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Can One Size Fit All? An Application of Management Theory on the European Sovereign Debt Crisis

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Abstract

In undergraduate management courses around the world, from Harvard University to Beijing International, eager young minds are taught the same fundamental management theories. Among others, one of the most popular would inevitably be Hofstede's Cultural Dimensions.

Geert Hofstede, while working for the IBM research department, undertook a detailed survey and analysis of the various cultures of the world. He defined four dimensions of culture, now expanded to six, that can be utilized to describe the culture of a specific country, thereby creating a framework for international businesses to develop effective strategies. Hofstede once said in regards to cross-cultural business, "Culture is more often a source of conflict than of synergy. Cultural differences are a nuisance at best and often a disaster." His model was created as a method to solve this source of conflict.

Various business men and women have written about both the applications and the limitations of Hofstede's dimensions. Most analysts entertain the idea of doing business across two or three cultures, and in general the consensus is the same: the more cultures that are at play, the more difficult the business becomes. So what would happen if there were even more cultures at play; twenty-seven for example? This is exactly what was created with the European Union.

Applying Hofstede's Cultural Dimensions to the European Union would prove that this monetary alliance cannot succeed long-term without significant changes to the current management structure.

In order to accurately prove my thesis, I must analyze and answer three main questions. First, it is necessary to review the boundaries of Hofstede's dimensions in order to apply them to my field of study. By understanding the exact definition as well as the constraints of his model, a more accurate judgment can be reached. Second, I shall create a profile of the major players in the debt crisis, in order to identify the core cultural attributes and business management style. By graphically displaying the differences based on Hofstede's dimensions, I will be able to evaluate and compare the different markets. Third, I will attempt to define problems that led to the European Sovereign Debt Crisis. By defining the current issues in the European Union and the responses to these issues in government, I can explain the relevance of management theory to monetary union.

At the conclusion of these three focus points, I intend to support that European Monetary Union has left cultural gaps, and if left unattended can lead to the demise of the Union. It is impossible to unify a large quantity of diverse markets under a single legislation. Cultural differences should be celebrated and embraced rather than swept under the rug. Unless the European Commission decides to actively modify their current strategy to reflect these cultural barriers, the European Union cannot succeed in the long term. No, culture is not the sole cause of the current EU catastrophe. But accounting for cultural differences would have lessened the severity or perhaps even prevented the current economic crisis.

Introduction

The European Union (EU) was formally established in 1993. Although a novel theory at the time, the EU emerged quickly as a leader in the global economy. With a modest beginning of only six European countries it now includes twenty-seven, seventeen of which have also unified under a common European currency. In the months preceding the 2008 global financial crisis, the word economies were staring at Europe with wide eyes, marveling at their expanding growth and influence. In one New York Times article commenting on the tenth birthday celebration of the European Central Bank, the author describes the Euro as "more successful than its architects imagined"(Dougherty, 2008). But now, four years following the economic crisis, the world has varied opinions on the European Union, the euro, and its position in the global economy.

"The fundamental issue is that European economic integration is built on a group of countries, each of which wants to stay largely as it was before integration. Although monetary union is now a reality, many citizens in Europe are still grappling with the question of how truly unified they care to be" (Dominguez, 2006, p.2). This is a question I will attempt to answer throughout my study. Since the emergence of the European Debt Crisis, researchers have attempted to establish the reasons for continues turmoil and the explanation for the sudden decline in the stability of the euro. Most journals and authors will point the blame at politics, economic instability, or the restraints of the European model as defined in the Maastrischt and Lisbon Treaties. At the intersection of these three issues lay Dominguez's question: "how truly unified [do] they care to be"? But even more fundamental, I would alter her query to ask: how truly unified *can* they be?

An anthropologist by the name of Geert Hofstede created a framework known today as Hofstede's cultural dimensions. In his research, he defined the four cultural characteristics that valued in different extents in a particular country. His model bases cultural differences on power distance, collectivism, masculinity, uncertainty avoidance, and later added temporal orientation and indulgence. These culture-specific values, when compared, identify the differences and challenges when conducting cross-cultural business.

