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Confucianism and employee treatment: Evidence from China

Xixiong Xu | Maochuan Wang

School of Economics and Business Administration, Chongqing University, Chongqing, China

Correspondence
Maochuan Wang, School of Economics and Business Administration, Campus B, Chongqing University, 174 Shazhengjie, Shapingba District, Chongqing 400030, China.
Email: wmc.wang0210@gmail.com

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Abstract

This study examines the effect of Confucianism, an influential cultural belief and ethical philosophy in East Asia, on employee treatment policies within Chinese listed companies from 2010 to 2020. Our key finding is that Confucianism is positively associated with employee-friendly practices. We further identify three plausible economic channels through which Confucianism shapes employee-friendly treatment: valuing human-centric ethics, mitigating managerial myopia, and alleviating agency conflicts. Cross-sectionally, the documented impact is more prominent for firms operating with weaker union power and those with executives lacking overseas experience. Additionally, employee-friendly firms exhibit higher employee efficiency, innovation output, and firm value, indicating that investing in employee benefits ultimately translates into better financial performance. Collectively, we shed light on the unique role of cultural norms in fostering employee treatment policies and their consequential effects on organizational value.

KEYWORDS
Confucianism, employee treatment, ESG, informal institution

1 | INTRODUCTION

The increasing value placed on human capital has spurred increased attention to employee treatment policies (Faleye & Trahan, 2010; Zingales, 2000), catapulting them to the forefront of environmental, social, and governance (ESG) issues.[1] Given the significant role of employee treatment in organizational outcomes, it is essential to understand the underlying mechanisms through which employee treatment strategies are shaped.[2] A new wave of literature combining labor relations and corporate finance has recently explored the determinants of employee treatment in terms of family firms (Kang & Kim, 2020), short-selling pressure (Brockman et al., 2020), air pollution (Wang, Dai, & Kong, 2021; Wang, Tang, et al., 2021), peer effects (Rind et al., 2022), and corporate tax avoidance (Schochet et al., 2022). However, existing studies are largely silent on the potential impact of informal institutions, particularly culture and social norms, on corporate behavior in relation to employee treatment.

In fact, when explaining the differences in employee treatment programs across firms, informal institutions should not be ignored. Culture, as a vital dimension of informal institutions, exerts an imperceptible yet substantial influence on societal, political, and economic facets (Hofstede, 1980). The new institutional economics highlights that organizations are not solely reactive to formal institutions, but are also greatly influenced by informal institutions such as culture, ethics, and social norms (Scott, 1995; Williamson, 2000). Indeed, cultural history and philosophical perspectives are deeply ingrained in organizational practices and have a lasting influence on daily operations (North, 1989; Yuan et al., 2023). The burgeoning literature on "culture and finance" further reveals that culture plays an important role in shaping individual value orientations and cognitive biases, which in turn reflect in corporate decision-making (e.g., Chen, Guo, et al., 2021; Chen, Xiao, & Zhao, 2021; Du, 2015; Hilary & Hui, 2009; Kumar et al., 2011; Zingales, 2015). In this paper, we attempt to

[1]In its 2022 survey, Just Capital, a renowned organization specializing in ESG research, revealed that, compared to other stakeholders, 44% of respondents consider issues regarding employee treatment to be of utmost significance within ESG frameworks (see https://hbr.org/2023/07/research-the-esg-issues-that-matter-most-to-people).

[2]Existing studies have documented that employee treatment has important implications for firm value (Edmans, 2011; Faleye & Trahan, 2010; Fauver et al., 2018), capital structure (Bae et al., 2011; Ghaly et al., 2015; Verwijmeren & Derwall, 2010), and financing costs (Francis et al., 2019; Qian et al., 2021), among others.

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bridge the gap between informal institutions and firm labor investment decisions by investigating whether and how Confucianism, a prominent cultural symbol and ethical philosophy in East Asia, affects employee treatment.

China provides an ideal setting for examining the interplay between Confucianism and employee treatment. Historically, China has been deeply influenced by Confucian ethics and values for several millennia. This philosophical tradition continues to profoundly affect individual cognitive and behavioral patterns (Chan, 2008; Du, 2015), serving as an enduring force in shaping the social and economic fabric of China (Chen, Kung, & Ma, 2020; Chen, Ye, et al., 2020; Lam, 2003). In particular, Ip (2009) posits that Confucian principles are pervasive in Chinese corporate spheres, mirroring their presence in organizational culture and corporate decision-making. Moreover, institutional economics states that informal institutions often assume a compensatory function in the absence of developed formal institutions (North, 1989; Williamson, 2000). While formal mechanisms such as labor protection laws are pivotal in crafting labor treatment policies, the relative immaturity of these regulatory systems in China's emergent economy often leads to sporadic enforcement of these statutes (Allen et al., 2005). Thus, this imperfect formal institutional environment presents an expansive sphere for Confucianism to exert its influence on labor well-being.

In addition, as China undergoes a shift to a stage of innovation-driven and high-quality development, it increasingly emphasizes the important role of human capital (Li & Wang, 2022; Wang, Dai, & Kong, 2021; Wang, Tang, et al., 2021). Against this backdrop, investigating the driving factors of employee treatment has important practical implications. Furthermore, Hexun.com, a prominent corporate social responsibility (CSR) rating system, provides unique data to measure the employee treatment of listed companies. Meanwhile, recent research has developed geospatial methodologies to capture firm-level Confucianism in China (e.g., Du, 2016; Liu & Chiang, 2022; Yu et al., 2021). This advancement paves the way for leveraging a comprehensive archival dataset in our empirical scrutiny of Confucian imprints on labor welfare.

We apply a large-scale archival dataset of Chinese listed firms from 2010 to 2020 to empirically examine our hypothesis. Drawing on prior studies (e.g., Chen et al., 2019; Du, 2016; Jin et al., 2023; Yu et al., 2021), we utilize the geographic-proximity-based Confucianism variables to capture the influence of Confucian culture, measured by the number of Confucian temples within a radius of 200/300 km around corporate headquarters. Consistent with previous research (e.g., Li & Wang, 2022; Wang, Dai, & Kong, 2021; Wang, Tang, et al., 2021; Wei, Hu, & Chen, 2020; Wei, Nan, & Wei, 2020), we adopt the employee relations score, issued by Hexun's CSR evaluation system, as a proxy for employee treatment. We observe that Confucian culture is significantly and positively associated with employee-friendly treatment, indicating that firms headquartered in areas with a stronger Confucian atmosphere tend to undertake more employee-friendly initiatives than those in regions with a weaker Confucian atmosphere. We further perform a batch of endogeneity and robustness tests to draw convincing causal identification, including controlling confounding factors like formal systems and religions, alternative proxies of Confucianism and employee treatment, two-stage least squares regression with instrumental variables, and other various approaches.

