

Culture and Firms

Zhihui Gu, Hao Liang, Hanyu Zhang*

Abstract

We study how societal culture shapes firm behavior and growth by analyzing the trade-off of relying on trust in acquiring stakeholder resources, and testing with data on the number of historic Confucian schools surrounding a current firm's location in China. Companies more exposed to Confucianism have greater social contributions and stakeholder protection, and more business courtesy expenses, patents, and trade credits, which match the five basic virtues of Confucianism: benevolence, righteousness, courteousness, wisdom, and trustworthiness. Our results cannot be explained by other cultural traits and are robust to using the distance to the prototypical Confucian academies in the Song Dynasty and the intensity of rivers in the local region as instrumental variables. The effects are likely to be transmitted via a firm's interaction with market participants, politicians' ideology, and board of directors. Stronger Confucianism is associated with greater profitability and growth.

Keywords: Culture, Corporate Behavior, Confucianism, Firm Value

JEL Codes: G30, L11, L21, M14, N15, Z10

*Zhihui Gu, Nankai University, Tianjin 300071, China, guzhihui@nankai.edu.cn; Hao Liang (Corresponding author), Singapore Management University, 50 Stamford Road, Singapore 178899, hliang@smu.edu.sg, Phone: +65 6828-0662; Hanyu Zhang, Singapore Management University, 50 Stamford Road, Singapore 178899, hanyu.zhang.2018@pbs.smu.edu.sg. We thank Sebastian Ebert, Yuexin Li, Nicola Pavanini, Jiwei Qian, Wei Shan, Rong Wang, Joe Zhang, Wei Zhang, Haikun Zhu, as well as seminar participants at Nankai University, Singapore Management University, National University of Singapore, Renmin University of China, and Sun Yat-Sen University for their constructive comments.

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1. INTRODUCTION

Economic activities are shaped by culture ([Weber, 1930](#)). In economic terms, culture refers to deeply held general values and beliefs or even intuitions about right or wrong ([Nunn, 2012](#)). Extant studies have documented systematic differences among people with distinct cultural backgrounds in their decision-making, even in the same environment, due to their different preferences and beliefs (e.g. [Nisbett and Masuda, 2003](#); [Talhelm et al., 2014](#)). These differences are further associated with varying levels of economic development across regions (e.g. [Guiso et al., 2003](#); [Algan and Cahuc, 2010](#); [Nunn, 2008](#); [Nunn and Wantchekon, 2011](#)). A growing body of the economics literature has focused on the role of societal culture as an important determinant of socio-economic outcomes, such as long-run growth and political institutions (e.g. [Alesina and Giuliano, 2015](#); [Michalopoulos and Papaioannou, 2015](#); [Nunn et al., 2020](#)). Despite the abundance of studies documenting cultural effects, it remains unclear how societal culture can shape business activities and influence corporate policies. Studying the firm-level channel is crucial for understanding how culture affects the broader economy and society, especially given the large differences in corporate practices across firms and countries ([Bertrand and Schoar, 2003](#); [Bloom and Van Reenen, 2007](#)).

The limited studies on how cultures affect firms mostly focus on corporate culture and the cultures of their CEOs, instead of societal culture. Conceptually, corporate and CEO cultures can be considered as a stock of shared knowledge and beliefs that are communicated and interpreted between leaders and employees, and can be reflected in firm reputation and behavior ([Van den Steen, 2010](#); [Gorton and Zentefis, 2020](#); [Gorton et al., 2021](#)). This perspective focuses on the formation of corporate culture but remains silent on how societal values are initially formed, especially through a firm’s interaction with various stakeholders, including consumers, suppliers, community, regulators, and even the public at large. A broader perspective requires a focus on the role of societal culture, which shapes corporate

cultures as well as the cultural values of corporate leaders and employees within a given society (Hofstede and Peterson, 2000).

In this study, we fill the above gaps and investigate how societal culture affects firms. To this end, we first develop a conceptual framework in which culture is represented by trust among a firm’s stakeholders (Guiso et al., 2004, 2006, 2008a,b; Alesina and Giuliano, 2015), not just investors, employees, and customers but the broader community and society at large. Specifically, we consider trust as an important input of a firm’s production that is supplied by its stakeholders. Firms with higher stakeholder trust will have greater access to stakeholder support, such as lower cost of capital from investors and lower wage demands by employees. Gaining stakeholder trust is, however, costly, and thus a firm faces a cost-benefit trade-off. In an environment with a strong societal culture that emphasizes trust and reputation, a firm is more likely to gain trust from its key stakeholders at lower cost (Allen et al., 2005). However, trust may replace formal institutions (e.g., laws and contracts), which leads to authoritarianism within the firm (Coase, 1937) and the risk of stakeholders being expropriated by the entrepreneur, increasing the cost of gaining stakeholder supports. Consequently, such low (high) cost of acquiring this important input leads the firm to generate a higher (lower) output, given a fixed budget. This has significant implications on the welfare of both stakeholders and firms depending on the relative strength of stakeholder support and expropriation risk.

We then test it empirically by exploiting the Chinese setting and leveraging a unique dataset on the dominant and historically enduring culture in China, namely Confucianism, which has shaped practical affairs in China for about two thousand years. We construct a novel dataset from historical archives in the Great Qing, the last dynasty in the imperial history of China, which ruled the country for almost three centuries until it was succeeded by the Republic of China in 1912. Specifically, we hand-collect information about 1,547 Confucian academies in the Qing Dynasty by referring to county-level local chronicles between

1796 and 1840.¹ We then count the number of Confucian academies in the Qing Dynasty in the firm’s adjacent region, i.e., within a 100-kilometer radius around the coordinates of the corporate headquarter, as a measure of a firm’s exposure to Confucianism.

We next identify the core values of Confucianism, which are commonly summarized as the five virtues, namely benevolence (*Ren*), righteousness (*Yi*), courteousness (*Li*), wisdom (*Zhi*), and trustworthiness (*Xin*), and are the foundation of Confucian ethics that still prescribe interpersonal relations in China today (Hwang, 1987; Huang, 2003). We map these virtues into five major firm-level behaviors that best represent the five core values, including social contribution (benevolence), stakeholder protection (righteousness), courtesy expenses (courteousness), patenting (wisdom), and trade credits (trustworthiness). We find these five behaviors are positively correlated with the intensity of a listed firm’s exposure to Confucianism. This finding holds after employing alternative measures of Confucianism, including that of the CEO, and controlling for other cultural traits, including Taoism, Buddhism, and foreign values.

Although our key explanatory variable lagged our dependent variables by several centuries, there is still concern that the presence of Confucian academies could be correlated with regional economic development in the Qing Dynasty, which could persist and explain today’s economic activities. Meanwhile, confounding factors correlated with both Confucianism and economic activities could drive the above results. To mitigate these concerns, we employ an instrumental variable (IV) approach. First, we use the shortest distance between a listed firm and the nearest academy established by the renowned Confucian scholar Zhu Xi (1130—1200 A.D) to teach and promote Confucian philosophies. These *Zhu Xi Academies* had played a crucial role in popularizing and spreading Confucianism among the grassroots,

¹We choose this period because the most comprehensive and complete chronicles are only available after 1796, and, after 1840 (after the Opium War), Westerners established municipal authorities, schools, and judiciaries in some cities of China (Jia, 2014). Confucian academies were the private schools, and one of the only places where most children, including those from poor families, could then receive proper education. It has been documented that these academies attracted talented young men who were keen for more out of their Confucian educations than just the rote mental preparation provided in government schools for the civil service examinations (Elman, 1989). During the Qing Dynasty, Confucian academies gained both local and governmental support and flourished as centers of education.

through prototyping and inspiring the establishment of other Confucian schools across China since the twelfth century (Chen et al., 2022). The high cost of transport during ancient China ensured that Confucian schools tend to cluster around those *Zhu Xi Academies* (Chen et al., 2022). As a result, regions closer to a *Zhu Xi Academy* tend to have more Confucian schools thus greater exposure to Confucianism. Meanwhile, the locations of these *Zhu Xi Academies* and subsequent Confucian schools around them were not determined by the economic conditions during that time but instead were results of Zhu Xi’s personal experience, mourning rituals and government official appointment (Gu et al., 2021; Chen et al., 2022). We present evidence on this exclusion restriction, which will be explained later in greater detail.

Our second IV is the number or the total length of rivers in the region where a firm is headquartered. We argue and show evidence that Confucian schools were usually established in areas further away from rivers (except major ones that cross many regions, such as Yangtze River and Yellow River) in the ancient China to reduce potential inundation risk and protect the books. Such choice of location also ensures a peaceful environment for education, as areas near rivers usually had more trades, transportation, and wars. Therefore, we expect a negative correlation between the number of Confucian schools and the number or length of rivers in a region. Meanwhile, this IV is unlikely to affect contemporary firm policies additionally after we control for local economic development. Our IV estimates confirm that Confucianism has a large and significant effect on corporate policies.

We next explore potential channels through which societal culture functions on firms—other than the CEO’s cultural background—by investigating the roles of market participants, politicians and board of directors who are major external and internal stakeholders that affect corporate decision making. To this end, we partition our sample based on the degree of regional market-orientation, city leaders’ ideology against Confucianism, and whether there are non-Chinese board directors in a firm. First, several scholars (e.g. Tabellini, 2008; Alesina and Giuliano, 2015) argue that culture and formal institutions such as the market can influence each other, and their impacts on economic activities are usually substitutive.

We thus conjecture that the effect of societal culture on firms is weaker in more market-oriented regions, and we find support from data using province-level marketization scores. Second, [Marquis and Qiao \(2020\)](#) find that people who joined the Communist Party of China (CPC) before 1978 were more likely to adopt Mao’s ideology (“*Maoist*”), which suppressed Confucianism, especially in the “Cultural Revolutions” ([Gold, 1985](#)), compared to those who joined after 1978 and thus adopted Deng’s ideology (“*Dengist*”). [Liang et al. \(2022\)](#) find systematic differences in corporate behavior between firms governed by *Maoist* politicians and those governed by *Dengist* politicians. Our results show that the effects of Confucianism are stronger in cities with *Dengist* leaders, confirming the politician channel. Third, the effect of Confucianism should be attenuated if the firm is also exposed to foreign cultures in its decision-making body, such as having more non-Chinese directors on the board. The results are again consistent with our prediction.

Finally, to test the value implications of societal culture predicted by our theoretical framework, we relate Confucianism to firm performance and find that firms with greater exposure to Confucian culture have higher returns on equity, greater operating profit growth, and greater corporate social responsibility (CSR). Consistent with our conjecture, such value effects are explained by reduced cost of capital and employee growth at the firm-level. These results collectively suggest that firms influenced by Confucianism gain more stakeholder support at lower costs, despite the potential expropriation risk, thus have greater growth potential on average.

Our study mostly relates to the work on how societal cultures shape economic activities. The study of culture in economics can be categorized in the following ways. First, culture influences the behavior of individuals and organizations. For example, [Guiso et al. \(2004\)](#) show that trust, one of the most important cultural traits, is positively associated with households’ use of check, proportion of stocks in asset allocation, and access to institutional credit. Second, culture can affect macroeconomic outcomes and financial markets. For instance, cultural differences in terms of individualism can explain the cross-country differences

in innovation and long-term economic growth ([Gorodnichenko and Roland, 2017](#)), as well as the momentum strategy profits and price co-movement ([Chui et al., 2010](#); [Eun et al., 2015](#)). Third, culture can significantly shape formal institutions. This literature has documented the cultural effect on government regulation, labor market outcomes, political institutions, and international trade and openness (e.g. [Aghion et al., 2010](#); [Algan and Cahuc, 2010](#); [Nunn et al., 2020](#); [Guiso et al., 2009](#); [Stulz and Williamson, 2003](#)).

Different from these studies, we focus on *how* culture shapes economic activities via influencing firm behavior—beyond the corporate culture—by investigating its substitutional effect on other formal and informal institutions, such as the market and ideology. In this way, we show the boundaries of cultural influence, a topic underexplored elsewhere. Regarding Confucianism more specifically, while [Chen et al. \(2022\)](#) argue that such substitutional effect hinders China’s financial development due to its negligence of relying on formal institutions, we focus on its positive role in gaining stakeholder trust which appears to be more prominent, leading to overall lower transaction costs. More broadly, our work also complements the studies on how historically formed institutions and norms (such as laws, political institutions, trust among people) systematically affect contemporary economic or financial outcomes (e.g., [La Porta et al., 1998](#); [Acemoglu et al., 2001, 2002](#); [Nunn, 2008](#); [Michalopoulos and Papaioannou, 2016](#); [Pierce and Snyder, 2018](#); [Levine et al., 2020](#); [Lowes and Montero, 2021](#)). The effects we document are likely firm-level channels through which culture as a historically formed informal institution affects economic activities.

Another major contribution we make to the literature is to introduce a more granular and objective measure of societal culture. The most commonly used measures of societal culture are based on survey data, such as the Hofstede cultural dimensions (e.g. [Hofstede, 1980, 2001](#)), the Schwartz measures (e.g. [Schwartz, 1994, 2006](#)), the World Values Survey ([Inglehart, 2000](#)), and the GLOBE cultural scores ([House et al., 2004](#)). These country-level survey-based measures facilitate the cross-country analysis, especially in exploring the effects of specific cultural characteristics on individual behaviors and economic activities across the

world (e.g. [Guiso et al., 2006, 2008b](#); [Fisman and Miguel, 2007](#); [Gorodnichenko and Roland, 2011](#)). However, these measures do not allow for investigating the significant within-country variations in culture ([Guiso et al., 2006](#); [Karolyi, 2016](#); [Nunn, 2020](#)), and it is inappropriate to equate nation with culture. In addition, such measures suffer from the sample selection issue and the concern that people often fail to act in accordance with their stated intentions in surveys ([Ajzen et al., 2004](#)). Some recent studies combine ethnic background of top executives in the United States and survey-based measures of national culture to measure the corporate culture, which enables them to investigate within-country, cross-firm cultural effects (e.g. [Liu, 2016](#); [Nguyen et al., 2018](#); [Pan et al., 2020](#)). Nevertheless, such an approach faces similar challenges to those of survey-based methods and does not measure the direct impact of societal culture on firms. Another strand of research employs religion and language as proxies for societal culture (e.g. [Stulz and Williamson, 2003](#); [Hilary and Hui, 2009](#); [Kumar et al., 2011](#)). Regarding language, researchers consider people speaking the same language to share the same culture. With regard to religion, some studies focus on whether Catholics and Protestants exhibit significant differences in their preferences and economic behavior (e.g. [Kumar et al., 2011, 2016](#); [Stulz and Williamson, 2003](#)). However, religions are complex institutions that comprise conflicting views on many issues, and people both within and across countries may have heterogeneous degrees of religious belief ([Siegel et al., 2011](#)). Thus, using religion as a measure for culture does not capture the significant within-region or within-country heterogeneities of cultural effects. In contrast, our coordinate-based measure for societal culture provides fine-grained, within-country variation of societal culture and is based on historical documents, which are objective and stable and can capture the intensity of cultural influence at the firm level.

The remaining of the paper proceeds as follows. Section 2 develops a conceptual framework and testable hypotheses. Section 3 describes the data and sample construction. Section 4 discusses the main results. Section 5 presents several cross-sectional analyses in exploring potential channels through which societal culture affects firm behavior. Section 6 explores

the performance consequences of the culture impact. Section 7 provides results of several post-hoc tests. The [final](#) section concludes.

2. CONCEPTUAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

2.1. Conceptual Framework

In this section, we integrate the classical demand-and-supply and cost-minimization analyses into our conceptual framework. Specifically, we view societal culture as a form of trust in a firm by its stakeholders, which is an important input for the firm’s production, and can substitute other inputs. We treat the firm as the demander and its stakeholders as the suppliers of this input. However, gaining trust from stakeholders is costly, and a firm faces a cost-benefit trade-off when making production decisions.

