natural environment. All these are interdependent as a dialectical system of preconditions for competitiveness. They require a dialectical system of preconditions for innovation to be an ongoing action - invention, entrepreneurial spirit and entrepreneurship, requisite holism, management, appropriately motivated co-workers, natural and socio-economic environments, and incidental factors, including good luck in decision making and the ultimate practical realization (for details see: Potocan and Mulej, 2007).

All of them are interdependent, none may be left out. The trend of market development from the (1) random market via (2) the suppliers’ market and (3) the buyers’ market to the most contemporary (4) government – supported buyers’ market can both reflect and support the economic culture, which presents complacency (for details see: Porter, 1990; Ackoff and Rovin, 2003; Lester and Piore, 2004; Potocan, 2005; Mulej et al., 2008).

The prevailing culture, ethics, norms, and values of a community or society reflect the economic development and influence it in relations of interdependence, which we will explore here briefly.

## TRENDS IN THE DEVELOPMENT OF THE ADVANCED COUNTRIES – RANGING FROM THE PEASANT CULTURE UP TO THE CREATIVE CLASS

Let us leave aside the prehistoric times and take a look at the more modern development only! On criteria of the ways of providing means of human survival, one may speak about the pre-industrial times and industrial

times. The industrialized period may be subdivided in the early, mature, and post-industrial period. In the post-industrial period the creative class emerges and to a large extent replaces the previously important worker class, which had by then replaced the peasants' class as the crucial social groups. The creative class has during this development period become extremely important and large; and it keeps growing.

Florida (2002) (see also: Cavanagh, 2005; Porter and Kramer, 2006; Ralston et al., 2006); found in his field research about the reasons for differences in economic prosperity between regions of United States found two basic causes that account for these differences:

In USA, the creative class has been rising from 5 (five) percent a century ago to 30+ % in 1999, with 12% in its super creative core, while the working class has dropping from 40% at its peak several decades ago to 25% now. The largest remaining sector of the working class is the service class, but it does not earn much, because it only provides preconditions for the creative class to contribute their unique creative inputs. (Florida, 2002, pp. 90-99).

In USA, the most prosperous regions have the highest 3T indicator (Tolerance; Talents, Technology) indicator: tolerance for differences between neighbors all the way from being towards traditional families to being tolerant towards gays, etc; talents that are attracted by tolerance and the opportunities to be creative; the scale of technology invested in (Florida, 2002, pp. 257-273).

In Europe, tolerance, especially tolerance for risk-taking and related failure, is much less advanced. In (PODIM 24-26, 2003-2006; Potocan and Mulej, 2007; Potocan, 2008) several authors stressed a serious difference. If somebody tries to succeed in the market as an entrepreneur and fails, the person is put on the black list of those, who no longer enjoys the trust of other people, and also black-listed by the bank. On the contrary, in USA, a failing entrepreneur is considered a normal person, who loses trust only, once she stops trying to succeed.

There is a historic background to this difference. The USA was built by the efforts of those most risk-taking part of Europeans who found the European prevailing culture too limiting, and left. They, first, created a few colonies of the United Kingdom on the new continent, etc.; then they gained independence for the USA, and then in the Civil War of 1860 they gave the upper hand to the manufacturing industry along with urban life and political democracy (Reich, 1984; Rosenberg and Birzell, 1986; Petzinger, 2000). Many Europeans migrated to the USA. In the four decades before the first World War, Germany and United Kingdom lost 3-3,5% of their population (Hornung, 2006; McGregor, 2006; Potocan and Mulej, 2007), while e.g. Slovenia lost 20% (Potocan, 2000; Tos and Muller, 2005; Potocan and Mulej, 2007). Thus, Europe remained short of the entrepreneurial spirit, without which inventions hardly can become innovations: See Figure 1 (X denotes factorial relation: no factor may be zero for success).

Innovation = (invention X entrepreneurship and entrepreneurial spirit X requisite holism X management X co-workers X innovation friendly culture X customers X competitors X suppliers X natural environment X socio-economic environment and other outer, i.e. objective conditions X random factors

Figure 1: Equation of preconditions of innovation

The creative class is typical of an innovative society, while it is a minority, which is more or less in trouble therefore, in the more traditional societies. In the West, they ascribe this difference to their entrepreneurship and so-called market society. Potocan (Potocan, 2005) found data clarifying this difference: before the industrial revolution China and India contributed 80% to the world economy, now they do under 10%. How has the market been changing from a simple place in which suppliers and buyers meet and negotiate a price, to the social, political and economic power of the most innovative people, organizations, and peoples in the modern global economy?