Defining a Research Question

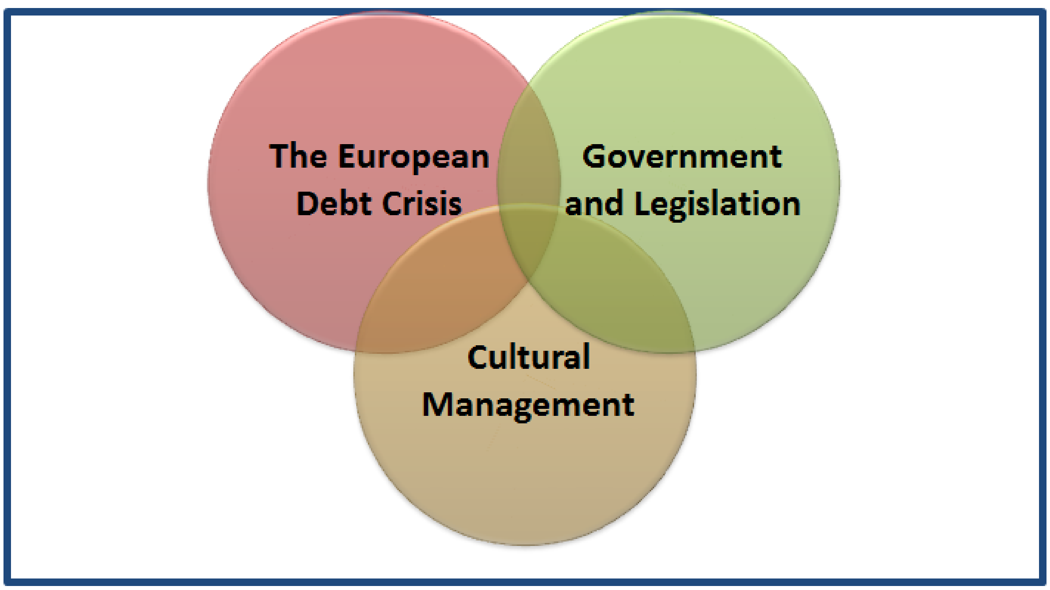

Figure 1

In looking at the connection between the European Union, the Debt Crisis, and cultural management theory, my research question arose. Can culture help explain the continued problems emanating from the European Debt Crisis? The European Union is not one united culture, but twenty-seven different cultures grouped together under one overarching government. Does the European Union, the largest international monetary and government union, function under one global strategy, or an intercultural strategy?

The ultimate goal of this research study was to determine the effect of cultural differences in the European Sovereign Debt Crisis. I hypothesized that the actions taken by the European Commission and Council of Ministers in the years following the debt crisis left no room for cultural differences, and thereby has only created further complications in Europe. The European Union is an international business that has not altered their strategy to match their organization's different cultures, and therein lay their greatest threat. Culture will impact the way a decision or a law is both implemented and received. This union current consists of twenty-seven countries, and twenty-seven very unique cultural dimensions. Yet in their debt-reduction legislation, there is no reconciliation or even recognition of these differences. It is impossible unify a large quantity of diverse and unique cultures without experiencing challenges, and the European Debt Crisis is the first clear example of what can happen when combining several unique cultures under one fixed business model.

Model

Therefore, I created a research model to guide my study. Depicted in figure 2, the fundamental notion of my model is that culture is a moderator, and as such will affect the response of the implementation of economic and political changes. By looking levels of a country's dimension, we can understand why certain actions do or do not operate correctly. By looking at the similarities and differences in the cultures of the main players in the European Debt Crisis, we can apply and draw parallels to their performance in recent years. By utilizing the principles of Hofstede's research, we can see the trends of receptivity by country following the legislation issued by the European Commission to mend the gaps left by the European Debt Crisis.

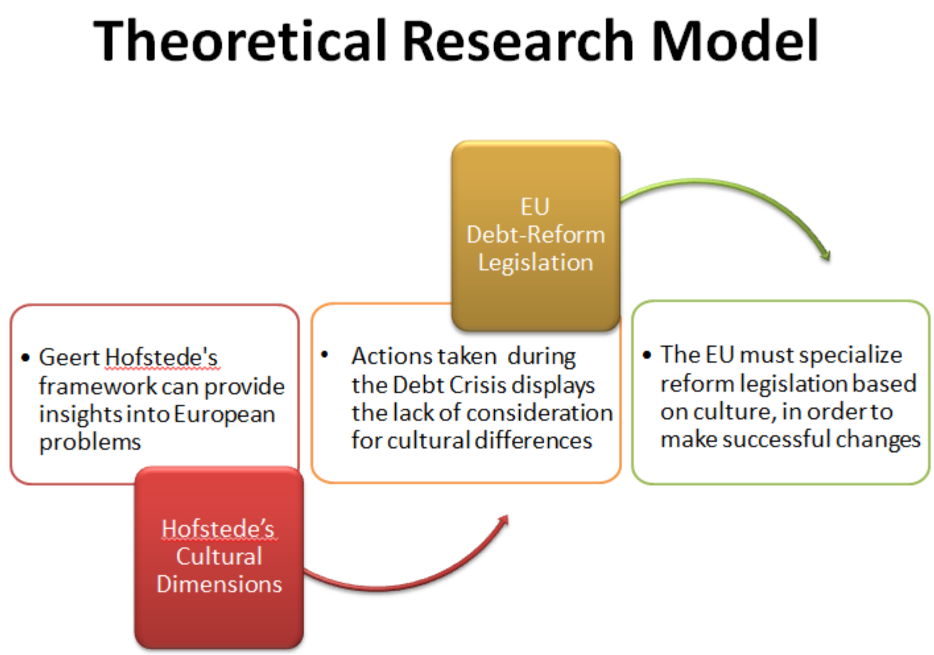

Figure 2

Literature Review

Geert Hofstede's Framework

Geert Hofstede published his theoretical model in 1980 with *Culture's Consequences*. Although "Hofstede's work on culture is the most widely cited in existence", he has received both criticism and praise on his findings (Jones, 2006, 2).

Hofstede's framework is widely acclaimed in the business world for its method of decoding and transmitting the differences in culture between countries in simple, understandable terms. Hofstede's cultural dimensions have bridged the gap between studying international business and understanding how it works. Geert Hofstede wrote several books describing his model and its implementations. Although most of his books were written to explain his model, he also wrote a book entitled "Masculinity and Femininity: the Taboo Culture", in which he discusses the portrayal of gender, sexuality, and men and women in religion helps create a country's unique culture.

