THE INFLUENCE OF ECONOMIC MENTALITY ON SOCIO-ECONOMIC DEVELOPMENT

Abstract. The current stage of socio-economic development is characterized by structural reforms connected with forming of competitive market environment, development of various forms of ownership, formation of qualitatively new forms of economic activity organization, deepening integration processes. Authors underline inconsistencies between the interaction of the formal and historically formed informal institutions actualizes the role of economic mentality, since it directly influences the general vector of socio-economic system development. The article draws attention to the informal component of the institutional environment — economic mentality, which characterizes the historically formed values, motives and models of economic behavior of individual and collective actors that directly affect the overall vector of socio-economic system development and transformation. It is determined that economic mentality determines the dynamics of the institutional environment development of by influencing the effectiveness of formal and informal institutions interaction, ensuring the performance of complementary functions; mediates the process of institutionalization of historically determined values, stereotypes and models of economic behavior in the system of formal norms and rules; provides under the influence of other socio-economic factors adaptability and dynamism of institutional structure, promotes the formation and development of new institutions. The aim of this research is to explore the relationship between economic mentality as a long-term determinant of economic behavior and international indicators of economic system development. The methodology is based on the correlation-regression analysis to reveal the dependence between the indicators of the national economies efficiency and the dimensions of economic mentality by G. Hofstede. As a result the significant links can be traced between Gross National Income, Index of Economic Freedom, the Global Innovation Index and economic mentality indicators of Individualism, Power distance and Uncertainty avoidance index.

Keywords: economic mentality, social and economic policy, development strategy, corporate culture, economic behavior.

JEL Classification C21, E03.3

Formulas: 9; fig.: 2; tabl.: 1; bibl.: 19.
ВПЛИВ ГОСПОДАРСЬКОГО МЕНТАЛІТЕТУ НА СОЦІАЛЬНО-ЕКОНОМІЧНИЙ РОЗВИТОК

Анотація. Сучасний етап соціально-економічного розвитку характеризується структурними реформами, пов’язаними з формуванням конкурентного ринкового середовища, розвитком різних форм власності, формуванням якісно нових форм організації господарської діяльності, поглибленням інтеграційних процесів. Підкреслено, що неузгодженість взаємодії формальних та історично сформованих неформальних інститутів актуалізує роль господарського менталіту, оскільки безпосередньо впливає на загальний вектор розвитку соціально-економічної системи. Звернено увагу на неформальну складову інституційного середовища — господарський менталітет, що характеризує історично сформовані цінності, мотиви та моделі економічної поведінки окремих і колективних суб’єктів, що безпосередньо впливають на загальний вектор розвитку та трансформації соціально-економічної системи. Зазначено, що господарський менталітет визначає динаміку розвитку інституційного середовища, впливаючи на ефективність взаємодії формальних і неформальних інститутів, забезпечуючи виконання взаємоповідальних функцій; опосередковує процес інституціоналізації історично зумовлених цінностей, стереотипів і моделей економічної поведінки в системі формальних норм і правил; забезпечує під впливом інших соціально-економічних факторів адаптивність і динамізм інституційної структури, сприяє формуванню та розвиткові нових інститутів. Мета статті — дослідити взаємозв’язок між господарським менталітетом як довгостроковою детермінантою економічної поведінки і міжнародними показниками розвитку економічної системи. Методологія заснована на кореляційно-регресійному аналізі для виявлення залежності між показниками ефективності національних економік і вимірами господарського менталіту Г. Хофстеда. У результаті можна простежити значні зв’язки між валовим національним доходом, індексом економічної свободи, глобальним індексом інновацій та індикаторами господарського менталіту — індивідуалізму, дистанції влади та індексу уникнення невизначеності.

Ключові слова: господарський менталітет, соціально-економічна політика, стратегія розвитку, корпоративна культура, економічна поведінка.

Формула: 9; рис.: 2; табл.: 1; бібл.: 19.
Introduction. The current dynamics of the market environment development is characterized by the intensification of globalization and integration processes, due to which the differences in the character and mechanism of the functioning of various national models of economic growth, influenced by the historical progress of society, become apparent.