### **TRENDS FROM THE RANDOM TO THE VERY INNOVATIVE STATE-SUPPORTED-MARKET PHASE**

For most of the time spanning many millennia of its history, humankind has lived in self-sustained economy with a random market, e.g. in the form of fairs. Innovation did not matter. In a producers' market innovation and/or sustainable development did not matter either, because competition was negligible; structures typical of the producers' market period include medieval guilds, strong trade unions, or market monopolists of other types. Their power was broken after the 1870s (Rosenberg and Birdzell, 1986; Potocan, 2000; Cameron and Quinn, 2005). Innovation and hence requisite holism and ethics of interdependence gradually became crucial – in the emerging customers' and state supported customers' markets. See Figure 2.

Viewpoints Type of Market	Basic relation/s between production and consumption	Prevailing Economy style	Prevailing culture
RANDOM MARKET	Producers' own consumption and occasional exchange of random surpluses	Self-sufficient agricultural, collecting and hunting, with modest life	Self-sufficiency, rare contacts with foreigners, traditions are more crucial than chances of learning from each other
SELLERS' / PRODUCERS' PREVAILING POWER = PRODUCERS' MARKET	Growing production for poorly considered, known/unknown, customers, who lack impact over suppliers	Guilds' monopoly and non-innovative production; church's monopoly over thinking with no permission for innovation	Tradition matters more than opportunities for better life. Specialization and narrow thinking grow and so does the monopolists' detrimental impact over society and economy
BUYERS' / CUSTOMERS' PREVAILING POWER = BUYERS' MARKET	Growing impact of customers requiring satisfaction / total quality of products and services, and conditions of life	Free market with right of everybody to take risk for own account in production and market. One-sidedness should receive correction from market	Entire life is subordinated to entrepreneurs' and their stock holders profit; innovation is a tool for profit by pleasing the customer more than competitors do
STATE / GOVERNMENT SUPPORTED BUYERS' MARKET	Increasingly organized / legalized impact of customers demanding total quality of products, services and conditions of life	Growing awareness of the terrible impact of humankind's one-sided impact over e.g. nature and its dramatic consequences for humans' survival	World wide official documents and actions urge governments, businesses and humans to think and act requisitely holistically; so does a part of customers = market

Figure 2: Development of market relations and culture

Hence, in a very short period of time people had to change millennia old habits – they had to add innovation to routine, and requisite holism to growing narrow specialization, as well as interdisciplinary co-operation to self-sufficiency of specialists (Mulej and Kajzer, 1998; Mulej, 2000; Potocan, 2000; Mulej, 2006). This process was extremely rapid after the World War II (See Figure 3).

Decade	Market & Social Requirements	How Businesses meet the Requirements	Type of Enterprise
1945-	Covering of post-war conditions of scarcity, rebuilding, etc.	Supply anything; supply does not yet exceed demand	Supplying Enterprise
1960-	Suitable price (as judged by customers)	Internal efficiency, i.e. cost management	Efficient Enterprise
1970-	Suitable price X quality (as judged by customers)	Efficiency X technical & commercial quality management	Quality Enterprise
1980-	Suitable price X quality X range (as judged by customers)	Efficiency X technical & commercial quality X flexibility management	Flexible Enterprise
1990-	Suitable price X quality X range X uniqueness (as judged by customers)	Efficiency X technical & commercial quality X flexibility X innovativeness management	Innovative Enterprise
2000-	Suitable price X quality X range X uniqueness X contribution to sustainable development / existence (as judged by customers)	Efficiency X technical & commercial quality X flexibility X innovativeness X sustainable development / existence	Sustainable Enterprise

Figure 3: From a supplying to a sustainable enterprise – by increasingly more innovative culture

Comment on Figure 3: For most of the time of its 100.000-year history humankind has lived in a self-sustained economy with a random market, e.g. in the form of fairs. Innovation did not matter; application of requisite holism was mostly reduced to local and family relations, mostly. For producers market innovation did not matter either, because competition was negligible; the prevailing structure include medieval guilds, strong trade unions, or market monopolists of other types. Once their power had been broken, after the 1870s (Reich, 1984; Rosenberg and Birzell, 1986; Petzinger, 2000; Ralston et al., 2006) innovation and requisite holism gradually became crucial – in both the emerging customers' and state supported customers' markets.

Over the decades after the 2<sup>nd</sup> World War, market requirements have been changing more quickly than the human capacity to unlearn the old and accept the new culture. In every subsequent decade, rather than following the customary two-generation cycle, new attributes preconditioned success in addition to the previous ones. In the West with its 20% of the world population every phase after 1960, expresses the customers' and state supported customers' market (in Figure 2). Competition keeps bringing about lower cost. There is a lack of care for the natural environment whenever short-term and one-sided views prevail.