There are two main complaints about Hofstede's research. The first stems from the fact that culture changes over time, and therefore his findings can become outdated. The second critique is that other researchers have conducted their own varieties of a cultural scale, some critics prefer for having a greater number or greater quality of dimensions to compare.

For example, M.L. Jones explains in his paper that the original "organizational cultural sensation" originated with the research of Robert Bartels in 1967, where he identified nine intricate values that separate cultures, and specifically how they can be used in marketing in international countries (Jones, 2007, 2). Another researcher, Michael H. Bond, "found four dimensions of cultural patterns: integration, human-heartedness, interpersonal harmony, and group solidarity" (Moran, Harris, & Moran, 2011, 25). Even more recently, a study was conducted by students at the Wharton School of Business at the University of Pennsylvania in 2005, which resulted in *The Globe Project*. This study examined nine cultural dimensions across sixty-two countries. Some consider this a more reliable source of cultural insight, as it involved a more in-depth analysis compared to Hofstede's use of surveys.

Although these three models used varying methods to define a country's culture, the application of their research all serves the same purpose. The ultimate purpose of defining cultural dimensions is to determine how to effectively conduct business, by altering a strategy to best accommodate the cultures involved. Interpreting their data leads to one consensus: the more cultures that are at play, the more difficult business relations will become.

Culture and the European Union

Many books have been written applying on one cultural dimension to international business conduct. For example, in a journal titled "National Cultures and Financial Systems", Kwok and Tadesse used the Uncertainty Avoidance dimension in order to analyze international financial systems and their related success. He argues that the UAI dimension has a strong influence on the type of financial structure and regulation implemented by a country. According to his research, a culture comfortable with the "status quo" would be more likely to adapt a conservative, rigid financial structure (Kwok & Tadesse, 2006, 224).

Political Science journals have been found to include information detailing the troubles facing the European Union and their political system. In her book "European Union Decision Making", Elizabeth Bromberg terms the idea of a "Europe of the Region". Her concept defends a hypothesis that Europe is separated politically by regions within each country. She suggests that in order to be effective, the political system should focus on the small, niche communities within each country, rather than generalizing them into larger political groups (Bomberg, 2002, 2). In a similar journal, Jeffrey Lewis describes the informal change of socialization within the European Union by discussing the purpose of the COREPER, an EU organization aimed to determine domestic negotiation styles in respect to regional values and social patterns.

(Lewis, 2005, 2). Both of these political science articles, unknowingly, are describing the cultural effects on politics in the European Union, while identifying impasses within member states.

Parallel to my hypothesis, Paschal Preston discusses the “neglected social and cultural dimensions” in a work entitled “The European Information Society: A Reality Check”. In his chapter, the author describes a lack of cultural specialization by European Internet. The author notes that programs were created to maintain the cultural heritage of Europe on the internet, but was given very little funding in order to achieve these means. Additionally, the author accuses that “the cultural components are relatively neglected” (Preston, 2003, 48). If the European Union has not considered cultural information availability to be important, then how do they treat culture in the political sphere?

In addition to these works, it is common to find business case studies dependent on cultural differences negatively impacting intercultural business. These cases are created to determine an appropriate solution for dealing with business over two or three countries, but never with a larger multitude of cultures.

The emergence of the European Union created this unprecedented business alliance that was expected by many to become the dominant force in the global market. Yet, in all of the journals and articles written on this subject, no one has ventured to explain how the EU is functioning under the competition of so many conflicting cultures. By combining culture management theories with the politics of the European Union throughout the debt crisis, my research will be able to fill the gaps that exist between these scholarly works.

History

The European Union

On February 7, 1992, ministers from twelve countries came together in Maastricht, The Netherlands, to form an alliance. The Maastricht treaty, as it was called thereafter, established "the three pillars": the European Communities, common foreign and security policy, and police and judicial cooperation for criminal matters. These three functions are defined on the official website of the European Union. The first pillar was designed to create a method to share sovereignty between the three community institutions. The second established a procedure for all member states to have an equal say in foreign policy decisions. The third allowed for intergovernmental decision-making in regards to freedom, protection, and justice. In addition to these three powers, the treaty elaborated on the supremacy of the European Parliament. The treaty creates a mutual connection between the Parliament and the Committees in the decision-making process, in order to create balance and take each country's opinion into consideration (Europa, 2010, 1).

Additionally, the treaty established the creation and regulation of a single European currency. The Maastricht criteria listed the four conditions that must be met in order for a member state to adopt the euro. Firstly, inflation is not permitted to exceed 1.5% more than the average of the three member states with the lowest inflation. Second, the annual deficit is never to exceed 3% of GDP at the end of the fiscal year. Third, the euro was not to be devalued for the first two years of circulation. And fourth, the long-term interest rates are not to exceed 2% more than the average of the three member states with the lowest inflation (Dominguez, 2006, p.75). These criteria, along with the European Central Bank, were created in order to "support economic policy" and "maintain price stability."