On one hand, firms are more likely to gain support from stakeholders at lower cost in a society that has a strong culture of valuing trust ([Allen et al., 2005](#)). Consequently, such low costs of acquiring the important input lead firms to generate higher output, given a fixed budget. As a result, the welfare of both stakeholders and shareholders can improve. On the other hand, trust as an informal institution may substitute other inputs that are dictated by formal institutions such as markets and contracts ([Han and Ling, 1998](#); [Chen et al., 2022](#)). This substitutional effect gives rise to authoritarianism within a firm, as people have to rely on the authority of the entrepreneur in allocating resources in the absence of formal rules ([Coase, 1937](#)). In the absence of strong legal protection, such authoritarianism may expose stakeholders to greater expropriation risks by the entrepreneur ([Bae et al., 2002](#); [Baek et al., 2006](#)), resulting in lower trust by stakeholders thus higher transaction costs. Therefore, the net effect of the trust-based societal culture depends on the relative strength of stakeholder supports and expropriation risks. We graphically illustrate this framework by analyzing the equilibrium outcomes under different scenarios with varying intensities of culture.

Figure 1(a) shows the supply and demand of trust from a firm’s stakeholders, with a focus on its positive effect. The X -axis represents the “quantity” of trust from stakeholders on the firm, and the Y -axis represents the cost of acquiring such stakeholder trust on the firm. The downward curve is the demand curve, D , which represents the quantity of trust demanded given the “price” of trust. We assume a constant marginal utility of trust for the firm, which can be relaxed easily. The upward dashed lines are the supply curves representing the quantity of trust supplied, given its price. The initial equilibrium quantity of trust on a firm is Q_0 , and the equilibrium price of trust is P_0 , the quantity and the price at which the demand curve intersects with the initial supply curve (S_0). A greater strength of trust-based culture in the society helps provide more assurance to stakeholders and thus gains more trust from them. This is manifested by a shift of the supply curve toward the right, due to an increased supply of trust. With the new supply curve, S_1 , the new equilibrium quantity of trust on a firm increases to Q_1 , and the new equilibrium price of trust becomes P_1 . We further assume that the intersection point is above Point E , which is the point of unit elasticity. Hence, an increase in the quantity of trust and a decrease in the price of trust leads to the rise of welfare of stakeholders ($P_1 \times Q_1 > P_0 \times Q_0$) and an increase in “consumer surplus” ($P_1 < P_0$, and we define $\Delta P_1 = P_0 - P_1$), which captures the value of the firm as it is the consumer of stakeholder trust.

Figure 1(b) shows the similar supply-demand curves of stakeholder trust, but focusing on its negative effect. Different from Figure 1(a), a greater strength of trust-based societal culture substitutes rule-based institutions (Aghion et al., 2010; Pevzner et al., 2015), which leads to stronger authoritarianism within the firm that exposes stakeholders to greater risk of expropriation by the entrepreneur. Such expropriation risk reduces stakeholders’ supply of trust to the firm, which is manifested by a shift of the supply curve toward the left. With the new supply curve, S_2 , the new equilibrium quantity of trust on a firm decreases to Q_2 , and the new equilibrium price of trust is P_2 . We again assume the intersection point to be above the point of unit elasticity, E . Hence, a decrease in the quantity of trust and an

increase in the price of trust leads to a decline of stakeholders welfare ($P_2 \times Q_2 < P_0 \times Q_0$) and a decrease in “consumer surplus” ($P_2 > P_0$, and we define $\Delta P_2 = P_2 - P_0$).

<Figure 1 here>

Figure 1(c) combines the previous two figures to illustrate the net effect of societal culture on the supply of trust from a firm’s stakeholders. The initial equilibrium quantity of trust on a firm is Q_0 , and the equilibrium price of trust is P_0 . When $\Delta P_1 > \Delta P_2$, that is, when the effect of stakeholder support is greater than that of the expropriation risk, the supply curve will shift to right (S_{3a}), manifesting a positive effect of trust-based culture. The equilibrium quantity of stakeholder trust increases to Q_{3a} and the equilibrium price of trust decreases to P_{3a} in this case (and $P_{3a} \times Q_{3a} > P_0 \times Q_0$), reflecting an increase in overall welfare. In contrast, when $\Delta P_1 < \Delta P_2$, that is, when the expropriation risk outweighs the stakeholder support, the supply curve will shift to left (S_{3b}) which reflects a negative effect of trust-based culture. With the new equilibrium quantity Q_{3b} , and price P_{3b} ($P_{3b} \times Q_{3b} < P_0 \times Q_0$), the overall welfare decreases.

Figure 2 illustrates the production decision of firms facing different prices of trust. The isocost line, L_0 , represents the initial combinations of trust and other inputs that can be acquired with a fixed amount of capital when the price of trust is P_0 , which is tangent to the isoquant curve, U_0 , that represents similar combinations of inputs needed to produce the same level of output. The point of tangency represents the equilibrium quantity of output (Q_0) that is determined by equating the marginal rate of technical substitution to the ratio of the prices of the two factors, given a fixed budget. Two alternative isoquant curves, U_1 and U_2 , indicate a higher output (Q_1) and a lower output (Q_2). With a greater intensity of trust-based culture, the isocost line will shift depending on the cost of acquiring stakeholder trust. When the stakeholder support outweighs the expropriation risk (i.e., $\Delta P_1 > \Delta P_2$), the price of trust decreases and the trust input increases, assuming the prices of other inputs to be fixed. As a result, the new isocost line L_1 becomes flatter and is tangent to a higher isoquant curve U_1 , implying that stronger culture leads to a higher output of the firm, given

the same budget, which further generates higher profit for the firm. In contrast, when the expropriation risk outweighs the stakeholder support (i.e., $\Delta P_1 < \Delta P_2$), the price of trust increases and the supply of trust as an input decreases, leading to a steeper isocost line, L_2 , tangent to the lower isoquant curve, U_2 . This implies a lower output of the firm, given the same budget, which further leads to less profit.

<Figure 2 here>

2.2. Hypothesis Development

We next describe the institutional background of our empirical setting and how we match the core values of Confucianism to firm behaviors. Confucianism originates from the teachings of the Chinese philosopher Confucius (551 B.C – 479 B.C) and has been the predominant value system governing the practical affairs in China since the Han Dynasty, for almost two thousand years. Confucian values also spread widely across other countries in Asia, such as Singapore, Vietnam, South Korea, and Japan. The core of Confucian values consists of five virtues, namely, benevolence (*Ren*), righteousness (*Yi*), courteousness (*Li*), wisdom (*Zhi*), and trustworthiness (*Xin*). These virtues define the principles of being a decent person and the norms for interacting with others which help establish social trust.

Benevolence (*Ren*) refers to compassion and altruism, and mostly concerns a person's caring and love for others, even at the cost of her own wellbeing. From a corporate perspective, a benevolent firm cares about the welfare of its society and various stakeholders and is willing to contribute to the society at a cost to itself. Therefore, a benevolent firm would spend more on social contributions. We therefore take a broad perspective and link benevolence to various forms of social contribution (or contributions to various stakeholders) by examining the combination of tax payments to the government, wage payments to employees, interest payments to debt holders, profit attributable to shareholders, and donations. In this way, we aim to capture how much a firm cares for its broad group of stakeholders.

Righteousness (*Yi*), often being referred together with benevolence in the ancient Chi-

nese literature, is about respecting and helping the others, especially the virtuous, friends, and the weak in the society. From a firm’s perspective and similar to benevolence, a righteous firm protects its internal and external stakeholders. To this end, we focus on a firm’s protections of its employees and supply-chain partners, which are often vulnerable and disadvantaged stakeholders, relative to the firm and its shareholders. These protections may include stepping up safety measures for employees and ensuring fair competition among suppliers.

Courteousness (*Li*) refers to common courtesy in one’s daily life, representing the etiquette, norms, and protocols that influence interactions with others. Inspired by the *Analects*, which considers courtesy as “the lubricant for the societal harmony,” Chinese society takes the pride of itself being a “state of etiquette.” The pursuit of courtesy and etiquette is also reflected in business, as firms interact with and entertain their stakeholders, with varying degrees of strength across the society. A firm that is more exposed to a courteous culture would spend more on entertaining stakeholders and business partners. We therefore focus on a firm’s courtesy expenditure to capture how the value of courteousness in Confucianism is reflected in its corporate behavior.

Wisdom (*Zhi*) refers to one’s intellectual development and quality and is about the use of knowledge in a prudent way (Wang and Juslin, 2009). A firm that is more exposed to a culture that values intellectual capital will also commit resources to the development of intellectual property. To this end, we focus on a firm’s innovative outputs, such as patents, to investigate the influence of Confucianism on a firm’s pursuit of intellectual capital and outputs.

Lastly, trustworthiness (*Xin*) concerns one’s credibility and the extent to which she keeps her promises in interpersonal relations. In business, trust among stakeholders is one of the most important factors in facilitating transactions. Therefore, a firm in an environment with a high level of trust is more likely to be viewed as credible and trustworthy by its external stakeholders, such as customers and suppliers. Consequently, they are more willing to grant

the firm more trade credits. For example, a supplier can grant a firm that is perceived trustworthy a longer window for making payments after the delivery of products.

Overall, all these cultural aspects relate to establishing and maintaining trust with various stakeholders, with some being more explicit (e.g., benevolence, righteousness, trustworthiness) and others more implicit (e.g., courteousness and wisdom). In this way, we differ from the existing literature by comprehensively capturing the core elements of a culture and examine its effect on firms in totality, rather than only one aspect of it. In addition, we argue that firm-level influence of Confucianism can take place through shaping the behavior of a firm’s various decision makers and stakeholders, such as the entrepreneur or CEO, the directors, the regulators, and the market participants. Some of them form the corporate culture, whereas others are related to a firm’s institutional environment. In this way, we can more accurately delineate the mechanisms of cultural influence. We test these five core aspects of Confucianism and underlying mechanisms in subsequent sections.

3. DATA AND SAMPLE

This study employs data from several different sources: (i) a firm’s exposure to Confucianism based on its geographical coordinates and the number of Confucian academies from local chronicles (Chorography) in the Great Qing; (ii) survey data on people’s general attitudes from China Family Panel Studies (CFPS); (iii) population divorce rates, city-level GDP, employment, total wage and FDI from China National Bureau of Statistics; (iv) firm headquarters location data from WIND database; (v) firm financial data and data on social contribution, employee and supplier/customer protection, and ownership structure from China Stock Market Accounting Research (CSMAR) database; (vi) city-level politicians’ backgrounds from CSMAR; (vii) province-level market orientation scores from the China Marketization Index by [Fan et al. \(2011\)](#); (viii) data on number and length of rivers from National Census for Water of China; (ix) data on regional Taoism and Buddhism cultures from [Yang \(2011\)](#); (x) information on intergenerational coresidence from China Population

Census (2000 and 2010); (xi) data employee growth from RESSET; (xii) data on firm-level CSR score from *Hexun.com*; (xiii) other archival data from regional archives and historical documents.

3.1. Confucianism Measure

Our main explanatory variable is a firm’s exposure to Confucianism, which we measure using historical data in archival resources. This approach has been used in examining the persistent effect of historical factors on contemporary economic outcomes (e.g., [Acemoglu et al., 2001, 2002](#); [Nunn, 2008](#); [Nunn and Wantchekon, 2011](#); [Lowes and Montero, 2021](#)). Specifically, we count the number of private Confucian academies in the Qing Dynasty in the firm’s adjacent region. Private Confucian academies were the main venues where people were indoctrinated with Confucian values, which formed the main part of education in pre-industrial China. By the middle of the sixteenth century, these academies held regular meetings to allow Confucian scholars to exchange knowledge and views. Through these repeated social interactions, Confucianism spread to the community. In addition, private academies were more accessible for most people and provided elementary Confucian education, whereas not everyone could go to government-funded official schools, which primarily focused on rote mental preparation for the civil service examinations ([Elman, 1989](#)). As a result, Confucian academies also gained local support and flourished as centers of learning in the Great Qing. Therefore, more Confucian schools suggest that a greater share of the local population was inculcated with Confucian culture, which was likely to be passed on over generations.

One may be concerned that having more Confucian schools more than a hundred years ago does not necessarily lead to stronger local Confucian culture today, as the cultural imprints may decay over long periods. In other words, cultural values may not persist and may not transmit stably over time. Although examples of drastic cultural change abound ([Firth, 1959](#)), we argue that this is unlikely to be the case in our setting. Following the anthropology literature, [Giuliano and Nunn \(2021\)](#) argue that an important determinant of

cultural persistence is the similarity of the environment across generations. That is, cultural traits that have evolved from the previous generation are more likely suitable for the current generation in a less variable environment, measured by climatic variability over time. They document that China is among countries with the least environmental variability, implying that the strength of Confucianism should persist over time there. Environmental stability, combined with China’s long continuous history, guarantees that Confucian values are deeply rooted in the Chinese society and are passed on over generations. This is consistent with the framework by [Spolaore and Wacziarg \(2013\)](#) in explaining how historically formed characteristics can be carried over intergenerationally via behavioral or symbolic transmission. Our validity tests (described in detail below) also confirm the persistence of the Confucianism across different regions in China.

To obtain data on Confucian academies, we construct a novel dataset by referring to local chronicles (*Difang Zhi*) from archives in different cities. Local chronicles documented nearly all aspects of a locality in China at the county level, including its history, geography, economy, administration, biography, and education. They were compiled by the local government and elites to describe local administrative matters and commemorate ancestors. They cover both populated and less-populated areas and have been updated ever since the twelfth century ([Dennis, 2020](#)). Thus these chronicles serve as an important source for historical information in China. Figure 3 provides a one-page snapshot of a local chronicle. A local chronicle typically includes a “school” section (*Xuexiao Zhi*) that describes the schools in the vicinity. This allows us to extract information on local Confucian academies.

<Figure 3 here>

To measure a firm’s exposure to Confucianism, we proceed as follows. We first manually search for local chronicles in China from regional archives. Despite voluminous local chronicles, only those compiled during the Ming and Qing Dynasties are available for reference according to “*General Note on Chinese Local Chronicles*” by the renowned Chinese archivist [Zhu Shijia \(1958\)](#). When looking up local chronicles compiled in the Ming Dynasty, we found

that there were missing records for several provinces, such as *Jilin* and *Heilongjiang*, as well as some autonomous regions. Hence, we choose to refer to the local chronicles compiled during the Qing Dynasty. Since the administrative regions in Qing Dynasty are different from those today, we exclude chronicles that documented information for regions beyond the borders of Mainland China. In addition, we focus on local chronicles compiled between 1796 A.D and 1840 A.D, prior to the First Opium War. The reason we choose this period is that the most comprehensive and complete chronicles are only available after 1796. We also exclude chronicles compiled in the late Qing Dynasty, during which the West established municipal authorities, schools, and judiciaries in some Chinese cities (Jia, 2014).

Next, we count the number of all Confucian academies documented in the local chronicles during the aforementioned period. In total, we obtain the information of 1,547 Confucian academies in Qing Dynasty, and their locations are based on their historical sites. Since the administrative division in the Qing Dynasty is different from that today, a city-level variable that directly records the number of Confucian academies within each city is infeasible and would introduce bias. Instead, we create a firm-level variable by counting the number of Confucian academies within a 100-kilometer radius around the firm, based on the geographical coordinates of both the firm and the school, and log-transform it to smooth distribution. Following prior studies (e.g., Hilary and Hui, 2009; Dessaint and Matray, 2017), we define a firm’s location as the location of its headquarters. Information on firm headquarters is obtained from the WIND database. We further calculate the distance between the coordinates of corporate headquarters and historical Confucian academies based on the Baidu Map service.²

²Understandably, the geographical coordinates of historical Confucian academies extracted from local chronicles are not as accurate as the ones used today. Therefore, the coordinates of Confucian academies tend to be broader and fuzzier, and the same coordinate may correspond to several academies.

3.2. Dependent Variables

Our main dependent variables are five firm-level variables that match the core values of Confucianism and the corresponding hypotheses: (1) social contributions, (2) stakeholder protection, (3) courtesy expenses, (4) patenting, and (5) trade credit granted by other firms. Specifically, a firm’s social contribution is defined as the ratio of the sum of total tax contribution, employee payments, interest expense, donations, and profit attributable to shareholders over its total assets. The data are extracted from CSMAR database, one of the most comprehensive databases for Chinese listed-firm research, and firm annual reports. This variable, to a large extent, reflects the firm’s commitment to its stakeholders and society. Stakeholder protection is defined as whether the firm reports to have adopted measures to protect its employees and suppliers. The data are obtained from the firm’s annual report and corporate social responsibility report. Courtesy expenses are defined as the natural logarithm of management fees after deducting total salaries of all executives, supervisors, and board directors plus one. Patenting is measured as the natural logarithm of the number of a firm’s authorized patents plus one. Trade credit is defined as the sum of accounts payable and notes payable scaled by total assets. The data for the last three dependent variables also come from CSMAR database.