Consequently humankind rightfully needs the development level of sustainable enterprises (in Figure 3: 'decade of 2000-') (For details see: Korten, 1999; Hofstede and Pederson, 2004; Schein, 2004; Potocan, 2005; Robbins, 2005; Mullins, 2006; Potocan, 2008). It requires requisitely holistic understanding of the current reality and of the role and importance of all humans in that reality, especially of the critical entities such as enterprises. This means that humans

must use requisitely holistic thinking in their perception, thinking, decision-making and action for humankind to survive; they need ethics of interdependence (See: Mulej and Kajzer, 1998; Mulej, 2000; Potocan, 2000; Potocan, 2005; Mulej, 2006; Mulej et al., 2008). This is not the only economic trend that matters.

### TREND FROM SCARCITY TO AFFLUENCE AND COMPLACENCY

We next offer an interesting view of the phases of economic development. See Figure 4.

PHASE	ECONOMIC BASIS FOR DEVELOPMENT	RESULTING CULTURE
Natural factors	Natural resources and cheap labor, providing for a rather poor life for millennia	Scarcity and solidarity, collectivism, tradition rather than innovation
Investment in modern technology	Foreign investment into the area's economic development; hardly any/poorly developed competitiveness in international markets	Growing differences, local competition, individualism, ambition to have more, be rich
Innovation based on local knowledge	Nation or region lives on its own progress and attains an increasingly better standard of living by becoming internationally competitive	Growing differences and standard of living, global competition, ethic of interdependence, social responsibility, ambition to create
Affluence	People have finally become rich, which makes them happy—with well-being as a blind alley	Complacency, no more ambition, consumerism

Figure 4: From scarcity via complacency to the danger of a new scarcity

Obviously, the affluence phase in Figure 4 is not the highest development phase only, but also the phase of growing problems of employment, of supporting everybody, etc. (For details see: Porter, 1990; Korten, 1999; Potocan, 2000; Jennings, 2005; Potocan, 2005; White, 2005; Mullins, 2006; Huczynski and Buchanan, 2007).

Conclusion: one must attain and keep capacity of requisitely holistic thinking in order to enter the innovation phase quickly and remain in it as long as possible. Since innovation leads to affluence, a new phase after affluence is needed, that so far has not yet been revealed (Potocan and Mulej, 2007).

### CRITERIA FOR THE BORDER BETWEEN THE INNOVATION AND THE AFFLUENCE PHASES

In terms of Figure 3, sustainable enterprises and their innovative and requisitely holistic culture must prevail for humankind to survive. How can enterprises and other organizations at the present stage in their development become sustainable enterprises?

According to data in Figures 1-4, especially Figure 3 - 'decade of 2000', humans, as consumers, buyers, citizens, and competitors need and require enterprises to take a new, more/requisitely holistic and future-anticipatory, view of their own long-term viability. Consequences of one-sidedness in enterprises' decisions are clear: the economic crises of recent decades, which include high cost of sustainable development that has become unavoidable. It is much easier to make near-term profit-seeking business decisions than to think requisitely holistically. More attention must be paid to a requisitely holistic preparation, definition and realization of goals including long-term sustainable development in order for humankind to overcome its ongoing and costly economic crises and to survive. (Potocan and Mulej, 2007).

Bosses and other members of modern enterprises are, hence, facing a basic question: How should they define their new development and future business? By sustainable development principles: the most probable alternative of requisite holism is one-sidedness that allow crucial oversights to occur and cause new crises with the result that very few new firms live more than a few years (Affuah, 1998; Ackoff and Rovin, 2003; Diener and Seligman, 2004; McGregor, 2006; Ralston et al., 2006). Enterprises exist and develop best if their actions are requisitely holistic. However, in both theory and practice, we detected no holistic model of business that provides a requisitely holistic, harmonized, and goal-oriented development. The sustainable development concept offers a (possible) solution, at least, to achieve common goals with a sustainable orientation of activities.

Figure 5 shows the basic aspects of and the linked criteria for what are sustainable enterprises, and possible means of implementing market and social requirements as imperatives in the modern environment. A sustainable enterprise tries to conceive and run its working and behavior in a way that meets both human and environmental needs and requirements (For details concerning each aspect and its criteria, see Potocan, Mulej, 2007 and references in it).

