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Cultural Influences on Economic Decision-Making

An Analysis with Hofstede's Dimensions

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Abstract

In a globalized world, analysing cultural factors has become an efficient tool in a variety of fields, including economics. It is essential for forecasting, as well as for policy creation.

I conducted my thesis in the form of literature review, where I utilized Hofstede's cultural framework. I employed the six cultural dimensions (Power distance, Individualism, Masculinity, Uncertainty Avoidance, Long-term Orientation, and Indulgence) and evaluated their impact on economic decision-making. In the "Discussion" section of my thesis I defined the main areas of influence for these cultural factors. These areas are trade, policy compliance, entrepreneurship, investments, and planning. In the final sections I also specified the possible implications of the research on cultural values in economics, as well as the limitations of Hofstede's framework.

Keywords Culture, Decision-making, Hofstede's framework, Power distance, Individualism, Masculinity, Uncertainty avoidance, Long-term orientation, Indulgence

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1. Introduction and Motivation

When researching the differences between the economies of countries around the world, it is important to consider not only the link between economic processes and investigate how economic events influence society and overall economic state, but also study the roots of these events. One side of this problem is a topic of discussion for behavioral economists. By studying the reasoning, motivation, and patterns in the decision-making of individuals, scholars can get an explanation for many economic phenomena.

The world economy is currently in the third stage of globalization, that has started in 1980-s (Fischer, 2003). As the economies become more and more interconnected, the number of international businesses and intercultural interactions is increasing, which means that nowadays it is impossible to effectively research economics without analyzing the cultural aspects (Podrug, 2011). Another benefit of researching cultural influences on economic decision-making is long-term planning. The cultural code of a country is something that does not have a tendency to change in a short period of time, meaning that studying cultural factors for economic forecasting contributes to long-term stability and sustainability. The research done on this topic can be used by governments and policymakers to stimulate economic growth by taking into account the impact of culture on societies across the world. With the evolving world economy, it is crucial to develop policies that foster economic development and address the current challenges, as well as recognize cultural diversity and promote equality. It is argued that ethical considerations are as important as efficiency in modern society (Hausman & McPherson, 1993); therefore, analyzing cultural impacts leads to more culturally sensitive policies. Moreover, identifying cultural motives in decision-making would foster innovation, since it influences the adaptation of products, services, and economic models based on the cultural context (Barbu, 2011).

The main purpose of my bachelor's thesis is to analyze the effects of each of cultural characteristics on various aspects of economics and their relationship with economic indicators. To evaluate cultural values, I am going to implement Hofstede's framework with six cultural dimensions – Power Distance, Individualism, Masculinity, Uncertainty Avoidance, Long-Term Orientation, and Indulgence. Therefore, the research question is the following:

- How do each of the six Hofstede's cultural dimensions correlate with economic variables?

In the conclusion of my thesis, I am going to summarize my findings and identify the key areas of economics that are influenced by each of the dimensions.

2. Theoretical framework

This study is conducted in the form of a literature review. Before the main section of my thesis, it is important to specify the theoretical framework that I will use, as well as define the most significant terms of my research.

To structure my work, I will adopt the Hofstede's cultural dimensions as the cultural factors under consideration. This way I will be able to generate a more concise review with dimensions familiar to many academics. Most countries have already been evaluated and given a score withing this framework, which makes it possible to compare the economies of different countries having the information about their cultural characteristics.

The Hofstede's cultural framework was first introduced by a psychologist Geert Hofstede in his research on cultural differences published in 1984 (Hofstede G. , Culture's consequences: International differences in work-related values., 1984). This research is the main source of the dimensions' descriptions below.

The framework consists of six dimensions:

- Power distance index (PDI)
- Individualism versus Collectivism (IDV)
- Masculinity versus Femininity (MAS)
- Uncertainty avoidance index (UAI)
- Long-term orientation versus Short-term orientation (LTO)
- Indulgence versus Restraint (IND)

In my thesis, I will also use abbreviations for the names of the dimensions. The PDI score reflects the hierarchical structure of a country – distribution of power in organizations and the degree of hierarchical structure having impact on the decision-making processes. In countries with high PDI there is a greater acceptance of hierarchy, and the authorities have more unconditional power. The IDV score demonstrates if individuals in a country have an orientation towards groups and communities. People in individualistic countries (with high IDV score) value autonomy and self-sufficiency, while collectivist cultures emphasize cooperation. Masculinity as a cultural value is characterized as a tendency to achievements,

assertiveness, and material rewards. On the other hand, femininity can be defined as an emphasis on quality of life and caring for others. This dimension is also sometimes referred to as Motivation towards achievement and success, and higher score of this variable indicates the dominance of masculine values. The UAI describes the individuals' perception of unknown situations in the future and ambiguity. Uncertainty avoidant cultures prefer more structured rules and procedures, while countries with low UAI score are usually more adaptive and innovative. The fifth dimension LTO was added to the framework later within the study published in 1991 (Franke, Hofstede, & Bond, 1991). The LTO index is an indicator for the link between individual's present and future. In other words, long-term oriented cultures are more pragmatic, value long-term commitments, and invest in education, while individuals in countries with low LTO score demonstrate a preference for quick results and are generally more focused on the present. The last dimension IND was added to the framework by Hofstede in a collaboration with Michael Minkov (Hofstede, Hofstede, & Minkov, Cultures and Organizations: Software of the Mind, 1991). IND score reflects the extent to which individuals are restricted by social norms. This dimension can also be referred to as hedonism, which means that cultures with higher IND score are less inclined to control impulses and allow for more enjoyment of life.