3.3. Controls

We control for firm-level covariates that might be correlated with both culture and corporate policies, including firm size (the logarithm of total assets), profitability (return of assets, ROA), leverage (debt-to-assets ratio), revenue growth, cash flow from operating activities (operating cash flows), and whether the firm is a state-owned enterprise (SOE). We further control for city-level macroeconomic variables to account for cross-regional variations in economic development, including GDP, city population, and total employee wages. All

variables are defined in Appendix Table A1.³ Our sample period is between 2007 and 2017, since the dependent variable, social contributions, only starts from 2007.

Table 1 presents the summary statistics of our main variables. Our sample contains 25,300 firm-year observations over the 2007–2017 period. The average number of Confucian academies around a firm (within a 100-kilometer radius) is 23. The mean (median) value of social contribution to asset ratio is 0.106 (0.095), with a standard deviation of 0.085, suggesting a significant variation in social contribution across firms. The average value of stakeholder protection is 0.329, and the standard deviation is 0.706, indicating that many listed firms do not report to have taken measures to protect their employees and suppliers. The mean and standard deviation of courtesy expenses are about 280 million and 576 million Chinese yuan (CNY) (40 million and 82 million USD), respectively. The average number and standard deviation of patents granted to a listed firm are seven and 27, while the mean value and standard deviation for trade credit to assets ratios are 0.123 and 0.098, respectively. At the city level, the average GDP is about 221 billion CNY (34 billion USD), the mean population is over 4 million, and average total employee wages are 26 billion CNY (4 billion USD).

<Table 1 here>

3.4. Validation Test

To cross-validate that our coordinate-based measure indeed reflects time-persistent Confucian culture, we check whether there are significant cross-regional variations in people’s life

³One may be concerned that our Confucianism measure based on the number of Confucian schools simply captures the effect of local education level—because in Ancient China, the contents of education were mostly about Confucianism and teaching was usually conducted in Confucian schools. To address this concern, we additionally control for the number of “Project 211 universities” in the firm’s headquarter province to account for the local education level. Project 211 was a former project of high-level comprehensive universities and colleges initiated in 1995 by the Ministry of Education of China, with the intent of raising the research standards of high-level universities and cultivating strategies for socio-economic development. Project 211 members are regarded as the tier 1 universities in China. Our conclusions are still upheld with the inclusion of this control.

attitudes based on Confucian doctrines that are *not* directly related to the five virtues we test. This is essentially an out-of-sample test. To this end, we recognize that an important element of Confucianism is the importance of family and family values, which entail familial collectivism, i.e., the family, rather than individual, being viewed as the most revered societal building block (Cheng, 1944; Ip, 2009).

We first focus on old-age support, which, accordingly to Confucianism, advocates that people should support their elderly parents unconditionally. Chen et al. (2019) argue that receiving old-age support reflects the extent to which filial piety, an ethic promoted by Confucianism, can determine people’s decision to have children.⁴ We follow their approach and employ the family-level data from China Family Panel Studies (CFPS), which asks respondents “why do you want to have children?” to construct an index of old-age support. We then regress this self-constructed index on our coordinate-based measure of Confucianism in a province. In Column (1) of Table A2, we find that these two measures are positively correlated.

Second, we examine the regional divorce rate as another reflection of the family ethic. Confucianism advocates the importance of family and thus prioritizes keeping a family together even during difficult times, and divorce is usually viewed as a stigma for the whole family. Thus, if our coordinate-based measure indeed captures Confucian culture, it should be negatively correlated with the divorce rate in a region. We obtain divorce data at the province level between 2010 and 2017 from China National Bureau of Statistics. In Column (2) of Table A2, we find that the number of Confucian academies is negatively correlated with regional divorce rate, confirming our prior.

Third, we validate our coordinate-based measure by checking its correlation with how much a family spends on education. By employing the data from CFPS, we construct a family-level variable that measures the amount of money parents spend on children’s educa-

⁴The authors use survey data from China Household Finance Survey (CHFS) to calculate the proportion of respondents in a region who answer “for old-age support” in response to the question “why do you want to have children?”.

tion. If our measure captures Confucian culture, we expect it to be positively associated with educational expense. The result in Column (3) of Table A2 again confirms our prediction.

Finally, we examine the relation between our measure and the percentage of households with four generations living under the same roof in each province, constructed from the 2000 and 2010 China Population Census. Such intergenerational co-residence within a family reflects the reverence for parents and older generations, which is an important Confucian value and has been widely used in the sociology literature as a measure of filial piety (e.g., [Luong, 1989](#); [Chen et al., 2019](#)). Hence, we expect a higher intergenerational co-habitation ratio in regions with greater Confucianism. In Column (4) of Table A2, we find that these two measures are positively correlated, consistent with our conjecture.

Collectively, these four validation tests suggest that our measure of Confucianism is indeed correlated with a region’s societal norms, as prescribed by the Confucian culture. These results enhance the validity of using this measure as a proxy for a firm’s exposure to Confucianism.

4. MAIN RESULTS

4.1. Baseline Results

We first use an ordinary least squares (OLS) regression on our panel dataset to examine the relation between a firm’s exposure to Confucian culture and its behavior. The specification is as follows:

$$Y_{i,t} = \alpha + \beta \text{Confucianism}_i + \gamma' \text{Controls}_{i,t-1} + FE + \varepsilon_{i,t}$$

where the dependent variable, $Y_{i,t}$ denotes firm i ’s five policies described above, namely, social contribution (proxy for benevolence), stakeholder protection (proxy for righteousness), courtesy expenses (proxy for courteousness), the number of patents (proxy for wisdom), and trade credit (proxy for trustworthiness). The independent variable Confucianism_i , denotes a firm’s exposure to Confucian culture, measured as the natural logarithm of one plus the

number of Confucian academies within a 100km radius around the firm. $Controls_{i,t-1}$ denotes a set of firm- and city-level covariates as described in Section 3.3 and measured in year $t - 1$. FE includes year fixed effects and industry fixed effects. Although our independent variable is at the firm level, it exhibits some regional clustering. Thus, we do not include location fixed effects in this regression, so that the effect of Confucianism is not absorbed by these location fixed effects. All standard errors are clustered at the city by year levels.

<Table 2 here>

We report the results of our baseline tests in Table 2, with the dependent variables in columns (1)—(5) being the five firm-level policies, respectively. We find significant and positive coefficients of Confucianism in all five columns. This consistent result supports our hypothesis that a firm’s exposure to Confucianism is strongly correlated with corporate behavior. The economic magnitudes of these effects are nontrivial. Specifically, the coefficient estimates in five columns imply that a 10% increase in the number of Confucian academies around the firm is associated with around 5 million yuan (approximately 742,500 USD) increase in the firm’s social contribution, 0.6% increase in its stakeholder protection, around 920,000 yuan (approximately 136,620 USD) increase in the courtesy expenses, an increase in patent number by about 0.5%, and around 6 million yuan (approximately 891,000 USD) increase in its trade credit.

In summary, the above baseline regressions support our hypothesis that firms with a greater exposure to Confucian culture make greater social contributions, provide more protections to employees and suppliers, spend more on courtesy and etiquette, and have more intellectual output and trade credits. In other words, these firms have more robust stakeholder relationships.

Next, we conduct several robustness checks by examining other social values and employing an alternative measure for the exposure to Confucian culture.

4.2. Alternative Culture Measures

In this section, we test the effects of alternative culture measures. First, one may be concerned that our results are not driven by Confucianism and instead our Confucianism variable captures the effect of religion or other prevailing cultural norms in China. It is well documented that religion also plays a critical role in individual decision-making and firm behavior (Stulz and Williamson, 2003; Kumar et al., 2011, 2016). To test this religion-based alternative explanation, we control for Buddhism and Taoism, two popular religions in China. Specifically, we employ the logarithm of the numbers of Buddhist temples and Taoist temples within 100km of the location of a firm as independent variables. In addition, to account for the influence of foreign culture and values on firm behavior, which usually happens through international trade, we additionally control for the amount of foreign direct investment (FDI) at city level to measure the extent to which a city is influenced by foreign values and norms. Panel A of Table 3 presents the result. Specifically, we run a horserace test by including both the Confucianism variable and measures for Buddhism, Taoism, FDI. We find that, after controlling for the intensity of Buddhism and Taoism as well as FDI, the effect of Confucianism is still significant for all five corporate policies. In unreported tests, when we include these three culture variables one by one into the regression, we find similar results. Therefore, the results in Panel A confirm it is Confucian culture that accounts for the differences in corporate behavior.

<Table 3 here>

Second, we use the number of Imperial Scholars (*Jinshi*) in Qing Dynasty with their hometown adjacent to a contemporary firm’s headquarters as an alternative measure of the firm’s exposure to Confucianism. *Jinshi* was the highest academic degree that a candidate could obtain from the civil service system of Imperial China and was typically selected for high-level government positions. To be accredited as *Jinshi*, a candidate (usually a male) needed to attend a national examination that took place in the capital of his region, followed

by a re-examination at the imperial palace to be ranked (Bai and Jia, 2016). This civil service exam system lasted for over 1,300 years in China and served as the primary channel for recruiting elites during the Ming (1368–1644) and Qing (1644–1911) Dynasties.⁵ After becoming a *Jinshi*, the scholar would hold high-ranking civil positions and gain political and economic power. These scholars often sought to promote Confucianism by establishing Confucian schools and temples in their hometowns and providing resources for local people to study in the schools (Gu et al., 2021). In addition, families in regions where there were more *Jinshi* would be more motivated to let their children follow this career paths by enrolling in these Confucian schools.

Similar to our measure based on the number of Confucian schools, we refer to the historical documents in Qing Dynasty to measure the intensity of *Jinshi*. These documents include *A list of jinshi in Qing Dynasty*, *The Draft History of Qing*, *A List of Imperial Clan Jinshi in Qing Dynasty*, *The Collection of Keju Examination Papers in Qing Dynasty*, and *General History of Fengtian*. We manually look up the information of 25,735 *Jinshi*, such as their names and hometowns. This accounts for over 96% of the total *Jinshi* population in the Qing Dynasty. We then generate a firm-level variable, *Jinshi*, which is measured by the natural logarithm of one plus the number of *Jinshi* whose hometown is within a 100km radius around a firm’s headquarters.

Panel B of Table 3 presents the result. Consistent with our prediction, the coefficients of *Jinshi* measure are all significant and share the same sign with those in our baseline analysis. Thus, our results for the effect of Confucianism are robust.

Third, one may be concerned that these results are explained by the culture of the CEO instead of the societal culture. We address this issue by replacing the original Confucianism measure with a measure of the exposure to Confucianism by the CEO of a firm (*CEO culture*). We measure *CEO culture* using the number of Confucian schools during the Qing Dynasty in

⁵The central contents of the examinations were the Confucian classical texts — the “Four Books and Five Classics,” which constituted the foundation of Confucianism (Elman et al., 2000). The exam thus provided powerful motivation for every family to learn Confucianism.

the CEO’s hometown or birthplace city (based on contemporary-day administrative division). To do so, we manually check the annual reports of each firm and the resume of each CEO in our sample for the information on their hometowns and birthplaces. In cases when such information is not available for a CEO, we use the number of Confucian schools of board chairperson’s hometown or birthplace city.

Panel C of Table 3 presents the results. We find that the coefficients of *CEO culture* are not significant except the one for stakeholder protection. Hence, our results for the effect of Confucianism are unlikely to be driven by the culture of the CEO, but reflect the effect of societal cultures.

4.3. Instrumental Variable Analysis

Despite our efforts at controlling for various firm- and city-specific covariates and ruling out the potential effects of other cultural values, one may still be concerned that Confucian schools were established in regions with better economic conditions during the Qing Dynasty and that this pattern of development has endured until today. In addition, there may be unobservable factors that are correlated with both the strength of Confucianism in a region and corporate behavior. In this section, we follow the literature and use two geography-based instrumental variables to address these concerns.

The first IV is the shortest distance between a listed firm’s headquarters and the nearest Zhu Xi Academy. Zhu Xi Academies are prestigious schools established by Zhu Xi (also spelled “Chu Hsi”), the renowned Confucian scholar in the Song Dynasty (1130—1200 A.D) and arguably the third most influential Confucian philosopher after Confucius (551–479 B.C.) and Mencius (372–289 B.C.) ([Chan, 1989](#)). He spread, promoted, and popularized the Confucian way of life at the grassroots level in China from the 12th century onward ([Chen et al., 2022](#)). His commentaries on the “Four Books,” the Confucian classical texts that constituted the foundation of Confucianism ([Elman et al., 2000](#)), provided the standard interpretation of those texts for the next several hundred years ([Gardner, 2007](#)). The three

academies he established (referred to as *Zhu Xi Academies*) are *Yuelu Academy* in *Changsha, Hunan* province; *Hanquan Academy* in *Jianyang, Fujian* province; and *White Deer Grotto Academy* in *Jiujiang, Jiangxi* province. These *Zhu Xi Academies* became the prototypes of Confucian academies across China.

The rationale of this IV is that, during the Song dynasty, Zhu Xi frequently gave lectures on his version of Confucianism at these three academies. He also invited other Confucian scholars to lecture to his students, and most of them were from prefectures close to these academies (Chan, 1982). In addition, Zhu Xi’s disciples spread his teachings across several regions and compiled commentaries on Confucianism, which became required material in the imperial civil examination, which further helped spread Confucian cultures. Meanwhile, the high cost of transport and communication in that period prevented people in regions far from these scholars’ academies from following their doctrine (Chen et al., 2022). Thus, regions near *Zhu Xi Academies* were more exposed to his influence and Confucian culture in the Song period, and this pattern persisted for hundreds of years and inspired local squires in latter periods (including in Qing) to build Confucian schools. Figure 4 shows the clustering of Confucian schools surrounding the coordinates of the three *Zhu Xi Academies*, with bigger circles indicating more Confucian schools at the same locations.

<Figure 4 here>

A valid IV must also satisfy the exclusion restriction. To this end, we argue that a region’s distance to *Zhu Xi Academies* is orthogonal to economic development in both the Song era and today. In particular, the location of these academies was not driven by economic considerations. Indeed, *Zhu Xi Academies* were not located in economic centers or undeveloped areas (Chen et al., 2022). Their locations instead were decided by random factors. Specifically, Zhu Xi’s mother was buried in *Jianyang, Fujian*. Confucian mourning rituals required a son to stay near the mother’s tomb for at least one year (Liu, 2006). Zhu Xi resided there for over 10 years and established *Hanquan Academy*. Later he rebuilt the *White Deer Grotto Academy* in *Jiujiang*, after he was appointed as the prefect of the region.

In 1193, he was appointed as the governor of relief in *Changsha, Hunan*, where he lectured at *Yuelu* academy.

Many economic historians have documented a discontinuity in economic development in China between the Song (1127 A.D.—1279 A.D.) and Qing (1644 A.D.—1911 A.D) dynasties as well as between Imperial and Modern China. This discontinuity is largely driven by dramatic changes in resource bases, farming technology, peasant wealth, silver’s purchasing power, and exogenous shocks, such as wars and natural disasters (e.g., [Perkins et al., 1969](#); [Brandt et al., 2014](#); [Deng, 2015](#)). Anecdotal evidence also shows that the regional economic development in ancient China differed from that in modern times. For example, [van der Speenkel \(1953\)](#) documents a gain of population in northern, western, and southwestern provinces of China and a loss of population in southern and southeastern China during the Ming, the dynasty preceding the Qing. As population growth is a common measure of long-term development (e.g., [Acemoglu et al., 2002](#); [Jia, 2014](#)), this population change to some extent reflects that the economic activity in the southern and southeastern parts of ancient China could not sustain a stable population. However, this pattern has reversed in recent decades.⁶ This evidence further suggests that the location of the *Zhu Xi Academies* is unlikely to be correlated with regional economic development today.