In our opinion, this problem actualizes the role of the mentality of society, its influence on the process of economic activity, since it is the very mentality that accumulates in itself the historical memory of the people, reflecting through the economic activity of its representatives the most important values, norms and arrangements adopted for this society. Unlike the ideological guides and rapidly changing public attitudes, mentality is a long-term factor in human economic behavior, a factor in social development or decline, depending on which mental characteristics are dominant for a particular nation.

Analysis of research and problem statement. In the structure of economic mentality Bondarenko [1] distinguishes two levels — conscious and unconscious, with regard to the constituent elements of skills, settings, ideas, habits. In our opinion, insufficient attention is paid to how these levels of mentality relate to each other and which elements form each of them.

Nureev [2], Danilova, Tararuynya [3] refer to the structure of economic mentality the following components: stereotypes of consumption, norms and models of interaction, organizational forms, value-motivational attitude to labor and wealth, the measure of perception of foreign experience.

Earl’s [4] briefing paper discusses the nature of behavioural economics and economic mentality and where its implications can affect the design of regulatory policy. Specifically, it offers a distinction between individuals who make optimising choices subject to clearly defined preferences and those who, in reality, struggle with information overload and changing preferences in different circumstances. The author suggests that if organisations are aware of such shortcomings in the decision making process, they may be able to manipulate the choices individuals make. For example, in the framing of information (how information is presented to them). In addition, he advises that individuals who only consider the short term impact of a decision should take time to reflect on the longer term implications of their decision before they make it. Policy makers could do more to promote careful reflection by the individual by erecting hurdles to delay such choice.

Teraji [5] provides insight into the diversity of economic performances caused by individual mentality within organisations. A state of norm performance is generated via social interaction within the organisation. Two steady states of effort levels are defined: 1) enforced by altruism where everyone chooses the high effort level and high morale is sustained; 2) on the other hand, if the norm, which is enforced by envy, is persistent, everyone chooses the low effort level and the performance decays in the long run.

Azar [6] presents the theory of «Relative Thinking» exploring the nature of economic mentality. It is where people consider relative differences and not only absolute differences when making various economic decisions. Relative thinking affects the optimal choice of information relative deviations in behaviour between individuals incentive schemes. For example, increasing the fixed payment to a worker reduces the perceived magnitude of the pay-for-performance component, because it becomes a smaller % of total compensation and this might reduce the worker’s effort. Conversely, increasing the pay-for-performance component might encourage workers to take increased risk in order to achieve greater reward. Also, workers may respond differently to % increases versus absolute monetary increases.

Analyzing the concept of «economic mentality», Grytsenko [7] notes that economic science investigates the mentality at its behavioral level, when the stereotypes and installations of subjects formed under the influence of values and ideological orientations begin to manifest themselves and influence the objective world.

For assessing the influence of economic mentality on the nature of socio-economic transformations in society, the most successful concept is G. Hofstede’s. The basis of this methodology is the analysis of mental characteristics of various ethnic groups using formalized methods. G. Hofstede has identified 5 main indicators that can characterize and describe the
prevailing value systems of representatives from different countries and ethnic groups, which makes it possible to establish the position of any country on the world-wide mental map [8]: power distance index (PDI), individualism (IDV), masculinity (MAS), uncertainty avoidance index (UAI), long-Term Orientation (LTO). All G. Hofstede indicators usually vary in the range from 0 to 100 points, although are possible more extreme values [9].

Other prominent researchers include F. Trompenaars and C. Hampden-Turner. They are known for their research into the model of national cultural differences. Their research is supplement to that of Hofstede's: similar strategy of data collection was carried out through the authors’ efforts in which a questionnaire was sent to more than 46,000 managers across 40 countries over a period of 10 years to examine the effects of culture on business. One aspect that distinguishes Trompenaars and Hampden-Turner’s work is their proposed model of reconciliation to tackle cultural dilemmas. His view in accordance to his dimensions is that each culture has its own way for solving problems to universal problems. It must be stated that there are some factual criticisms of the cultural dimensions theory as their definitions are quite broad which can be misconstrued as generalisations [10].