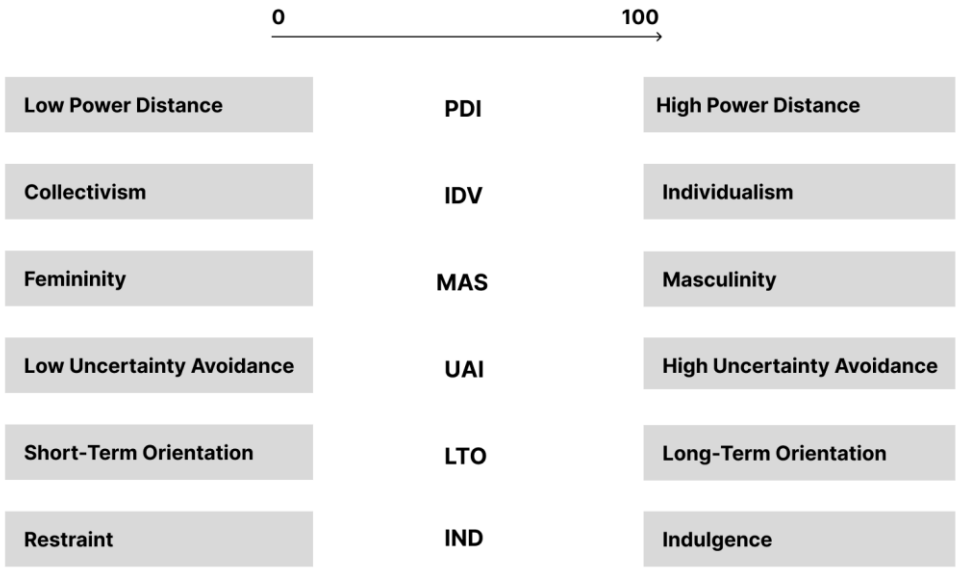

Figure 1. Hofstede's cultural dimensions

To demonstrate the application of Hofstede's framework and elaborate on the dimensions, I am going to provide a few examples of countries with contrasting evaluations using the country comparison tool from the Culture Factor Group website (Country Comparison Tool,

2023). Germany can be used as an example of a country with low PDI score of 35, as controlling leadership is disapproved and power is distributed relatively evenly. In contrast, Morocco scores 70 for PDI and it is a country currently under the leadership of a king with unconditional power. Asian countries, like South Korea, with their group orientation and family ties, mostly score lower on the IDV scale, while Canada is known to be an individualistic country. According to the Culture Factor Group, countries like Germany and Austria also have more masculine cultural values with an emphasis on competition and achievements. In comparison, individuals in Nordic countries, such as Finland or Sweden, value equality and work-life balance and their MAS score ranges from 5 to 26. It is important to note, that not all Asian countries have similar scores in this dimension. For instance, Japan is proven to be a country with one of the highest MAS scores in the world; however, South Korea only scores 39, and individuals appreciate quality of work more than success. Nevertheless, both countries tend to avoid uncertainty and score high in UAI dimension, but many countries in South-Eastern part of Asia are more accepting of change and have a low UAI score. Moreover, Asian countries are often more long-term oriented. Japan is the most significant example of such pattern – the country has LTO score of 100, which is the maximum score for this dimension. This is due to the fact that individuals in Japan value long-term impact and view their life as a short period of time compared to the existence of the humankind. South American countries can be placed on the opposite side of the spectrum of this dimension, and cultures in counties like Brazil place a higher value on the present and immediate results. For the final dimension, Mexico is an example of a country with optimistic culture with a tendency to seek enjoyment and satisfaction, which indicates a high IND score – 97. Eastern European countries, like Russia, Belarus, and Ukraine, are more restricted with a typical score of 10-20.

Figure 2 below demonstrates cultural differences between Brazil, Finland, Japan, and Russia within Hofstede's framework.

Figure 2. Comparison of Brazil, Finland, Japan, and Russia using Hofstede's framework (Country Comparison Tool, 2023)

The main purpose of my bachelor's thesis is to analyze the effects of each of Hofstede's cultural dimensions on various aspects of economics and their relationship with economic indicators.

3. Cultural Influence

3.1 Power Distance

In addition to the definition of PDI I have provided above, high and low power distance values have other less straightforward impacts on the culture and individuals' behavior. High PDI is usually associated with formal communication style, centralized decision-making style, role expectations, and status symbols (Hofstede G. , Culture's consequences: International differences in work-related values., 1984). Leadership style in countries with high PDI results in adaptation to clear and strict rules. Another term related to the standard name of the first Hofstede's dimension is Power Distance Belief (PDB) - individuals' attitude towards hierarchy (Han, Lalwani, & Duhachek, 2017). In other words, it is the degree to which individuals believe that hierarchy and unequal distribution of power in a society is right and necessary.

Price Perception

Researchers have established that PDB is linked to individuals' need for closure, which is a desire to have a defined and clear solution to a problem, rather than an ambiguous answer or

a variety of options. The need for closure is a result of the acceptance of authoritarian structures, and it also has an impact on economic decision-making. One aspect that is affected by it is price perception. Individuals with high PDB tend to make decisions more rapidly due to their need to reduce ambiguity, and thus they do not spend time considering different options and analyzing before making a decision. This results in lower price sensitivity (leehyej, Lalwani, & Wang, 2020). Individuals with lower PDB are more prone to price search and comparison; therefore, they are influenced by fluctuations in prices.

Additionally, researchers have proved a correlation between PDB and judgments about the relationship between price and quality, which is also referred to as price-quality inference (Lalwani & Forcum, 2016). In particular, this implies that individuals assume that higher-priced items also have a higher quality, even though this belief is not always accurate. Multiple studies have provided evidence that high PDB leads to individuals linking product's price to its quality, and the need for structure mediates this correlation, as this price-quality association represents strict laws that are familiar to high in power distance cultures. Another cultural aspect that contributes to price-quality perception is the link between money and status (leehyej, Lalwani, & Wang, 2020), that is often observed in countries with established hierarchies. In such cultures, material goods are seen as an attribute of power, so obtaining expensive items would lead to respect.

Charitable Giving

It has been established that PDB has an effect on charitable giving behavior; however, the research on this topic is polarizing. The initial assumption about this correlation would be that individuals in high PDB cultures are less likely to donate and help others of lower status. Their PDB confirms their expectation about power being distributed unequally, so they would not put in the effort to reconstruct the system. Indeed, there are studies that support this hypothesis, but most only consider PDI and PDB. A characteristic that plays a role in discussions about power distance is perceived power of an individual – their subjective belief about their own influence and authority in a society. This variable was implemented by academics to derive an additional attribute – self- or other-focus (Han, Lalwani, & Duhachek, 2017). By including perceived power as a dimension for studies, it was determined that people with high PDB and high power are, in fact, inclined to be more charitable, specifically due to them being other-focused. In contrast, those with high power but low PDB are more self-focused, and thus are prone to donate less. Low in power and PDB individuals are proved to be more charitable, while low in power and high in PDB individuals are less charitable. Overall, studying

charitable giving allows economists to understand how people allocate resources, which is crucial for tax policy design and addressing inequality (Winterich & Zhang, 2014). The topic of charitable giving is significant in the field of public economics, and further research would positively contribute to the functioning of the non-profit sector and societal wellbeing.