Our second IV is the number of small rivers with drainage areas above 10,000 square kilometers in the province where a firm is headquartered. The rationale is that small rivers posed significant threats of flooding to local schools and would have ruined books in the ancient China ([Glomb et al., 2020](#)) but did not provide much of a transportation advantage, which is inconsistent with the risk aversion doctrine of Confucianism ([Chen et al., 2022](#)). The location choice of Confucian academies usually follows the principles of solitude, quietness, and purity of nature ([Gilgan, 2022](#)), crucial factors in providing a peaceful environment for education. Thus, most academies were not built near rivers—around which most cities were

⁶For example, [You et al. \(2021\)](#) find a negative population growth in northeast China in the past decade. Meanwhile, it is documented that three northern provinces, Hebei, Henan, and Shandong, accounted for 30% of total land tax income, the most important type of tax in ancient times, during the Ming ([Liang, 2008](#)) but only 13% of total tax income as of 2018, according to the National Statistical Bureau.

built—but were instead located in secluded mountainous areas away from cities (Wu, 2005). As a result, Confucian schools were usually established in areas distant from non-major rivers. Therefore, we expect there to be fewer Confucian schools in regions with greater river coverage.

Meanwhile, this geographical factor is unlikely to affect contemporary firm policies directly or through other channels after controlling for local economic development. For example, Chen et al. (2020) argue that the number of small rivers is not associated with agricultural suitability for most common crops in China, which has a significant effect on population growth, social conflict, and economic activity. Although communities next to major rivers (such as Yangtze River and Yellow River) usually enjoy reduced transportation costs and more trade, this would not have been the case for those next to “small rivers,” which do not bring the same transportation advantages (Bai and Jia, 2016). Nevertheless, we explicitly control for local economic development in the IV analysis to further alleviate this concern. In unreported tests we also use the total length of all rivers in a city as an alternative IV, which carries the same logic, and find similar results except for the coefficient of Courtesy Expenses being insignificant in the second stage.

We include the same set of control variables in our two-stage IV regressions. Table 4 presents the results, with Panel A using the shortest distance between a listed firm’s headquarter and the nearest *Zhu Xi Academy* (*Distance to Zhu Xi Academy*) as the IV and Panel B using Number of Small Rivers as the IV. The first-stage results are shown in Column (1), and the second-stage results are shown in Columns (2)—(6) in both panels. The coefficients of the two IVs in the first stage are both negative and significant, suggesting that a firm’s distance to a *Zhu Xi Academy* and the number of small rivers in the region are negatively associated with our firm-level Confucianism measure. These results are consistent with the notion that Confucian schools tend to be established closer to the centers of Confucian influence and away from rivers. In Columns (2)—(6) of Panels A and B, the coefficients on Confucianism are all positive and statistically significant, suggesting that a firm’s exposure

to Confucian culture is significantly and positively associated with its five corporate policies, again consistent with the baseline results.

<Table 4 here>

As a further robustness test, we use the regional death toll during the Taiping Rebellion as an alternative IV. The rebellion was a revolt by peasant rebels against the Qing Dynasty and one of the largest civil wars in world history. The rebellion advocated social reforms and the replacement of Confucianism with a form of Christianity, and was opposed by Confucian scholars as it challenged Chinese traditions. The turmoil and atrocities of the revolt left a strong imprint on the collective memories of people in affected areas over generations, making them cherish Confucian values more (Wright, 1962; Chen and Kung, 2020). In addition, massive reconstruction and restoration of schools in the affected regions after the war also strengthened local Confucian culture (Wooldridge, 2009). Appendix 3 provides more details on the setting, and results in Table A3 again confirm the effects of Confucianism on the five corporate policies.

5. EXPLORING CHANNELS

We next explore several channels through which Confucianism at the societal level can influence firm-level behavior. Our earlier results indicate that CEO’s culture is unlikely to explain the effect of Confucianism. In this section, we investigate the potential mechanisms more systematically. We argue that culture as an important informal institution can interact with other formal and informal institutions in shaping corporate behavior.⁷ Societal culture can also directly influence the decision-makers of the firm. Specifically, we examine how the effects of Confucianism vary based on a firm’s interaction with market participants, local

⁷North (1990) classifies institutions into informal ones (sanctions, taboos, customs, traditions, and codes of conduct) and formal ones (constitutions, laws, property rights) and argues that formal and informal institutions usually interact in shaping economic activities. According to North’s definitions, the Confucian culture in our context can be considered as an informal institution.

politicians' ideology against Confucianism, and the cultural composition of the corporate board.

5.1. Interaction with Market Participants

We first examine whether the effects of Confucianism on corporate policies depends on the market orientation of the local economy, an important formal institution that allows firms to interact with various participants such as governments, financial institutions, suppliers and customers, product markets, lawyers and courts (North, 1990; Khanna and Palepu, 1997). Meanwhile, several seminal studies have shown that informal institutions, such as trust, a key element of culture, can substitute for market development and other formal institutions (e.g., Williamson, 2000; Guiso et al., 2004; Aghion et al., 2010; Pevzner et al., 2015). Therefore, we conjecture that the effect of Confucianism on firms is weaker in regions with stronger market orientation.

We use the marketization index for 31 Chinese provinces from Fan et al. (2011), which has been updated annually. This index captures the development of market systems via five aspects, including the relationship between government and the market, the development of private sector, the development of product markets, the development of factor markets, and the development of market intermediaries as well as the market-friendly legal environment (Fan et al., 2011). We partition our sample into high and low market-orientation groups based on whether the marketization index score for the focal province in each year belongs to the top or the bottom tercile. The results for high (low) market-orientation group are presented in of Table 5. We find that the effect of Confucianism is significant for all five corporate policies for firms in low marketization regions, while this is not the case for the high market-orientation group. These results suggest that Confucianism substitutes formal rules in influencing firm behavior, as alluded in our conceptual framework. In other words, the effect of Confucianism mainly take place when the formal institutions are lacking and firms rely more on trust when interacting with market participants, consistent with (Chen

et al., 2022).

<Table 5 here>

5.2. Politicians’ Ideology

We next investigate how the effects of Confucianism interact with the ideology of local politicians who wield their enormous regulatory power to govern firm behaviors. In particular, we identify a city leader’s ideology with regard to Confucianism. To this end, we exploit a drastic change in Chinese political ideology in 1978, the transition from Mao’s ideology to Deng’s. During the Cultural Revolution, Mao’s 10-year political and ideological campaign, which lasted until he died in 1976,⁸ there were continuous efforts to eradicate traditional habits and attitudes, which were viewed as harmful to social development (Goldman, 1975). Mao launched repeated campaigns against Confucianism, which was thought to be the root of those habits and attitudes (Gold, 1985). Following Mao’s death, Deng emerged as the dominant figure among the pragmatists in the Chinese leadership, and set out on nationwide economic reforms which no longer attach a social stigma to Confucianism.

Almost all major government officials in China are members of the Communist Party of China (CPC), and they usually receive intensive indoctrination upon joining the CPC. As a result, regional political leaders may have adopted strikingly different ideologies, depending on when they joined the CPC (Liang et al., 2022). We expect that politicians who joined during Mao’s regime would be more likely to adopt Mao’s ideology that is strongly against Confucianism, and that politicians who joined during Deng’s regime would be less likely to adopt such an anti-Confucianism view, conditional on them having the same age.

We conjecture that the effect of Confucianism on corporate policies should be less pronounced in cities with *Maoist* leaders. To capture a clean interaction effect, we split the

⁸Mao’s ideology did not fade immediately upon his death. In 1976, the “Gang of Four,” jockeyed for power, continuing abusing Mao’s ideology. In 1977, Hua Guofeng, the president then, published the so-called “Two Whatevers” propaganda campaign: Whatever Mao had said and whatever Mao had done should be treated as a binding precedent.

sample based on whether the CPC secretary of the city (who is the top leader of the city) where a firm is headquartered joined the CPC before 1976 (*Maoist* leaders) or after 1979 (*Dengist* leaders) and run our baseline regression with the age of city secretary as an additional variable on the two subsamples, separately. The results in Table 6 confirm our conjecture. Across all specifications, the effect of Confucianism is significantly positive in the subsample of city secretaries who joined the CPC after 1979. In contrast, for the subsample of city secretaries who joined the CPC before 1976, the coefficients of Confucianism are mostly negative or insignificant. These results suggest that the effects of Confucianism on firms depend on the ideology of local politicians, possibly through imposing regulatory constraints and providing preferential treatments.

<Table 6 here>

5.3. Board of Directors

Finally, we examine how the effect of Confucian culture take place through influencing the key decision-making body of a firm, namely the board of directors. Specifically, we argue that Confucianism is more likely to shape the behavior of a firm when its directors are unanimously inherited with Confucian values, and identify firms in which there is at least one foreign director and those with all Chinese board members. Foreign directors are more likely to carry non-Confucian values, due to growing up in different places and inheriting the values of their home countries. The incongruence of their cultural backgrounds with that of Chinese directors would attenuate the effect of Confucianism on corporate policies. Therefore, we expect the effect of Confucianism to be stronger in firms with all-Chinese directors.

We report the results in Table 7. We partition our sample into two groups based on the composition of the board (i.e., whether the board consists of non-Chinese directors). The results show little correlation between Confucianism and corporate policies for the subsample of firms with foreign directors. The sign of the only significant coefficient on Confucianism

for this subsample is even negative in column (3). However, all coefficients on Confucianism are significantly positive for the subsample of firms with only Chinese directors on board. This finding highlights that the importance of directors in explaining the cultural effect on firms.

<Table 7 here>

6. CULTURE AND FIRM PERFORMANCE

We have shown that Confucianism has enduring and systematic influences on corporate behavior across China. A natural question is whether such culture-biased corporate behavior has value implications. In this section, we investigate whether differences in corporate behavior shaped by Confucianism persistently impact firm performance, such as profitability, growth, and stakeholder engagement, as well as the underlying mechanisms. Our conceptual framework posits that a strong trust-based societal culture can both help firms gain more stakeholder supports, and substitute formal rules, undermining stakeholder trusts. As a result, the net effect of societal culture on firm performance is unclear. It is also not entirely straightforward whether culture-induced behavioral differences would indeed translate into performance differences, as underperforming firms may already be out of the market in the long run due to the competition.

We study performance by employing a two-stage regression approach. We first regress a firm’s policies—social contribution, stakeholder protection, courtesy expenses, the number of patents, and trade credit—on our Confucianism measure and get the “predicted” values of firm policies from the regression. We next construct a model relating three corporate performance measures—return on equity (ROE), operating profit growth, and CSR performance—to these “predicted” values of firm policies. This two-stage regression allows us to examine how Confucianism affects firm performance through its impact on firm policies. In both regressions, we keep the same set of control variables and fixed effects as in the previous

baseline regressions. The regression model is specified as follows.

$$Policy_{i,t} = \alpha + \beta Confucianism_i + \gamma' Controls_{i,t} + FE + \varepsilon_{i,t}$$

$$Performance_{i,t+1} = \alpha + \beta \widehat{Policy}_{i,t} + \gamma' Controls_{i,t} + FE + \epsilon_{i,t}$$

We also run a reduced-form regression in which the independent variable is our proxy for Confucian culture and the dependent variable is the corporate performance proxy. The estimates from this reduced-form approach reflect the overall impact of Confucianism on firm performance. The model is constructed as follows.

$$Performance_{i,t+1} = \alpha + \beta Confucianism_i + \gamma' Controls_{i,t} + FE + \iota_{i,t}$$

Table 8 reports the results. In Panel A, the dependent variable is ROE. We find that each of these five corporate policies is positively associated with a firm's ROE. In Column (6), the estimate from reduced-form still shows a positive correlation between Confucianism and ROE. Similarly, the results in Panel B show that there is a significantly positive relation between Confucianism and a firm growth. In Panel C of Table 8, the dependent variable is CSR score of a listed firm, which aims to capture the firm's stakeholder welfare. The data on firm-level CSR score is extracted from *Hexun.com*, a leading professional financial website and CSR rating provider in China. Again, the coefficients in all columns are significantly positive, consistent with the notion that Confucianism calls for virtuous behavior toward others. It is important to note that these results should be interpreted as the *net effect* of Confucianism on firm performance, taking into account both stakeholder supports and expropriation risks. On balance, the value implications of Confucianism appear to be positive.

<Table 8 here>

A key mechanism through which a societal culture that values stakeholder trusts can enhance firm value in our conceptual framework is by reducing the firm's cost of capital.

In our context, firms with more exposure of Confucianism gain more stakeholder trusts and supports, which translate into lower cost of acquiring valuable stakeholder resources such as financial and human capitals. In other words, investors are more willing to finance and employees are more willing to work at firms with stronger Confucian culture. For the latter, trust can alleviate moral hazard problem and improve employees' satisfaction with their firms, leading to less turnover and greater productivity (Edmans, 2011; Guiso et al., 2015). We therefore examine whether firms more exposed to Confucianism have lower cost of capital and employee turnover (or greater employee growth).

To this end, we first follow Cline et al. (2014) and calculate a firm's cost of external financing by estimating its weighted average cost of capital (WACC). To avoid negative market risk premium, we extract equity premium from Damodaran (2019). Beta is estimated using daily stock returns of the previous twelve months and market returns. The exact definition and calculation of this variable are described in Table A1. The results in Columns (1)-(6) of Panel D show that the coefficients of the five firm-level policy variables as well as the Confucianism measure are all significantly negative, indicating that the cost of capital is indeed lower for firms with greater exposure to Confucian culture.

Second, we measure employee growth as the percentage change in a firm's total number of employees over a year, and consider it as a proxy for employee support, as greater employee satisfaction usually implies greater retention and growing workforce to support firm growth. The dependent variable in Panel E is therefore Employee Growth, and we find the coefficients on the five firm-level policy variables as well as the Confucianism measure in this regression are all positive and significant, consistent with our conjecture.

7. POST-HOC RESULTS

We have conducted several post-hoc tests to further demonstrate the enduring impact of Confucian culture on Chinese firms. In addition to the five core virtues (*Wuchang*), Confucianism also advocates other ethical standards and values, such as the "Three Cardinal

Guides” (Sangang): ruler guides subject, father guides son, and husband guides wife. Therefore, in this section, we investigate how these additional values of Confucian culture affect other types of corporate behavior.

First, Confucianism emphasizes ruler–subject loyalty and filial piety, which indicate the acceptance of hierarchy. We match this norm to the firm-level hierarchical structure by examining the effect of Confucianism on board hierarchy. A unique feature of corporate board structure in China is that, unlike in the United States, where firms usually list their directors alphabetically on the board roster, many Chinese firms list directors according to their relative power in the company (Zhu et al., 2016). Directors with more power and longer tenure are more respected and thus listed at the top. Independent directors are usually placed behind executive directors in such hierarchical culture. In other words, firms that value hierarchy would not alphabetically list their directors on the roster. Following Zhu et al. (2016), we construct a dummy variable that equals 1 if all the firm’s independent directors are placed at the bottom of the director list (that is, not in alphabetical order) and 0 otherwise. We then regress this dummy variable on our Confucianism measure as well as all the control variables and fixed effects. The results are reported in Column (1) of Panel A of Table 9. The coefficient of Confucianism is significantly positive, indicating that firms with greater exposure to Confucianism are more likely to list their independent directors at the bottom and thus are more hierarchical.

<Table 9 here>

Second, Confucianism emphasizes on male superiority and supports patriarchy by belittling the role of women.⁹ It clearly specifies gender roles in society: women should stay at home and do housework to support their husbands and children, while men should work outside the home to feed the family. To test how such patriarchal culture influences firms,

⁹The Three Obediences and Four Virtues (*San Chong Si De*) are the ethical codes for women proposed by Confucianism. The Three Obediences require women to obey the father before marriage, obey the husband after marriage, and obey the first son after the death of husband. The Four Virtues are (sexual) morality, proper speech, modest manner, and diligent domestic work.

we focus on board gender diversity. We expect that firms with greater exposure to Confucianism have fewer female directors and thus less gender diversity. We show the results of regressing measures of board female representation on Confucianism and other control variables and fixed effects in Columns (2)–(4). The dependent variable is the ratio of female board directors in Column (2), an indicator of whether there is at least one female director in Column (3), and the Blau index, which captures the gender diversity on board in Column (4). Specifically, the Blau index is calculated as:

$$Blau = 1 - \sum_i P_i^2$$

Where P_i refers to the percentage of female or male board members (Blau, 1977). We find that the coefficients of Confucianism are all significantly negative, indicating that firms’ with greater exposure to Confucianism have lower female representation on board.

