



RESEARCH ARTICLE

The Moderating Effect of Cultural Influence on Governance and the Economy

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ARTICLE INFO	ABSTRACT
Received: May 5, 2024 Accepted: Jun 16, 2024	<p>This study aims to investigate the moderating effects of cultural influence on the relationship between governance indicators and the economic capability of countries by using cultural influence factors developed by the Lowy Institute and a newly developed governance index using principal component analysis based on World Governance Indicators. The cultural influence indicators that were used in the study include a composite score for cultural influence as well as three cultural influence sub-measures. The cultural influence factors and sub-measures were extracted from the Lowy Institute Asia Power Index whilst World Governance Indicators sub-measures were taken from the World Bank database based on annual data from 2018 to 2022. This study attempts to contribute to the existing body of literature by analyzing the moderating effect of cultural influence on the relationship between governance and the economy using cultural influence factors developed by the Lowy Institute and the newly created governance index. Results from the fixed-effects and random-effects regression suggest that cultural influence has a positive moderating effect on the relationship between governance and the economy. Also, the complex and nuanced effects of cultural influence sub-measures on the relationship between governance and the economy were evidenced by positive effects and supported previous findings by Khan (2010), Norris and Inglehart (2011), and others. The results from the study indicate that cultural influence has important implications for strategies for researchers, policymakers, and practitioners. and highlights the importance of managing information flows when developing policies and strategies.</p>
<p>Keywords</p> Cultural influence Governance indicators Economic capability Lowy institute Worldwide governance indicators	
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INTRODUCTION

The study of culture and its effect on a country and its effect on a country's governance and economy has been studied in various ways in the past. As an example, Mill (1892) recognized the importance of cultural diversity in influencing the political stability and governance of a country. Furthermore, the importance of ensuring that a country has considered cultural factors when developing government institutions has been argued by Landes (1998) as being an important requirement to ensure that a country can maintain economic development. The studies seem to also indicate that cultural influence significantly influences both the management and development of governance institutions and correspondingly affects the economy. Nonetheless, the ambiguity and vagueness in understanding and measuring cultural factors have motivated various researchers to attempt to understand and quantify culture and to explain its influence.

The governance of a country has been argued to be a crucial component that contributes towards the wealth and stability of a nation. Governance of countries is overseen and administered by government agencies and bodies and involves policy-making and enforcement of rules and regulations to benefit society. By way of definition, Fukuyama (2013) defined governance as a government's ability to make and enforce rules and to deliver services. In this context, governance involves the actions taken by governments to ensure that policies have been implemented to serve the public. Nonetheless, the ability of governments to provide good quality governance is hard to measure and quantify. Fukuyama (2013) further argued that effective governance is hard to measure and quantify as a result of the subjective nature of the antecedents and factors that are used to determine the quality of governance. Similarly, Williams and McGuire (2010), Chakraborty, Thompson, and Yehoue (2015), as well as Lian and O'Neal (1997), provided parallel arguments in support of Fukuyama (2013) in explaining the possible linkages and significance of cultural influences and their influence on institutional governance and the economy.

Recent studies by Evan and Holy (2023) argue that culture and institutional governance are intertwined which would infer that cultural influence is an intrinsic and fundamental factor that influences the development of institutions. Furthermore, empirical work performed by Zhang, Lai, and Jie (2024) addressed endogeneity issues relating to the relationship between governance and corporate innovation by using cultural intensity as an instrumental variable. Also, Liu and Wan (2023) argued that there is a notable gap in the academic literature about studies that focus on the impact of culture on the relationship between the development of government policies and industrial development policies. Over and above that, Liu and Wan (2023) asserted that culture plays an important role in the sustainable economic development of a country and proposed that countries adopt and develop a cultural governance framework to ensure that government institutional development and economic policies are well aligned and incorporates the cultural factors and cultural dynamics.

Williams and McGuire (2010) on the other hand contended that culture has a significant influence on national economic innovation and economic creativity and that culture is an essential element of the governance structure of a nation. The importance of culture in influencing the governance of institutions and its influence over national economic development was further posited by Chakraborty, Thompson, and Yehoue (2015). Furthermore, the authors contend that cultural institutions and tribal institutions are important factors that influence economic institutions. Lian and O'Neal (1997) further argued that the need to understand the influence of cultural differences on country governance as well as political and economic development is not a new idea. However, the diversity and the complexity of the effects of cultural differences and their influence over a country is making it more challenging for countries to explain the effects of culture on the development of institutions and the economy.

The importance of understanding the influence of culture on institutional governance and the economy was implied by Mill (1892) who suggested that differences in languages have a cultural effect that influences governance. Furthermore, studies by Easterly and Levine (1997) justified the nefarious effects of culture and its effects on the economy as a result of countries designing policies to encourage ethnic divisions. Easterly (2001) subsequently delved into the matter of the cultural effects of different social classes and their influence on economic development and came to similar conclusions in suggesting the cultural differences between the social classes play an important role in influencing societal and economic development. Nevertheless, the effects of culture on government policies and its influence on economic development are rather complex. For instance, Nettle et al. (2007) managed to highlight the complex relationships between cultural influences such as linguistics, ethnicity, and religion having considered economic conditions.

From the point of view of this study, the effect of culture on the economy will be studied by focusing on how cultural influence moderates the impact of governance on the economy. This study is made possible as a result of cultural influence indicators and sub-measures that have been developed by the Lowy Institute. The cultural influence factors taken from Lowy Institute present new opportunities to gauge and measure the country's cultural influence over other nations and are distinct and unique as compared to cultural indices developed by Hofstede (1980, 2001) or the GLOBE cultural index as discussed by McCrae, Terracciano, and Allik (2008). These cultural influence indicators will be used as a way to measure the ability of countries to project power and dominance over other countries, and consequently enable countries to gain political and economic strength and authority. The cultural influence factors that have been developed by the Lowy Institute include a composite score for cultural influence and scores for cultural influence sub-measures. Cultural influence sub-measures include cultural projection, information flows and people exchange. An important principle that was used in developing the cultural influence component is the fact that cultural influence can influence the strength and ability of a country to influence other nations. Hence, this would result in a relative increase or decrease in the ability of a country to project its power and dominance.

The interaction between culture and governance and its influence on the economy is an interesting area to study as cultural influences at a national level have been argued to play an important role in influencing the effectiveness of governments developing and implementing policies. Prior literature also motivates this study as proxies for cultural dimensions proposed by Hofstede et al. (1990) have been used in previous studies to examine the impact of cultural dimensions on governance. However, despite the encouraging signs provided by favorable outcomes from previous studies, benefits could be found by evaluating the relationship between culture and governance by using proxies for cultural influence developed by the Lowy Institute. Also, this study provides a further appraisal of the theoretical and empirical foundations of the moderating influence of cultural influence on governance and the economy.

The theoretical models which will be used in this study are based on previous work performed by Evan and Holy (2023) as well as Sacristan et al (2022). Both studies have provided a methodological basis to test the moderating effect of cultural influence on the relationship between governance and the economy. Furthermore, these studies have managed to contextualize the use of national cultural factors in studying and how they can be used to understand institutional governance and its influence on economic development. Nonetheless, the approach applied by Evan and Holy (2023) as well as Sacristan et al (2022) will be useful for this study as it provides for empirical model to perform the study and to test hypotheses that have been developed.

The World Bank has developed a set of measures and indicators to proxy for quality of governance in various countries. These measures are known as Worldwide Governance Indicators (WGI) and are measured through a combination of surveys and assessments of various parties and international organizations. The measures that are used to proxy for quality of governance include Control of Corruption, Government Effectiveness, Political Stability, Regulatory Quality, Rule of Law, Voice, and Accountability. These measures have been assumed to be important when it comes to gauging the quality and effectiveness of government agencies and departments. Nevertheless, the means of determining the rank of countries based on the methods proposed by the World Bank has been scrutinized for its subjectivity and validity.