Employees' Motivation

Cultural norms and traditions shape employees' and employers' behavior and their corporate relationship, thus impacting the operation and efficiency of firms. For a long time, many economists thought money was the main incentive for working; however, it is not the case. Nowadays, more and more academics argue that monetary reward is just one of the motivational factors, and there are multiple external and internal incentives significantly influencing employee dynamics within the workplace (Sorauren, 2000). It is widely acknowledged that work culture differs dramatically among countries, and many of those variations can be explained with the use of Hofstede's framework. The power distance index is directly linked to the respect of superiors and compliance of orders given by individuals and structures higher in the hierarchy. Due to this, employees in cultures with high power distance are motivated by supervision, while those in cultures with low power distance are more collaborative and do not put that much emphasis on supervisors' control. This hypothesis was confirmed by conducting a survey on the topic of non-monetary motivation of employees (Tetteh, Opata, & Mensah, 2021). The study has proven that PDI moderates workers' reaction to supervision – in other words, employees with high PDI perform better under high supervision. Incorporating non-monetary motivation into economic analysis recognizes the complexity of employees' behavior and provides an opportunity to increase productivity and efficiency of companies.

Regulation Compliance

Tax Compliance

Power distance does not only impact the cultural beliefs of individuals, but also the organizational design withing firms and governmental structures. A higher degree of acceptance of hierarchy results in strict characteristics of high in power individuals. Within organizations with high power distance, management positions are often occupied by older individuals. This could be a possible reason why PDI affects stock market returns within professional asset management structures (Darsono, Wong, Ha, & Jati, 2021). The correlation between Power distance index and stock market returns was found to be positive, and

researchers link this finding to the impact of age on risk taking (Vroom & Pahl, 1971), which is a factor in conservative allocation of investment portfolio.

Another aspect of economic decision-making that is affected by power distance is tax compliance. Tax evasion, which is described as honest and transparent fulfillment of tax obligations, Among the list of unethical tax behavior acts is underreporting income, inflating deductions, creating hidden offshore accounts, engaging in cash transactions, and manipulations with invoices. Following tax regulations is primarily driven by individuals' ethical values. As it was stated in the "Theoretical Framework" section of my thesis, cultures with low power distance typically put emphasis on equality and fairness. High in power distance countries often experience conflicts involving persons in power. In countries with low power distance, persons holding the power that are involved in scandals are usually expected to take the responsibility, and it is highly encouraged by the public (Palmeira, Hartmann, Chan, & Sekar, 2023). In contrast, ethical and political scandals in high PDI cultures are expected and thus concealed.

Scholars have concluded that there is a statistically significant correlation between PDI and tax evasion. The study conducted in New Zealand presented a result of negative correlation – academics concluded that individuals with higher PDI tend to follow their supervisors' orders and are not prone to violating the established laws, so they are more likely to adhere to tax regulations (Yong, 2011). However, other academic articles contradict these findings. As previously discussed, the study confirming that high PDI decreases tax evasion focused only on one country, while the study published in the Journal of International Accounting, Auditing and Taxation utilizes the data from the same 50 countries that are initially analyzed by Hofstede (Tsakumis, Curatola, & Porcano, 2007). Another distinction that might increase the accuracy of this study is the implementation of economic estimates of tax evasion indicators, and not an assessment of individuals' ethical values derived from questionnaires. The outcomes of this study are supported by the data on ethical tax behavior of tax practitioners in Malasia (Seno, Hashim, Taha, & Hamid, 2022)– professionals who consult clients on the tax matters and provide other related services.

Corruption

The PDI dimension is the one that is interconnected with political structures the most. The terms power distance and corruption are closely related, as they both characterize the relationship with authorities and views on inequality. Academics confirm that there is a positive correlation between corruption levels and the PDI. In his study, Bryan W. Husted

names paternalism as one of the main mediators in this correlation (Husted, 1999). He describes paternalism as a structure where subordinates receive recourses from their superiors in return for their loyalty. As this kind of exchange is normalized within a workplace, the principles of fair competition and genuine achievements are undermined, fostering the environment where bribery determines success.

Another trait of high in power distance cultures is the established strict hierarchy. Individuals have a higher acceptance of inequality and the power gap between authorities and their subordinates. Individuals' status and position in high power distance societies is predetermined, and this system should not be questioned by the public. In such conditions, the corruption is unchallenged for authorities. The link between corruption and power distance was also confirmed by the survey conducted in 98 countries across the world (Achim, 2016).

While corruption has been confirmed to cause economic inequality (Uslaner, 2006), some academics argue that this is not the case for all countries. Studies show that the relationship between corruption and inequality may be reversed – in some countries it is economic inequality that causes corruption (Policardo & Carrera, 2018). Researchers conclude that the main reason for this phenomenon is the high level of poverty, which motivates underpaid individuals to seek monetary compensation in other ways (Bosco, 2016).

The mechanism that is implemented to address corruption is the sanctions that authorities face once they engage in illegal and unfair activities (Svensson, 2005). Societies with high PDI are reluctant to challenge the authorities, and, thus, the accountability mechanisms for those higher in the hierarchy are limited. People who do not tolerate inequality (with low power distance beliefs) expect and encourage authorities to take the responsibility for their unethical choices (Palmeira, Hartmann, Chan, & Sekar, 2023), but this positive reaction does not occur in high power distance cultures. Due to this, cultures with high PDI exhibit a tendency to conceal political and economic scandals, which includes corruption cases.

3.2 Individualism and Collectivism

Researching individualism and collectivism as factors influencing individuals' decision-making, we can define self- vs others-orientation as a sub-dimension. People in individualistic societies are much more self-focused than those in collectivist cultures, as individualistic cultures prioritize autonomy and independence. In addition, they were proven to be more optimistic and confident, with more certainty about their abilities (Hofstede G. , Culture's consequences: International differences in work-related values., 1984). In some cases, they

tend to be overconfident and overestimate their capabilities and expected results of their decisions. In a general sense, individualistic cultures often encourage the focuse on your own interests and goals, rather than the wellbeing of community as a whole. Naturally, individuals are also expected to take full responsibility for their decisions and not to rely on collective support. Individualism strongly correlates with competitiveness, which implies that collectivist cultures are less competitive (Leibbrandt, Gneezy, & List, 2013), while self-oriented individuals are more prone to outperform their peers in work environments and other aspects of their personal life.