Then, in December of 2007, the Treaty of Lisbon was created to establish the European Commission as well as redefine the Council of Ministers. In line with their vision of an "ever closer union", the Council would include the head of state from each member state and a rotating presidency from among the representatives. Thus was born a board of twenty eight individuals charged with the authority to make strategic decision on behalf of the entire European Union. The Council of Ministers was to work in conjunction with this new body as the legislative branch.

Hofstede's Cultural Dimensions

In 1973, Geert Hofstede undertook a detailed survey and analysis of the various cultures of the world. His dimensions were designed to essentially define the culture of a specific country, thereby creating a way to design business strategies for international business.

Hofstede's model was originally created to help explain why international corporations were not achieving positive results when expanding their business strategy into new countries. In his research, Hofstede explains how one strategy cannot be universally accepted due to these differences in culture. So, if a company wanted to expand into a country with a very different set of cultural dimensions, the strategy would need to be modified to fit the new culture. By defining the essential elements that set countries apart from one another, companies are able to succeed internationally.

Geert Hofstede once said in an interview that "culture describes gardens, not flowers…it is how all these flowers stick together" (Rootgers, 2010, Interview). As a political and economic union, the European Union is a body of individuals from various cultures, joined together under a common vision, in order to gain power and influence in the global market. Essentially, it is not much different than your average business organization. As such, the European Union can benefit equally, if not more so, from the same management principles that guide organizations.

The European Sovereign Debt Crisis

The phenomenon now being referred to as the European Sovereign Debt Crisis is the result of several coinciding events before and during 2008. Various real-estate bubbles, an extraordinary amount of credit borrowing by countries, high spending, and relatively low growth all combined together to bring us the European crisis. In his book, Matt Buttsworth explains that “there is a direct relationship between the inability of democracies to control government spending and/or increase taxation and their resultant debt crisis”, referring to both Europe and the United States (Buttsworth, 2011, 1). The national debt by country is depicted in figure 3 below.

The main difference between Europe and the United States during this time of financial instability is that Europe is officially in a “crisis”, whereas the United States is now. Although the US National debt is steadily increasing daily, the European debt “has created a contagion of sovereign risk that is tearing the Eurozone apart and threatening to begin a world financial and economic crisis on a scale that has not been seen since the Great Depression” (Buttsworth, 2011, 2). The Eurozone, culturally divided into many independently run factions, lacks the power to exert a single financial regulation, as was carried out in the United States. Over the past four years, we have all witnessed to the difficulty with which these countries have attempted to climb out of debt. This first became apparent in 2010, when Greece first asked the EU for a loan of 45 billion Euros. Since then, five European countries have emerged as leaders in European debt; exhibiting the slowest growth rate, highest levels of unemployment, and greatest public resilience to economic change. These countries are now referred to as the PIGS countries; Portugal, Italy, Greece, and Spain.

In the book Democracy and Debt, the following chart is given to help display the level of public debt in various countries as of 2011.

Country or Area	Level of Public Debt/GDP as Percentage
Spain	78%
Ireland	93%
France	99%
Portugal	99%
Germany	104%
Italy	135%
Greece	139%78%
Average Euro Area	**97%**
United Kingdom	91%
United States	98%
Japan	205%
Average OECD	**100%**

Figure 3

The author displays the PIGS countries in comparison to Germany and France (the current powerhouses in Europe) and the United States, United Kingdom, and Japan. As can be seen in the chart, those seven European counters account for the largest percentage of European debt. As the countries experiencing the most significant

The European Cultures

Using the information provided on Geert Hofstede's official website, I have created a table to depict the numerical cultural dimensions of each of the twenty-seven countries in the European Union. The table, represented below in figure 4, can be used to compare and contrast the natural intercultural differences between the cultures.

Cultural Dimensions for the EU Member States

	PDI	IDV	MAS	UAI	LTO
Austria	11	55	79	70	31
Belgium	65	75	54	94	38
Bulgaria	70	30	40	85	0
Cyprus	0	0	0	0	0
Czech Republic	35	58	45	74	13
Denmark	18	74	16	23	46
Estonia	40	60	30	60	0
Finland	33	63	26	59	41
France	68	71	43	86	39
Germany	35	67	66	65	31
Greece	60	35	57	112	0
Hungary	46	80	88	82	50
Ireland	28	70	68	35	43
Italy	50	76	70	75	34
Latvia	0	0	0	0	0
Lithuania	0	0	0	0	0
Luxembourg	40	60	50	70	0
Malta	56	59	47	96	0
Netherlands	38	80	14	53	44

Poland	68	60	64	93	32
Portugal	63	27	31	104	30
Romania	90	30	42	90	0
Slovakia	104	52	110	51	38
Slovenia	71	27	19	88	0
Spain	57	51	42	86	19
Sweden	31	71	5	29	20
United Kingdom	35	89	66	35	25

Figure 4

Germany, France, and the PIIGS

In order to accurately support my thesis, it is crucial to understand the meaning of Hofstede's Dimensions in each of the countries I will be discussing. By highlighting the differences in the cultures, we will be able to analyze the problems with the European Union legislation following the Debt Crisis. In order to evaluate each country's dimensions, my research will be derived from Geert Hofstede's most recent information available on his website (geert-hofstede.org), Managing across Boarders and Cultures by Helen Deresky, and my own knowledge.