Furthermore, evidence from prior studies has shown that the effect of governance on society and the economy does align with theoretical underpinnings. For instance, Handley and Angst (2015) as well as Sacristan et al. (2022) provided evidence to indicate that culture plays an important role in influencing economic development. Nonetheless, there have been previous studies that have been found to contravene established theoretical underpinnings. Notably, Evan and Holy (2023) and

Hamdan et al. (2024) provided mixed evidence in terms of the influence of cultural factors on governance. These studies also highlighted the importance for analysts and researchers to understand the nuanced and in-depth influences of culture on economic development.

Nevertheless, this study contributes to the existing body of literature as it attempts to test the theoretical foundations and the framework that explains the relationship between cultural influence, governance, and the economy using cultural influence factors developed by the Lowy Institute. Furthermore, this study also attempts to address the gaps in the literature which have been identified. The cultural influence factors will be tested for their moderating influence on a newly created governance index (GI) based on components that form a part of the WGI. The newly created GI is created using the principal component analysis methodology. Moreover, the sub-components of the WGI will be used as an explanatory variable to test the validity of the theoretical assumptions made in the study.

Accordingly, this study will attempt to answer two research questions (RQs). **RQ1:** What is the moderating effect of cultural influence and cultural influence sub-measures on global governance and economic capability? The moderating effect of cultural influence on governance and the economy is analyzed using the fixed or random effects model. Furthermore, the cultural influence sub-measures will be used to evaluate the effects on the newly created GI.

The second RQ will attempt to study the following; **RQ2:** What is the moderating effect of cultural influence and cultural influence sub-measures on global governance sub-measures and economic capability? The fixed or random effects model will be used to estimate the effects of cultural influence and cultural influence sub-measures and how they influence the newly created GI and governance indicator sub-measures. By performing this analysis, the results of the analysis will provide some useful information relating to the relationship between cultural influence and governance in terms of six sub-measures used by WGI.

The remainder of the study will be presented as follows. Section 2 will describe extant and recent literature relating to the moderating impact of cultural influence on the relationship between governance and economic capability. Section 3 presents the theoretical framework for the study. In Section 4, the data and methodology which will be used are discussed. Section 5 will discuss the results and analysis of the study. Section 6 discusses the theoretical and practical implications of the study. Finally, Section 7 will provide a summary of the conclusion of the study and discuss possible future directions.

LITERATURE REVIEW

The moderating effect of cultural influence

The theoretical foundations for understanding the effect of culture on governance and the economy were implied by Mill (1892). However, subsequent works performed by various authors such as Easterly and Levine (1997), Nettle et al. (2007) and others manage to contextualize the effects of culture on economic development in a variety of ways which suggests that studies relating to culture and its effect on the economy is a difficult area to study with vagaries and uncertainties. Nonetheless, work performed by Lian and O'Neal (1997) as well as Chakraborty, Thompson, and Yehoue (2015) suggests that cultural influence is an integral aspect of the development of institutions. Rejchrt and Higgs (2015) and Barkema and Vermeulen (1997) on the other hand explored the effects of cultural influences between countries in what both from the point of view of the effects on government institutions and the economy and found that cultural factors have a significant role to play.

Nonetheless, the complicated nature of culture the effects on governance of institutions, and the corresponding effects on the economy has been often argued to be remarkably difficult to predict and understand. Previous studies by Zhan et al. (2015) and Awaworyi Churchill (2017) provide some

noteworthy evidence concerning the fact that cultural factors such as race, ethnicity, nationality, and diversity do not only impair the development of government institutions but also have negative effects on economic development. Ottaviano and Peri (2006) on the other hand suggested that cultural influences and cultural diversity though important to economic development are difficult to manage and instill in a society and the evidence from this study would suggest that there are socio-political factors to consider when designing national policies.

The evidence from extant literature on the moderating effects of cultural influences on governance and the economy seems to indicate that there is scope for further scrutiny and evaluation. Furthermore, existing literature in this area of study seems to suggest that in-depth empirical and broad-based empirical work would also be beneficial as new cultural influence measures such as those developed by the Lowy Institute could be used as an indicator to gauge the effects of culture on governance and the wider economy.

A notable study to gauge the moderating effect of cultural factors on governance and the economy was performed by Evan and Holy (2023). In this study, empirical methods were applied to Hofstede's six cultural dimensions which were used to evaluate the relationship between the effects of cultural dimensions of societies in different countries and the resulting influence on governance and quality of institutions. Using panel data regression models, the results from the study are mixed and some cultural diversity factors have a positive impact while others are negatively related to governance.

The application of Hofstede's (1990) cultural factors and their relationship to governance was also tested by Sacristan et al. (2022). In the context of this study, the researchers asserted that the cultural and informal institutional context of ownership plays a greater role in deciding ownership concentration when tested using Hofstede's (1990) cultural factors based on the evaluation of ownership concentration of European firms. In an earlier study, Zimmer and Toepler (1999) emphasized the importance of accounting for institutional frameworks when it comes to devising cultural policies. From their point of view, government policies to support the arts are significantly affected by historical institutional arrangements and the role of non-state actors when it comes to formulating cultural policies.

In a previous study, the influence of Hofstede's (1990) cultural factors on governance in companies was studied by Handley and Angst (2015). In this study, societies were categorized as being individualistic with low uncertainty avoidance or collectivist with high uncertainty avoidance characteristics. Results from the study indicate that contractual governance is effective in societies that are categorized as individualistic with low uncertainty avoidance. Furthermore, the study also justified the importance of accounting for national culture in policy making.

Handly and Angst (2015) supported previous work by Hofstede (1990) by claiming that cultural factors play an important role in developing policies at a national level. However, Sheedy and Griffin (2018) study the effects of culture on the organization from a different prism. Based on their study, empirical evidence indicated that a risk management culture is necessary to mitigate the effects on organizational development and that a risk management strategy should be designed to manage such risk.

To complement the work performed by Handly and Angst (2015), Sheedy and Griffin (2018) as well as Sacristan et al. (2022), a recent study by Jitmaneroj (2024) focused on the impact of culture relative to the corporate environment and the economy. Based on this study, the empirical evidence seems to suggest that corporate culture plays an important role in influencing organizational development and improving company performance. Similar to the findings made by Jitmaneroj (2024), Albaity et al. (2023) found that cultural factors such as trust and confidence play an important role in the development of Islamic banks and credit growth. Moreover, Pinelli et al. (2024) provided evidence to suggest that corporate culture plays an important role in influencing the governance

arrangements of a company and that a country's family-intensive governance arrangements are affected by the cultural long-term orientation of society.

In addition, Hamdan et al. (2024) studied the moderating effect of culture in different cultural environments to gauge the impact of culture on institutional owners and the appointment of women representatives on boards. The study also found that board gender diversity does not necessarily contribute to improvements in corporate governance. Furthermore, the effect of culture on environment, social, and governance (ESG) issues in China was studied by Lin et al. (2024) who found that cultural embedding in different regions in China does have an influence on corporate green technology investment and this will have an effect on the economy. The effect of culture on the investments was further deliberated in this study through the "governance effect" channel.

Evidence from prior studies seems to suggest that there is a positive correlation between cultural influence and governance and the corresponding effect is beneficial to economies. Such economic benefits were implied by Zimmer and Toepler (1999), Sacristan et al. (2022), Sheedy and Griffin (2018), and Lin et al. (2024). Additionally, Noorderhaven and Tidjani (2001) provided further justification to support the argument that cultural influence has a positive influence and moderates the impact of the quality of governance on economic performance. By studying the relationship between cultural dimensions and economic performance of countries, the authors were able to provide empirical evidence to suggest that cultural dimensions play a significant role in influencing countries. Based on the abovementioned literature, we hypothesize the following:

H1: Cultural influence has a positive moderating influence on the relationship between governance indicators and economic capability.