We next carry out three cross-sectional tests to identify economic channels through which Confucianism affects employee treatment. Our findings reveal that Confucian culture enhances employee treatment by valuing human-centered ethics, mitigating managerial myopia, and lessening agency issues. To further strengthen our baseline findings, we conduct two additional tests to examine the boundary conditions of Confucianism's effects. Our analysis documents that the positive effect of Confucianism on employee treatment policies is more pronounced in regions with weaker union power and when executives lack overseas experience. Finally, we investigate the potential benefits that firms may derive from adopting labor-friendly practices. We show that investing in employee benefits ultimately translates into higher employee efficiency, innovation output, and firm value.

Our study makes several pivotal contributions. First, we advance the nascent literature on employee treatment determinants within labor and finance. Existing research is largely silent on the impact of informal institutions on labor treatment. By illuminating the role of Confucianism in employee treatment, we provide novel insights into how cultural and ethical factors shape labor management decisions. Second, we enrich the burgeoning literature on the economic consequences of Confucianism. Prior studies have predominantly focused on the positive effects of Confucianism on shareholder interests, leaving its impact on employees, a key stakeholder group, relatively underexplored. Considering the essential importance of employee relations to organizational success, we extend this literature by shedding light on how Confucian values inform labor treatment. Third, our findings hold substantial practical relevance, particularly in the context of the escalating focus on ESG issues. As employee treatment shifts from a peripheral to a central role in shaping a firm's sustainable growth, we show that Confucianism moves organizations away from mere transactional engagements towards more human-centric paradigms. This integration of traditional cultural ethos with contemporary corporate governance paves the way for promoting sustainable business practices.

2 | INSTITUTIONAL BACKGROUND AND LITERATURE REVIEW

In accordance with our research focus, we principally review two sets of literature. The first pertains to the determinants of employee treatment policies. The second involves a brief background of Confucian culture and its influence on corporate decision-making.

2.1 | The determinants of employee treatment policies

The year 2019 constituted a landmark moment in corporate governance, marked by the Business Roundtable's endorsement of a transformative statement that reconceptualized the purpose of corporations. This statement signifies a shift from a shareholder

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primacy model to a more inclusive stakeholder model. The evolving recognition of the pivotal role of rank-and-file employees in creating firm value has catalyzed a heightened focus on the strategic importance of labor treatment. Research finds the adverse impacts of worker-unfriendly practices, highlighting their potential to impede the attraction of high-caliber talent, undermine employee motivation, and cause resource loss upon employee turnover, thereby detrimentally affecting organizational performance (Fauver et al., 2018; Guo et al., 2016). Consequently, labor-friendly policies have gained prominence and are recognized as vital constituents of value-enhancing strategies.

A nascent but growing literature has illuminated various antecedents of employee treatment. Brockman et al. (2020) reveal that market governance mechanisms, like easing short-selling restrictions, catalyze improved employee treatment to prevent adverse information leaks. This result echoes Dube and Zhu (2021), who demonstrate that negative employee reviews disseminated via social media compel firms to elevate their labor welfare as a reputation management strategy. Extending this line of inquiry, Kang and Kim (2020) observe a trend among family-owned enterprises towards more employee-centric policies, attributed to reduced performance pressures and a long-term management outlook. Similarly, Raghunandan (2021) uncovers that short-term financial targets and managerial incentives can lead to employee mistreatment. Wang, Dai, and Kong (2021) and Wang, Tang, et al. (2021) further document environmental influences, demonstrating that firms in high-pollution areas tend to offer better benefits to compensate for the poor environmental conditions. In a similar vein, Schochet et al. (2022) connect corporate tax strategies and labor treatment, proposing that firms with aggressive tax plans may enhance employee benefits to offset financial risks from such tactics. Complementing these insights, a recent study finds that peer effects also play a crucial role in shaping employee treatment (Rind et al., 2022). Furthermore, Liu and Luo (2022) explore the impact of CEOs' socialist ideologies on employee treatment, highlighting the effect of top management's personal beliefs on labor practices.

Overall, literature on the determinants of employee treatment has ballooned in recent years, but thus far the role of informal institutions, such as culture and social norms, remains relatively unexplored. Indeed, cultural factors implicitly shape individuals' cognitive preferences and behavioral logics, which likely manifest in labor management practices. As such, we add to this literature by shedding light on whether Confucianism, an influential cultural belief and ethical philosophy in East Asia, influences employee treatment. By integrating traditional culture into the analysis of labor relations, this research unveils novel insights on how entrenched cultural beliefs shape contemporary human resources management.

2.2 | Confucian cultural background and its influence on corporate decisions

Confucianism, tracing its roots to ancient China during the Spring and Autumn periods, indelibly shapes the cultural landscape of East Asia. A salient characteristic of Confucianism lies in its emphasis on virtues, with the Five Constants—Rén (benevolence), Yì (righteousness), Lǐ (courtesy), Zhì (wisdom), and Xìn (faithfulness)—serving as the fundamental pillars of this system. These values provide a comprehensive philosophical framework that addresses fundamental human concerns, particularly focusing on interpersonal relationships, moral character cultivation, and social harmony (Du, 2015; Ip, 2009; Yuan et al., 2023). Confucian virtues have long been a cornerstone of ethical and moral guidance in East Asia, profoundly shaping cultural norms and ethical standards throughout the region (Du, 2016; Lam, 2003; Li et al., 2020). Adherence to Confucian virtues is widely recognized as a hallmark of virtuous behavior, with transgressions leading to social ostracism and punishment (Chan, 2008; Liu & Chiang, 2022). These principles have become deeply ingrained in the social fabric, transcending temporal boundaries and persistently impacting individual behaviors and institutional practices (Du, 2016; Lam, 2003). In particular, the Confucian emphasis on building trust-based relationships, maintaining harmonious social connections, and conducting oneself with moral integrity resonates deeply with contemporary business practices (e.g., Chan, 2008; Hwang et al., 2009; Ip, 2009; Kim, 2014).