Investment

Investment returns is a topic that is widely researched by academics, and some have derived other cultural factors related to the IDV dimension of Hofstede's framework that have an impact on investor behavior. Studies show that investors in individualist countries tend to be more aggressive and assertive. Individualistic investors are less loyal to their home community and invest more in foreign assets (Anderson, Fedenia, Hirschey, & Skiba, 2011). Another important aspect for this topic is the correlation between financial literacy and individualism. People in individualistic cultures demonstrate a preference towards complex investments and the need to manage their financial affairs themselves, so their indicators of financial literacy are statistically higher (Ahunov & Hove, 2019). Each of these elements contributes to stock market returns being higher in individualist cultures (Darsono, Wong, Ha, & Jati, 2021).

Trade

Besides others-orientation, people in collectivist societies exhibit commitment to their community, while individualistic societies are less loyal (Hofstede G. , Culture's consequences: International differences in work-related values., 1984). The IDV dimension of the framework provides a characteristic for the in-group interactions in different countries. Collectivist societies put an emphasis on community and shared identity; therefore, individuals in such environments tend to form strong interdependent social bonds. The market environment is always shaped by cultural differences across countries, and one of its aspects that is affected by the IDV dimension is trade. Individualism plays a significant role in determining trade preferences, as it positively correlates to individual's willingness to trade (Hajikhameneh & Kimbrough, 2019). This correlation may result in a more robust and dynamic market environment in individualist cultures. However, individualists are known to be more egocentric, so they are more likely to abandon their trade opponent for the possibility of a more profitable deal. This phenomenon has both advantages and disadvantages for

economic growth. Furthermore, individualism increases the probability that the individual will repeat trading in the future, if they were cheated by their trading opponent in the past (Hajikhameneh & Kimbrough, 2019). The reason for this is that people in individualist cultures see others as unique and independent, while collectivists see individuals as a part of the group they belong to. Collectivist cultures often perceive individual's actions and decisions as a representation of the whole community, so collectivism decreases trust in trade scenarios, if there was cheating experienced in the past.

Opportunism

A concept that is also relevant to the discussion about individualism and collectivism is opportunism. Opportunism can be defined as a tendency to seek opportunities and take advantage of the situation. Inclination towards opportunism often indicates some degree of detachment and neglect of the feelings of others. These traits are common among individualists, as they value their personal success more than collective achievements. Due to this, academics agree that there is a positive correlation between individualism and opportunism (Sakalaki, Kazi, & Karamanoli, 2007). Nevertheless, another approach can be employed for investigating this relationship. Researchers offer a more elaborate theory that states that opportunism propensity largely depends on the relationship between self, ingroup, and outgroup (Chen, Peng, & Saparito, 2002). In real-life economic processes, this relationship impacts contractual relationships, market transactions, regulatory compliance, and resource allocation.

Entrepreneurship

Opportunism can be described differently, depending on the degree of morality. It can be characterized as a negative trait, if the individual disregards all social norms and values to achieve their own selfish goals. On the other hand, positive opportunism involving seizing the opportunities that arise naturally is a trait of entrepreneurs. Then, the correlation mentioned above also indicates that individualistic cultures foster entrepreneurship (Driouchi & Gamar, 2014). Nevertheless, opportunism is not the only mediator between individualism and entrepreneurship. Individualism impacts knowledge and personal development variables, shaping the landscape for innovation. As individualism emphasizes personal freedom, self-reliance, and the pursuit of one's goals independently, such cultures are more prone to personal development. In the context of entrepreneurship, it is essential to leverage knowledge as a tool for strategic business planning. Hence, knowledge assumes the role of guiding influence in the relationship between individualistic tendencies and entrepreneurial spirit.

Further research on this topic provides elaborates on the distinction between entrepreneurial intentions and entrepreneurial behavior. Entrepreneurial intentions are defined as a combination of personal aspirations, risk inclination, and goal-orientation (Fayolle, Liñán, & Moriano, 2014). It has been argued that the creation of new enterprises is not only motivated by economic incentive, but primarily by social and personal factors, such as flexibility, social status, and personal fulfillment (Block & Walter, 2017). Taking these factors into account, it has been established that individualistic values are associated with entrepreneurial intentions, and, therefore, result in a higher degree of entrepreneurial behavior within a society (Liñán, Moriano, & Jaén, 2016). Moreover, people in individualistic countries are typically not willing to collaborate and accept the conditions of others, which results in individualism influencing the tendency to enter entrepreneurship through start-ups rather than though business takeovers (Block & Walter, 2017).

3.3 Masculinity and Femininity

The definition of the MAS dimension of Hofstede's framework is derived from the common understanding of the phycological and behavioral differences between male and female individuals. While it can be debated that these beliefs are scientifically correct, the public describes women as more gentle, understanding, and cooperative, and men – as assertive, bold, and hardworking. According to Hofstede, masculine cultures emphasize achievements and success, which has a significant effect individuals' behavior within workplace environment.

Entrepreneurship

As masculinity is characterized as an inclination towards achievement and accumulation of wealth (Hofstede G. , Culture's consequences: International differences in work-related values., 1984), economists often link this cultural dimension to entrepreneurship. Entrepreneurship is known to be a competitive and dynamic field; therefore, successful entrepreneurs typically exhibit certain traits. These might include initiative, proactiveness, and leadership - all of them are normally referred to as masculine (Hofstede G. , Culture's consequences: International differences in work-related values., 1984). Due to this, the public stereotypes entrepreneurship as a masculine activity, which has been validated with the correlation between entrepreneurial intentions and individual's perception of their gender (Gupta, Turban, Wasti, & Sikdar, 2009). Moreover, previously mentioned study on the labor practices perceptions confirmed that masculine cultures are statistically more "Willing to innovate" (Freeman, Kruse, & Blasi, 2009). This ambition is crucial for entrepreneurial

activity. Such stereotypes lead academics to the assumption that masculine societies have an environment fostering entrepreneurship.