The moderating effect of cultural projection

Cultural projection plays an important role in influencing the effects of governance on the economy. Furthermore, the review of the literature indicates that both countries and companies have recognized the importance of cultural projection and have designed various methods to ensure that they can influence other countries through cultural modalities such as politics, education, and cultural sectors.

The theoretical basis to explain the influence of cultural projection on the relationship between governance and the economy can be explained by evaluating a study performed by Eakin, Keele, and Lueck (2022). In this study, the authors focused on the importance of cultural projection and its effect on the quality of governance of a country. However, the authors in this study viewed the relationship between cultural projection and governance from the prism of urban development. Nonetheless, the results from Eakin, Keele, and Lueck's (2022) study are informative as they imply that cultural projection is an important factor to consider in the context of the relationship between governance and economic development. Baskent (2022) on the other provided a different point of view when it comes to understanding the relationship between cultural projection and governance. By conducting interviews with stakeholders, Baskent (2022) found that cultural projection and the use of power have a significant influence on forest policy.

Arora and Stirling (2023) on the other hand argued that nations can project power on other countries based on their historical colonial privileges. Countries that were former colonial powers have an innate cultural superiority that they can use to dominate and control other nations. Factors that have contributed to these cultural privileges include military supremacy, gendered domination, comprehensive superiority, controlling imagination, and toxic extraction of resources. The insidious application of cultural influence as a method to influence other countries was further discussed by Thomas (1994).

On the other hand, the influence of cultural projection through the use of language and dialect was studied by Hu et al. (2022). The study provides empirical evidence to suggest that the Chinese dialect plays an important role in influencing innovation and found that external resources and education play an important role in influencing a city's innovation capabilities.

Min et al. (2022) conducted a study on the effects of culture on the COVID-19 pandemic and found that less individualistic and higher uncertainly avoiding cultures contributed to the government's success in managing the pandemic. Societies that projected these cultural traits during periods of a pandemic would benefit as their economies would be more stable and would recover quickly.

The effects of cultural projection on institutional governance can also be viewed from the perspective of regulatory networks at both local and global scales which combines both the public and private sectors (Aart Sholte, 2010) The political dimension of a “networked” and “polycentric” governance of global affairs was argued to play an important role in influencing the governance of institutions.

Cultural projection and its influence on governance were also studied through the lenses of corporate capitalism, where companies influence developing countries in Asia, Africa, and Latin America (Farazmand, 2004; Kanval et al., 2024). The author was unambiguous when suggesting that corporations would exert power by occupying key strategic positions in government and economic sectors as well as cultural sectors.

Nonetheless, Lake (2014) provides a counterargument to the prevailing notion that culture will have a positive impact on governance. China's cultural and traditional strength and authority will recede as a result of economic and geopolitical developments. This can be seen from the damaging impact of social and economic problems that China has faced after the COVID-19 pandemic and the trade war with the US.

In recent times, studies have focused on the impact of cultural projection on governance by studying the effect of developing education policies through a global multivocal analysis. This study was performed by Martini et al (2024) where the findings indicate that projections of culture and politics play an important role in developing a common approach to education. Furthermore, these effects will have an effect on the nature of the economy in the future (Martini, 2024; Jam et al., 2014).

Also, Lopez-Aranguren (2023) discussed the impact of the Japanese government's policy initiative to improve international stature when it comes to promoting Japan's technological dominance through public diplomacy. This initiative was further studied by analyzing the technological superiority of Japan using the Soft Power 30 and Global Soft Power indices. From the perspective of the development of cities, Grossi, Sacco and Blessi (2023) provided evidence to suggest that culture-driven urban governance contributes positively towards city development. Based on the results of our investigations of relevant literature, the following is hypothesized:

H2: Cultural projection has a positive moderating influence on the relationship between governance indicators and economic capability.

The moderating effect of information flows

There have been a variety of studies which have been performed to analyze the effect of information flows on governance and the economy. These studies have been crucial as they emphasize the importance of culture in the context of information flows.

A study by Schiller (2019) drew attention to the theoretical framework of the cultural implications of information flows on the governance of countries. In the same study, the author argued that cultural influence on the governance of countries is influenced by cultural informational outputs. Furthermore, the governance of institutions was also cited as a vital area that influences a company's productive capacity. Attesting to the inferences made by Schiller (2019), Entman (2003) applied the

cascading activation model to provide evidence in support of the hypothesis that the power or authority to influence news has an important role to play in affecting actual events. Entman (2003) also suggested that this observation relating to the importance of using and influencing news should be used as a basis for countries to develop foreign policy.

In a separate study, Aaronson and Leblond (2018) relied on trade data to understand the effects of governance on the economy. The authors in this study hypothesized that data flows should be made readily available to all countries who are concerned that those countries can use such data to gain an unfair advantage over other countries when it comes to issues relating to trade. The exploitation of information and its influence on governance and the economy was also described by Zhu and Sun (2022) who were apprehensive about the reliance that China has on the international payment system. Furthermore, the authors argued that China should find means to evade possible sanctions on the international financial system and information gateways such as the Society for Worldwide Interbank Financial Telecommunication (SWIFT), especially after developments relating to the trade war with the United States.

The importance of information flows in influencing an economy was also described by China, Yan, and Yang (2024) in the context of government control of information during the COVID-19 pandemic. The authors in this study managed to provide evidence and justification in favor of the Chinese government's governance and policing of information flows during the pandemic to avert panic and disorder. This was achieved by ensuring that both the public and government agencies were interacting and communicating during that period.

Sun et al. (2019) on the other hand studied the impact of information flows on governance from the point of view of knowledge flow. The authors managed to provide evidence to indicate that knowledge flow has an important role to play when influencing innovation governance and organizational development.

A recent study by Neuwirth (2024) deliberated on the cross-cultural impact of technologies such as artificial intelligence and the importance of regulating these technologies. The study also highlighted the need to consider the impact of global governance of artificial intelligence from the perspective of the United Nations Sustainable Development Goals (SDGs) and argues that cross-cultural differences between countries should also be considered when devising global regulatory standards. Also, the effects of culture from the point of view of antitrust policy reform proposals studies by Popiel (2023). Nevertheless, the existing literature has led us to hypothesize the following:

H3: Information flows have a positive moderating influence on the relationship between governance indicators and economic capability.

The moderating effect of people exchanges

Cross-country people exchanges and movements have been argued to have important cultural significance as they contribute towards economic and social development. Nonetheless, the people exchanges have had some ill effects on countries from the point of view of contributing to social and political problems. As a result, governments throughout the world have attempted to placate these problems by developing governance policies to ensure that the movements of people for economic and cultural reasons are mutually beneficial to all parties involved. The following literature provides some evidence to support some of the arguments which were made above.

To understand the theoretical framework to explain the effects of people exchanges on governance and the economy, studies by Griffin (2003), Khan (2010), and Tschirhart et al. (2016) will be used as a basis for analysis. The impact of the movement of low-skilled labor and the possible implications on governance and the economy was studied by Griffin (2003). The author further opined that governments should consider the social cost of globalization as the poor are disadvantaged and are

at risk of exploitation. Khan (2010) on the other hand analyzed the impact of people and society and its relationship with governance from the point of view of the political ability to organize people to inflict and absorb costs during periods of conflict. The confounding effects of culture on the relationship between people in societies justify further studies in the area.

Furthermore, Tschirhart et al. (2016) suggested that cultural exchanges by way of social exchanges can have a positive impact when on the economy and society by dealing with social and environmental issues. The authors focussed on Indigenous communities by dedicating their efforts to understanding the benefits of community engagement and collaboration.

In addition, Shore (2006) justified a European model that would benefit from social exchanges and collaboration which would be useful for purposes of economic development. An important tenet of this model is the fact that national cultural differences can be surmounted and supranational organizations can be formed to rationalize and bring together the various cultures and national identities.