Portugal

Portugal's power distance score of 63 reflects that hierarchical distance is accepted. Those holding the most powerful positions are given respect and authority, and those given little attention would represent an irrelative position of authority. Negative feedback is not taken lightly, and so employees would find it hard to confront a manager.

Portugal is a collectivist society (unlike all European countries excepting Spain). Groups, rather than the individual, are the focus and therefore family ranks as a priority. Loyalty is crucial, and can be found in daily business transactions, conversations, and politics.

Portugal scores 31 in masculinity and is a country that values harmony. Divisions or rifts in any sector of society are upsetting, and so strikes are not a common practice. They believe in the “work to live” style of living, and therefore Portugal is found to me a more relaxed society. Decision making is not usually centralized; managers are open to employee involvement in large scale projects.

“If there is a dimension that defines Portugal very clearly, it is uncertainty avoidance” (Geert Hofstede, Dimensions, 2010). Portugal scores 104 in UAI, and therefore is found to maintain a rigid code of ethics. Traditions are valued and change is considered to be dangerous. Portugal values security in this sense, and would not change a policy unless absolutely necessary.

Italy

At 50, Italy sits in the medium rankings of PDI. For them, the different distribution of power only represents the level of wealth and comfort that a person will possess. High level employees are expected to have benefits and better pay. The system is considered normal and is neither praised nor criticized. However, even more important than company rank would be age. Most Italian presidents have been elderly, in line with their view that older men and women deserve more respect for their wisdom and experiences.

At a score of 76 Italy is an individualistic culture. It is common for Italians to have their own personal motives and agendas. Family is always considered as the only people you can trust, for individuals will only care for their own well-being. In business, teamwork may be counterproductive and even damaging to the company's progress.

At 70 Italy is a highly masculine society. Competition and success is valued in the Italian lifestyle, and can be seen most obviously in their national sports teams. The ability to brag of their country's soccer team winning a match would be very important to an Italian. They also like to boast of their wealth by providing their family with lavish provisions.

At 75 Italy has a high score on uncertainty avoidance, meaning they are uncomfortable in ambiguous situations. Formalities are a key attribute of the Italian society, and are expected to be observed in all business negotiations. In response, Italians are often detailed planners, in order to reduce any possible uncertainty.

Greece

At 60 Greece has a higher power distance than many European cultures. Individuals with power are expected to have more benefits and less responsibility. This is a characteristic seen often in the Greek workforce, as a large percentage of educated Greeks are employed by the government. The upper level managers here will take full responsibility if a plan falls through or an error is made. In addition, respect for the elderly is an expected courtesy.

At a score of 35 Greece is a collectivist culture. Again, family is considered the nucleus of the Greek culture, dating as far back as their mythology. In business, therefore, nepotism is a common and acceptable practice. Also, since they are collectivist, it is important to build up trustworthy and long lasting relationships. No business would be conducted with a stranger.

At 57 Greece is a Masculine society, but only just. Therefore, men are expected to be successful and maintain the family lifestyle. As a country both collectivistic and masculine, Greeks would often judge a new person or idea by who they know.

At 112 Greece has the highest level of uncertainty avoidance in the European Union, meaning that they are extremely uncomfortable with ambiguity. It is important for the Greek people to have low stress and spend time relaxing. If things go awry, a Greek will easily get emotional and express their feelings towards the situation openly.

Spain

Spain's score in Power Distance dimension of 57 reflects that hierarchical distance is accepted. As a more moderate score, authority is neither a topic praised nor resented, but rather simply recognized.

Spain (and Portugal) is collectivist, in contrast to other European cultures. "However, compared with other areas of the world it is seen as clearly individualist" (Geert-Hofstede, Dimensions, 2011). Therefore, it is easier for the Spanish to get along with more individualist countries. In Spain, teamwork is welcomed as a positive and fun way to work.

Spain scores 42, and so is more feminine than masculine. Cooperation and compassion is a recognizable trait. Also, there is an overwhelming concern for weak or needy people that generates a natural current of sympathy within the country.

As a country with high uncertainty avoidance, Spain is defined by their defined and rigid system of formal and informal rules. Confrontation is avoided as it causes stress and personal conflicts. Ambiguous and undefined situations are avoided at all costs.

Germany

Germany has one of the lowest levels of power distance in the European Union. Their government and business structures are highly decentralized, and dominated by the middle class. Control-style leadership is unpopular; rather those with the greatest qualifications will take lead on a project.

The German society is largely individualistic with a score of 67. The ultimate goal is individual self-actualization. People feel an inert sense of responsibility to their family, employers, and country. Most uniquely, honesty is stressed in all communication and business transactions, no matter the cost.

Germany is a significantly masculine society. Performance is highly valued and expressed early in life, as students are divided into different types of schools at the age of ten based on their potential. They draw a lot of self-esteem from their tasks, and therefore the management style is more task-oriented than relationship-oriented.

Germany is among the uncertainty avoidant countries at a level of 65. There is a strong preference for deductive rather than inductive approaches, be it in thinking, presenting or planning: the systematic overview has to be given in order to proceed. This is reflected by the law system" (Geert-Hofstede, Deimensions, 2011).