While researching this topic, we can notice that this hypothesis is common in the studies. Yet, most of the empirical evidence does not support it. On the contrary, some researchers have established that femininity is the trait that supports the creation of new ventures. One study that validates the negative correlation between MAS index and entrepreneurship is the one conducted in 81 countries over 5 years (Çelikkol, Kitapçi, & Döven, 2019). The authors suggest that the relationship occurs because of the strict gender roles in countries with high MAS index, which results in women not participating in entrepreneurship activities. Another study conducted to investigate the influence of cultural beliefs on the rates of new firm formation showed some correlation masculine traits. However, the only trait that demonstrated a statistically significant relationship with entrepreneurship was "Change-orientation" (Davidsson & Wiklund, 1997). Additionally, researchers conclude that even the statistically significant correlations from their study are not a sign that cultural values are a predetermining factor for new company formations, compared to economic structures.

Economic freedom often comes with reduced regulatory barriers, making entrepreneurship more accessible. Economic freedom also implies the protection of the right to property and the rule of law. Societies with a high level of economic freedom have a higher probability to provide capital for starting a new business, which facilitates securing loans and attracting investors. This leads to economic freedom stimulating entrepreneurial activity (Kuckertz, Berger, & Mpeqa, 2016). Nonetheless, masculinity correlates negatively to economic freedom, which is explained by the emphasis on fairness in feminine cultures (DeBode, Haggard, & Haggard, 2020). Consequently, this raises a question whether the negative correlation between masculinity and entrepreneurship is mediated by the level of economic freedom.

Investment

Perhaps the most significant topic in the discussion about MAS dimension in economics is investments. To further elaborate on it, I would like to refer to the gender diversification mentioned earlier. Indeed, in cultures with high MAS men and women have their own established roles in the society. Women are expected to either be housewives, or work in creative and nurturing positions, for example in fields like education or medicine, whereas men tend to pursue careers in engineering and technology. Fields like investment and trading are also have a higher representation of men.

Whether it is explained by biological factors or gender specific socialization, men and women behave differently in various situations, including financials decisions. Research shows that men on average are more confident than women (Barber & Odean, 2001). Overconfident behavior in finances and trading relates to individuals overestimating their expected gains from trading, therefore, investing more than rational investors would. In addition to overconfidence, female investors are also more risk averse than male investors. Although behavioral differences play a significant role in shaping trading behavior, the distribution of capital and power also explains these economic processes. Studies have demonstrated that in masculine cultures women have a lower probability to occupy higher asset management position (Beckmann, Menkhoff, & Suto, 2008). The authors illustrated this correlation by comparing four countries with different scores for the Hofstede's cultural dimensions. One example of the comparison is the contrast between Japan (MAS index of 95) and Thailand (MAS index of 34). As predicted, in Japan only 3 percent of asset management positions are occupied by women, while in Thailand the share of women is around 40 percent. Due to such distribution, the asset volume in masculine cultures is higher, as men make more riskier investment decisions and women are more conservative. Moreover, masculinity has been confirmed to be linked to phantasy – the subconscious desire for knowledge and fulfillment (Aren & Hamamci, 2023). The empirical analysis has confirmed that phantasy leads to risky financial decisions. These results have contributed to the research of the relationship between masculinity and investment behavior. Overall, masculine cultures are more prone to aggressive investment styles, resulting in higher investment turnovers (Amirhosseini & Okere, 2012).

The tendency for overconfidence of investors in masculine countries is likely to lead to higher momentum profits. In finances, momentum investing is a strategy that capitalizes on the continuation of the existing trends on the market. It is based on the assumption that assets that perform well in the present will perform well in the near future as well. Hence, momentum returns are the gains from implementing momentum investment strategies. The same links between masculine societies, that are seen as "tough", and overconfidence lead the researchers to the hypothesis that masculinity and momentum profits are positively related, which is then validated by the analysis (Galariotis & Karagiannis, 2021).

Lastly, the degree of investor's confidence impacts their perception of their competence and ability to evaluate foreign markets. Home bias refers to investors' tendency to allocate their portfolio to domestic assets, and it is associated with familiarity of home markets and some

degree of risk aversion. In order to diversify the portfolio, investors need to have financial literacy and competency; however, it is not always objective. Thus, investors in masculine cultures, that tend to overestimate their knowledge, have lower home bias and more ownership abroad (Anderson, Fedenia, Hirschey, & Skiba, 2011).

3.4 Uncertainty Avoidance

Continuing the topic of investments, the UAI is the dimension that is strongly associated with trade patterns and investors' behavior on the stock market. While the concepts of risk aversion and uncertainty avoidance might appear interchangeable, their definitions have some differences. Risk aversion refers to a tendency to minimize potential risks and hazards in various situations, but uncertainty avoidance reflects the tolerance of ambiguous and unstructured situations. Hofstede specified that uncertainty avoidant people still may be willing to take risks if they are known. Research articles on the topic of investments and UAI often feature other related terms, such as risk perception. It is important to mention these terms in this section, as they are often employed in discussions; however, I will later specifically discuss the significance of risk factors.

Investment

The study on stock exchange has provided the evidence of the correlation between uncertainty avoidance and investment decisions. The data was collected in the form of a questionnaire and the results indicated that uncertainty avoidance is the priority for investors (Amirhosseini & Okere, 2012). The authors link this correlation to the regulatory policies that are implemented in uncertainty avoidant countries. They suggest that cultures that do not tolerate uncertainty are more prone to strict laws and rules. The authors then connect this to the population being more risk averse. However, another group of researchers make a distinction between uncertainty and risk. In their study they consider uncertainty avoidance, risk avoidance, and perceived risk as separate factors in determining investment behavior (Arshad & Ibrahim, 2019). The authors emphasize the effect of uncertainty avoidance on stock market investments. Although risk avoidance also contributes to these dynamics, UAI was found to be the most significant out of the three factors. Perceived risk has nonsignificant effect on investment decisions. In addition to this correlation, uncertainty avoidance makes the stock market more volatile (Darsono, Wong, Ha, & Jati, 2021). Investors that exhibit a tendency to avoid ambiguity go off from the market when the shock happens. As they cannot tolerate unpredictability, their behavior is unstable.

It has been determined that loss aversion also plays an important role in the relationship between UAI and stock market participation (Rieger, 2022). However, loss aversion acts as a mediator in this correlation only on the country level, while on the individual level UAI is the primary factor. Individuals' willingness to invest in stock markets is partially shaped by their attitude towards stock trading. People in cultures with high UAI tend to believe that investing in stocks is only for gamblers or that it is morally questionable.