Also, a study by Mertzanis, Basuony, and Mohamed (2019) addressed the importance of considering the impact of religion and other social heterogeneity issues in evaluating the relationship between corporate governance and firm performance. The same study drew attention to economic and non-economic social factors which influence firm performance.

Liu and Van Dongen (2016) asserted that transnational social actors, and more importantly new migrants, have an important influence on governance structures at the state level. This study is performed using data from institutions at the provincial and central levels as well as interviews. Moreover, O'Brien (2000) argued that cultural influence changes the cultural dynamics of a country as a result of social movements is an important aspect of global politics and governance.

More recently, Tadesse and Erdem (2023) attempted to analyze the effect of people migration on financial development and economic development. This study also implies there are political considerations when it comes to designing governance policies. Furthermore, Lee (2023) focused on migration issues within mainland China and the moral governance of cultural activities involving religion. The results from the analysis suggest that people from different social classes have an important role to play in temple construction and have an influence on moral and economic development. Therefore, based on the above theoretical analysis, we propose the following hypothesis:

H4: People exchanges have a positive moderating influence on the relationship between governance indicators and economic capability.

Theoretical framework

A review of previous literature finds that cultural influence has a moderating effect on the relationship between governance and the economy. However, this study introduces cultural influence indicators developed by Lowy Institute which will enable an examination of how cultural influence factors attenuate the relationship between governance indicators and economic capability. The theoretical framework is shown in Figure 1.

Cultural Influence

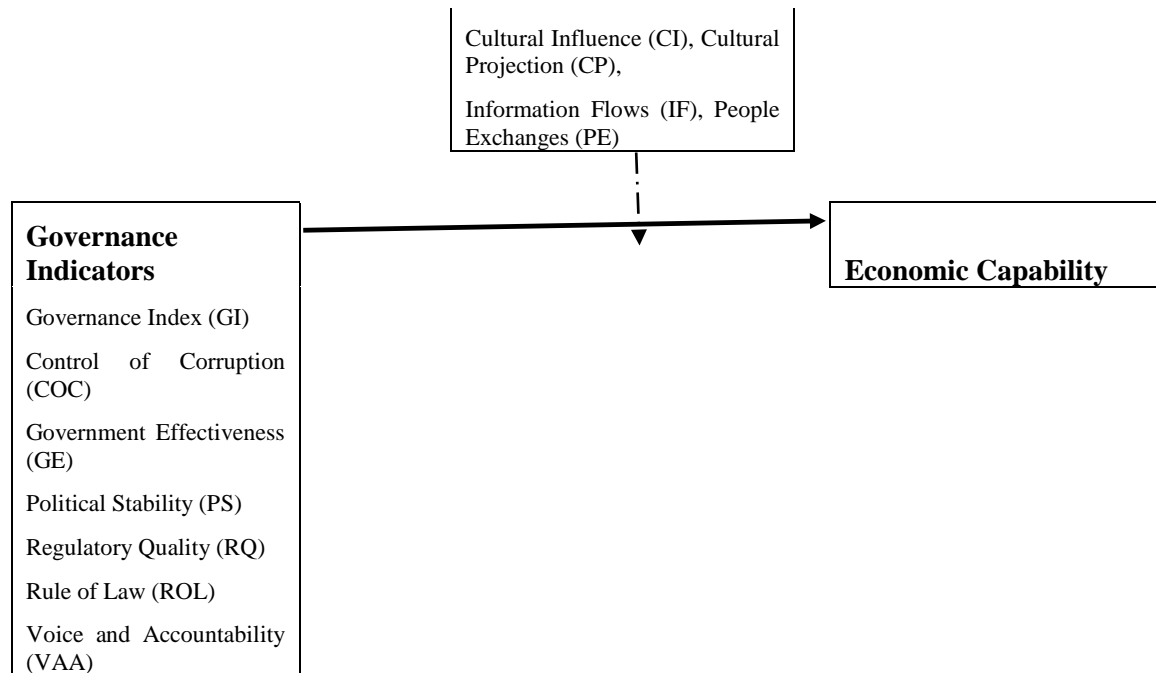


Figure 1: Theoretical framework

DATA AND METHODOLOGY

Data and sample selection

Based on data availability, this study selects data from two main sources in particular. The cultural influence factors and sub-measures are extracted from the Lowy Institute Asia Power Index (LowyInstitute.org). Furthermore, World Governance Indicators sub-measures are taken from the World Bank database (Worldbank.org). Annual data is selected for the period 2018 to 2022.

The cultural influence score is a measure that has been developed by using a methodology that has been prescribed by the Lowy Institute. The methodology relies on the weightage of three separate cultural influence sub-measures including cultural projection, information flows, and people exchanges. The aggregate score for cultural influence provides insights into the ability of countries to shape international public opinion through cultural appeal and interaction based on the cultural influence sub-measures. The cultural influence and its sub-measures are given rating scores which range from 0 to 100.

Furthermore, the dependent variable for the study, economic capability (EC) is also selected from the Lowy Institute Asia Power index. The EC measures the relative economic strength of a country based on geopolitical relevance in terms of size gross domestic product (GDP), international leverage (the ability of governments to influence other countries through financial, legal, and sanctioning powers), technology (technological and scientific sophistication) and connectivity (capital flows and physical ways countries connect and shape the world economy).

There are a total of 26 countries which have been selected for this study. These 26 countries constitute countries that were evaluated as part of the Lowy Institute Asia Power index and they include the United States, China, Japan, Australia, Russia, India, Indonesia, Malaysia, New Zealand, Pakistan, Philippines, Singapore, South Korea, Thailand and Vietnam, Taiwan, North Korea, Brunei, Bangladesh, Cambodia, Sri Lanka, Myanmar, Laos, Mongolia, Nepal and Papua New Guinea.

A governance index (GI) will be created to gauge the effect of governance on the economy. This governance index will be created using principal component analysis based on World Governance

Indicators (WGI) taken from the World Bank. The World Governance Indicators (WGI) provides ratings for six individual governance indicators including control of corruption (COC), political stability (PS), voice and accountability (VAA), government effectiveness (GE), regulatory quality (RQ), and rule of law (ROL). The data series that has been selected for this study is based on the percentile rank of the six governance indicators. The rank of each governance indicator is determined based on the extent of public opinion towards the selected indicators.

Methodology

The methods which are used in this study are designed to address the hypotheses that have been developed for this study in understanding the moderating effect of cultural influence on the relationship between governance and the economy. The analysis will begin by first developing a composite index of governance based on governance indicators taken from the World Governance Index (WGI). The governance index will be developed by using the principal components analysis (PCA) method and a composite score for governance will be determined based on six governance indicators including control of corruption (COC), political stability (PS), voice and accountability (VAA), government effectiveness (GE), regulatory quality (RQ) and rule of law (ROL). For purposes of validating the results of the PCA analysis, the governance index will be tested using the Kaiser-Meyer-Olkin (KMO) test.

The next stage of the analysis involves testing the moderating effect of cultural influence and its relationship between governance and the economy. This relationship will be tested using the fixed-effects regression model or random-effects model and the choice of the model chosen is selected using the Hausman-Wu test. Several diagnostics tests will be performed to check for robustness of the chosen model including tests for heteroscedasticity, multicollinearity, and normality.

The moderating effect of cultural influence on governance and the economy will be tested based on the four hypotheses that were presented in the previous section (i.e., H1, H2, H3, and H4). To begin, all four hypotheses will be tested by performing a regression on the relationship between cultural influence, governance index, and economic capability. In testing this relationship, the influence of culture on governance and the economy will first be tested by performing a regression on the governance index on economic capability. This will be followed by modeling the effects of cultural influence on governance index and economic capability. Furthermore, the idiosyncratic nature of cultural influence sub-measures such as cultural projection, information flows as well as people exchanges will then be tested against the governance index and economic capability.