With the rise of "culture and finance" research (Zingales, 2015), recent studies further empirically examine the effect of Confucianism on corporate behavior. Extant literature extensively documents that Confucianism, with its core concept of faithfulness and righteousness, serves as an effective alternative corporate governance mechanism that mitigates agency problems, such as minority shareholder expropriation (Du, 2015), stock price crash risk (Jebran et al., 2019), investment inefficiency (Chen et al., 2019), cash holdings (Chen, Kung, & Ma, 2020; Chen, Ye, et al., 2020), corporate fraud (Tang et al., 2021), earnings management (Yu et al., 2021), IPO underpricing (Liu & Chiang, 2022), and bond credit spreads (Zhai & Tang, 2023). In addition, another branch of literature delves into the notion of guanxi in Confucianism, investigating its impact on auditor independence (Fan & Xu, 2022; Hwang et al., 2009), organizational ethical climate (Lin, 2011), trade credit (Li et al., 2020), and family business succession selection (Chen, Guo, et al., 2021; Chen, Xiao, & Zhao, 2021). Further, several studies examine the impact of Confucianism on corporate social responsibility (Kong et al., 2022), including board gender diversity (Du, 2016), environmental information disclosure (Chao et al., 2023), and pollution emissions (Cao et al., 2024).

In summary, existing studies have advanced our understanding of how Confucianism affects firm decisions. Nevertheless, there has been a dearth of research on the effect of Confucian culture on employees. Employees represent a key stakeholder group whose well-being profoundly affects organizational prosperity and long-term sustainability. Although a few studies have touched upon employee-related outcomes, such as examining pay gaps and employee shareholding (Xie et al., 2023; Xu & Duan, 2023), they merely hint at the potential of Confucianism to cultivate equitable labor treatment. Their findings, while insightful, do not fully examine the extent or mechanisms of this influence. We thus broaden the existing literature by illuminating the impact of Confucianism on employee treatment.

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3 | THEORY AND HYPOTHESES

3.1 | A theoretical framework of Confucianism influencing corporate decisions

New institutional economics indicates that organizations operate as economic entities embedded in a milieu of diverse institutions that shape their behavioral logic and impose societal expectations (North, 1989; Scott, 1995; Williamson, 2000). These institutions encompass both formal institutions, such as laws, regulations, and policies, as well as informal ones, including values, ethical norms, and religious beliefs. To ensure survival and foster long-term development, organizations should not only increase their operational efficiency in the marketplace, but also strive for organizational legitimacy within their institutional context (DiMaggio & Powell, 1983; Dowling & Pfeffer, 1975; Scott, 1995). Organizational legitimacy is defined as the congruence between an organization's espoused values and exhibited conduct and the acceptable behavioral norms within its social sphere (Dowling & Pfeffer, 1975). As economic entities functioning in an environment imbued with multiple institutions, organizations are driven to actively seek legitimacy to obtain essential resources, gain competitive edges, and maintain organizational identity and stability (North, 1989; Scott, 1995). Consequently, organizations tend to synchronize their behavior with external acceptability expectations, endeavoring to achieve "institutional isomorphism" in pursuit of organizational legitimacy (DiMaggio & Powell, 1983).

Culture, a salient informal institutional force, guides and constrains individual and organizational behavior by molding value preferences and establishing social norms (Guiso et al., 2006; Hofstede, 1980). Confucianism, a prominent cultural and ethical framework in East Asia, plays a crucial role in shaping societal legitimacy. Specifically, in regions with a strong Confucian presence, individuals are inevitably influenced by Confucian values, which cultivate social norms aligned with Confucian ethical standards (Chen et al., 2019; Du, 2015). This, in turn, imposes expectations on individuals to conform to Confucian value norms, thereby shaping the foundational logic of organizational legitimacy. The upper echelons theory posits that corporate strategic decisions reflect the cognitive frameworks and value preferences of executives (Hambrick & Mason, 1984), which, in turn, are shaped by their individual experiences and cultural backgrounds (Guiso et al., 2006; Zingales, 2015). In other words, people, not firms, make decisions, and their cultural values are the foundation of their cognition and behavior, which, in turn, determine corporate decision-making (Hilary & Hui, 2009; Schwartz et al., 2012). Therefore, firms located in strong Confucian contexts tend to internalize Confucian principles as behavioral guidelines, achieving "institutional isomorphism" with the local Confucian environment to secure legitimacy.

Some may question that even though they are located in a region with a strong Confucian atmosphere, executives may not be followers of Confucianism; accordingly, their decisions are not necessarily reflective of Confucian principles. In fact, Confucian social norms constrain individual and organizational behavior, exerting pressure to impose social sanctions on deviants. For example, Chinese society regards disrespect for Confucianism as shameful, and historically, such individuals faced punishment or exclusion from communities with a strong Confucian atmosphere (Lam, 2003; Liu & Chiang, 2022; Woods & Lamond, 2011). In particular, existing research argues that even if top decision-makers do not personally endorse local beliefs, organizational behavior is generally influenced by local social norms (Callen & Fang, 2015; Du, 2015; Hilary & Hui, 2009). When applied to our settings, if a company is situated in an area with a potent Confucian atmosphere, its executives must be receptive to the prevalent Confucian social norms endorsed by employees, suppliers, customers, and other stakeholders (Chen et al., 2019; Du, 2015, 2016). That is, a strong Confucian atmosphere prompts local stakeholders to harbor greater Confucian value expectations for local firms. Defying these expectations is difficult, as it incurs public disapproval and collective sanctions, obstructing the achievement of social legitimacy.

In light of the above theoretical framework, we proceed to analyze the impact of Confucian ethics on employee treatment. In theory, Confucian culture could have either beneficial or detrimental effects on employee well-being. We thus develop two competing hypotheses regarding the link between Confucianism and labor treatment.

3.2 | Potential beneficial impacts of Confucianism on employee treatment

We hypothesize that Confucianism might enhance employee treatment by valuing human-centric principles, alleviating managerial myopia, and mitigating agency conflicts.

First, Confucianism could guide firms to emphasize human-centered ethics, thus undertaking employee-friendly initiatives. Rén (benevolence), a cardinal virtue among the Confucian Five Constants, encompasses ethical tenets of love, reciprocity, and humanism. Several classical Confucian texts expound these principles, such as "The benevolent man loves others" (Mencius 4B:28), "The people are the most important element in a nation; the spirits of the land and grain are the next; the sovereign is the lightest" (Mencius 7B:14), "Ruin is the consequence of not employing men with virtue and talent" (Mencius 6B:6), and "Water and fire have air and no life; grass and trees have life and no knowledge; animals have knowledge and no righteousness; but people have air, life, knowledge, and righteousness, making them the most valuable beings in the world" (Xunzi 9:19).