France

With a score of 68, France scores high in PDI. The power is highly centralized in France, specifically in government. There is always a strict formality observed with managers and upper professionals.

At 71 France scores as highly individualistic. This means that the French will be found to care of themselves and immediate family rather than the larger group. Teamwork is not often successful, as people in the office desire individual credit for achievement.

At 43, France is a relatively Feminine country. "With its famous welfare system, their 35 working hours/week and 5 weeks holidays per year, France cares for its quality of life and focuses more on work in order to live than the reverse: (Geert-Hofstede, Dimensions, 2011). Also, ostentatious material goods are seen as flaunting wealth, and most prefer modest displays of wealth.

At 86 France has one the highest scores of UAI. Details and specifics are stressed in the business world. This can be seen early in life through the education system, which is renowned for being rigid and thorough.

Making Connections

As the two countries that stand out as succeeding throughout the Sovereign Debt Crisis, France and Germany have many similarities. Interesting about their cultural dimensions is that they have nearly identical levels of individualism and uncertainty avoidance, yet opposite levels of masculinity and power distance. It is interesting to note that three of the four PIGS countries (Spain, Portugal, and Greece) have extremely high levels of uncertainty avoidance, yet are more collectivist cultures. Throughout his book “Cultures Consequences”, Geert Hofstede suggests that there is a very special connection between the collectivist and masculine levels of cultural dimensions. The two feed off of each other. However, one would expect a collectivist culture to perform much more positively in this scenario, as a collectivist culture would surely focus on the strength and well-being of the European Union as a whole rather than their individual country. This theme of individualism vs. collectivism will be displayed further in my analysis.

In addition, there are some similarities between the cultures of the PIGS countries. For example, they each have an uncertainty avoidance level higher than that of France and Germany. In addition, they all have a level of power distance almost equal to each other, varying only by two or three points in either direction. This finding would suggest that extreme levels of uncertainty avoidance have helped contribute to the poor response to financial revitalization programs.

However, Italy has a very unique relationship in this cluster. As can be seen in the figure below, the Italian cultural dimensions are more similar to both Germany and France than the rest of the PIGS cultures. It was surprising to me to see this relationship as it would suggest, according to my model, that the country would respond more positively than the other countries in crisis.