The final stage of the analysis involves performing a test on the six governance indicators (i.e., COC, PS, VAA, GE, RQ, and ROL) and their relationship with cultural influence, cultural influence sub-measures, and economic capability. Similar to the previous section, regression will be performed to understand the influence of each governance indicator against economic capability. This will be followed by a regression involving each governance indicator against cultural influence and economic capability. Finally, each governance indicator will be tested against the cultural influence sub-measures and economic capability to understand the nuances in terms of the relationship between cultural influence, governance indicators, and the economy.

Principal Components Analysis (PCA)

The principal components analysis (PCA) method will be used to derive the predicted value of the six governance indicators that have been selected from the World Governance Index. The variables that are selected include COC, PS, GE, VAA, RQ, and ROL. The predicted values of the newly created governance index will be based on components that are created based on the model below: -

$$C_j = \beta_{j1}COC_1 + \beta_{j2}PS_2 + \beta_{j3}GE_3 + \beta_{j4}VAA_4 + \beta_{j5}RQ_5 + \beta_{j6}ROL_6 \quad (1)$$

The new components in Equation (1) correspond to governance indicators and are a linear combination of the variables selected from the WGI. Furthermore, the χ^2 statistical test or the KMO (Kaiser-Meyer-Olkin) test will be used to validate the C_j components to ensure that the components meet the independence requirements (Jaba and Robu, 2011). KMO statistics range between 0 and 1, where values closer to 1 would indicate the existence of significant relations between components. Over and above that, the estimated parameters of the PCA model, $\beta_{j1} - \beta_{j6}$, represent the correlation coefficient of the components that have been derived using the model. The Stata 14.2 software was used to perform the analysis for this model.

Fixed-Effects and Random Effects Regression Model

Base model

The base model for the study is represented in Equation (2) by the theoretical model proposed by Evan and Holy (2023) as well as Sacristan et al (2022). In Equation 1, the effect of the newly created GI index and governance indicator sub-measures on EC will be tested using the fixed or random effects model as below: -

$$EC_{i,t} = \alpha_j + \beta_0 GI_{i,t} + \varepsilon_{i,t} \quad (2)$$

Furthermore, $EC_{i,t}$ represents the economic capability of a country i at period t . $GI_{i,t}$ is the governance indicator index and governance indicator sub-measures (i.e. COC, VAA, PS, RQ, ROL, and GE) for the country at time t , and $\varepsilon_{i,t}$ is the error term.

Moderator Effect of CI on GI and EC

Equation (3) below estimates the moderator effect of CI on GI (as well as governance indicator sub-measures) and EC as below: -

$$EC_{i,t} = \alpha_j + \beta_0 GI_{i,t} + \beta_1 CI_{i,t} * GI_{i,t} + \varepsilon_{i,t} \quad (3)$$

In Equation 3, $CI_{i,t} * GI_{i,t}$ measures the moderating effect of CI on GI (as well as governance indicator sub-measures) and EC. The fixed or random effects model will be used to estimate the moderating effects of CI.

Moderator effect of CI sub-measures on GI sub-measures and EC

The effects of the moderator effect of CI sub-measures and GI sub-measures are represented in Equation (4) below: -

$$EC_{i,t} = \alpha_j + \sum_{j=1}^J \beta_{j,k} GI_{i,t,k} + \sum_{k=1}^K \gamma_{j,k} CI_{i,t,k} * GI_{i,t,k} + \varepsilon_{i,t,j} \quad (4)$$

where α_j are intercepted, $\beta_{j,k}$ are coefficients for the governance indicator sub-measures $GI_{i,t,k}$ (i.e. COC, VAA, PS, RQ, ROL, and GE), $\gamma_{j,k}$ are coefficients for cultural indicator sub-measures $CI_{i,t,k}$ (i.e. CP, IF, and CP). $EC_{i,t}$ is the dependent variable for country i at period t and $\varepsilon_{i,t,j}$ is the estimated residuals of the equation. Similar to Equation 1 and Equation 2, Equation 3 will be estimated using the fixed or random effects model.

Diagnostic tests

All three models in Equation (2), Equation (3), and Equation (4) will be tested for heteroscedasticity, multicollinearity, and normality. The Breusch-Pagan and Cook-Weisberg test will be used to test heteroscedasticity. If there is evidence of heteroscedasticity in the estimated model, adjustments will be made to the fixed or random effects model by clustering standard errors.

The multicollinearity of the selected models is tested using the variance inflation factor (VIF). In this regard, evidence of multicollinearity is found if assuming the VIF is higher than four. Furthermore, various tests such as the Mardia Skewness, Mardia Kurtosis, Henze-Zirkler, and Doornik-Hansen test will be used to test for normality.

RESULTS AND ANALYSIS

Descriptive statistics

Table 1 reports the descriptive statistics. When comparing the standard deviation for cultural influence sub-measures, PE has the highest standard deviation of 41.15 and IF has the lowest standard deviation at 19.54. On the other hand, when comparing World Governance Indicators sub-measures, COC has the highest variance of 29.99 as compared to VAA which has a standard deviation of 28.11.

However, the newly created governance index, GI, seems to have a low standard deviation of 1, whilst CI has a mean of 19.51 and a standard deviation of 19.97. EC on the other hand seems to have a higher degree of variance as compared to CI and GI with a mean of 14.79 and a standard deviation of 23.58.

Table 1: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
EC	130	14.79	23.58	0.00	93.60
CI	130	19.51	19.97	0.00	87.20
CP	130	19.81	24.71	0.00	100.00
IF	129	9.59	19.54	0.00	100.00
PE	130	32.95	41.15	0.00	416.00
COC	130	48.19	29.99	1.43	100.00
GE	130	56.75	29.52	5.24	100.00
PS	130	46.90	28.24	2.83	99.06
RQ	130	52.96	29.82	0.00	100.00
ROL	130	51.82	29.19	4.72	99.06
VAA	130	42.16	28.11	0.00	99.52
GI	130	0.00	1.00	-1.78	1.58

Correlation matrix

The correlation matrix of all explanatory variables is presented in Table 2. The correlation matrix is used to analyze the issue of multicollinearity between the variables. The high degree of correlation between the variables would suggest that there is an issue of multicollinearity between the explanatory variables and this will be explained with the variance inflation factor.

Table 2: Correlation Matrix

	EC	CI	CP	IF	PE	COC	GE	PS	RQ	ROL	VAA
EC	1.000										
	0										

CI	0.895 7*	1.000 0									
CP	0.867 1*	0.944 4*	1.000 0								
IF	0.776 6*	0.835 3*	0.795 3*	1.000 0							
PE	0.393 9*	0.499 4*	0.436 1*	0.255 7*	1.000 0						
COC	0.359 2*	0.474 4*	0.561 6*	0.307 3*	0.314 4*	1.0000					
GE	0.426 5*	0.571 5*	0.618 2*	0.336 2*	0.385 6*	0.9225*	1.0000				
PS	0.044 6	0.084 4	0.221 9*	- 0.004 1	0.067 3	0.7657*	0.6819 *	1.0000			
RQ	0.301 5*	0.466 0*	0.535 7*	0.302 0*	0.317 3*	0.9537*	0.9449 *	0.7356 *	1.0000		
ROL	0.351 2*	0.496 3*	0.566 9*	0.317 5*	0.326 5*	0.9738*	0.9315 *	0.7583 *	0.9507 *	1.0000	
VAA	0.143 2	0.292 3*	0.384 9*	0.264 0*	0.188 1*	0.7393*	0.6290 *	0.4947 *	0.7824 *	0.7484*	1.0000

Principal Component Analysis

Principal Component Analysis (PCA) was used to construct the governance index (GI). The use of the PCA to construct the GI’s weight depends on the contribution rate of the corresponding principal component. As such, the greater the contribution rate, the higher the relevance and importance of the principal component.