Schwartz [11] proposed a procedure for quantitative study of mental characteristics, which provides for the answer to 21 questions of the test, which then combine into 10 typological value indices. In turn, these indices are grouped into 4 blocks of mental values: preservation (conservatism); openness to change; going beyond his «I»; self-affirmation (orientation to oneself).

**Unsolved aspects of the problem.** The analysis of all described approaches shows that the scientists created a significant theoretical basis for the study of the category of economic mentality, but it is necessary to pay attention to the following points:

1) works devoted to the problem of economic mentality do not give a holistic view of the economic mentality as a polysystem category, which consists of separate elements, performs certain functions and is formed under the influence of many factors;

2) the mechanism of the emergence of economic mentality, the main determinants and patterns of development, the gradual changes and its periodic transformation is insufficiently investigated;

3) researches mainly use separate theoretical approaches, not deepening into the problem of the influence of economic mentality on the development of society, the correspondence of the mental characteristics of the nation to the social and economic policies of the state.

**The purpose of the article** is to explore the role and measure of the the economic mentality influence on countries development.

**Research methodology.** In order to assess the role and the impact of economic mentality on socio-economic development, we use methodology, which involves studying the relationship between the G. Hofstede’s mentality indicators and international indicators of the economic system development. The methodology of this research is based on the positive research paradigm, descriptive and correlation analysis, empirical study methods, logical and systematical reasoning, abstract and other methods [12—15].

An assessment of the effectiveness of national economies development will be conducted on the following indicators:

1. Gross National Income (GNI per capita) — the main indicator of national economies efficiency and the most important criterion for economic analysis and economic policy formation.

2. Index of Economic Freedom (IEF) — is calculated by the American Independent Strategic Research Center «The Heritage Foundation» and the business newspaper «The Wall Street Journal».

3. The Global Innovation Index (GII) — has been calculated from 2007 by experts from the INSEAD Business School based on 132 countries. The author of the GII concept, Professor S. Dutta, emphasizes the key role of innovation potential and innovation policy of countries in the context of ensuring their competitiveness in the global environment, as the leading driving force of modern change, the engine of development and well-being.
The authors formulate a hypothesis about the existence of dependence and tight relation between the indicators of national economies — GNI per capita, the Index of Economic Freedom, the Global Index of Innovation and the dimensions of the economic mentality of G. Hofstede. The countries selected for the study were grouped according to the current institutional model as follows: post-socialist countries (Czech Republic, Slovakia, Russia, Hungary, Poland, Romania); Anglo-Saxon countries (USA, Canada, Australia, United Kingdom); North-European (Sweden, Denmark, Norway, Finland); South-European (Spain, Italy, Portugal); West European (Germany, Austria, Switzerland, France, Belgium).

**Research results.** Correlation-regression analysis allowed revealing the dependence between the indicators of the national economies efficiency and the dimensions of economic mentality by G. Hofstede. It has been established that a significant link is observed between GNI per capita, Index of Economic Freedom, Global Index of Innovation and indicators of individualism, power distance and uncertainty avoidance [16].

Correlation-regression analysis obtained that the dependence between GNI per capita and indices of individualism, power distance, uncertainty avoidance is expressed according to the following equations:

\[ y = 0.4493x_1 + 6.9282, \]  
\[ y = -0.4094x_2 + 56.608, \]  
\[ y = -0.37x_3 + 60.616, \]

where \( y \) is the GNI per capita; \( x_1 \) — individualism index; \( x_2 \) — power distance index; \( x_3 \) — uncertainty avoidance index.

The correlation coefficient between GNI per capita and individualism index is \( R_1 = 0.62 \), which means that there is a close direct relationship between the values studied. The correlation coefficient between the GNI per capita and the power distance index \( R_2 = -0.71 \), which indicates the inverse relationship: as the power distance indicator increases, there is a simultaneous decrease in GNI per capita.