As a further post-hoc test, we recognize that Confucianism also advocates the development of “preparedness for the unexpected and hardship,” which stresses the importance of having consciousness of uncertainty and taking precautions. To test whether firms with greater exposure to Confucianism are more likely to have precautionary policies, we examine a firm’s cash holdings when facing future uncertainty. A large literature has documented that firms may hold excess cash as a buffer for unexpected shocks (e.g., Kim et al., 1998; Opler et al., 1999; Bates et al., 2009). In particular, firms could hold cash to better cope with adverse shocks when there is the risk of a liquidity shortage (Acharya et al., 2012), such as exposure to natural disasters. To this end, we follow Dessaint and Matray (2017) and adopt a difference-in-difference identification approach using earthquakes as adverse shocks to firms’ operations. Since the saliency and influence of an earthquake are magnified by its proximity, we can rely on a natural experiment framework by leveraging the distance between a firm and the epicenter of an earthquake. Appendix 4 describes our empirical setting and results for testing the precautionary cash holdings motive, and we again find strong support

for the effects of Confucianism.

8. CONCLUSION

Culture as a critical informal institution has drawn significant interest from economic and business researchers. Studies mainly focus on cross-country differences in cultural values to investigate the effect of societal culture on national outcomes such as economic development. However, little is known about the impact of societal culture on firms, which lie at the center of the economic activities. In this paper, we develop a conceptual framework for how trust-based societal culture can help a firm gain supports from its key stakeholders but also posit an expropriation risk by the entrepreneur, which can either lower or raise transaction costs, with different implications for firm value and overall stakeholder welfare. Employing a granular measure of a firm’s exposure to a culture that persists over a long history, this paper examines the role of societal culture in shaping business activities through influencing corporate policies. Specifically, we exploit the Chinese setting and leverage a unique dataset of Confucian academies established in the Qing Dynasty to construct a firm-level variable to measure corporate exposure to Confucianism. Using this firm-level measure, we find that firms more influenced by Confucianism make more social contributions, provide greater stakeholder protection, spend more on courtesy and etiquette, and have more patents and trade credits. These five firm-level policies and outcomes match with the five core virtues of Confucianism that are all related to trust with stakeholders: benevolence (*Ren*), righteousness (*Yi*), courteousness (*Li*), wisdom (*Zhi*), and trustworthiness (*Xin*).

The above findings survive a battery of robustness checks and are upheld by an instrumental variable approach. We also find the effects of Confucianism are likely to be transmitted to firms through influencing a firm’s interaction with market participants, local politicians’ attitudes, and the value of directors. Finally, we find that firms with greater exposure to Confucianism have higher returns on equity, greater operating profit growth, and higher CSR scores, as a result of lowered cost of capital and workforce growth. The latter findings are

consistent with the notion that the net effect of trust-based culture is positive, taking into account both stakeholder support and expropriation risk by the entrepreneur.

Collectively, our findings suggest a more systematic but also nuanced view on the effects of societal culture on firms, which differs from corporate culture and other well-documented survey evidence. One cannot fully grasp the broader implications of culture on the economy and society at large without understanding its firm-level channels. Moreover, the cultural effect on firms and the economy has its boundary, as it interacts with other institutions, and policy design should take into account of such institutional complexity to enhance both shareholder value and stakeholder welfare.

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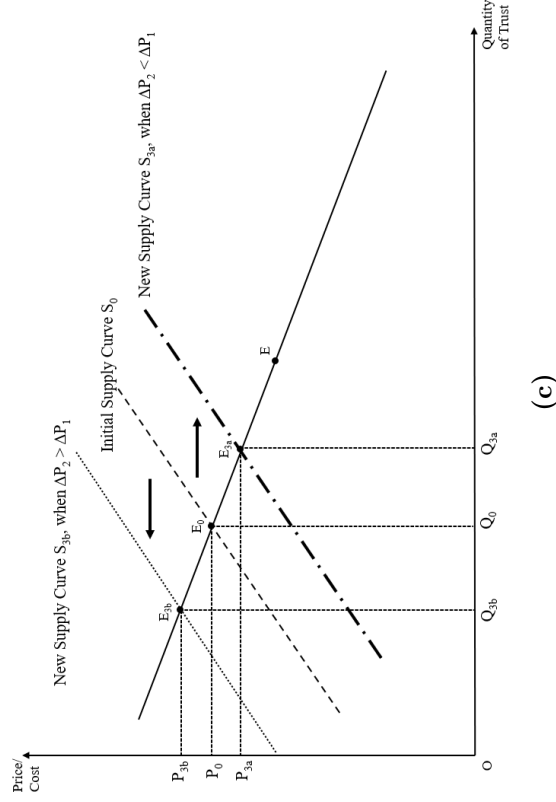
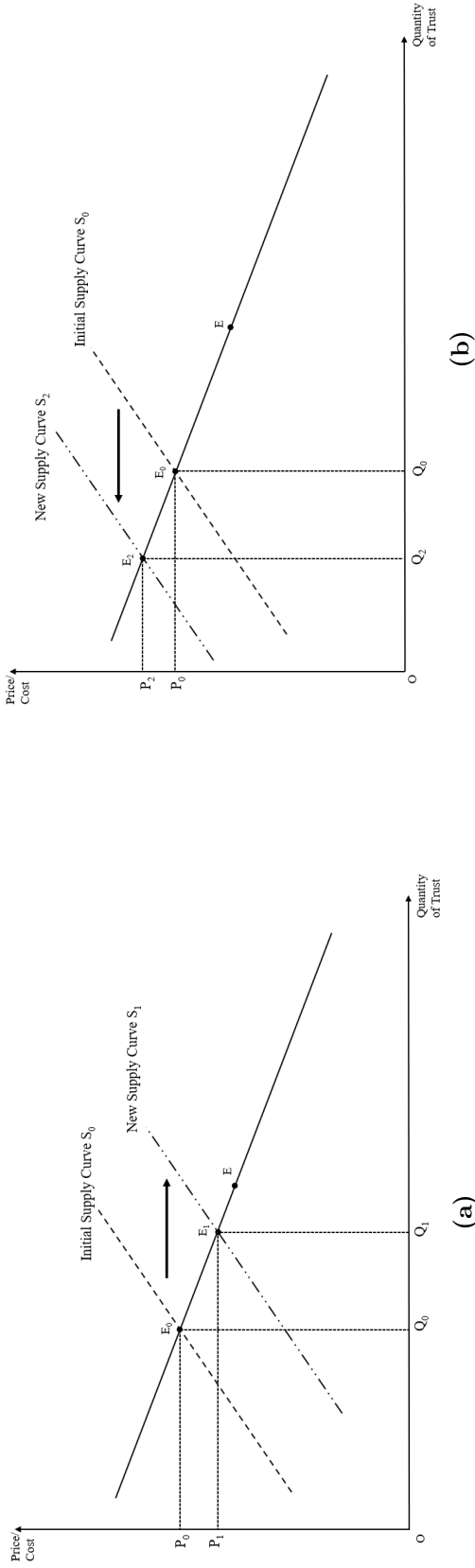


Figure 1: The Supply and Demand of Stakeholder Trust

Notes: This figure illustrates the supply and demand of trust from stakeholders on firms. The X-axis denotes the “quantity” of trust supplied by stakeholders to a firm, and the Y-axis represents the “price” of trust (i.e., cost of acquiring trust from stakeholders) to the firm. The downward curve is the demand curve, D, which represents the quantity of trust demanded by the firm given its “price”. We assume a constant marginal utility of trust. The upward curves are the supply curves under the influence of varying intensities of societal culture, which represent the quantity of trust supplied to a firm given the “price” of trust. The initial equilibrium quantity of trust on a firm is Q_0 and the initial equilibrium “price” of trust is P_0 , the quantity and the price at which the demand curve intersects with the initial supply curve S_0 . With a stronger influence of societal culture, the supply of trust by stakeholders may change, leading to a new supply curve. All the intersection points between the supply and demand curves are above the point of unit elasticity E . Figure 1(a) (1(b)) illustrates the situation where societal culture increases (decreases) trust supplied by stakeholders, which shifts the dashed supply curve to the right (left). The solid upward curve is the new supply curve, S_1 (S_2). The new equilibrium “quantity” of trust on a firm increases to Q_1 (Q_2) and the new equilibrium “price” is P_1 (P_2). We further define $\Delta P_1 = P_1 - P_0$ and $\Delta P_2 = P_2 - P_0$. Figure 1(c) presents the net effect analysis. When $\Delta P_1 > \Delta P_2$, the supply curve shifts toward right to S_{3a} , and the new equilibrium quantity and price of trust are Q_{3a} and P_{3a} . When $\Delta P_2 > \Delta P_1$, the supply curve shifts toward left to S_{3b} , and the new equilibrium quantity and price of trust are Q_{3b} and P_{3b} .

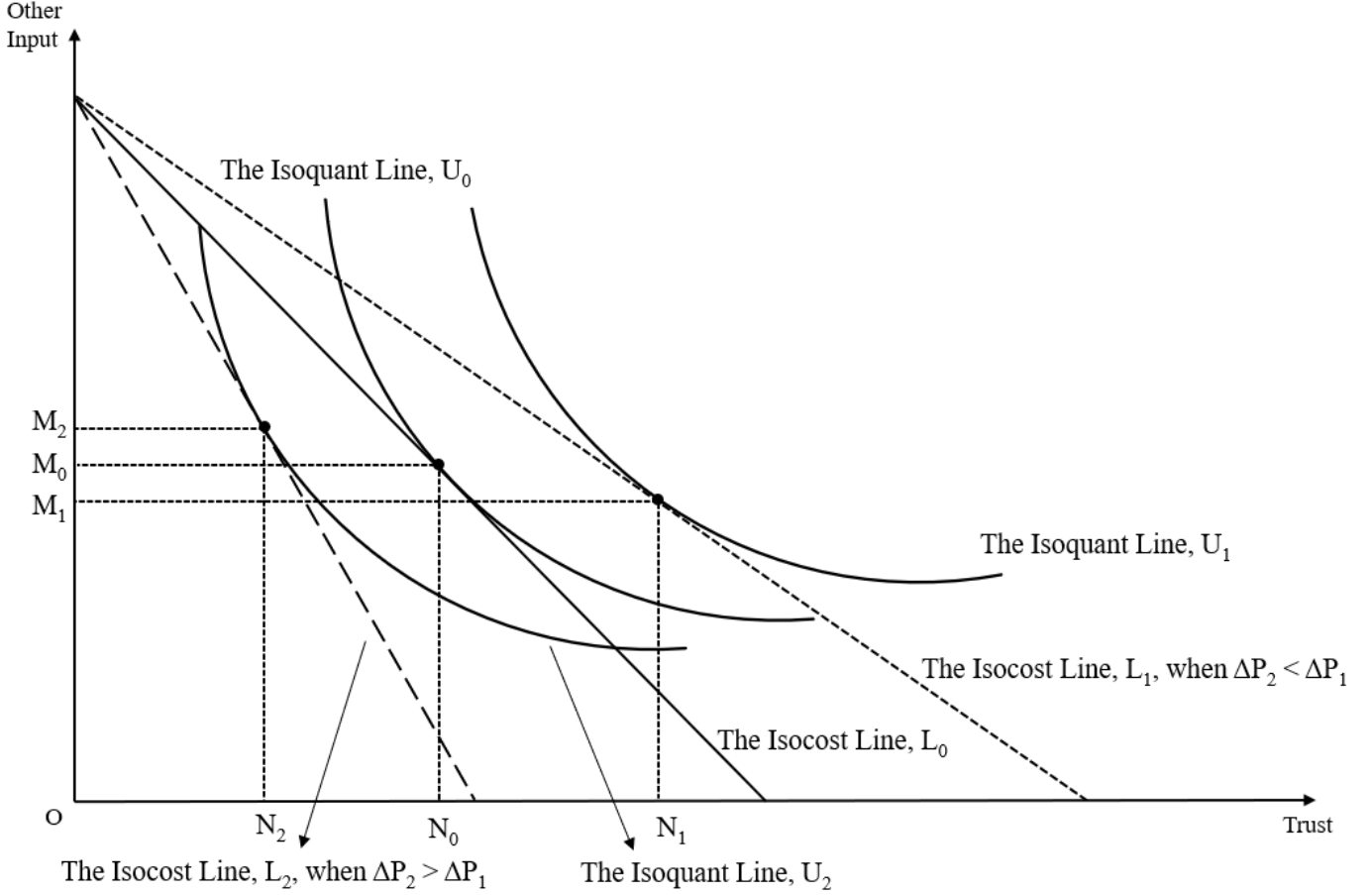


Figure 2: The Production Decision by a Firm under Stakeholder Trust

Notes: This figure illustrates the production decision for firms based on different “prices” of trust. The isocost lines, L_0 , L_1 , and L_2 represent combinations of stakeholder trust and other inputs that can be acquired with a fixed amount of capital when the “prices” of trust are P_0 , P_1 , and P_2 , respectively. The isoquant curves, U_0 , U_1 , and U_2 , represent all those combinations of trust and other inputs that are needed to produce the same level of output, whereas the higher curve indicates more outputs. The equilibrium quantity of output is determined by equating the marginal rate of technical substitution to the ratio of the prices of the two factors. The initial output of the firm given a fixed budget is Q_0 since the equal product curves, U_0 , is tangent to the isocost line, L_0 . With a stronger influence of trust-based societal culture, the “price” of trust can decrease or increase. When $\Delta P_1 > \Delta P_2$, the new isocost line (L_1) becomes flatter and is tangent to the higher isoquant line U_1 , which implies that greater cultural influence leads to a higher output of the firm given the same amount of budget. When $\Delta P_2 > \Delta P_1$, the new isocost line (L_2) becomes steeper and is tangent to the lower isoquant line U_2 , which implies that greater cultural influence leads to a lower output of the firm given the same amount of budget.

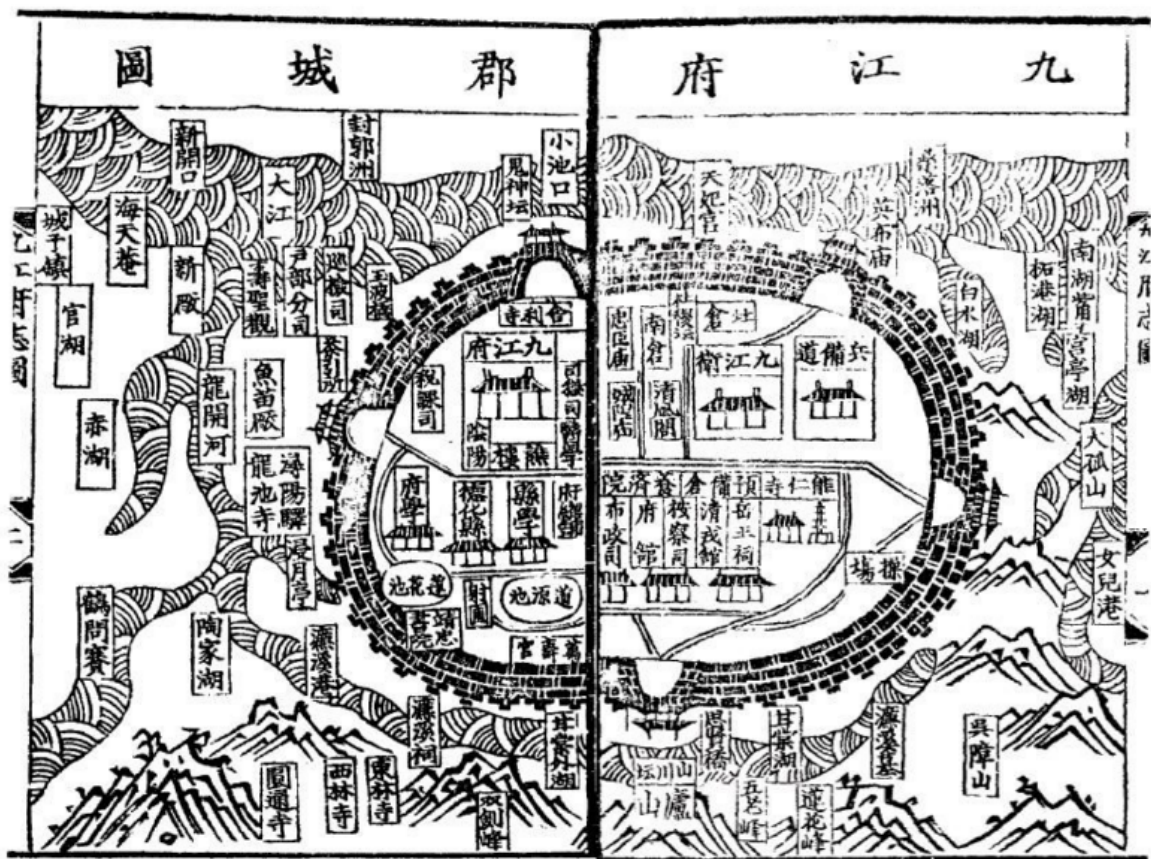


Figure 3: A One-page Snapshot of a Local Chronicle

Notes: This figure is a one-page snapshot of a Local Chronicle of *Jiujiang* county.