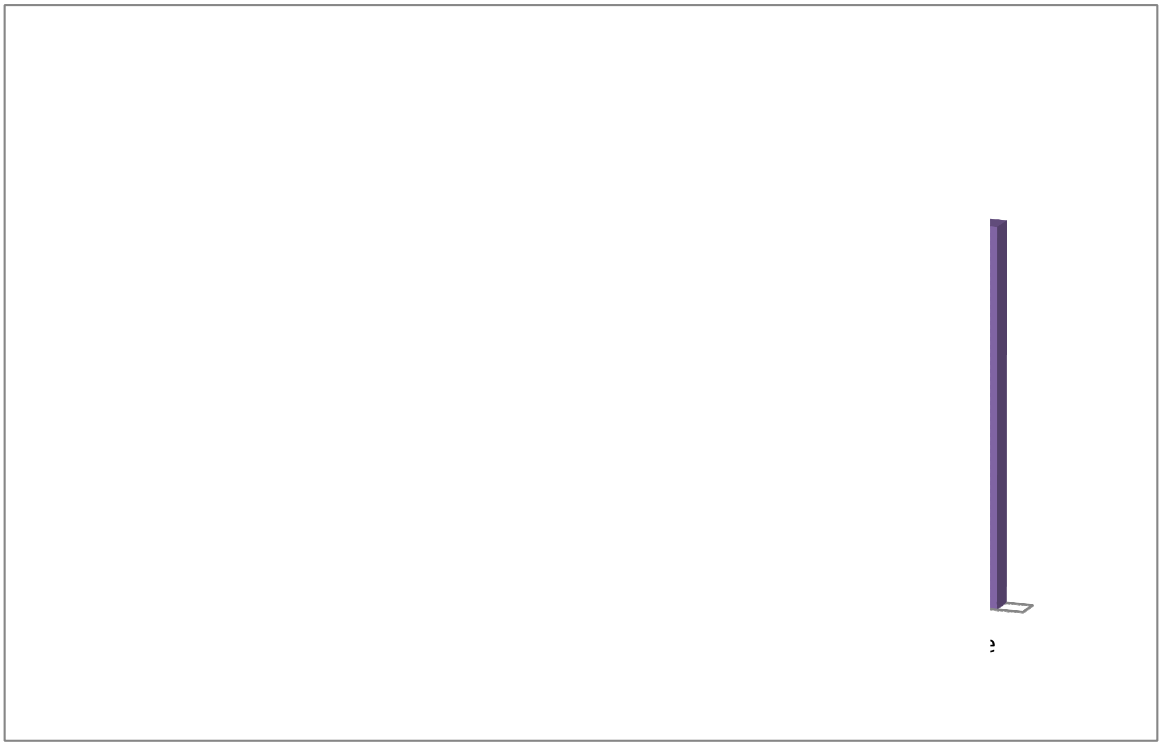

Figure 5

Response to the Debt Crisis

As the legislative branch of the European Union, the Council of Ministers was forced to address the issues brought about by the European Debt Crisis. In the treaties defining the European Union, (the Maastricht Treaty, Treaty of Rome, and Treaty of Lisbon) there were no guidelines or even mention of how to address a financial crisis. Therefore, as the strategic division, it was up to the council to design and enforce new policies to correct this dilemma. In a statement released in December 2011, the council announced that “it will rest on an enhanced governance to foster fiscal discipline and deeper integration in the internal market as well as stronger growth, enhanced competitiveness and social cohesion” (Statement, 2011, 2). The council did create several new initiatives to be implemented throughout the union in an attempt to resolve the fiscal conditions, yet there is little to show for all their efforts. As has been concluded through Hofstede's research, a country's culture will have an effect the types of legislation created and its implementation throughout the nation. Simply stated, what works in one country will not necessarily work in another. By creating universal laws to correct the issue, the council is only creating further complications. There have been three central laws formed in 2011 to help stabilize and regulate the various economies in the European Union that I argue must be personalized to cater each country. The European Commission established the Fiscal Compact, the Economic Governance Pact, and the Stability and Growth Pact. Repeatedly, the legislation created to stabilize the debt crisis has not helped the Eurozone, and that "a 'quantum leap is necessary in reforming EU and euro area economic governance going forward in order to ensure the continued benefits of EMU for European citizens" (Ioannou & Stracca, 2011, 20). Again focusing on the same six countries, I will be able to substantiate the overall lack of success when the council tried to make one size fit all.

The Stability and Growth Pact

The Stability and Growth Pact was initiated in 1997, but revised in again 2005 and 2011. The original document reinforced the economic requirements set down in the Maastricht treaty requiring a GDP deficit no greater than three percent, as well as a national debt no greater than sixty percent of the GDP.

Using the dimensions of masculinity and uncertainty avoidance, we can assess the reaction and the results of this pact. Italy, a country with a similar masculinity dimension to Germany, would be expected to have a positive reaction to the new changes. And, in fact, after the implementation of this act Italy made specific steps to follow the new legislation and try to reduce the national GDP. By the end of 2010 "the commission found that Italy had taken adequate action for a correction of the excessive deficit within its time limit" and that "there were no need for further steps at present" (Emmerman, 2011, 19).

Portugal and Greece, sharing both a low masculinity and an extremely high level of uncertainty avoidance, resisted the new measures. After the first revision in 2005, Portugal plainly refused the pact's demand to lower GDP debt to three percent, announcing that they make no further adjustments to their stability plans. In an attempt to comply with Portugal, the EU decided to grant the country an extension until 2008 to lower their GDP (35). Similarly, Greece was given the same deadline to lower their national debt. However, "by early 2005 it became clear that Greece was not going to comply with this deadline" (Morris, Ongenga, & Schuknecht, 2006, 35). Looking back, we know now that Greece never met their SGP requirement.

"The Stability and Growth Pact is under fire. Problems have appeared in sticking to the rules. Proposals to reform the Pact or ditch it altogether abound" (Butti, Eijffinger, & Franco, 2003, 3). In their critique, the authors list the problems with the legislation in terms of: flexibility, adequacy, enforceability, consistency, and amendment. Specifically, flexibility and consistency appeared to me as the most notable problems in regards to culture. The SGP requires strict GDP ceilings and specific growth percentages to be met. Yet, flexibility is a country-specific dilemma, as some countries move at different paces. Greece and Italy, two countries in the most amount of debt at the time, would undoubtedly require more time to reach the expected GDP level than other countries in the European Union. It is unrealistic to expect one level of response to a problem with varying levels of damage. Additionally, flexibility is a trait accompanying uncertainty avoidance. Only countries with high Uncertainty Avoidance would prefer rigid structure such as this. Week UAI countries would feel threatened or pressured under strict and inflexible requirements. In regards to consistency, the authors are referring to the frequent changes and amendments to the original legislation. Once again, we can see this exhibited by the refusal by Spain and Greece to adhere to the 2005 changes in this law. The constant changes made to the Stability and Growth Pact worked against their extremely high levels of Uncertainty Avoidance, and which explains why they were unresponsive to the two changes.

The Economic Governance Pact

A Package for Economic Governance was announced in the March 2011 consilium. This initiative allowed for the EU Council President to negotiate with the European Parliament. In a European press release, it was referred to as a “surveillance” mechanism to enhance the performance of the Stability and Growth Pact. Through the Economic Governance initiative, the EU decided to spend six months out of the year to issue surveys, mentor the Heads of State, and review the public finances of each nation.

“Overall, our results indicate that so far economic governance in the EU and the euro area has had limited or no success” (Ioannou & Stracca, 2011, 20). The authors explain how the period following the implementation has had “no overall effect on the behavior of the primary balance. While it has increased the counter-cyclicality of fiscal policy it has also increased its sensitivity to the political business cycle”. In addition, it has had “at best no impact on the behavior of real per capita GDP growth, employment growth and labor productivity growth” (Ioannou & Stracca, 2011, 5).

The problem here is that not all countries want stringent control, and rather prefer some level of autonomy. Specifically, this relates to a country's level of power distance. Countries with high levels of power distance have been found to prefer the idea of "an ever closer union", whereas low power distance cultures would prefer a more equilateral division of power.