The Eigenvalue, contribution rate (variance%), and cumulative contribution rate for the six World Governance Index sub-measures which were used as part of the principal component analysis process are presented in Table 3 below: -

Table 3: Principal Component Analysis (PCA) for Governance Indicators

Principal component	Eigenvalue	Variance (%)	Cumulative (%)
1	5.042	84.040	84.0400
2	0.512	0.085	92.5800
3	0.326	0.054	98.0000
4	0.069	0.011	99.1500
5	0.032	0.005	99.6800
6	0.019	0.003	100.0000

Based on the results from Table 3, the cumulative contribution rate of the first component is 84.04%. Furthermore, the first component has an Eigenvalue of five, which is higher than the recommended threshold of one. Therefore, it is adequate to use the first component to construct the GI. A screen plot of the Eigenvalues for the PCA is presented in Figure 2 below:-

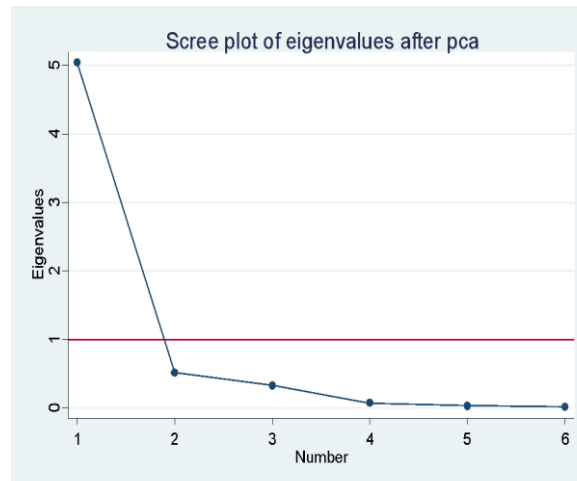


Figure 2: Screen Plot of Eigenvalues

Results from Figure 2 would support findings in Table 3 where Component 1 is suitable to be selected for purposes of constructing the GI as it has an eigenvalue of higher than one. On the other hand, the eigenvalue of component 2 to component 6 is lower than one which would make these components unsuitable for selection.

The Kaiser-Meyer Olkin (KMO) statistic is used to measure the sampling adequacy and should be greater than 0.5 for a satisfactory principal component analysis to proceed. Table 4 indicates that the KMO measure is 0.7971 and is greater than 0.5 which would suggest that the PCA is robust. Furthermore, Bartlett's test of sphericity would indicate that the correlation matrix is uncorrelated with a significance level of 0.00.

Table 4: Kaiser-Meyer-Olkin (KMO) and Bartlett's Test of Sphericity

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		0.7971
Bartlett's Test of Sphericity	Approx. Chi-Square	1294.03
	df	15
	Sig.	0.0000

Fixed-effects and random-effects regression results

This section presents the regression results of the moderating effect of cultural influence on governance indicators and economic capability. The effects will be further tested based on the three models which were discussed in the methodology section. The estimation results will be presented for the moderating effects of CI on GI and EC in Table 5. Furthermore, the moderating effects of cultural influence sub-measures and their effects on World Governance Indicators by sub-measures and EC will be presented in Table 6, Table 7, and Table 8 respectively.

Table 5 presents the regression results for CI and cultural influence sub-measures (i.e., CP, IF, and PE) on GI and EC. Results for model 1 in column (1) indicate that there is a positive and significant relationship between GI and EC. This finding supports Singh (2022), Ogbuabor et al. (2020), Beyene (2022), and Mahran (2023) in concluding that a positive governance index contributes to economic growth. However, results from model 2 in column (2) would indicate that CI has a positive moderating effect on GI and EC even though the results are not significant. These findings would support prior observations by Chakraborty, Thompson, and Yehoue (2015) as well as Rejchrt and Higgs (2015) who found that even though cultural influences have a positive moderating effect on

governance and economic activity, the effects could be affected by country-specific factors which could affect the degree significance and strength of this relationship.

Furthermore, when tested against the cultural influence indicator sub-measures in column (3), the results seem to indicate that the cultural influence sub-measures also have a positive impact on the relationship between GI and EC. Nonetheless, even though both CP and PE have positive effects on GI and its relationship with EC, the results are insignificant. These results support ascertains made by Eakin, Keele, and Lueck (2022), Baskent (2022), Arora and Stirling (2023), Khan (2010), and Griffin (2003) who suggested that cultural influence factors such as cultural projection and people exchanges have a positive influence on the relationship between governance and the economy. The insignificance of the results could be traced to the complex and nuanced effects of culture on a country's development as suggested by Khan (2010). However, IF has a positive impact on the relationship between GI and EC, and these effects are significant. The importance of information flows in influencing the economy supports previous deductions made by Schiller (2019), Entman (2003) as well as Webster (2014) who suggested that information flows play the most crucial role when influencing economic conditions.

Models (1), (2), and (3) in Table 5 satisfy the conditions of the random effects model based on results from the Hausman test. Furthermore, the random effects model was tested for heteroscedasticity, multicollinearity, and normality. The Breusch-Pagan and Cook-Weisberg test was applied to test for heteroscedasticity. It was found that all three models in columns (1), (2) and (3) suffer from heteroscedasticity issues, and the random effects model was subsequently adjusted by clustering standard errors. All three models however do not seem to have issues relating to multicollinearity as the VIF score is below four. Various normality tests including the Mardia Skewness, Mardia Kurtosis, Henze-Zirkler, and Doornik-Hansen test would indicate that there are no issues relating to data normality.

Table 5: Regression results

	(1)	(2)	(3)
Variables	EC	EC	EC
GI	3.17***	2.75***	1.06*
	(0.70)	(0.74)	(0.62)
CI * GI		0.040	
		(0.02)	
CP * GI			0.03
			(0.02)
IF * GI			0.25***
			(0.04)
PE * GI_			0.00
			(0.00)
Constant	14.79	14.46	13.02
Model Selected (FE/RE)	RE	RE	RE
ρ (Rho)	1	1	1
Overall r-squared	0.09	0.13	0.35
Heteroscedasticity	Yes	Yes	No
Multicollinearity (VIF)	1.00	1.99	3.14
Normality	Yes	Yes	Yes

Note: Robust standard errors are in parentheses; *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$

Table 6, Table 7, and Table 8 present regression results for the moderating effects of cultural influence sub-measures on world governance indicators and their corresponding effect on EC. The estimated results for the regression in Table 6, Table 7, and Table 8 perform the function of a robustness test to evaluate the relationship between cultural influence and governance indicators when applied against governance indicator sub-measures.

Results from Table 6 would indicate that CI and cultural influence have a positive moderating effect on the relationship between GI sub-measures and EC. This is found by evaluating the beta coefficients for CI and cultural influence sub-measures on governance influence sub-measures; notably, COC and GE. This finding supports prior work by Simplice (2014) and Kalu (2019) who suggested that there are inconclusive results when it comes to the relationship between corruption control and government effectiveness on the relationship between governance and the economy. The results are positive in all iterations of the moderating effects between CI sub-measures and GI sub-measures. However, the results are positive and significant for the interaction effect of CP * COC, IF * COC, and IF * GE. Nonetheless, the effects are marginal in terms of the influence of COC and GE on the relationship between GI and EC. The significance of the effect of information flows on the relationship between control of corruption and government effectiveness and the economy confirms previous findings by Schiller (2019), Entman (2003) as well as Webster (2014) despite the negligible effects. Furthermore, evidence from Table 6 also suggests that cultural projection has a significant though nominal effect on the economy and hints at the growing importance of cultural projection in influencing the relationship between governance and the economy as suggested by Gil (2015).

The fixed-effects model is selected for all models in column (1) to column (6) respectively in Table 6 based on results from the Hausman test. Furthermore, the fixed-effects model suffers from heteroscedasticity and was corrected using robust standard errors. Also, results from the VIF tests indicate that there are no issues relating to multicollinearity and the model has also satisfied normality tests.