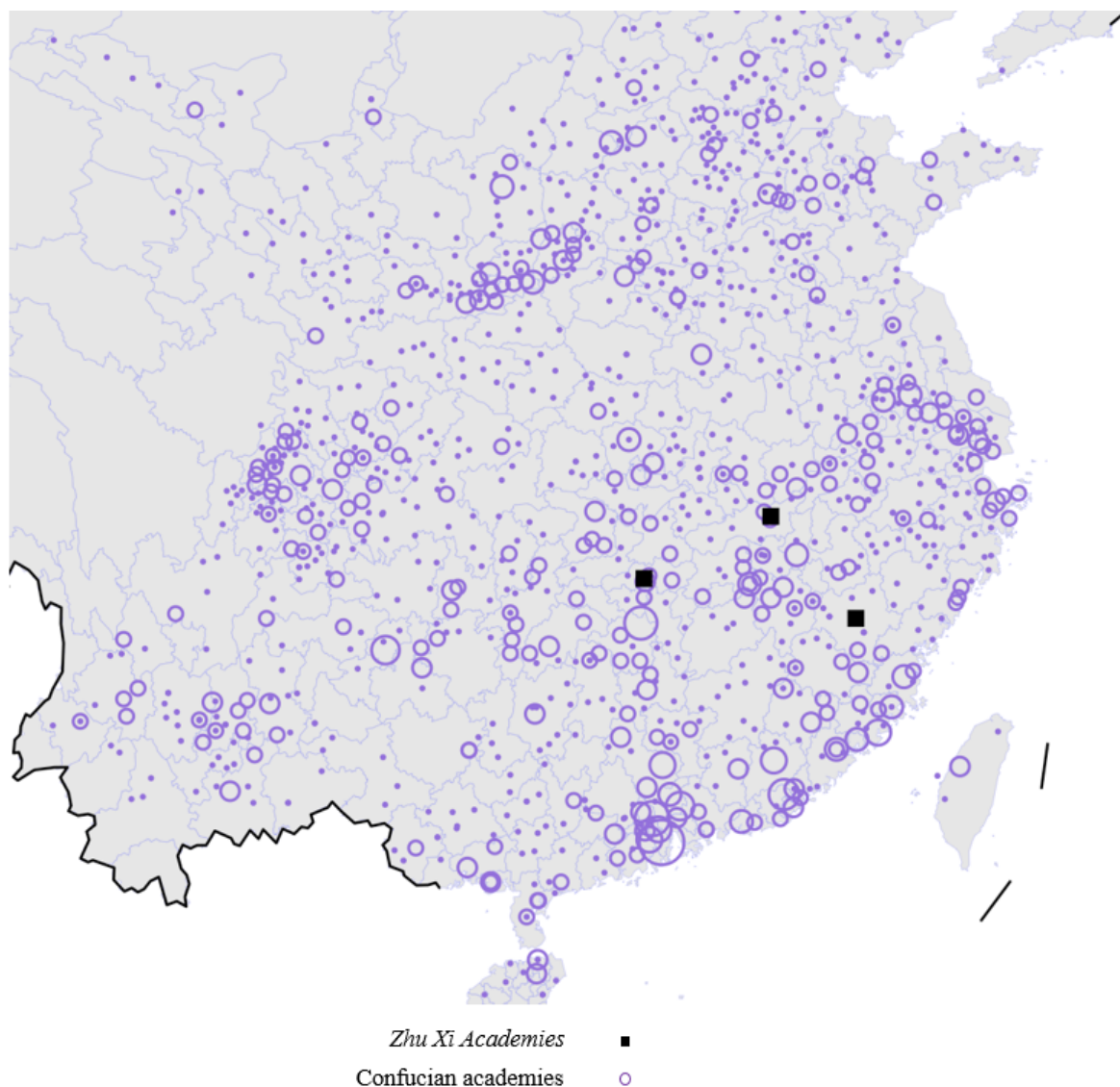


Figure 4: Geographical distribution of Confucian schools and *Zhu Xi Academies*

Notes: This figure plots the geographical distribution of Confucian schools and the three *Zhu Xi Academies* across different regions in China. Bigger circles indicating more Confucian schools at the same locations.

Table 1. Summary Statistics

Variables	Obs.	Mean	Std. Dev	Min	Median	Max
<i>Firm-level variable</i>						
Confucianism	25,389	2.909	0.899	0.000	3.136	4.205
Confucian Academies	25,389	23.685	15.760	0.000	22.000	66.000
Social Contribution	25,336	0.102	0.064	0.015	0.095	0.357
Stakeholder Protection	25,412	0.329	0.706	0.000	0.000	2.000
Courtesy Expenses (million CNY)	25,302	280.024	576.252	8.462	105.915	4103.418
Patents	25,412	6.936	27.401	0.000	0.000	201.000
Trade Credit	25,409	0.123	0.098	0.002	0.097	0.465
Size	25,412	21.871	1.313	19.021	21.724	25.818
Leverage (%)	25,409	44.552	22.568	4.671	43.684	109.952
ROA (%)	25,409	3.971	5.987	-22.463	3.811	21.193
Revenue Growth (%)	23,312	22.832	62.951	-65.602	12.051	465.467
Operating Cash Flow (%)	25,373	7.441	0.2242	-1.0667	0.0724	0.744
SOE	25,412	0.419	0.493	0.000	0.000	1.000
Buddhism	25,384	3.260	1.330	0.000	3.367	7.825
Taoism	25,384	1.986	0.989	0.000	1.946	6.650
ROE (%)	25,408	6.6960	14.1056	-75.4378	7.2058	52.3204
Operating Profit Growth	23,352	0.219	0.815	-1.047	0.141	1.769
CSR Score	16,916	3.129	0.757	-3.218	3.157	4.520
<i>City-level variable</i>						
City GDP (billion CNY)	2,564	220.886	297.641	6.597	125.023	3063.299
City Employment (thousand)	2,464	712.40	1,113.62	20.84	367.85	17,145.50
City Total Wage (billion CNY)	2,297	26.249	60.289	0.669	12.071	1018.284
FDI (million USD)	2,216	951.952	2087.428	0.160	264.075	30825.645

Notes: This table provides the summary statistics on firm- and city-level variables for the whole sample. Our sample period spans from 2007 to 2017. Statistics are summarized at the firm-year level for firm characteristics, and at the city-year level for city characteristics. All variable definitions are provided in Appendix Table A.1.

Table 2. The Effects of Culture on Firm Policies: Baseline Results

	Social Contribution (1)	Stakeholder Protection (2)	Courtesy Expenses (3)	Patents (4)	Trade Credit (5)
Confucianism	0.0044*** (6.268)	0.0171** (2.531)	0.0327*** (5.741)	0.0456*** (4.507)	0.0048*** (5.962)
Size	-0.0040*** (-5.610)	0.2198*** (25.054)	0.7816*** (148.563)	0.1285*** (9.343)	0.0022*** (3.295)
Leverage	-0.0109** (-2.172)	-0.0679*** (-2.715)	0.0726** (2.288)	-0.1822*** (-4.506)	0.1654*** (35.186)
ROA	0.5041*** (25.715)	0.9690*** (10.863)	1.2835*** (11.702)	0.5432*** (3.440)	0.0644*** (4.436)
Revenue Growth	-0.0020** (-1.971)	-0.0419*** (-6.013)	-0.0131 (-1.619)	-0.0242** (-2.107)	0.0012 (0.965)
Operating Cash flow	0.0222*** (7.132)	-0.0018 (-0.086)	-0.0194 (-0.681)	0.0045 (0.170)	-0.0188*** (-6.609)
SOE	0.0124*** (9.311)	0.1108*** (7.110)	0.0991*** (8.869)	0.0884*** (4.260)	0.0124*** (7.646)
City GDP	-0.0011 (-0.682)	-0.0559*** (-3.039)	-0.0431*** (-2.748)	0.0370 (1.495)	0.0105*** (4.222)
City Employment	-0.0061** (-2.455)	0.1030** (2.060)	-0.0610*** (-2.716)	-0.0229 (-0.411)	0.0137*** (4.260)
City Total Wage	0.0091*** (3.796)	-0.0336 (-0.779)	0.1291*** (5.985)	0.0292 (0.595)	-0.0199*** (-6.256)
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes
Observations	18,762	18,769	18,747	18,769	18,768
R^2	0.2412	0.1972	0.7433	0.0873	0.3482

Notes: This table reports the results of running the following regression model:

$$Y_{i,t} = \alpha + \beta \text{Confucianism}_i + \gamma' \text{Controls}_{i,t-1} + FE + \varepsilon_{i,t},$$

Where $Y_{i,t}$ represents five corporate policies, *Controls* represents a vector of control variables, *FE* denotes fixed effects. Specifically, the dependent variables are firm-level social contribution to assets ratio (a proxy for *Benevolence*, Column (1)), stakeholder protection (a proxy for *Righteousness*, Column (2)), courtesy expenses (a proxy for *Courteousness*, Column (3)), patents (a proxy for *Wisdom*, Column (4)), and trade credit (a proxy for *Trustworthiness*, Column (5)), respectively. A firm's social contribution is the ratio of the sum of total tax contribution, employee payments, interest expense, donations, and profit attributable to shareholders over its total assets. Stakeholder protection is whether a firm reports to have taken measures to protect its staff and suppliers. Courtesy expenses are the natural logarithm of (one plus) management fees deducted by executives' and directors' wages. Patents is the natural logarithm of (one plus) the number of patents authorized by the government plus one. Trade credit is the sum of accounts payable and notes payable, scaled by total assets. The key explanatory variable is *Confucianism*, measured by the logarithm of Confucian academies in the Qing Dynasty that are within a 100-kilometer radius of a firm's headquarter based on their geographical coordinates. The OLS regression includes control variables for firm-level and city macro-economic characteristics, including firm size, leverage, ROA, revenue growth rate, operating cash flow, whether the company is a state-owned enterprise (SOE), as well as the logarithms of a city's GDP, number of employment, and total employee wages. All columns include industry and year fixed effects. Standard errors are clustered at the city by year levels. *t*-statistics are reported in the parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively. All variable definitions are provided in Appendix Table A.1.

Table 3. Alternative Culture Measures

	Social Contribution (1)	Stakeholder Protection (2)	Courtesy Expenses (3)	Patents (4)	Trade Credit (5)
Panel A. The effects of other cultures					
Confucianism	0.0049*** (4.816)	0.0504*** (5.001)	0.0325*** (4.041)	0.0351** (2.381)	0.0032*** (2.850)
Buddhism	0.0006 (0.716)	0.0083 (0.784)	0.0278*** (3.972)	0.0314** (2.537)	0.0012 (1.028)
Taoism	-0.0014 (-1.024)	-0.0499*** (-3.072)	-0.0307*** (-3.149)	-0.0200 (-1.099)	0.0004 (0.280)
FDI	0.0008 (0.936)	-0.0145** (-2.025)	0.0097 (1.324)	0.0149 (1.380)	0.0048*** (5.329)
Control Variables	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes
Observations	18,259	18,266	18,244	18,266	18,265
R^2	0.2419	0.1995	0.7445	0.0879	0.3535
Panel B. Alternative measure of Confucianism					
<i>Jinshi</i>	0.0018*** (4.688)	0.0110*** (2.885)	0.0099*** (2.864)	0.0314*** (5.574)	0.0033*** (7.065)
Control Variables	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes
Observations	18,762	18,769	18,747	18,769	18,768
R^2	0.2404	0.1973	0.7429	0.0877	0.3489

(Continued)

Table 3 (Continued). Alternative Culture Measures

	Social Contribution (1)	Stakeholder Protection (2)	Courtesy Expenses (3)	Patents (4)	Trade Credit (5)
Panel C. Measure of CEO's culture					
<i>CEO culture</i>	-0.0013 (-1.116)	0.0287** (2.236)	-0.0175 (-1.445)	0.0215 (1.027)	0.0015 (1.125)
Control Variables	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes
Observations	6,769	6,773	6,767	6,773	6,773
R^2	0.2982	0.2344	0.7937	0.0991	0.3990

Notes: This table reports the results of testing the effect of alternative culture measures. The dependent variables below ($Y_{i,t}$) are firm-level social contribution to assets ratio (a proxy for *Benevolence*, Column (1)), stakeholder protection (a proxy for *Righteousness*, Column (2)), courtesy expenses (a proxy for *Courteousness*, Column (3)), patents (a proxy for *Wisdom*, Column (4)), and trade credit (a proxy for *Trustworthiness*, Column (5)), respectively. These five dependent variables are measured in the same way as in Table 2. Panel A tests the following regression model:

$$Y_{i,t} = \alpha + \beta \text{Confucianism}_i + \rho \text{Values}_{i,t-1} + \gamma' \text{Controls}_{i,t-1} + FE + \varepsilon_{i,t},$$

Where *Confucianism* is measured in the same way as in Table 2, and *Values* denotes a vector of other culture measures, including Buddhism (the logarithm of the number of (one plus) Buddhist temples within a 100km radius of a firm's headquarter), Taoism (the logarithm of the number of (one plus) Taoist temples within a 100km radius of a firm's headquarter), and FDI (the logarithm of the total foreign direct investment (plus one) in the city where the firm is headquartered). Panel B tests the following regression model:

$$Y_{i,t} = \alpha + \beta \text{Jinshi}_i + \gamma' \text{Controls}_{i,t-1} + FE + \epsilon_{i,t},$$

Where the key explanatory variable is *Jinshi*, an alternative measure of Confucianism which is measured as the logarithm of the number of (one plus) imperial scholars (*Jinshi*) whose hometown are within a 100km radius of a firm's headquarter. In Panel C, we replace the original Confucianism measure with a measure of the exposure to Confucianism by the CEO of a firm (CEO culture) and employ CEO culture as independent variable. We measure CEO culture using the number of Confucian schools during the Qing Dynasty in the CEO's hometown or birthplace city (based on contemporary-day administrative division). *Controls* and *FE* represent the same set of control variables and fixed effects as in Table 2. Standard errors are clustered at the city by year levels. *t*-statistics are reported in the parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively. All variable definitions are provided in Appendix Table A.1.