Traders often employ forecasting to analyze more efficiently and maximize their profits. Nevertheless, the strategies of the forecasting for cultures with different UAI are not the same. For instance, in cultures with high uncertainty avoidance the relation between current stock returns and expected future returns is weaker (Tsalavoutas & Tsoligkas, 2021). This indicates that stock market information is less reliable for the investors, and they tend to expect "worst-case" scenario returns. The correlation results from the combination of financial reporting environment in countries with high UAI and investors' attitude towards ambiguity. The link between uncertainty avoidance and stock price informativeness, however, is mediated by market openness and is weaker when the share of international investors is larger.

Furthermore, even investors' interactions with international markets are impacted by their level of uncertainty avoidance. Researchers point out that cross-border acquisitions are related to risks, but not necessarily risk aversion. When domestic and international acquisitions are equally risky, uncertainty avoidant investors would still prefer domestic acquisitions, as this risk is familiar to them (Bremer, Hoshi, Inoue, & Suzuki, 2017). In fact, UAI dimension is associated with xenophobia, so individuals in cultures with high UAI may exhibit greater home bias. This leads to firms in cultures with high uncertainty avoidance to undertake less cross-border acquisitions. Yet, when they engage in cross-border acquisitions they tend to buy a greater portion of shares to gain as much control of the firm as possible. A larger proportion of their ownership decreases the diversity among investment targets and the probability of conflicts withing the post-transaction operations.

These findings are supported by another study, that emphasized the difference between risk aversion and risk perception (Frijns, Gilbert, Lehnert, & Tourani-Rad, 2013). In the study, the authors implement UAI score as the measure of risk tolerance and validate that there is a negative correlation between uncertainty avoidance and CEOs demand for higher returns for a takeover (using cumulative abnormal returns as the measure).

Trade

The process model of trading agents from the study “Modeling Culture in Trade: Uncertainty Avoidance” (Hofstede, Jonker, & Verwaart, 2008) that I will summarize below provides more insights on traders' beliefs and preferences.

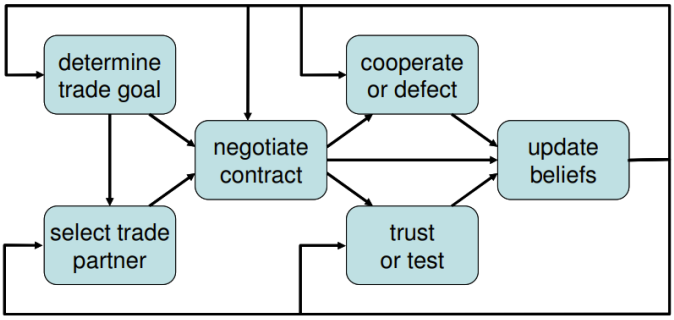

Figure 3. Processes and internal information flow of trading agents (Hofstede, Jonker, & Verwaart, 2008)

The model presents several stages of the trading process, and the authors elaborate on the effects of uncertainty avoidance on each of those stages. The study is based on the initial Hofstede’s framework, as well as the Trust and Trace game, and only considers UAI as a factor. According to this model, uncertainty avoidant traders have an emotional negotiation style, meaning they propose the bid they consider right, do not spend time bargaining, and are quick to break off the negotiation if they do not succeed after a few tries. Uncertainty tolerant traders, on the other hand, are more adaptable. The main difference between the two categories of traders in the goal selection process is that uncertainty avoidant traders prioritize certainty and are willing to sacrifice for it, while uncertainty tolerant traders prefer profitability. Traders in both high and low UAI cultures increase the trust to their partners with repeated successful deals; however, uncertainty avoidant traders are generally more distrusting to strangers. For the delivery, uncertainty avoidant and tolerant traders may violate the terms of the transaction to make more profit, even though uncertainty avoidant traders may have more rules and regulations that forbid that. Uncertainty avoidant traders also do not normally expect the rules to be broken and often rely on contracts, while trust in uncertainty tolerant cultures depends on the combination of other factors. When it comes to choosing a trading partner, uncertainty avoidant traders have a stronger preference for familiar relations, and uncertainty tolerant traders are more willing to trade with strangers.

The patterns of this model have been validated by the simulation, that included stages like partner selection, bids exchange, commodities delivery, and testing the received commodities by a tracing agent. The summary of the simulation results indicates that the trading process

goes smoother for uncertainty tolerant traders that belong to a common group than for the uncertainty avoidant traders in the same conditions. The negotiation for the latter group also progresses slower. This model can be applied to in-group and out-group trading scenarios. It can be especially useful for international deals between countries with contrasting UAI to efficiently analyze and predict the behavior of the trade participants.

3.5 Long-term vs. Short-term Orientation

Employees' Motivation

The characteristic that affects the contribution LTO to various economic decision-making processes is the importance of delayed gratification. In particular, long-term oriented cultures put an emphasis on rewards that come from persistent efforts over time. This fosters traits, such as self-control and resilience, making individuals with high LTO more disciplined and hard-working (Tocar, 2019). On the other hand, cultures with low LTO scores emphasize instant gratification. While short-term orientation is associated with instrumental variables like being effective and self-reliant, individuals exhibit a lack of foresight and impulsivity. We can observe these patterns by studying consumer behavior with the relation to cultural factors. Indeed, research shows that delayed gratification negatively affects the tendency for impulse buying (Wood, 1998); however, the same study revealed the complex nature of impulse decision-making. The authors have stated that an individual's income does not actually correlate with impulse buying, compared to their educational background, and this brings us back to the significance of the LTO dimension.

Educational Outcomes

There is a positive relationship between long-term orientation and educational outcomes (Figlio, Giuliano, Özek, & Sapienza, 2019). Not only immigrant students from countries with high LTO index score higher in standardized tests, but they also demonstrate a tendency to improve their results over time. Moreover, students from cultures with high LTO have higher attendance rates, are more likely to graduate from high school (United States, Florida) in four years, and more likely to enroll in advanced college degree classes. The authors, therefore, raise a question of the influence of wealth shocks on future generations, as socioeconomic background is not the only factor influencing educational outcomes. Educational indicators are directly linked to various fields of economics, such as public, development, and labor

economics. For instance, educational outcomes, like test scores and years of schooling, positively correlate to economic growth (GDP) (Hanushek & Woessmann, 2010).