Table 6: Regression results

Variables	(1) EC	(2) EC	(3) EC	(4) EC	(5) EC	(6) EC
COC	0.050	0.050	0.02			
	(0.04)	(0.03)	(0.04)			
CI * COC		0.000				
		(0.00)				
CP * COC			0.00**			
			(0.00)			
IF * COC			0.00**			
			(0.00)			
PE * COC			0.00			
			(0.00)			
GE				0.15**	0.14**	0.12*
				(0.07)	(0.07)	(0.06)
CI * GE					0.00	
					(0.00)	
CP * GE						0.00**
						0
IF * GE						0.00

						(0.00)
PE * GE						0.00
						(0.00)
Constant	12.41	12.41	10.82	6.41	6.24	5.75
Model Selected (FE/RE)	FE	FE	FE	FE	FE	FE
ρ (Rho)	1	1	1	1	1	1
Overall r-squared	0.13	0.15	0.61	0.18	0.24	0.54
Heteroscedasticity	Yes	Yes	Yes	Yes	Yes	Yes
Multicollinearity	1.00	1.68	2.83	1	1.72	2.78
Normality	Yes	Yes	Yes	Yes	Yes	Yes

Note: Robust standard errors are in parentheses; *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$

Table 7 presents the results of the moderating effects of governance cultural influence and cultural influence sub-measures on governance indicator sub-measures PS and RQ and its effects on EC. Results from Table 7 suggest that CI and cultural influence sub-measures have a positive on the relationship between GI sub-measures and EC. Based on these results, cultural influence seems to have a positive yet insignificant effect on the relationship between political stability and the economy. These findings concur with previous work by Kuzenbayev and Pelizzo (2023) as well as Norris and Inglehart (2011) who argued that political stability has a multi-faceted and complex effect on socio-economic development. The positive effect of cultural influence on the relationship between regulatory quality and the economy supports previous works by Agostino et al (2020) as well as Charron, Dijkstra, and Lapuente (2014) who are partial to the fact that culture has a positive impact on regulatory quality. These results are further justified due to positive and significant findings relating to the estimated coefficient results as a result of the interaction of all combinations of cultural influence and governance indicator sub-measures complementing previous studies on the cultural effects of cultural projection (Eakin, Keele and Lueck 2022; Baskent 2022; Jam et al 2019), information flows (Schiller 2019; Aaronson and Leblond 2018) and people exchanges (Griffin 2003; Tschirhart et al. 2016) on political stability and regulatory quality.

Results from column (1) in Table 7 would indicate that the random effects model is recommended for estimating the regression for PS on EC. Furthermore, when it comes to the estimated results of this regression, the regression is not affected by issues relating to heteroscedasticity, and multicollinearity of normality. However, the fixed-effects model is selected for the remaining estimated models as evidenced in columns (2) to column (6) in Table 7 based on results from the Hausman test. Also, the fixed-effects model suffers from heteroscedasticity and was corrected using robust standard errors but does not have confounding issues relating to multicollinearity or normality.

Table 7: Regression results

Variables	(1) EC	(2) EC	(3) EC	(4) EC	(5) EC	(6) EC
PS	0.06***	0.06	0.03			
	(0.02)	(0.04)	(0.34)			
CI * PS		0.00				
		(0.00)				
CP * PS			0.00**			

			(0.00)			
IF * PS			0.00***			
			(0.00)			
PE * PS			0.00***			
			(0.00)			
RQ				0.11	0.10***	0.08
				(0.07)	(0.02)	(0.06)
CI * RQ					0.00	
					(0.00)	
CP * RQ						0.00*
						(0.00)
IF * RQ						0.00*
						(0.00)
PE * RQ						0.00*
						(0.00)
Constant	11.92	11.91	11.89	9.17	9.06	7.59
Model Selected (FE or RE)	RE	FE	FE	FE	FE	FE
ρ (Rho)	1	1	1	1.00	1.00	1.00
Overall r-squared	0	0.03	0.47	0.09	0.13	0.5
Heteroscedasticity	No	Yes	Yes	Yes	Yes	Yes
Multicollinearity (VIF)	1	1.29	1.9	1.00	1.66	2.88
Normality	Yes	Yes	Yes	Yes	Yes	Yes

Note: Robust standard errors are in parentheses; *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$

Table 8 presents the results of the moderating effects of CI and cultural influence sub-measures on governance indicator sub-measures ROL and VAA. The results from Table 8 are consistent with results from Table 6 and Table 7 where cultural influence sub-measures have a positive impact on the relationship between governance indicator sub-measures and EC. Contrary to previous work by Matsuo (2005), the findings from this study indicate that even though culture has a positive effect on ROL, the results are insignificant. However, evidence from subsequent studies by Licht, Goldschmidt, and Schwartz (2007) as well as Li, Leszczyc, and Qiu (2023) indicate that the complexity of the nature of the relationship between institutional factors in member countries needs to be accounted for to better understand the effect of cultural influence on the economy. Nonetheless, the positive and insignificant influence of cultural influence on the economy supports previous findings by Gholipour Fereidouni (2011). Furthermore, there is evidence that the impact is positive and significant for the moderating effect of CP * ROL and CP * VAA. Similar to previous findings, the results from Table 8 indicate that cultural projection is becoming increasingly important as a cultural influence that influences the economy (Eakin Keele and Lueck 2022; Baskent 2022).

The random effects model is selected to estimate the relationship between ROL and EC in Table 8 as evidenced in column (1). Furthermore, the random effects were corrected for heteroscedasticity issues even though it does not suffer from issues relating to multicollinearity and normality. The random effects model is also suggested to estimate the relationship between CI and cultural influence sub-measures on ROL and EC. Nonetheless, there are no issues relating to heteroscedasticity, multicollinearity, or normality in this regression.

The fixed-effects model is suggested for the remaining models in column (2) to column (6). However, there are heteroscedasticity concerns for the regression involving CI * ROL on EC as well as CP * ROL, IF * ROL, and PE * ROL on EC which has been corrected by clustering standard errors. Nonetheless, there are no multicollinearity or normality issues about these estimated regressions.

Table 8: Regression results

Variables	(1) EC	(2) EC	(3) EC	(4) EC	(5) EC	(6) EC
ROL	0.10***	0.09	0.07			
	(0.04)	(0.11)	(0.11)			
CI * ROL		0.00				
		(0.00)				
CP * ROL			0.00*			
			0.00			
IF * ROL			0.00			
			(0.00)			
PE * ROL			0.00			
			(0.00)			
VAA				0.06*	0.05	0.03
				(0.03)	(0.03)	(0.03)
CI * VAA					0.00	
					(0.00)	
CP * VAA						0.00*
						(0.00)
IF * VAA						0.00
						(0.00)
PE * VAA						0.00
						(0.00)
Constant	9.55	10.24	9.92	12.38	12.48	10.48
Model Selected (FE/RE)	RE	FE	FE	RE	FE	FE
ρ (Rho)	1.00	1.00	1.00	1.00	1.00	1.00
Overall r-squared	0.12	0.08	0.45	0.02	0.03	0.33
Heteroscedasticity	Yes	Yes	Yes	No	No	No
Multicollinearity (VIF)	1.00	1.69	2.87	1.00	1.60	2.75
Normality	Yes	Yes	Yes	Yes	Yes	Yes

Note: Robust standard errors are in parentheses; *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$

DISCUSSION AND IMPLICATIONS

Theoretical Implications

Overall, the empirical findings support the hypothesis that cultural influence has a positive moderating effect on the relationship between governance and the economic capability of countries. These findings are especially relevant as they support prior assertions made by Evan and Holy (2023), Sacristan et al (2022), Min et al (2022), Handley and Angst (2015), and others who suggested

that cultural influence has a positive influence on governance at a country level by using proxies and indicators based on national cultural influences.

These findings appear to hold after robustness tests were performed by estimating the moderating effects of cultural influence sub-measures on governance indicator sub-measures. In doing so, the empirical findings indicate that political stability and regulatory quality are more affected than other governance indicators as a result of cultural influences even though the strength of the relationship is rather faint. Furthermore, these findings corroborate previous studies that utilized measures developed by Hofstede (1990) by examining the impact of cultural influences using factors developed by the Lowy Institute.