This ideology of benevolence holds potential for affecting organizational paradigms. Under the sway of Confucian benevolence, firms are inclined to implement a "human-based" leadership style (Ip, 2009), emphasizing the pivotal role employees play in value creation, aligning resources towards their welfare, and establishing harmonious employee relations (Chan, 2008; Yuan et al., 2023). Empirical analyses lend credence to the theoretical predictions, delineating a correlation between Confucian benevolence and certain employee investments. For instance, evidence indicates that Confucian ethics guide managers to conduct employee stock ownership plans, a mechanism that fosters a sense of ownership and allows employees to share in corporate

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profits (Xu & Duan, 2023). Additionally, Xie et al. (2023) show that Confucianism can narrow the gap between executive and employee compensation, facilitating a more equitable and inclusive organizational milieu. Consequently, the notions of Confucian benevolence act as a navigational compass for corporate entities, catalyzing a paradigm shift towards value and regard for employees. We term this effect the human-centered channel.

Second, Confucianism could encourage firms to invest in employee well-being by alleviating managerial myopia. Within the Confucian Five Constants, Zhì (wisdom) underscores the significance of embracing a long-term view, cautioning against prioritizing short-term gains at the expense of sustainable benefits. The Golden Rule in the Analects documents that "If a man is not farsighted, then trouble is impending" (Analects 15:12). Mencius also claimed that "We can know that life is stimulated from adversity and anxiety, and death results from relaxation and pleasure" (Mencius 6B:15). Hofstede's influential cultural dimensions model further corroborates the propensity towards a long-term outlook inherent in Confucian values. Originally encompassing four dimensions—power distance, individualism, masculinity, and uncertainty avoidance—it later integrated a dimension of long-term orientation, drawing inspiration from Confucian tenets.

This emphasis on the long-term orientation principle is relevant for investments in employee treatment. Prior literature has established that myopic managers frequently underinvest in long-term projects due to various pressures and constraints, such as stock price pressure (Stein, 1988), unemployment risk (Fudenberg & Tirole, 1995), and catering to transient investor interests (Bolton et al., 2006). In particular, human capital investments present an intricate evaluation challenge and often demand extended periods to yield returns (Black & Lynch, 1996). As a result, myopic managers may be less likely to undertake such investments, especially those pertaining to employee treatment, given their significant costs and uncertainties (Bradley et al., 2022; Faleye & Trahan, 2010). Consistent with this view, recent studies document that managers targeting short-term profit forecasts reduce employee safety expenditures and increase labor hours (Caskey & Ozel, 2017). Conversely, firms with long-term horizons are more inclined to invest in labor-friendly practices (Kang & Kim, 2020). In conclusion, by fostering a long-term outlook and accentuating sustained benefits, Confucianism could potentially mitigate managerial myopia, thereby guiding firms to embrace labor-friendly practices. We label this effect the managerial myopia channel.

Third, Confucianism could lessen agency conflicts and thus promote labor-friendly programs. Central to Confucian philosophy are the doctrines of Yì (righteousness) and Xìn (faithfulness), which constitute the ethical framework guiding individual conduct. Yì upholds the principle of "justice before profit," positing that when balancing morality and self-interest, individuals should adhere to morality first. "The mind of the superior man is conversant with righteousness; the mind of the mean man is conversant with gain" (Analects 4:16), and "Wealth and honor that one possesses in the midst of injustice are like floating clouds." (Analects 7:16) are embodiments of righteousness. Xìn advocates for individuals to honor their commitments and maintain mutual trust with others, underscored by Analects such as "I do not know how a man without truthfulness is to get on" (Analects 2:22) and "I daily examine myself on three points: whether, in transacting business for others, I may have been not faithful; whether, in intercourse with friends, I may have been not sincere; whether I may have not mastered and practiced the instructions of my teacher" (Analects 1:4).

Agency conflicts have been shown to have an adverse effect on firms' stakeholder relations policies. The divergence of interests between managers and stakeholders leads managers to prioritize their own interests over those of stakeholders (Ferrell et al., 2016). Specifically, employees' interests are often expropriated by management in poor-governed firms, eventually reflecting in unfair compensation, employee mistreatment, and workplace accidents (Caskey & Ozel, 2017; Liu et al., 2021; Shleifer & Vishny, 1997). Existing studies have documented that mitigating agency costs correlates with enhanced labor treatment. For example, Brockman et al. (2020) find that short-selling pressure, as an external governance mechanism, improves corporate investment in employee relations. Similarly, there is evidence showing that family firms with fewer agency concerns are more likely to adopt employee-friendly treatment policies than non-family firms (Kang & Kim, 2020). Bradley et al. (2022) further document that analysts lead managers to invest in employee safety by disciplining them from engaging in opportunistic agendas. Previous studies indicate that the principles of righteousness and faithfulness drive managers towards ethical behavior, reducing self-serving tendencies and fostering a commitment to stakeholder interests (e.g., Du, 2015; Kong et al., 2022; Yu et al., 2021; Yuan et al., 2023). As such, Confucianism could serve as an ethical compass for managerial conduct, steering decision-makers towards safeguarding employee interests, prioritizing moral imperatives over profit, fostering an environment of integrity in workplaces, and, consequently, promoting more socially responsible and employee-centric policies. We refer to this impact as the agency conflict channel.

In sum, from the aforementioned theoretical standpoints, we posit that Confucianism might enhance employee treatment through three underlying economic channels: the human-based channel, the managerial myopia channel, and the agency conflict channel. Therefore, we propose our hypothesis as follows:

> **H1a.** Confucianism is positively associated with employee-friendly policies.

3.3 | Potential adverse effects of Confucianism on employee treatment

In light of the pervasive influence of Confucian philosophy, our theoretical prediction is not without tension. We posit that specific facets of Confucianism, particularly the concepts of hierarchy and guanxi, might compromise labor well-being.

First, the hierarchical order of Confucianism potentially enables managerial exploitation of employee interests. The hierarchy, derived

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from the Confucian doctrine of Lǐ (courtesy), advocates a societal order that requires individuals to adhere to established roles and ranks, thereby preserving social harmony (Chan, 2008; Ip, 2009). This hierarchical model mandates individuals to respect and defer to superiors, fostering an environment of silent obedience to authority (Jacobs et al., 1995; Wang, 2020). Such philosophies are evident in Confucian texts, including sayings like "A gentleman has three fears: the fear of heaven's will, the fear of a highly respected sovereign, and the fear of sages words" (Analects 16:8); "There is government when the prince is prince, and the minister is minister; when the father is father, and the son is son." (Analects 12:11).