The correlation coefficient \( R_3 = -0.62 \), which means that there is a strong feedback between the indicators of GNI per capita and the uncertainty avoidance index. With increasing uncertainty avoidance, there is a decrease in the value of GNI per capita.

The dependence of GNI per capita and indices of individualism, power distance, uncertainty avoidance UAI is presented in Fig. 1.

The dependence of the Index of Economic Freedom on the indices of individualism, power distance, uncertainty avoidance is described by the equations:

\[ y = 0.3097x_1 + 49.49, \]  
\[ y = -0.2336x_2 + 81.235, \]  
\[ y = -0.2541x_3 + 86.433, \]

where \( y \) is the Index of Economic Freedom; \( x_1 \) — index of individualism; \( x_2 \) — power distance index; \( x_3 \) — uncertainty avoidance index.

The correlation coefficient between Index of Economic Freedom and individualism is \( R = 0.68 \), which means that there is a strong correlation between these values.

The correlation coefficient between the Index of Economic Freedom and power distance index is \( R = -0.66 \), which proves the presence of a strong feedback between the investigated values.

With an increase in the indicator of the power distance, there is a decrease in the values of the Index of Economic Freedom in the countries.

The correlation coefficient \( R = -0.69 \) means that there is a strong feedback between Index of Economic Freedom and uncertainty avoidance index.

With the increase of the indicator of uncertainty avoidance there is a decrease in the values of the Index of Economic Freedom in the countries.
Fig. 1. Scatter diagram of GNI per capita, UAI, IDV and PDI

The dependence of the Index of Economic Freedom and indices of individualism, power distance, uncertainty avoidance is presented in Fig. 2.
The relationships between the Global Innovation Index and the Indexes of Individualism, Power Distance and Avoidance of Uncertainty are described by the following equations:

\[ y = 0.3141x_1 + 31.278, \]  
\[ y = -0.2728x_2 + 65.317, \]  
\[ y = -0.2626x_3 + 69.07, \]

where \( y \) is the Global Innovation Index; \( x_1 \) — index of individualism; \( x_2 \) — power distance index; \( x_3 \) — uncertainty avoidance index.

The correlation coefficient between the values of Global Innovation Index and individualism is \( R = 0.7 \), which means that there is a significant connection: with the growth of the individualism index, an increase in the values of the Global Innovation Index is observed.

The correlation coefficient between the values of Global Innovation Index and power distance is \( R = -0.79 \); with the increase of power distance index there is a decrease in the values of the Global Innovation Index. The correlation coefficient \( R = -0.73 \) means that there is a significant feedback between the values of Global Innovation Index and uncertainty avoidance index: with the increase of the uncertainty avoidance index, the Global Innovation Index values decrease.

To identify the relationship between other components of the economic mentality and the performance of national economies, we will use quantitative measurements of the components of the mentality according to the method of Schwartz. Conducted correlation-regression analysis revealed that there is a significant correlation between the values Autonomy, Power, Traditionalism, Security, Stimulation and GNI per capita, Global Innovation Index and Economic Freedom Index [17—19]. Other dimensions of economic mentality do not have a significant impact on the studied economic indicators of countries.
The generalized results on the strength of the correlation between individual components of the economic mentality and the performance indicators of national economies are presented in Table.