Humans namely live on four basic levels to be considered in sustainable development, therefore by sustainable ethics:

- Individual level;
- Enterprise (e.g. corporate) level;

Closer environment (e.g. natural, social, and ethical) level; and  
 Broader (i.e. global) environmental level.

On all four of them four main criteria make up the dialectical system to be considered as in Figure 5.

Aspect	General Criteria
Economic imperative	Competitiveness
Ecological imperative	Habitability
Social imperative	Community
Ethical imperative	Legitimacy
All aspects	Combined criteria

Figure 5: Sustainable enterprise's basic aspects and main criteria of its quality level

These needs require sustainable enterprises to conceive, formulate, and use requisitely holistic criteria, and to evaluate their businesses critically. Figure 6 summarizes some basic criteria for evaluating the sustainability of business enterprises from some critical viewpoints.

Criteria Aspects	Individual Performance Criterion	Corporate Performance Criterion	Societal Performance Criterion	Global Performance Criterion
Economic imperative	Individual prosperity	Corporate profitability	Societal wealth	Global wealth
Ecological imperative	Individual eco-efficiency	Corporate eco-efficiency	Societal eco-efficiency	Global eco-efficiency
Social imperative	Individual quality of life	Corporate reputation	Societal quality of life	Global quality of life
Ethical Imperative	Individual values	Corporate values	Societal values	Humankind values
All aspects in synergy	Individual sustainable life index	Corporate sustainable working / behavior index	Societal sustainable development index	Global sustainable development index

Figure 6: Basic criteria for evaluation of sustainable enterprise – a suggestion

Hence, a sustainable enterprise attains the highest level of requisite holism and destroys the human condition for survival the least of all enterprises. A sustainable enterprise does not only command with the most modern and comprehensive knowledge, but uses ethics that allow sustainable enterprises to do no or the least harm. It brings into play ethics resulting from sustainable development principles. This means, among the other points, that the traditional economic criteria can no longer express reality; criteria of sustainability diminish the success of the socio-economic development to a level where it has hardly to contribute to any betterment of life over the recent decades. Criteria concerning well-being may serve better.

Diener and Seligman (2004) are offering a further new promising model. It includes important non-economic predictors of the level of well-being, such as social capital, democratic governance, and human rights; all of them influencing work satisfaction and productivity to a great extent. Supportive social relations are necessary for well-being; well-being on its part also leads to good social relationships with crucial economic policy implications. Desirable outcomes, even economic ones, often result from well-being rather than the other way around. People high in well-being tend as a consequence to earn higher incomes and perform better at work than others. They also have better relationships, are healthier, and live longer lives. Therefore they suggest measuring well-being with variables such as positive and negative emotions, engagement, purpose and meaning, optimism and trust, and life satisfaction.

Hornung (2006, p. 338) states that happiness is the permanent goal of humans and an inclusive indicator of holistic well-being, well-functioning, and the physical, psychological, and social health of an individual. This may mean that the affluence phase might be an empty one, if people lose ambition for creation and thus become alienated from their human essence as the most creative living beings. People therefore need either a prolonged innovation phase based on requisitely holistic invention-innovation rather than one-sided processes, or a new phase of creative happiness based on ethics of interdependence and interdisciplinary creative co-operation that replaces the phase of affluence.

## CONCLUSIONS

Over the recent decades, business conditions have changed dramatically. They require more holism than ever from more people and organizations than ever before. For those reasons, organizations must change their way of working and behavior. And important part of these innovations is innovation of organizational culture. Organizations need a new culture, for supporting holistic thinking, decision-making and action, which are profitable and socially responsible. Profit, if one-sided rather than being a requisitely holistically defined business objective,

ruins due to its dangerous and expensive side effects – ecological and medical problems, bankruptcies, lost jobs, and loss of benefits, all of which are expensive to overcome.

A sustainable development as a possible concept of modern development and at the same time holistic cultural of organizational working and behavior excels in efficiency, quality, range, uniqueness and care for the natural environment – all of them in synergy. Market pressure and legal institutions matter for enterprises to become sustainable enterprises, but enterprises lacking culture tend to circumvent rather than to meet legal and market demands.

Diener's and Seligman's (2004) findings are bringing us back to statements we have starting from: if the culture in an area allows people to feel comfortable there, talents and investment in technology will accumulate in that area. Talents go for creativity rather than complacency, because a complacent culture is not supportive of innovation; it lacks tolerance for differences, varieties, and novelty, including innovations. These indicators should be added to the ones of the creative society and to the ones of sustainable enterprise for making economic policy to better fight complacency.

Thus, well-being—without complacency—might be the best version of the innovative culture.

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