Life Insurance and Retirement Plans

Long-term orientation, as well as Indulgence, was not initially a part of Hofstede's framework and was added to it after conducting a Chinese Value survey, that emphasized Confucianist principles. The authors of study on life insurance demand have elaborated on the importance of studying cultural factors, like long-term orientation, for entering international markets in this industry (Park & Lemaire, 2011). In particular, cultures with high LTO index exhibit higher demand for life insurance, due to their emphasis on long-term investments, in contrast to the pursuit of income and focus on the present of low LTO cultures. These attributes are often associated with Asian countries; that is why the researchers compared them with Western cultures in the context of life insurance market. Besides this, individuals with future orientation, which is directly linked to high LTO index, are more likely to contribute to retirement plans (Howlett, Kees, & Kemp, 2008). The authors of the study on 401(k) plan also provided evidence for the negative correlation between future orientation and risky investment decisions.

Planning and Firm Management

Besides this, the LTO dimension has a significant effect on strategic planning and management, on both the individual and firm level. In fact, long-term orientation impacts the way policies impact companies' performance, one example of which is family-intensive governance arrangements (FGAs). FGA refers to systems where family-members are heavily involved in decision-making processes within the organization. The empirical results demonstrate that LTO increases the probability of adopting FGAs (Pinelli, Debellis, & Massis, 2024). As FGAs have been confirmed to decrease the firm's performance, long-term orientation mediates this relationship. The correlation between LTO and FGAs is explained by five factors – reduced costs of extracting private benefits, reduced costs of conflicts between family and professional managers, reduced family bias in HR management, reduced legitimacy costs, and reduced the costs of political rent-seeking – all of which are associated with high LTO index.

Additionally, LTO shapes the strategies employed by the companies to manipulate their financial statements. The accrual management strategy in earnings management is typical for companies in long-term oriented cultures (Haga, Huhtamäki, & Sundvik, 2019). Accrual

management involves manipulating the timing to either smooth out earnings over time, meet earnings targets, or distort reported earnings to influence investor perceptions or contractual agreements. On the other hand, real management involves actions that affect the underlying economic activities of the business. This strategy refers to manipulating actual business operations or transactions to impact reported earnings. Firms in long-term oriented cultures may often avoid RM due to the potential future value-destroying effects and the possibility to achieve long-term goals with AM. Similarly, short-term oriented cultures prefer to employ RM in their earnings management.

Studies also suggest that long-term oriented companies are more transparent due to processes like improved performance disclosure (Herrera-Echeverry, Hernan, Velasquez-Gaviria, & Upadhyay, 2020). Moreover, long-term orientation reduces firms' downside risk, earnings smoothing, and stock price synchronicity. In this way, long-term orientation can contribute to a company's financial stability. Nonetheless, it is important to note that the study on the transparency and downside risks has employed the longevity of the compensation plans to measure firms' long-term orientation; therefore, the results may differ from those with Hofstede's LTO index.

Savings and Economic Growth

In addition to the other larger scale processes, we can explore the propensity for saving and how it correlates with long-term orientation. Long-term oriented individuals have a very strong preference for future consumption, which means that they always prioritize savings over spendings (Shoham & Malul, 2013). These investments contribute to economic growth. Thus, long-term oriented cultures have an advantage in the form of exogeneous variable that allows them to enjoy higher levels of welfare. However, the data about preferences for savings is valuable not only to analyze the driving forces of economic growth, but other fields, such as financial regulations, international trade, and investment. The relationship between LTO and economic growth was also supported by Hofstede's own work (Hofstede & Minkov, Long-versus short-term orientation: new perspectives., 2010). Moreover, Hofstede argued that long-term orientation not only acts as a factor in determining economic growth, but can also be an efficient tool for forecasting. The LTO's influence on economic growth was the reason why the dimension was added to the cultural framework. Values, such as thrift, hard work, and persistence, associated with LTO, impact countries' economic development.

3.6 Indulgence vs. Restraint

Innovation

People in societies with high IND prioritize satisfaction and pleasure over discipline. They allow free gratification of drives related to having fun and do not rely on strict social norms. Generally, they exhibit higher levels of internal freedom and open-mindedness, while more restraint cultures focus on controlling their impulses. Researchers have pointed out that the drive for enjoyment in indulgent cultures leads to higher levels of innovation (Khan & Cox, 2017). They argue that individuals who seek satisfaction of their desires will invent and more easily adopt new technologies. The correlation between innovation performance and IND index has been confirmed by the studies (Andrijauskienė & Dumčiuvienė, 2017).

Entrepreneurship

The discussion of innovation levels may often raise a question of entrepreneurship, and indulgence dimension provided a new perspective for academics to examine the topic. Entrepreneurial activities can be divided into several types, based on the stages of economic development. Overall, there are three stages of economic development with two transitions. The three stages are factor-driven, efficiency-driven, and innovation-driven economy (Sachs & McArthur, 2002); however, Irena Kedmenec and Sebastjan Strašek considered only factor-driven and innovation-driven economies in their study on culture and entrepreneurship (Kedmenec & Strašek, 2017). Factor-driven economies are recognized as less developed. They primarily rely on basic factors of production, such as resources and labor (often unskilled), whereas in innovation-driven economies knowledge and technology drive economic growth. Researchers emphasized that the cultural factors in entrepreneurship differ based on the stage of economic development. Specifically, indulgent cultures are more prone to entrepreneurial activities in innovation-driven economies. These findings align with the data on IND and innovation.

Moreover, indulgence has an impact both on entrepreneurial intentions and perceived opportunities. The variable for perceived opportunities is crucial in entrepreneurial activities. It refers to an individual's personal assessment of their potential for creating new ventures. As perceived opportunities are very subjective, this perception is shaped by personal traits, such as confidence and optimism. Academics have emphasized the pessimism and cynicism, which are common in restraint cultures, and their role in entrepreneurial aspirations (Claudio, 2021).

Optimism and freedom of self-expression increase the number of perceived chances in cultures with higher IND, and thus the levels of entrepreneurial activity are higher.