From the point of view of cultural influence sub-measures, the overall results from column (3) in Table 1 would indicate that information flows play an important role in influencing governance indicators. This is further supported by empirical evidence from Table 4 (a), Table 4 (b), and Table 4 (c) which suggests that information flows have a positive and significant influence on COC, PS, and RQ.

The results from this study seem to also indicate that further work on country-specific governance and institutional factors is needed to better understand the relationship between cultural influence and its effect on governance and the economy. Also, the empirical evidence indicates that information flows play an important role when influencing economic conditions and that cultural projection becoming increasingly important which supports findings from previous studies (Schiller 2019; Entman 2003; Webster 2014; Griffin 2003; Tschirhart et al. 2016; Eakin Keele and Lueck 2022; Baskent 2022; Gil 2015).

The findings from this study offer novelty in that it provides empirical evidence that cultural influence sub-measures can be utilized to gauge its impact on governance indicators and its corresponding effect on the economy. Furthermore, the newly created GI has also proven to be useful in analyzing these relationships.

Contextual Implications

This study was performed in the context of 16 countries which were selected based on cultural influence factors which were taken from the Lowy Institute as well as governance indicators taken from the World Governance Indicators (WGI) from the World Bank. Lowy Institute factors looks at intro-country cultural factors that influence the ability of a country to influence other countries using power and dominance. From the perspective of this study, cultural influence and cultural influence sub-measures are shown to have a positive though faint effect on the relationship between governance and the economy. From this perspective, it could be inferred that cultural factors, though important to the development of government institutions and the economy, are not the most effective means to be used to assert power and dominance over other countries. Similar findings by Amran and Haniffa (2011), Harun et al. (2020) as well as Zhang et al., (2021) showed similar evidence of the positive yet insignificant effect of cultural factors at a country level in the context of various country groupings.

The application of the cultural influence factors and cultural influence sub-measures by the Lowy Institute in this study provides some useful insights as to the effect of cultural factors on the relationship between governance and the economy. The significance of cultural influences such as information flow as an important factor to consider when it comes to understanding the relationship between governance and the economy seems to support findings from previous work performed by Schiller (2019), Entman (2003), and Webster (2014). This is true even though these studies were focused on socio-political developments in the United States and Africa. The results from the analysis in this study and inferences drawn from the effects of information flows as a means to influence

governance and the economy also provide perspective regarding the relative importance of cultural influence sub-measures such as cultural projection and people exchanges.

The governance index which was developed for this study provides new insight into the influence of culture on governance and the economy. As a composite measure for country-level governance, the governance index has proven to be useful in explaining the moderating effect of culture on the relationship between governance and the economy and is a useful tool to be used in the future to test and evaluate the effects of culture on the economy. However, an in-depth study on the effects of politics and economic dynamics during different historical phases of economic development needs to be considered to understand the implications of culture on the economy (Griffin 2003; Tschirhart et al. 2016; Eakin Keele and Lueck 2022; Baskent 2022; Gil 2015).

Practical Implications

The findings would suggest that government policymakers have to pay close attention to the cultural effects of information flows on political stability and regulations as it does have an impact on the economy. Governments throughout the world are well aware of the importance of understanding the effects of disinformation on political stability. This is evidenced by efforts made to improve national security and to increase public awareness regarding issues about cyber security, blogs and websites supporting subversive and anti-government activities as well as disinformation which impairs the government's ability to design and develop national policies and regulations.

Another useful outcome of this study is that government agencies and departments could develop and utilize the GI index to evaluate the impact of cultural influence and its sub-measures on governance indicators. By utilizing this index, government bodies are also able to predict the impact of changes on the economy as a result of changes in cultural influence sub-measures which have been included in this study.

Given the broad nature of the impact of culture on the economy, it would also be useful for companies and the corporate sector to understand the impact that changes in cultural influences on a national level may have on the economy. There have been recent examples of this when it comes to the effect of culture on economic sectors as a result of geopolitical changes and how it influences the governance of companies in businesses in various countries throughout the world. Once again, it could be useful for companies to utilize the new GI index to envisage the effects of cultural influence on governance indicators and its influence on the economy.

CONCLUSION AND FUTURE DIRECTION

This study has provided some useful insights relating to the moderating effects of cultural influence on governance indicators and economic capability. On the whole, the study has managed to provide empirical evidence that cultural influence and cultural influence sub-measures have a positive impact on governance indicators and correspondingly on the economy. Consequently, these results would have implications for researchers, government agencies, and the corporate sector when it comes to developing and designing policies and strategies.

Empirical results from the study have managed to provide some interesting intuition regarding the moderating effect of cultural influences on the relationship between governance indicators and economic capability. Before analyzing the study, a newly created governance index which was developed using the principal component analysis method. This governance index was subsequently used to discern the moderating impact of cultural influences on governance indicators and economic capability.

Following from that, **RQ 1** examined the moderating effects of cultural influence and its sub-measures on the newly created governance index and economic capability. The empirical results indicate that cultural influence has a positive effect on the governance index and economic capability.

Furthermore, it was found that information flows have a positive and significant effect on the governance index and that the strength of the relationship is large enough that government agencies and the corporate sector should pay close attention to this cultural influence sub-measure.

Furthermore, the overall results from the empirical tests in **RQ 2** support results from the analysis in **RQ 1**. Based on the empirical findings, it can be concluded that cultural influence sub-measures have a positive influence on the relationship between governance indicators and economic capability. The empirical findings would also suggest that cultural influence has a significant effect on governance indicators such as political stability and regulatory quality.

The results from this study have important theoretical implications as the evidence indicates that cultural influence has a positive and significant moderating effect on the relationship between governance and the economy. Furthermore, the importance of information flow as a factor that moderates the relationship between governance and the economy confirms assertions made by Schiller, (2019), Aaronson and Leblond, (2018), and others and is an area that requires further study.

Nonetheless, this study was performed in the limited context of 16 countries selected from the Lowy Institute Asia Power index. Furthermore, the positive yet insignificant relationship between cultural influence sub-measures and their influence on governance and the economy provides a restricted and nuanced view of the implications of these cultural influence sub-measures on the economy (Chakraborty Thompson Yehoue 2015; Rejchrt Higgs 2015). Nonetheless, some important implications could be drawn from the apparent importance of information flows and the relevance of cultural projection which concurs with previous findings by Schiller (2019), Entman (2003), Webster (2014), and Gil (2015).

Government bodies and policy makers should be guided by the effects of culture when it comes to institutional development which will have a corresponding effect on the economy. Though some of the evidence seems to indicate that cultural influence has a weak and trivial influence on the relationship between governance and the economy, the seemingly important nature of information flows would suggest that governments and companies should manage and control the influence of information to ensure sustainable growth and development. Furthermore, the governance index which was developed as part of this study could be used as a measure that could guide policymakers and the corporate sector to make well-informed decisions when it comes to long-term strategic planning for growth and development.

This study however has some limitations as the period of study is limited to five years and the results of the study could benefit from robustness tests using other proxies for cultural influence sub-measures, aside from those which were derived from the Lowy Institute Asia Power index. Furthermore, future studies could be performed to include a larger group of countries and other relevant governance indicators. Nonetheless, these limitations would be a motivation for future studies to understand the effect of cultural influences on governance and the economy.

DECLARATION OF COMPETING INTEREST

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

ACKNOWLEDGMENT

This work was supported by the Impact Oriented Interdisciplinary Research Grant (IIRG) (Project No. IIRG001B-21SAH), University of Malaya as well as the Joint Research Program between University Brawijaya and University of Malaya entitled "Improving Life Skills and Education on Personal Financial Management for Indonesian Migrant Workers in Kuala Lumpur, Malaysia" (Project No.: IF025-2024)

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