Translating this hierarchical value into the corporate milieu could engender an environment where any form of dissent is not only discouraged but also regarded as unethical (Jacobs et al., 1995; Wang, 2020), given its potential to disrupt organizational harmony. However, this hierarchy-centric workplace could exacerbate power asymmetry (Chan, 2008), catalyzing a disproportionate allocation of information and resources between management and employees. Thus, this dynamic frequently leads to senior management gaining excessive benefits, potentially at the expense of employee rights and welfare (Kim, 2014; Wang, 2020). Conditioned by a milieu that venerates hierarchy, employees may internalize managerial exploitation as an inevitable aspect of their organizational landscape (Chow et al., 1999; Xie et al., 2023). Consequently, employees tend to adopt a resigned attitude towards any violations of their rights, normalizing managerial overreach and further perpetuating a cycle of exploitation and acquiescence.

Additionally, the Confucian concept of guanxi may reduce organizational performance by undermining organizational fairness, thus constraining enhancements in employee welfare. Guanxi, a deeply rooted Chinese construct, denotes specific relational bonds between individuals. This paradigm extends beyond the boundaries of mere superficial social networks (Yeung & Tung, 1996), unfolding instead as a sophisticated system of social capital predicated on profound emotional bonds and societal commitments (Chen et al., 2013). In essence, guanxi signifies a distinct form of social capital characterized by reciprocal trust and implicit psychological contracts (Chen, Guo, et al., 2021; Chen, Xiao, & Zhao, 2021; Tsang, 1998), establishing an informal, symbiotic ethos of mutual benefit that profoundly shapes Chinese social interactions and decisions (Park & Luo, 2001). In the guanxi-shaped network, individuals leverage their social ties to garner support and resources (Chen et al., 2013), while concurrently marginalizing groups external to these specialized circles (Dunfee & Warren, 2001; Yeung & Tung, 1996).

In corporate settings, guanxi may engender an organizational culture of favoritism, wherein personal ties supersede merit-based rewards (Dunfee & Warren, 2001; Han & Altman, 2009). Such an environment potentially fosters systemic bias, marginalizing employees outside of guanxi networks and restricting their access to benefits, including equitable compensation and promotion opportunities. While not directly diminishing overall employee treatment, this guanxi-shaped imbalance could disrupt equitable resource distribution. If employees observe career advancement dictated more by guanxi than competence, it may corrode organizational morale and motivation (Breza et al., 2018; Dunfee & Warren, 2001). Given that the enduring prosperity of a firm largely depends on the collective efforts and contributions of its workforce, the Confucian notion of guanxi might undermine organizational output and performance, which in turn curtails the advancement of comprehensive labor treatment standards.

In conclusion, based on the aforementioned theoretical viewpoints, the notions of hierarchy and guanxi in Confucian culture have the potential to lower employee well-being. As such, we posit our competing hypothesis as follows:

> **H1b.** Confucianism is negatively associated with labor-friendly policies.

4 | RESEARCH DESIGN

4.1 | Data and sample

To empirically examine the effect of Confucianism on employee treatment, we construct an initial dataset encompassing all Chinese A-share listed companies from 2010 to 2020.[3] Specifically, we collect empirical data in the following ways. First, we obtain the data of corporate accounting information, firms' registered addresses, regional economics, and religious atmosphere from the China Securities Market and Accounting Research (CSMAR) database. Second, we acquire Confucian temple addresses, employed in constructing Confucianism variables, from the Chinese Research Data Services (CNRDS) Platform. Third, we collect the employee relations score from Hexun.com, a prominent Chinese CSR grading system, utilizing web crawler data collection technology.

Based on prior studies (e.g., Du, 2015; Wang, Dai, & Kong, 2021; Wang, Tang, et al., 2021; Wei, Hu, & Chen, 2020; Wei, Nan, & Wei, 2020; Yu et al., 2021), we exclude (1) financial industry firms; (2) firms in financial distress (with labels ST, *ST, and PT); and (3) firm-year observations with missing values for key or control variables. To mitigate the effect of extreme outliers, all continuous variables are winsorized at the 1% and 99% levels. After implementing these screening procedures, our final sample comprises 25,866 valid firm-year observations drawn from 3079 Chinese public firms.

4.2 | Variable construction

4.2.1 | Confucian culture

Following previous research (e.g., Chen et al., 2019; Du, 2016; Jin et al., 2023; Li et al., 2020; Yu et al., 2021), we employ the distribution density of Confucian temples surrounding firm headquarters as a

[3]The timeline begins in 2010 since the first Hexun's CSR rating report applied to quantify employee treatment was issued in that year.

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proxy to capture the impact of Confucianism on firms. Confucius temples are inherently connected to the development of Confucianism. Since the Tang Dynasty, Confucius temples have been extensively constructed, serving not only as sites for worshipping Confucius but also as platforms for disseminating and educating Confucian principles. Consequently, a higher concentration of Confucius temples in a location could imply a greater influence of Confucianism. Specifically, we leverage Confucius temple addresses and listed firms' registered addresses to calculate the distance from each listed firm to each Confucius temple. Subsequently, we construct geographic-proximity-based Confucianism variables, *Confu200*/*Confu300*, as the number of Confucius temples within a radius of 200/300 km around the locations of firms' registered addresses. To facilitate the interpretation of regression coefficients, we take the natural logarithm of one plus the Confucius temple density.

4.2.2 | Employee treatment

Building on prior studies (e.g., Dai et al., 2022; Li & Wang, 2022; Wang, Dai, & Kong, 2021; Wang, Tang, et al., 2021; Wei, Hu, & Chen, 2020; Wei, Nan, & Wei, 2020), we use the employee relations index published by Hexun.com to evaluate firms' engagement in employee treatment (*ET*). Hexun.com, a leading vertical financial portal website in China dedicated to providing comprehensive financial information, develops a professional CSR grading system. Hexun's rating system integrates several key factors related to employee treatment, including employee income, training opportunities, workplace safety, and employee care, to compile a comprehensive employee relations score. The *ET* ranges from 0 to 15 points, with a higher score reflecting more favorable treatment towards employees. We take the natural logarithm of one plus the *ET* to alleviate skewness and facilitate the interpretation of regression coefficients.

4.2.3 | Control variables

Following previous studies on the determinants of employee treatment and the economic outcomes of Confucianism (e.g., Brockman et al., 2020; Du, 2015; Kang & Kim, 2020; Li et al., 2020; Wang, Dai, & Kong, 2021; Wang, Tang, et al., 2021), we include a series of variables related to corporate finance and governance in our regression models to help isolate the impact of Confucian culture on employee treatment. Such variables are leverage ratio (*Lev*), board size (*Board*), firm size (*Size*), return on total assets (*Roa*), equity structure (*Top1*), independent director ratio (*Indep*), sales growth (*Growth*), cash flow (*Cash*), firm age (*Age*), employee size (*Employee*), and capital expenditures (*Capex*). We also control several regional factors, such as economic level (*Pgdp*), education level (*Edu*), and industrial structure (*Stru*). The detailed definitions of all variables are presented in Appendix A.