**Significance of correlation between characteristics of economic mentality and performance of national economies**

<table>
<thead>
<tr>
<th></th>
<th>Gross National Income — GNI</th>
<th>Index of Economic Freedom — IEF</th>
<th>Global Innovation Index — GII</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individualism — IDV</td>
<td>0,612</td>
<td>0,678</td>
<td>0,701</td>
</tr>
<tr>
<td>Power Distance — PDI</td>
<td>- 0,703</td>
<td>- 0,659</td>
<td>- 0,784</td>
</tr>
<tr>
<td>Uncertainty Avoidance — UAI</td>
<td>- 0,612</td>
<td>- 0,689</td>
<td>- 0,726</td>
</tr>
<tr>
<td>Self-direction</td>
<td>0,677</td>
<td>0,774</td>
<td>0,842</td>
</tr>
<tr>
<td>Stimulation</td>
<td></td>
<td></td>
<td>0,648</td>
</tr>
<tr>
<td>Power</td>
<td></td>
<td>- 0,616</td>
<td>- 0,713</td>
</tr>
<tr>
<td>Traditionalism</td>
<td></td>
<td>- 0,675</td>
<td>- 0,663</td>
</tr>
<tr>
<td>Security</td>
<td>- 0,679</td>
<td></td>
<td>- 0,737</td>
</tr>
</tbody>
</table>

**Conclusions.** 1. It has been established that economic mentality is the primary informal institution, on the basis of which the institutional structure of the economy is formed, and possesses specific properties: a) functions at the deep level of consciousness of economic entities; b) is stable and reproduced in the process of social development; c) is capable of generating new institutional forms and acting as photo initiations.

In the process of institutionalization, the economic mentality develops into a system with several levels. At the initial level there are stereotypes and models of economic behavior that reflect the historically formed traditional way of organizing economic activity. At the next level, the characteristics of economic mentality are expressed in the totality of economic roles performed by business entities. In the future, the features of economic mentality acquire institutional and organizational forms of manifestation, are enshrined in legal norms, culture, ideology. The completion of the process of institutionalization of the components of the economic mentality and their transformation into a coherent system ensures reproduction of those mental characteristics that have proven economic efficiency in the process of economic activity.

2. As a result of correlation analysis the proposed hypothesis about the existence of dependence and tight relation between the indicators of national economies — GNI per capita, the Index of Economic Freedom, the Global Index of Innovation and the dimensions of the economic mentality of G. Hofstede. Received an economic and mathematical confirmation and it can be concluded that the components of the economic mentality have a significant impact on the level of economic development of the state. In particular, the indexes of avoiding uncertainty and the power distance generally have negative correlations with the indicators of economic development GNI per capita, the Index of Economic Freedom, the Global Innovation Index.

3. The indicator of individualism has a direct correlation with all three investigated indicators of the efficiency of national economies. Consequently, promoting the development in the structure of the economic mentality the values of individualism, the spread of decentralized management mechanisms in organizations, the active involvement of workers in organizational change and the promotion of the development of democratic values has a positive impact on the socio-economic development of society.

4. Prospect for further research of economic mentality is integrated approach to the analysis of its main components, stimulating the development and utilization of the mental characteristics of society in order to solve the priority tasks of the socio-economic policy of the state. Establishing a correlation between the indicators of the efficiency of national economies and the peculiarities of the economic mentality creates a basis for the formation of a national model of social and economic policy taking into account the potential threats and opportunities embodied in the structure of the economic mentality.
5. The research necessitates the construction of an own national model of socio-economic development, which is confirmed by objective reasons: a) national economic mentality is formed under the influence of many specific factors, which substantially mediate the economic activity of economic entities; b) national economic mentality definitely has significant differences from the representatives of other countries, therefore direct borrowing from the experience of economically developed countries without taking into account national specifics is ineffective.

The prospects for using the results of this study are the creation of their own national model of socio-economic development, which will promote the economic interests of economic entities at all levels, promote the increase of competitive potential in the international market by stimulating the progressive features of the economic mentality.

Література
1. Бондаренко О. В. Економічна ментальність України: сучасний стан та перспективи подальшого розвитку. Психологічний вісник. 2007. Вип. 27. С. 69—79.
3. Данилова Е., Тарарухина М. Российская производственная культура в параметрах Г. Хофстеде. Мониторинг общественного мнения. 2003. № 3 (65). С. 53—64.

Стаття рекомендована до друку 02.02.2022 © Галущка З. І., Запухляк В. М., Клівіч Л. Л., Лусте О. О., Сторощук Б. Д.

References


The article is recommended for printing 02.02.2022 © Halushka Z., Zapukhlyak V., Klevchik L., Luste O., Storoshchuk B.