One in-depth study on entrepreneurship (Jourdan Jr & Smith, 2021)identified four key cross-national indices of innovation and entrepreneurship: GII - Global Innovation Index (innovation capabilities) (Dutta, Lanvin, & Wunsch-Vincent, 2014), GEM - Global Entrepreneurship Monitor (assessments of the entrepreneurial activity) (Bosma & Kelley, 2019), GEI - Global Entrepreneurship Index (quality and scale of the entrepreneurial ecosystem) (Ács, Szerb, & Autio, Global entrepreneurship index 2015, 2015), GCI - Global Creativity Index (Ács, Szerb, & Autio, Global entrepreneurship index 2015, 2015) (country's creative potential (Ács, Szerb, & Autio, Global entrepreneurship and development index 2015, 2016)). The authors state that in order to be creative individuals need to be able to indulge in untested ideas; therefore, IND positively correlates to GCI. Higher levels of creativity (specifically, technological creativity) lead to the creation of new ventures (Murugadas, Vieten, Nikolic, Fietkiewicz, & Stock, 2014), so this relationship indicates that indulgent cultures are more entrepreneurial. In addition, the study on four indicators of entrepreneurial activity provided evidence for the correlation between IND and GEI. The authors explain it by suggesting that entrepreneurial dreams are one of the desires that individuals in countries with high IND seek to satisfy. Indulgent societies encourage following your dreams and indulging in fantasies, which leads to higher levels of entrepreneurship.

Ružica Šimić Banović presented a framework for analyzing entrepreneurship in her work (Šimić Banović, 2016). The framework formal institutions, informal institutions, and institutional stickiness result. Formal institutions refer to regulations and law practices on business environment, institutional stickiness results refer to business competitiveness, and informal institutions refer to the cultural dimensions. This way the researcher included Hofstede's cultural framework as one of the key elements in the model for entrepreneurial activities. Her research confirmed that IND dimension impacts both formal institutions and institutional stickiness result. Restraint cultures are characterized by order and discipline, which negatively affects the legal setting for entrepreneurial activity. However, cultures with high indulgence index tend to be more open-minded and assertive, and, thus, more competitive. Consequently, indulgent cultures have more favorable business environment.

4. Limitations

When implementing theoretical frameworks, such as Hofstede's cultural dimensions, it is important to consider some possible limitations. One of them is the validity of Hofstede's framework on macro and micro levels. Researchers have emphasized that the findings sometimes differ on the individual and country levels when they employ the framework in their studies (Rieger, 2022). Another possible limitation is the homogenization of cultures. While countries have been categorized based on the six dimensions, some differences among subcultures and regional variations might not have been taken into account. Finally, trying to measure cultural values can be difficult due to their subjective nature. Individual's perception and interpretation of these dimensions might differ, which raises the question whether it is always appropriate to use the framework in quantitative research.

5. Conclusion

In this section of my thesis, I will summarize the findings about the effects of cultural factors on economic decision-making, clarify the importance of this knowledge in economics, and elaborate on the implementation of the ideas.

In broader terms, IDV and IND dimensions have a significant impact on various aspects of entrepreneurial activities. Individualism affects entrepreneurship through the emphasis on self-reliance and personal development, while the relationship with indulgence is mediated by optimism. Both IDV and IND are associated with values related to personal freedom of self-expression. These insights have predictive power in economics, providing researchers with knowledge to develop more accurate predictive models of economic growth and business dynamics. Understanding cultural influences also allows policymakers to shape economic landscapes to stimulate entrepreneurial activity. As individualistic and indulgent cultures have an environment fostering entrepreneurship, the policies should be aimed towards increasing the freedom of self-expression. This could imply making regulatory frameworks more flexible. In their work, Benjamin Chen and Robert Cooter have introduced a term, similar to what I have described above – economic creativity (Chen & Cooter, 2016). They argue that economic creativity is the new form of economic freedom that should be recognized as a human right. According to Chen and Cooter, it is crucial to combine the values of political left, such as health, education, and security, and the values of political right, such as property and contract.

The field of investment is significantly affected by MAS and UAI dimensions. Masculine and uncertainty tolerant cultures tend to display more active investment behavior. The MAS index positively correlates with turnovers and asset volumes, and UAI has a negative effect on stock market participation rates and cross-border acquisitions. In economics, data on investment activities may give academics and policymakers an understanding of market efficiency and contributes to capital allocation and risk management. As feminine and uncertainty avoidant cultures are likely to exhibit less active investment behavior, policymakers may aim to stimulate this activity by implementing subsidies for brokerage fees or educational improvements for improving financial literacy.

The PDI dimension has the greatest influence on the relationship between authorities and the public. This includes fields like regulations and laws; therefore, high power distance increases corruption rates and decreases tax compliance. Even though some would assume that high PDI shapes the system to have strict regulations, that people would be more likely to follow, it has the opposite effect. PDI affects those high in power to a larger extent. To control economic inequality policymakers could employ additional measures addressing corruption and tax crimes in cultures with high PDI.

As concluded in the previous section, IDV dimension is closely related to the topic of interactions between individuals in economic contexts, specifically in trade. UAI also impacts trade behaviors. The findings of the studies confirm that individualism increases the willingness to trade, while uncertainty tolerance generally makes the trade process smoother. However, the aspects of trade are more complex and vary depending on these cultural differences. Overall, IDV and UAI dimensions can be an efficient tool in predicting consumer behavior and market dynamics, which then contribute to other large-scale processes, such as macroeconomic stability and economic growth.

In my analysis, LTO is distinct from other Hofstede's dimensions in terms of its effect on economic decision-making. The field that it is associated with is planning on both individual and company levels. Long-term orientation of the community may be taken into account for researching firm's management strategies, specifically earnings management. Based on this, insurance companies and other financial institutions have the opportunity to tailor their services depending on the long- or short-term orientation of the regions. On the firm level, regulators and policymakers can develop guidelines that promote transparency, discourage short-termism, and align with the long-term orientation of companies and investors.

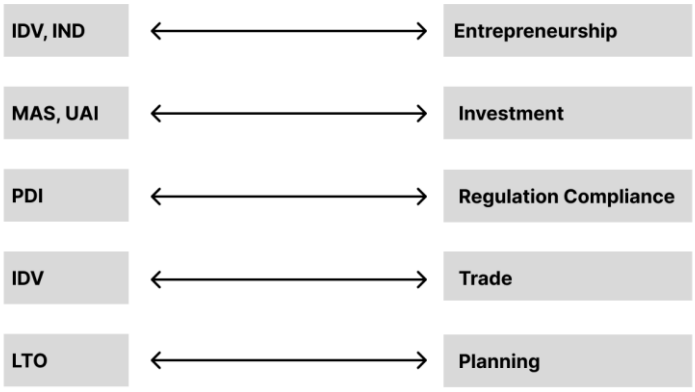

Figure 4. Main areas, affected by Hofstede's dimensions.

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