4.3 | Model specification

To examine the impact of Confucianism on employee treatment, we estimate the following baseline regression:

$$ET_{ijt} = \beta_0 + \beta_1 Confucian_{ij} + \Gamma X_{ijt} + \delta_j + \theta_t + \epsilon_{ijt}, \quad (1)$$

where, *i* denotes firms, *j* refers to industries, and *t* represents years. Our regressions are run at the firm-year level. The independent variable, *Confucian*, captures the extent to which a firm is influenced by Confucian culture, measured as *Confu200* and *Confu300*. The dependent variable, *ET*, shows a firm's investment in employee treatment, measured by the employee relations score issued by Hexun.com. *X* represents a vector of control variables that include both firm-specific and regional factors. Appendix A offers a more detailed description of these variables. We also include industry and year fixed effects to control for the time-invariant unobservable industry features and the time-specific changes in economic circumstances. Further, we estimate all regressions using robust standard errors clustered by firm.

5 | EMPIRICAL RESULTS

5.1 | Descriptive statistics

Table 1 presents the summary statistics of our main variables. The mean and median of *ET_raw* are 2.536 and 1.570, respectively, which are similar to those presented by Wei, Hu, and Chen (2020), Wei, Nan, and Wei (2020), Wang, Dai, and Kong (2021), and Wang, Tang, et al. (2021), suggesting that the distribution of *ET_raw* has obvious positive skew characteristics. Meanwhile, according to the mean values of *Confu200_raw* and *Confu300_raw*, there are approximately 17 and 31, respectively, Confucian temples within a 200 and 300 km radius of a firm's registered address, which is similar to Yu et al. (2021). Additionally, the distribution of control variables generally aligns with prior studies.

5.2 | Baseline results

Table 2 reports the results of our baseline regression. Specifically, the regression coefficients of *Confu200* and *Confu300* are both significantly positive at the 1% level, which indicates that firms surrounded by a stronger Confucianism atmosphere are more likely to implement employee-friendly strategies than those in areas with a weaker Confucian atmosphere, thus confirming our hypothesis. Moreover, the positive impact of Confucian culture on employee welfare is economically significant. A one standard deviation rise in *Confu200* (*Confu300*) corresponds to a 2.5% (2.0%) increase in *ET* relative to the sample mean.[4]

[4]The mean of *ET* in our sample is 1.040, and the standard deviation of *Confu200* (*Confu300*) is 0.659 (0.627). Therefore, a one standard deviation increase in *Confu200* and *Confu300* is associated with a rise of 2.5% (0.039 × 0.659/1.040) and 2.0% (0.034 × 0.627/1.040) in *ET*, respectively.

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TABLE 1 Summary statistics.

Variables	Obs	Mean	Std. dev.	P25	Median	P75
ET_raw (not logged)	25,866	2.536	2.885	0.800	1.570	3.000
ET	25,866	1.040	0.623	0.588	0.944	1.386
Confu200_raw (not logged)	25,866	17.379	9.127	12.000	16.000	23.000
Confu200	25,866	2.751	0.659	2.565	2.833	3.178
Confu300_raw (not logged)	25,866	30.851	14.861	24.000	30.000	37.000
Confu300	25,866	3.321	0.627	3.219	3.434	3.638
Lev	25,866	0.422	0.209	0.254	0.414	0.580
Board	25,866	2.130	0.198	1.946	2.197	2.197
Size	25,866	22.134	1.285	21.197	21.960	22.867
Roa	25,866	0.042	0.062	0.015	0.040	0.073
Top1	25,866	0.345	0.148	0.230	0.325	0.447
Indep	25,866	0.375	0.054	0.333	0.333	0.429
Growth	25,866	0.171	0.400	−0.021	0.109	0.268
Cash	25,866	0.044	0.070	0.006	0.044	0.085
Age	25,866	2.851	0.353	2.639	2.890	3.091
Employee	25,866	7.630	1.253	6.788	7.564	8.425
Capex	25,866	0.049	0.049	0.015	0.035	0.068
Pgdp	25,866	11.132	0.458	10.835	11.196	11.458
Edu	25,866	4.652	0.388	4.489	4.691	4.963
Stru	25,866	0.518	0.120	0.447	0.503	0.547

Note: This table reports the descriptive statistics of the variables used in baseline regression. Our sample contains 25,886 valid firm-year observations from 3079 Chinese public firms covering 2010–2020. To mitigate the concerns of outliers, all the continuous variables are winsorized at the 1% level in each tail. The detailed definitions of all variables are shown in Appendix A.

Combined, our findings demonstrate that Confucianism is an influential predictor of employee treatment policies.

5.3 | Endogeneity issues

The general limitation of research examining the impact of culture on economic consequences is the potential for endogeneity issues (i.e., omitted variables and measurement errors). The ideal experiment for identifying the causal effect of Confucianism on employee treatment policies should include taking two identical firms, randomly shocking one with additional Confucian culture, and then investigating further changes in employee treatment for both firms. However, given the persistent nature of culture, identifying a suitable exogenous shock is a daunting task. There might be some confounding factors, such as formal systems and religion, that affect employee treatment and correlate with Confucian culture, ultimately causing misleading estimation results. Besides, one may argue that culture is inherently unobservable, and measurement error problems can arise with the variables used in the study. To address potential endogeneity issues, we employ methods for controlling potential omitted variables, changing proxies of Confucianism, and instrumental variable regression. Although these tests cannot completely rule out the likelihood of endogeneity problems, they bolster the causal interpretation of our results.

5.3.1 | Controlling confounding factors

To alleviate concerns regarding omitted variables (e.g., formal institutions and religion), we take into account controlling some additional variables in our model. Considering the interference of formal systems, we follow Du (2016) and use the law enforcement score (*Law*) as a proxy for formal institutions.[5] Columns (1) and (2) of Table 3 list the results for controlling formal systems, and our findings still hold.

Additionally, religious culture can also influence firm labor investment decision-making through shaping people's cognition and preferences. Meanwhile, Chinese religions share parallels with Confucianism, so it is possible that the two are related. To isolate the confounding factors, we follow prior literature (e.g., Chen, Guo, et al., 2021; Chen, Xiao, & Zhao, 2021; Du, 2013; Liu & Chiang, 2022), controlling for the impact of Buddhism and Taoism, that is, the two influential Chinese religions. Specifically, *Religion200* (*Religion300*) is calculated by the natural logarithm of one plus the number of famous Buddhist and Taoist temples within the radius of 200 (300) km around a company's registered address. Columns (3) and (4) of Table 3 show that our findings remain intact. The above tests, taken together, help rule out some alternative explanations that confounding factors drive our main results.