Table 4. Instrumental Variable Regression

	Confucianism	Social Contribution	Stakeholder Protection	Courtesy Expenses	Patents	Trade Credit
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A. Using the Distance to <i>Zhu Xi Academy</i> as IV						
Distance to <i>Zhu Xi Academy</i>	-0.0012*** (-23.791)					
Confucianism		0.0108*** (10.231)	0.0832*** (5.996)	0.0608*** (5.664)	0.0928*** (5.252)	0.0053*** (3.812)
Control Variables	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	18,767	18,760	18,767	18,745	18,767	18,766
R^2	0.4932	0.2374	0.1922	0.7429	0.0865	0.3482
Panel B. Using the Number of Small Rivers as IV						
Number of Small Rivers	-0.0416*** (-10.762)					
Confucianism		0.0097*** (4.173)	0.1449*** (5.944)	0.0671*** (3.162)	0.2021*** (6.246)	0.0109*** (4.162)
Control Variables	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	18,769	18,762	18,769	18,747	18,769	18,768
R^2	0.2175	0.2386	0.1787	0.7427	0.0778	0.3458

Notes: This table reports the results of instrumental variable (IV) tests using two-stage least square regressions (2SLS):

$$Confucianism_i = \delta_0 + \delta_1 IV_{i/p} + \gamma' Controls_{i,t-1} + FE + \varepsilon_{i,t},$$

$$Y_{i,t} = \beta_0 + \beta_1 \widehat{Confucianism}_i + \gamma' Controls_{i,t-1} + FE + \varepsilon_{i,t},$$

Where the dependent variable in the first stage (Column (1) of Panels A and B) is *Confucianism*, measured in the same way as in Table 2, and the dependent variable $Y_{i,t}$ in the second stage represents five corporate policies measured in the same way as in Table 2. Specifically, for both Panel A and Panel B, the dependent variables are firm-level social contribution to assets ratio (a proxy for *Benevolence*, Column (2)), stakeholder protection (a proxy for *Righteousness*, Column (3)), courtesy expenses (a proxy for *Courteousness*, Column (4)), patents (a proxy for *Wisdom*, Column (5)), and trade credit (a proxy for *Trustworthiness*, Column (6)), respectively. IV represents the instrumental variables, which are: (1) *Distance to Zhu Xi Academy* in Panel A, and (2) *Number of Small Rivers* in the province where a firm is headquartered in Panel B. The control variables and fixed effects in the first-stage and second-stage models are the same as those in Table 2. Standard errors are clustered at the city by year levels. t -statistics are reported in the parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively. All variable definitions are provided in Appendix Table A.1.

Table 5. Interaction with Market Participants

Market-orientation	Social Contribution (1)		Stakeholder Protection (2)		Courtesy Expenses (3)		Patents (4)		Trade Credit (5)	
	Low	High	Low	High	Low	High	Low	High	Low	High
Confucianism	0.0055*** (4.267)	0.0015 (0.854)	0.0231* (1.848)	-0.0315** (-2.041)	0.0612*** (5.778)	0.0043 (0.352)	0.0700*** (3.987)	-0.0727** (-2.083)	0.0066*** (4.929)	0.0065*** (2.867)
Control Variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	5,298	4,013	5,299	4,015	5,295	4,010	5,299	4,015	5,299	4,015
R^2	0.2518	0.2948	0.1725	0.2740	0.7080	0.7821	0.1002	0.1148	0.3431	0.3798

Notes: This table reports the results of testing the cross-sectional heterogeneity in the effect of Confucianism following the specification:

$$Y_{i,t} = \alpha + \beta \text{Confucianism}_i + \gamma' \text{Controls}_{i,t-1} + FE + \varepsilon_{i,t},$$

Where $Y_{i,t}$ represents five corporate policies, Controls represents a vector of control variables, FE denotes fixed effects. Specifically, the dependent variables are firm-level social contribution to assets ratio (a proxy for *Benevolence*, Column (1)), stakeholder protection (a proxy for *Righteousness*, Column (2)), courtesy expenses (a proxy for *Courteousness*, Column (3)), patents (a proxy for *Wisdom*, Column (4)), and trade credit (a proxy for *Trustworthiness*, Column (5)), respectively. These five dependent variables, as well as the key explanatory variable, *Confucianism*, are measured in the same way as in Table 2. We partition the whole sample into a high- and a low-market-orientation group based on whether the marketization index score (compiled by Fan et al. (2011) and updated every year) for the focal province in each year belongs to the top or the bottom tercile. The control variables and fixed effects in all columns are the same as those in Table 2. Standard errors are clustered at the city by year levels. t -statistics are reported in the parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively. All variable definitions are provided in Appendix Table A.1.

Table 6. Interaction with Politicians' Ideology

Politician ideology	Social Contribution (1)		Stakeholder Protection (2)		Courtesy Expenses (3)		Patents (4)		Trade Credit (5)	
	<i>Dengist</i>	<i>Maoist</i>	<i>Dengist</i>	<i>Maoist</i>	<i>Dengist</i>	<i>Maoist</i>	<i>Dengist</i>	<i>Maoist</i>	<i>Dengist</i>	<i>Maoist</i>
Confucianism	0.0046*** (5.252)	0.0037* (1.854)	0.0182** (2.071)	-0.0062 (-0.351)	0.0449*** (5.920)	0.0156 (1.181)	0.0528*** (3.708)	-0.0203 (-0.948)	0.0061*** (5.704)	-0.0016 (-0.761)
Control Variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	9,574	3,675	9,576	3,677	9,567	3,674	9,576	3,677	9,576	3,677
R^2	0.2542	0.2291	0.1739	0.2632	0.7234	0.7606	0.0822	0.1180	0.3656	0.3571

Notes: This table reports the results of testing the cross-sectional heterogeneity in the effect of Confucianism following the specification:

$$Y_{i,t} = \alpha + \beta \text{Confucianism}_i + \gamma' \text{Controls}_{i,t-1} + FE + \varepsilon_{i,t},$$

Where $Y_{i,t}$ represents five corporate policies, Controls represents a vector of control variables, FE denotes fixed effects. Specifically, the dependent variables are firm-level social contribution to assets ratio (a proxy for *Benevolence*, Column (1)), stakeholder protection (a proxy for *Righteousness*, Column (2)), courtesy expenses (a proxy for *Courteousness*, Column (3)), patents (a proxy for *Wisdom*, Column (4)), and trade credit (a proxy for *Trustworthiness*, Column (5)), respectively. These five dependent variables, as well as the key explanatory variable, *Confucianism*, are measured in the same way as in Table 2. We partition the whole sample into two subsamples based on whether the CCP secretary of the city (who is usually the supreme leader of the city) where a firm is headquartered joined the CCP before 1976, the year of Mao' death ("Maoist leaders"), or after 1979, the starting year of China's adoption of "reform and opening up" policy ("Dengist leaders"). In addition to the control variables in Table 2, we also include a politician's age as an additional control in all columns. Fixed effects in all columns are the same as those in Table 2. Standard errors are clustered at the city by year levels. t -statistics are reported in the parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively. All variable definitions are provided in Appendix Table A.1.

Table 7. Board of Directors and Cultural Effect

	Social Contribution (1)		Stakeholder Protection (2)		Courtesy Expenses (3)		Patents (4)		Trade Credit (5)	
	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes
Presence of non-Chinese director										
Confucianism	0.0041*** (5.437)	0.0028 (1.263)	0.0170** (2.440)	0.0087 (0.420)	0.0354*** (6.073)	-0.0300* (-1.743)	0.0544*** (5.433)	-0.0312 (-0.701)	0.0053*** (6.400)	0.0014 (0.592)
Control Variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	16,563	2,197	16,569	2,198	16,553	2,192	16,569	2,198	16,568	2,198
R^2	0.2542	0.2291	0.1739	0.2632	0.7234	0.7606	0.0822	0.1180	0.3656	0.3571

Notes: This table reports the results of testing the cross-sectional heterogeneity in the effect of Confucianism following the specification:

$$Y_{i,t} = \alpha + \beta \text{Confucianism}_i + \gamma' \text{Controls}_{i,t-1} + FE + \varepsilon_{i,t},$$

Where $Y_{i,t}$ represents five corporate policies, *Controls* represents a vector of control variables, *FE* denotes fixed effects. Specifically, the dependent variables are firm-level social contribution to assets ratio (a proxy for *Benevolence*, Column (1)), stakeholder protection (a proxy for *Righteousness*, Column (2)), courtesy expenses (a proxy for *Courteousness*, Column (3)), patents (a proxy for *Wisdom*, Column (4)), and trade credit (a proxy for *Trustworthiness*, Column (5)), respectively. These five dependent variables, as well as the key explanatory variable, *Confucianism*, are measured in the same way as in Table 2. We partition the whole sample into two subsamples based on whether there is at least one non-Chinese director on the board or not. The control variables and fixed effects in all columns are the same as those in Table 2. Standard errors are clustered at the city by year levels. *t*-statistics are reported in the parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively. All variable definitions are provided in Appendix Table A.1.

Table 8. Confucianism and Firm Performance

	(1)	(2)	(3)	(4)	(5)	(6)
Panel A. Dependent variable = ROE						
Social Contribution	0.7717** (2.312)					
Stakeholder Protection		0.2060** (2.397)				
Courtesy Expenses			0.1069** (2.373)			
Patents				0.0772** (2.397)		
Trade Credit					0.7025** (2.322)	
Confucianism						0.0035** (2.397)
Controls and Fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	18,761	18,768	18,746	18,768	18,767	18,768
R^2	0.1174	0.1172	0.1175	0.1172	0.1169	0.1172
Panel B. Dependent variable = Operating profit growth						
Social Contribution	3.7207** (2.164)					
Stakeholder Protection		0.9382** (2.125)				
Courtesy Expenses			0.5059** (2.190)			
Patents				0.3515** (2.125)		
Trade Credit					3.3013** (2.117)	
Confucianism						0.0160** (2.125)
Controls and Fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	18,762	18,769	18,747	18,769	18,768	18,769
R^2	0.0768	0.0779	0.0777	0.0774	0.0775	0.0779

(Continued)

Table 8 (Continued). Confucianism and Firm Performance

	(1)	(2)	(3)	(4)	(5)	(6)
Panel C. Dependent variable = CSR score						
Social Contribution	5.2025*** (2.849)					
Stakeholder Protection		1.3381*** (2.853)				
Courtesy Expenses			0.6936*** (2.828)			
Patents				0.5013*** (2.853)		
Trade Credit					4.7206*** (2.849)	
Confucianism						0.0229*** (2.853)
Controls and Fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	13,551	13,552	13,544	13,552	13,551	13,552
R ²	0.2447	0.2448	0.2448	0.2448	0.2447	0.2448
Panel D. Testing the mechanisms of the cultural effect on firm performance, DV = Cost of capital						
Social Contribution	-0.1330** (-1.998)					
Stakeholder Protection		-0.0339** (-1.981)				
Courtesy Expenses			-0.0177** (-1.978)			
Patents				-0.0127** (-1.981)		
Trade Credit					-0.1196** (-1.981)	
Confucianism						-0.0006** (-1.981)
Controls and Fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	18,350	18,356	18,334	18,356	18,356	18,356
R ²	0.0718	0.0715	0.0719	0.0719	0.0714	0.0720

(Continued)

Table 8 (Continued). Confucianism and Firm Performance

	(1)	(2)	(3)	(4)	(5)	(6)
Panel E. Testing the mechanisms of the cultural effect on firm performance, DV = Employee growth						
Social Contribution	0.5648*					
	(1.692)					
Stakeholder Protection		0.1432*				
		(1.668)				
Courtesy Expenses			0.0767*			
			(1.706)			
Patents				0.0536*		
				(1.668)		
Trade Credit					0.5017*	
					(1.656)	
Confucianism						0.0024*
						(1.668)
Controls and Fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	18,193	18,200	18,178	18,200	18,199	18,200
R^2	0.0711	0.0712	0.0712	0.0706	0.0711	0.0716

Notes: This table reports the results of testing the effect of culture-biased corporate policies on firm performance in two-stage least square (2SLS) regressions in Panels A-C. In the first stage, we regress a firm's social contribution, employee and supplier protection, courtesy expenses, the logged number of patents, and trade credit respectively on *Confucianism*, measured by the logarithm of the number of Confucian academies within a 100-kilometer radius around the a firm's headquarter. In the second stage, we regress firms' return on equity (ROE) (Panel A), Operating Profit Growth (Panel B), and CSR score (Panel C) on the predicted values of the five corporate policies obtained from the first stage regressions. Column (6) reports the "reduced form" results of directly regressing the above performances measures on *Confucianism* and other variables. In Panel D and E, we run the above two-stage least square and reduced-form regressions with the dependent variables being weighted-average cost of capital (WACC) and employee growth respectively to test the mechanisms through which Confucianism affects firm performance. The control variables and fixed effects in all columns are the same as those in Table 2. Standard errors are clustered at the city by year levels. *t*-statistics are reported in the parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively. All variable definitions are provided in Appendix Table A.1.

Table 9. Post-hoc Tests

	Board Hierarchy (1)	Female Directors Ratio (2)	Female Director Dummy (3)	Blau Index (4)
Confucianism	0.0601* (1.685)	-0.0087*** (-7.504)	-0.0988*** (-4.946)	-0.0102*** (-6.896)
Industry Fixed Effects	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes
Observations	13,295	18,364	18,364	18,364
R^2	0.0377	0.0779	0.0329	0.0743

Notes: This table reports the results of several post-hoc tests on hierarchy and gender diversity on board by running the following regression model:

$$Y_{i,t} = \alpha + \beta \text{Confucianism}_i + \gamma' \text{Controls}_{i,t-1} + FE + \varepsilon_{i,t},$$

Where $Y_{i,t}$ represents firm-level structure or policy; *Controls* represents a vector of control variables, *FE* denotes fixed effects. Panel A shows the results of testing within-firm hierarchy. The dependent variable in Column (1), is board hierarchy, a dummy variable that equals 1 if all the firm's independent directors are placed at the bottom rungs of the director list and 0 otherwise. The dependent variable in Column (2) is the female director ratio on board. The dependent variable in Column (3) is female directors dummy, a binary indicator that equals 1 if there is at least one female director on the board, and 0 otherwise. The dependent variable in Column (4) is the Blau index of female directors following [Blau \(1977\)](#). The key explanatory variable, *Confucianism*, the control variables and fixed effects in all columns are the same as those in Table 2. Standard errors are clustered at the city and year levels in Panel A, and at the city level in Panel B. t-statistics are reported in the parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively. All variable definitions are provided in Appendix Table A.1.

Appendix 1: Definitions of Variables

Table A1. Variable Definition

Variable	Source	Description
Confucianism	Local Chronicles in Qing Dynasty	The natural logarithm of (one plus) the number of Confucian academies within a 100km radius of a firm's headquarter.
Social Contribution	CSMAR	Social contribution (summing up total tax contribution, employee payment, interest expense, donations, and profit attributable to shareholders) divided by total assets.
Stakeholder Protection	CSMAR	The sum of binary indicators of whether a firm reports to have taken measures to protect its staff and suppliers.
Courtesy Expenses	CSMAR	The natural logarithm of management fees deducted by executives' and directors' wages plus one.
Patents	CSMAR	The natural logarithm of the number of patents authorized by the government plus one.
Trade Credit Size	CSMAR	The sum of accounts payable and notes payable divided by total assets.
Leverage	CSMAR	The natural logarithm of a firm's total assets plus one.
ROA	CSMAR	The ratio of debt to total assets of a firm.
Revenue Growth	CSMAR	The ratio of a firm's net profit to total assets.
Operating Cash Flow	CSMAR	The annual revenue growth rate of a firm.
SOE	CSMAR	The cash flow generated by operating activity divided by total revenue.
Buddhism	Yang (2011)	A binary variable that equals 1 if the ultimate owner of the firm is the state, and 0 otherwise.
Taoism	Yang (2011)	The natural logarithm of the number of Buddhist temples within a 100km radius around a firm's headquarter plus one.
<i>Jinshi</i>	<i>A list of Jinshi in Qing Dynasty</i>	The natural logarithm of the number of Taoist temples within a 100km radius around a firm's headquarter plus one.
<i>Confucian Scholars</i>	<i>History of Chinese Thought in the Ming Period</i>	The natural logarithm of the number of imperial scholars (Jinshi) in Qing Dynasty whose hometowns are within a 100km radius around a firm's headquarter plus one.
ROE	CSMAR	The natural logarithm of the number of renowned Confucian scholars in the Ming Dynasty whose hometowns are within a 100km radius around a firm's headquarter plus one.
Operating Profit Growth	CSMAR	The ratio of a firm's net profit to its book value of equity.
CSR Score	Hexun.com	The annual growth rate of a firm's operating profit.
		A firm's corporate social responsibility (CSR) score provided by Hexun.com

(Continued)

Table A1 (*Continued*). Variable Definition

Variable	Source	Description
Cost of Capital	CSMAR, CCER	A firm's weighted average cost of capital (WACC), computed as $WACC = W_d R_d(1 - T) + W_e R_e$, where W_d and W_e are the weights on a firm's debt and common equity, respectively. T is the firm's tax rate. R_d denotes the cost of debt and is equal to interest expense divided by total amount of debt. R_e represents the cost of common equity and is computed as the 10-year bond rate plus the product of beta and the market risk premium. Equity premium is extracted from Damodaran (2019) to avoid having negative market risk premium. Beta is estimated by using daily stock returns of the previous twelve months and market returns.
Employee Growth	RESSET	The percentage change in a firm's total number of employees over a year.
Board Hierarchy	Zhu et al. (2016)	A binary variable that equals 1 if all the firm's independent directors are placed at the bottom rungs of the director list and 0 otherwise.
Women Directors Ratio	CSMAR	The ratio of female directors to all directors on the board.
Women Directors Dummy	CSMAR	A binary variable that equals 1 if there is at least one female director on the board and 0 otherwise.
Blau Index	CSMAR	The Blau index of gender diversity in the board: $Blau = 1 - \sum_i P_i^2$ Where P_i refers to the percentage of female or male board members (Blau, 1977).
Cash ratio	CSMAR	The ratio of a firm's cash to its total assets.
City GDP	National Bureau of Statistics of China	The natural logarithm of the city's GDP (in billion RMB).
City Employment	National Bureau of Statistics of China	The natural logarithm of the number of residents who are currently employed in the city (in thousand).
City Total Wage	National Bureau of Statistics of China	The natural logarithm of total employee wages (in thousand RMB) of the city.
FDI	National Bureau of Statistics of China	The natural logarithm of total foreign direct investment (in million USD) plus one.
Marketization index	Fan et al. (2011)	The index constructed by Fan et al. (2011) that captures the development of market-orientation of a province every year. This index is assessed in five fields with 23 component indicators. The five fields are the level of resource allocation by governments and the market, market intermediaries and the legal environment for the market, the development of the non-state enterprise sector, the development of the product market, and the development of labor, financial, and technology markets.