In addition, the legislation called for a "permanent crisis management framework", known as the European Stability Mechanism (ESM). Fundamentally, this was the clause that allowed for country to be "bailed out". The ESM specifically required a "stringent program of economic and fiscal adjustment a rigorous debt sustainability analysis conducted by the Commission and the IMF" (March Bulletin, 2011, 116).

Although seemingly a positive, precautionary addendum, cultural implications would suggest the possibility for a negative consequence to the ESM. Rigorous structure and fiscal recombination, though intended to be a motivator, may in fact do the opposite in some cultures.

The Fiscal Compact

The December 2011 report announced the creation of a "fiscal compact". The compact creates new constraints to sanction the state's authority to coordinate economic policy, and rather gives more monetary control to the European Council and the European Central Bank. Though the compact is still in its initial stages, public opinion has been extremely vocal. The debate over the effects of this mandate has created a rift between France and Germany.

> Although France agreed to the fiscal compact, Paris has in the past strongly resisted similar measures on the grounds that they infringe on national sovereignty. In analyzing France's apparent policy shift, some commentators posit that Sarkozy only supported the compact in the hope that once it is in place, German policymakers would become more willing to support the increased financial assistance that he believes will be necessary to resolve the crisis. Others note that as the French economy has come under growing market pressure, officials in Paris have little choice but to follow Germany's lead. (CRS, Feb. 2012, 7)

In addition to the difference between Germany and France, there is another common comparison between Italy and Spain. In the months following the Fiscal Compact, Italy has already reduced their public deficit. On the other hand, the Spanish economy is suffering more than ever, as their public debt and long-term bond yields have both risen to alarmingly high levels.

This twofold reaction falls in line with culture, as France and Spain are both feminine cultures while Germany and Italy are masculine. The masculinity dimension calls for assertiveness and a belief in the rewards system, which is exactly what this law tried to accomplish. And once again, we can see the comparison of Italy to Germany as individualist cultures, while Spain is more collectivist.

Findings and Recommendations

The general tactic taken up by the European Union ignored the unique response each country would have to monetary regulation based on their inherent culture. In their drive to reach the goal of an "ever closer union", the Council of Ministers and the European Commission forgot the cultural barriers that currently prevent this goal from feasibility.

After applying my research model, I have determined that legislation in response to the debt crisis must be either country specific or implemented in unique manners. I am confident that the Financial Debt Crisis was not addressed in a proper fashion. Though the European Commission had good intentions, their legislations proved to be counterproductive. Though they could not determine the problem with their changes, I conclude that their methods were generalized to the idea of a single European culture. Unintentionally, they were targeting cultures with high power distance, lower uncertainty avoidance, and individualistic tendencies. A high power distance culture would accept the distance in the hierarchy and approve of giving away power to the Union. A culture with lower levels of uncertainty avoidance would accept that legislation is constantly changing, and therefore not oppose the alterations in government regulation. And, as my research has concluded, a country with more individualistic tendencies will respond more positively than collective cultures. This pattern sheds light on the success that Italy has had in their response to these new laws, as the Italian cultural dimensions fall perfectly in line with this exact pattern.

The values and ideas that lined their debt reduction legislation could not work for cultures with high uncertainty avoidance, a commonality among all of the PIGS countries. However, I also have found that the level of uncertainty avoidance does make a difference. Italy joins Germany and France with a moderately high level of uncertainty avoidance, and Italy has had a more positive response than the any other nation in the years preceding the Sovereign Debt Crisis. Portugal, Spain, and Greece, having a much higher level of uncertainty avoidance, were unreceptive in comparison. Additionally, I believe that there is a delicate relationship between uncertainty avoidance and individualism. According to my study, the more individualist cultures have been the most successful since the crisis. Coupled with lower levels of uncertainty avoidance, the two dimensions together suggest that these cultures stress the success of their own nation state and their own economic success, and thus drive their motivation to escape the crisis.

But one thing is clear; one size does not fit all. Instead I would recommend that the European Union either customize legislation based on region, or allow each country to implement it in their own way. A debt reduction law would be more effective if it was specifically designed to treat a certain culture. For example, the European Council should design two versions of the same law, one with stringent controls and penalties for cultures with high power distance, and one more lenient for cultures with low power distance. Also, for cultures exhibiting this relationship of lower uncertainty avoidance and individualist tendencies, the Council should create laws that stress rewards for success of that individual member state, and reinforce that their economy would prevail if the legislation was followed in its entirety.

If customizing legislation is improbable, then the European Union must allow the Heads of State the power to customize the way in which it is implemented. The heads of each nation understands the cultural needs of the people, and therefore would have the insight to predict the methods that would and would not be successful. By giving some power back to the member states, rather than centralizing the power in the middle, could provide the solution to cultural disparities that exist within the European Union.

To ultimately answer my research question, I found that the European Union was acting with the mindset of a “United States of Europe”. Rather than trying to unite their member states under a common ideology, they should celebrate and embrace their differences. The EU is a global force today because of their ability to combine the strengths of so many different nations under a single flag; they should not dilute the unique attributes of each member state. If the European Union could rectify their approach to understand the role of culture, as explained in my study, they would be able to approach the debt crisis in an efficient and effective manner, and return to the world once again as the leading economy of the twenty-first century.

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