[5]Given the law enforcement score is only updated to 2019, our regression observations are correspondingly diminished.

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TABLE 2 The effect of Confucianism on employee treatment.

	(1)	(2)
	ET	*ET*
Confu200	0.039***	
	(0.011)	
Confu300		0.034***
		(0.012)
Lev	−0.009	−0.008
	(0.045)	(0.045)
Board	0.112**	0.110**
	(0.048)	(0.048)
Size	0.223***	0.223***
	(0.010)	(0.010)
Roa	0.674***	0.678***
	(0.100)	(0.100)
Top1	−0.058	−0.056
	(0.052)	(0.052)
Indep	0.405***	0.398**
	(0.155)	(0.155)
Growth	0.029***	0.029***
	(0.010)	(0.010)
Cash	0.542***	0.541***
	(0.076)	(0.076)
Age	0.059**	0.060**
	(0.026)	(0.026)
Employee	−0.100***	−0.101***
	(0.010)	(0.010)
Capex	−0.647***	−0.646***
	(0.124)	(0.124)
Pgdp	0.085***	0.096***
	(0.030)	(0.030)
Edu	0.001	−0.005
	(0.023)	(0.023)
Stru	−0.123	−0.143
	(0.117)	(0.117)
Constant	−4.680***	−4.763***
	(0.364)	(0.363)
Industry FE	Yes	Yes
Year FE	Yes	Yes
Observations	25,866	25,866
Adj. R^2	0.193	0.192

Note: This table presents the baseline regression results for the impact of Confucian culture on employee treatment policies. Dependent variable *ET* denotes the natural logarithm of one plus the company's employee relations score. Independent variable *Confu200*/*Confu300* is the natural logarithm of one plus the number of Confucian temples within a radius of 200/300 km around the location of a company's registered address. All variables are defined in Appendix A. Standard errors reported in parentheses are clustered at the firm level. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

TABLE 3 Controlling omitted variables.

	(1)	(2)	(3)	(4)
	ET	*ET*	*ET*	*ET*
Confu200	0.042***		0.052***	
	(0.012)		(0.014)	
Confu300		0.037***		0.048***
		(0.013)		(0.014)
Law	−0.002	−0.001	−0.001	0.001
	(0.003)	(0.003)	(0.003)	(0.003)
Religion200			−0.002	
			(0.001)	
Religion300				−0.001*
				(0.001)
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes
Observations	23,171	23,171	23,171	23,171
Adj. R^2	0.193	0.192	0.193	0.193

Note: This table displays the results of considering omitted variable endogeneity. All variables are defined in Appendix A. Standard errors reported in parentheses are clustered at the firm level. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively. For brevity, the results of control variables in this and all subsequent tables are omitted.

5.3.2 | Alternative measures of Confucianism

To ease concerns regarding measurement errors, we employ a range of alternative proxies for Confucianism. First, we replace the measurement radius, that is, the count of Confucius temples within a 100 km radius surrounding a firm's registered address. Column (1) of Table 4 shows that our results remain consistent.

Second, we explore executives' Confucian tendencies as another avenue. Following previous studies (Chen et al., 2019; Li et al., 2020), we use the number of Confucian temples in the firm chairman's birthplace as an additional proxy (*ConfuChair*). Our rationale for focusing on the chairman stems from the significant authority wielded by this role in China's publicly listed companies, crucially impacting strategic decision-making processes reflective of underlying cultural and ethical orientations. Our findings, detailed in Column (2) of Table 4, demonstrate sustained consistency in results.

Further, following Li et al. (2020) and Liu and Chiang (2022), we replace Confucian temples with Confucian schools as a measure of Confucianism. Specifically, *School200* (*School300*) is counted by the number of Confucius schools within a radius of 200 (300) km around the locations of listed companies' registered addresses and raised to the natural log. Columns (3) and (4) of Table 4 present the results, and our prior findings do not change qualitatively.

Next, we draw on the methodology of Yan et al. (2021) and utilize the natural logarithm of one plus the number of Confucian schools in the province where a public company's registered address is located

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TABLE 4 Changing proxies for Confucian culture.

	(1)	(2)	(3)	(4)	(5)	(6)
	ET	*ET*	*ET*	*ET*	*ET*	*ET*
Confu100	0.040***					
	(0.012)					
ConfuChair		0.032**				
		(0.016)				
School200			0.024***			
			(0.008)			
School300				0.027***		
				(0.010)		
School_prov					0.041***	
					(0.010)	
ConJS						0.030***
						(0.008)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Observations	25,866	16,441	25,866	25,866	25,866	25,866
Adj. R^2	0.193	0.216	0.193	0.193	0.194	0.193

Note: This table displays the results of considering measurement error endogeneity. All variables are defined in Appendix A. Standard errors reported in parentheses are clustered at the firm level. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

to measure Confucianism (*School_prov*). In Column (5) of Table 4, we find our previous findings are unaffected.

Additionally, similar to Chen, Kung, and Ma (2020) and Chen, Ye, et al. (2020), we construct a variable, *ConJS*, measured by the natural logarithm of the number of one plus the Jinshi during the Ming and Qing dynasties in the province where a listed company's registered address is located, to quantify the influence of Confucianism. Column (6) of Table 4 shows that our results remain robust to alternative measures of Confucianism. Overall, these tests provide evidence to mitigate concerns regarding measurement errors and support the validity of our findings.

5.3.3 | IV regression

To draw convincing causal conclusions, we apply the 2SLS regressions using instrumental variables to address endogeneity issues. Following prior studies (e.g., Kong et al., 2022; Tang et al., 2021; Zhai & Tang, 2023), we construct our instrument, *Print_distance*, as the closest distance between a company's registered address and the 19 designated official printing centers during the Ming and Qing dynasties. This instrument is chosen because, during the Ming and Qing dynasties, Confucian classics (the Four Books and Five Classics) were extensively printed and disseminated. The spread of Confucianism depended heavily on the availability of these texts, and printing technologies were the primary means of producing and disseminating them. As such, the distance to printing offices, which reflects the ease of acquiring Confucian classics, is expected to be correlated with the prevalence of Confucianism, satisfying the correlation requirements for a valid instrument. Moreover, traditional Chinese printing relied on local natural resources such as bamboo and pine for ink and paper production, and major printing offices were often located close to pine and bamboo production areas to save transportation costs (Chen, Kung, & Ma, 2020; Chen, Ye, et al., 2020). Hence, the distribution of printing offices is relatively exogenous since it is determined by geographic factors and natural conditions. In this regard, *Print_distance* is unlikely to affect employee treatment directly or through channels other than Confucianism and, consequently, satisfies exclusion restrictions to a certain extent.