(Continued)

Table A1 (*Continued*). Variable Definition

Variable	Source	Description
Number of Small Rivers	National Census for Water of China	The number of small rivers (excluding major ones that cross many provinces, such as Yangtze River and Yellow River) with drainage area greater than 10,000 square kilometers in the province where a firm is headquartered.
Distance to <i>Zhu Xi Academy</i>	<i>Baidu Map</i>	The shortest distance between a listed firm's headquarters and the nearest <i>Zhu Xi Academy</i> . <i>Zhu Xi Academies</i> are prestigious schools established by Zhu Xi (also spelled "Chu Hsi"), the renowned Confucian scholar in the Song Dynasty (1130—1200 A.D.). The three <i>Zhu Xi Academies</i> are <i>Yuelu Academy</i> in <i>Changsha</i> , <i>Hunan</i> province; <i>Hanquan Academy</i> in <i>Jiangyang</i> , <i>Fujian</i> province; and <i>White Deer Grotto Academy</i> in <i>Jiujiang</i> , <i>Jiangxi</i> province.
Perspectives on Raising Children	China Family Panel Studies	The percentage of respondents who choose "for old-age support" in response to the question "why do you want to have children?"
Divorce Population Ratio	National Bureau of Statistics of China	The percentage of divorced pairs to the average population at the provincial level.
Education Expenses	China Family Panel Studies	The natural logarithm of the amount of money that a family spends on children education plus one.
Intergenerational Coresidence Ratio	China Population Census in 2000 and 2010	The percentage of households with four generations living under the same roof in each province.

Appendix 2: Validating the Confucianism Measure

Table A2. Validation Test of the Confucianism Measure

	Perspectives on Raising Children (1)	Divorce Population Ratio (2)	Education Expenses (3)	Intergenerational Coresidence Ratio (4)
Confucianism	0.0243** (2.252)	-0.5437*** (-4.584)	0.3176*** (10.116)	0.0011*** (4.301)
Controls	Yes	Yes	Yes	Yes
Fixed Effects	Yes	Yes	Yes	Yes
Observations	8,675	248	1,2871	62
R^2	0.0059	0.4563	0.0609	0.3787

Notes: This table reports the results of validating the Confucianism measure as a proxy for Confucian culture. The dependent variables are survey-based ratings based on three major Confucian cultures that are not directly related to our firm policy variables: (i). perspectives on raising children (Column (1)), (ii). provincial divorce population ratio (Column (2)), (iii). a family's education expense (Columns (3)), and (iv). the ratio of intergenerational coresidence ratio (the percentage of population for which at least four generations live under the same roof) of the local province. The key explanatory variable Confucianism is the natural logarithm of (one plus) the number of Confucian academies in a province. In Column (1), Controls include father age, mother age, father education level, and mother education level. In Column (2), the year fixed effect is controlled, and the control variables include provincial GDP, provincial GDP per capita, the logarithm of total employee wages in the province, and logarithm of the total employment in the province. In Column (3), Controls include family's total saving, an binary indicator for whether the family holds financial securities, total annual income, and total annual expenses. Column (4) includes year fixed effects as well as provincial GDP, provincial GDP per capita, and logarithm of the total employment in the province. Total employee wages in provinces in 2000 are not available. Standard errors are clustered at the provincial level. t -statistics are reported in the parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively.

Appendix 3: IV Results Using Death Rate and Death Toll during Taiping Rebellion

As a further robustness check, we also employ the regional death rate in Taiping (and Nian) Rebellion as an alternative IV, which is measured as either the percentage death rate of the local population or the natural logarithm of (one plus) the death toll in each province between 1851 and 1865. The rebellion was a revolt against the Qing Dynasty and established the “Taiping Heavenly Kingdom” after the Taiping army won several battles against the Imperial Qing army. This rebellion induced the largest number of war deaths in human history, with over 40 million people killed ([Wakeman, 1997](#)).

The rebellion repulsed Confucianism and aimed to spread Christianity by destroying many Confucian temples, which triggered resistance by local Confucian gentry and suppression by the Qing government, which eventually defeated the rebellion army. We argue that the regional death toll caused by the rebellion is positively associated with the strength of Confucianism in the region. On one hand, the rebel’s agenda included social reforms, such as shared “property in common,” equality for women, and the replacement of Confucianism, Buddhism, and Chinese folk religion with a form of Christianity. This doctrine was generally questioned and opposed by Confucian scholars at the time and provoked the anger of local gentry because it violated traditional Chinese ethics and morals. The ruthless means of the Taiping Army in spreading their bogus religion did not leave an imprint of Christianity among the local people but only triggered strong resistance. It also inspired another major armed uprising in northern China, the Nian Rebellion, which happened around the same time also with the aim of toppling the Qing Dynasty, and caused immense economic devastation and loss of life. The great turmoil of the revolt and memories of the atrocities, transmitted across generations, make residents in more affected areas value the stability that Confucianism emphasizes and helps mitigate the adverse effects of the negative events ([Ke et al., 2019](#); [Chen and Kung, 2020](#)).

On the other, after repressing the rebellions, the Qing government started to rebuild the

affected regions. [Rawski \(1979\)](#) documented that, in Ancient China, the government often spent enormous effort to rebuild schools in areas that recently experienced war and famine as a means of restoring the Confucian order and sustaining the monarchy. [Wooldridge \(2009\)](#) documents that Zeng Guofan, the governor general in charge of the reconstruction of Nanjing, attached great importance to the Confucian school and temple complex and considered education and ritual as palliatives for the rebellion, a view that justified the vast sum spent on the construction of the school. Similarly, [Wright \(1962\)](#) argues the Taiping Rebellion forced the reassertion of Confucian moral values and the revival of Confucian institutions. Hence, we expect the severity of damage caused by the rebellions to be positively related to the strength of Confucianism, due to local resistance and post-war restoration efforts. Meanwhile, it is unlikely that the regional death toll caused by the Taiping (and Nian) Rebellion will directly influence economic development today. Alternatively, we also employ the regional death toll in the Taiping (and Nian) Rebellion as an alternative instrumental variable. Mortality data during the rebellions is obtained from China Demographic History ([Cao, 2008](#)), which records population information at provincial level.

We include the same set of control variables in our two-stage IV regressions. Table A3 presents the results, with Panels A and B showing the results using the regional death rate and death toll in the Taiping (and Nian) Rebellion as the IV, respectively. For both panels, we report the first-stage results of regressing the Confucianism measure on the IV in Column (1), and the second-stage results of regressing the five corporate policy variables on the “predicted” Confucianism variable. We find that both regional death rate and death toll positively predict the firm’s exposure to Confucianism (Column (1) of both panels), supporting our conjecture that regions that experienced suppression of Confucian culture had stronger Confucianism. In Columns (2)—(6) of both panels, we again find that a firm’s exposure to Confucian culture is significantly and positively associated with its five corporate policies. These results further substantiate our key IV analysis in Table 4, and confirm the role of exposure to Confucianism on corporate behavior.

Table A3. IV Regression Using Death Rate and Death Toll during Taiping Rebellion

	Confucianism	Social Contribution	Stakeholder Protection	Courtesy Expenses	Patents	Trade Credit
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A. Using Regional Death Rate as IV						
Death Rate	0.0129*** (11.691)					
Confucianism		0.0126*** (5.521)	0.0477* (1.821)	0.0896*** (3.808)	0.1926*** (4.889)	0.0194*** (6.527)
Control Variables	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	18,769	18,762	18,769	18,747	18,769	18,768
R^2	0.2327	0.2349	0.1961	0.7418	0.0789	0.3341
Panel B. Using Regional Death Toll as IV						
Death Toll	0.0854*** (11.516)					
Confucianism		0.0100*** (4.790)	0.0655** (2.231)	0.0735*** (3.716)	0.1500*** (4.128)	0.0130*** (4.833)
Control Variables	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	18,769	18,762	18,769	18,747	18,769	18,768
R^2	0.2458	0.2382	0.1945	0.7425	0.0831	0.3438

Notes: This table reports the results of instrumental variable (IV) tests using two-stage least square regressions (2SLS):

$$Confucianism_i = \delta_0 + \delta_1 IV_{i/p} + \gamma' Controls_{i,t-1} + FE + \varepsilon_{i,t},$$

$$Y_{i,t} = \beta_0 + \beta_1 \widehat{Confucianism}_i + \gamma' Controls_{i,t-1} + FE + \varepsilon_{i,t},$$

Where the dependent variable in the first stage (Column (1) of Panels A and B) is *Confucianism*, measured in the same way as in Table 2, and the dependent variable $Y_{i,t}$ in the second stage represents five corporate policies measured in the same way as in Table 2. Specifically, for both Panel A and Panel B, the dependent variables are firm-level social contribution to assets ratio (a proxy for *Benevolence*, Column (2)), stakeholder protection (a proxy for *Righteousness*, Column (3)), courtesy expenses (a proxy for *Courteousness*, Column (4)), patents (a proxy for *Wisdom*, Column (5)), and trade credit (a proxy for *Trustworthiness*, Column (6)), respectively. IV represents the instrumental variables, which are: (1) death rate, measured as the death rate of the local population and (2) death toll, measured as the logarithm of (one plus) the total death toll at the provincial level during the Taiping (and Nian) Rebellion in late Qing. Controls represents a vector of control variables, and FE denotes industry fixed effects, which are the same as those in Table 2 and are included in both stages. Standard errors are clustered at the city and year levels. t -statistics are reported in the parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively. All variable definitions are provided in Appendix Table A.1.

Appendix 4: Testing on Precautionary Savings

As a further post-hoc test, we recognize that Confucianism also advocates the development of “preparedness for the unexpected and hardship,” which stresses the importance of having consciousness of uncertainty and taking precautions. To test whether firms with greater exposure to Confucianism are more likely to have precautionary policies, we examine a firm’s cash holdings when facing unexpected shocks. A large literature has documented that firms may hold excess cash as a precaution (e.g., [Kim et al., 1998](#); [Opler et al., 1999](#); [Bates et al., 2009](#)) In particular, firms could hold cash to better cope with adverse shocks when there is the risk of a liquidity shortage ([Acharya et al., 2012](#)), such as exposure to natural disasters. To this end, we follow [Dessaint and Matray \(2017\)](#) and adopt a difference-in-difference identification approach using earthquakes as adverse shocks to firms’ operations. Since the saliency and influence of an earthquake are magnified by its proximity, we can rely on a natural experiment framework by leveraging the distance between a firm and the epicenter of an earthquake.

We separate firms into three groups based on the distance between a firm and the epicenter of an earthquake: the affected firms, the firms in the neighborhood, and the unaffected firms. We define “affected firms” as those within 400 kilometers from the epicenters and “neighboring firms” as those that are over 400 kilometers and within 800 kilometers from the epicenters. We define an “Affected” dummy variable, which equals one if the firm is in the affected group over the past 12 months, and a “Neighboring” dummy, which equals one if the firm is in the neighboring firms group over the past 12 months in our difference-in-differences regression. Unaffected firms are treated as the baseline. Across all specifications, the dependent variable is a firm’s quarterly cash holdings over assets. Since most of the usual firm-level control variables are themselves affected by the disaster proximity, we do not include them in the regression to avoid the “overcontrolling” problem, following [Dessaint and Matray \(2017\)](#).

Table A4 presents the results. Column (1) includes the Confucianism variable, the Neigh-

boring dummy, the Affected dummy, and the interaction term between Confucianism and the Neighboring dummy. In Column (2), we replace the interaction term in Column (1) with the interaction between Confucianism and the Affected dummy. Column (3) includes both interaction terms above. In all specifications, we control for firm-quarter fixed effects and year-quarter fixed effects to account for the seasonality in earthquake shocks and firms' cash holding patterns. The coefficient of the interaction Neighbor \times Confucianism is significant and positive, whereas that of the interaction Disaster Zone \times Confucianism is negative and statistically insignificant. The insignificance of the latter is likely due to the fact that firms in affected areas experience cash drain, due to their operations and supply chains being harmed by the earthquakes. These results suggest that firms with greater exposure of Confucianism in the neighboring area—which are supposedly not directly affected by the unexpected negative shocks on their operations—will accumulate more cash as a precaution, which is consistent with our prediction.

Table A4. Testing on Precautionary Cash Holding Motive

DV = Cash ratio	(1)	(2)	(3)
Neighbor	0.718* (1.79)	0.723* (1.82)	0.728* (1.83)
Disaster Zone	1.444*** (3.11)	1.404*** (3.04)	1.415*** (3.06)
Confucianism	0.007 (0.20)	0.001 (0.03)	0.003 (0.08)
Neighbor \times Confucianism		0.014** (2.34)	0.012* (1.94)
Disaster Zone \times Confucianism	-0.011 (-1.61)		-0.007 (-1.11)
Firm-quarter Fixed Effects	Yes	Yes	Yes
Year-quarter Fixed Effects	Yes	Yes	Yes
Observations	94,479	94,479	94,479
R^2	0.5051	0.5052	0.5052

Notes: This table reports the results of running the following regression model:

$$Y_{i,t} = \alpha_{i,q} + \delta_{t,q} + \beta_1 Neighbor_{i,t,q} + \beta_2 DisasterZone_{i,t,q} + \beta_3 Confucianism_i + \beta_4 Neighbor_{i,t,q} \times Confucianism_i + \beta_5 DisasterZone_{i,t,q} \times Confucianism_i + \varepsilon_{i,t},$$

Where i indexes firm, t indexes year, q indexes calendar quarter (1 to 4), the dependent variable is cash (to asset) ratio at the end of quarter q of year y , $\alpha_{i,q}$ are firm-quarter fixed effects, $\delta_{t,q}$ are year-quarter effects, $Neighbor$ is a dummy variable that equals one if the firm is headquartered in the neighborhood of an area (over 400 kilometers and within 800 kilometers from the epicenter) hit by an earthquake over the last 12 months and zero if not, $Disaster\ Zone$ is a dummy variable that equals one if the firm is headquartered within 400 kilometers from the epicenter of an earthquake over the last 12 months and zero if not. The key explanatory variable $Confucianism$, the logarithm of the number of Confucian academies within a 100-kilometer radius around a firm's headquarter. Since most of the usual firm-specific control variables are themselves affected by the disaster proximity, we do not include these control variables in the to avoid an "overcontrolling" problem (Dessaint and Matray, 2017). Standard errors are clustered at the city level. t-statistics are reported in the parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively. All variable definitions are provided in Appendix Table A.1.