Table 5 presents the results of 2SLS regressions with the instrument. Columns (1) and (3) list the first stage estimates and show that *Print_distance* is negatively associated with *Confu200* and *Confu300*, thereby corroborating our expectation that the printing offices are related to the spread of Confucianism. Columns (2) and (4) show that the coefficients of *Confu200* and *Confu300* remain significantly positive, thus giving us enhanced confidence that our findings are unlikely to be driven by endogeneity issues.

5.4 | Robustness checks

After discussing the endogeneity concerns, we further perform a set of sensitivity tests to examine the robustness of our findings,

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TABLE 5 Two-stage instrumental variable regressions.

	(1)	(2)	(3)	(4)
	Confu200	*Confu300*	*ET*	*ET*
Confu200			0.050**	
			(0.024)	
Confu300				0.046**
				(0.022)
Printer	−0.152***	−0.163***		
	(0.005)	(0.005)		
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes
Observations	25,866	25,866	25,866	25,866
Adj. R^2	0.322	0.406	0.117	0.116
Kleibergen-Paap rk Wald *F* statistic	1044.354	1058.237		
Stock-Yogo weak id test critical value at 10%	16.38	16.38		
Chi value			1932.606	1934.367

Note: This table presents the results of instrumental variable estimation (2SLS). All variables are defined in Appendix A. Standard errors reported in parentheses are clustered at the firm level. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

including changing measures for employee treatment, altering different cluster structures, and employing quantile regressions.

5.4.1 | Alternative proxy for employee treatment

Fortune's list of the best 100 employers has been widely utilized as an alternative proxy for fair employee treatment in extant research (e.g., Bae et al., 2011; Edmans, 2011; Guo et al., 2016; Kang & Kim, 2020). Drawing on this idea, we follow Xu et al. (2020) and manually collect the "Top 100 Employers of the Year in China" list from the China-Zhaopin website as an alternative measurement for employee-friendly treatment.[6] Then, we create a dummy variable, *Top100*, which equals 1 if a firm appears on the Best 100 Employers list for that year, indicating a labor-friendly firm, and 0 otherwise. Given that *Top100* is a dummy variable, we build Probit models to re-estimate our basic results. As presented in Columns (1) and (2) of Table 6, these results reinforce our earlier findings.

5.4.2 | Changing the cluster structure

Given that the presence of residual correlation may be in both firm and year dimensions, we perform a two-way clustering of standard errors at both firm and year levels to tackle this issue. Columns (3) and (4) of Table 6 present that our prior results are robust to two-way clustering.

[6]The China-Zhaoping website has been publishing an annual list of top employers since 2011. Detailed descriptions of this brand can be seen from https://best.zhaopin.com/#/ (in Chinese).

5.4.3 | Quantile model

We mainly use ordinary least squares (OLS) for estimation, but OLS is susceptible to outliers, which might lead to estimation bias. To mitigate the effect of outliers, we further construct a quantile model and choose the median as the quantile to re-estimate our baseline results. Columns (5) and (6) of Table 6 indicate that our results are not driven by a specific model.

6 | FURTHER ANALYSIS

6.1 | Economic channel analysis

Hitherto, we have provided compelling evidence that Confucianism can lead managers to undertake employee-friendly programs. In this section, we further delineate the potential economic channels behind the findings by performing three cross-sectional tests. These economic channels are built upon the hypothesis section, namely, the human-centric channel, the managerial myopia channel, and the agency conflict channel.

6.1.1 | Human-centric channel

We first examine the impact of the human-centric channel on the relationship between Confucianism and employee treatment. To the extent that Confucianism enhances labor treatment by guiding firms to place a strong emphasis on benevolence and human value, we predict that the effect of Confucianism on employee-friendly

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TABLE 6 Robustness tests.

	(1)	(2)	(3)	(4)	(5)	(6)
	Top100	*Top100*	*ET*	*ET*	*ET*	*ET*
Confu200	0.153**		0.039**		0.035***	
	(0.066)		(0.014)		(0.008)	
Confu300		0.249***		0.034**		0.032***
		(0.084)		(0.015)		(0.009)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Observations	24,323	24,323	25,866	25,866	25,866	25,866
Adj./Pseudo R^2	0.217	0.220	0.193	0.192	–	-

Note: This table shows the results of robustness tests of our baseline findings. Specifically, Columns (1) and (2) report the results for an alternative proxy of employee treatment. Columns (3) and (4) exhibit the results of altering the cluster structure. Columns (5) and (6) display the results of performing the median regression approach to re-estimate our baseline findings. All variables are defined in Appendix A. Standard errors reported in parentheses are clustered at the firm level, except for Columns (5) and (6), which employ bootstrap standard errors. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

TABLE 7 Testing the human-centered channel.

	(1)	(2)	(3)	(4)
	High *Labor_Int*	Low *Labor_Int*	High *Labor_Int*	Low *Labor_Int*
	ET	*ET*	*ET*	*ET*
Confu200	0.061***	0.019		
	(0.016)	(0.014)		
Confu300			0.058***	0.016
			(0.017)	(0.015)
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes
Observations	12,935	12,931	12,935	12,931
Adj. R^2	0.187	0.182	0.186	0.182
p-value for Coeff. Diff.	<0.001***		<0.001***	

Note: This table displays the results for the human-centered channel test. All variables are defined in Appendix A. Standard errors reported in parentheses are clustered at the firm level. Observations are partitioned into High and Low subsamples based on the median of *Labor_Int*. *p*-value calculated from Fisher's permutation tests encompassing 1000 simulations. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

programs should be more evident for firms with higher labor intensity. This is because substantial workforces and greater reliance on human resources in value creation amplify the potential and scope for integrating Confucian values to improve employee treatment.

To test this conjecture, we follow Dewenter and Malatesta (2001) and measure labor intensity using the number of employees divided by total assets (*Labor_Int*). We divide the sample into subsamples based on the median of *Labor_Int* and re-estimate our baseline regression model (Equation 1) separately for each subsample. Table 7 presents the results of the human-based channel test. In Column (1), the coefficient of *Confu200* is significantly positive at the 1% level for the "High *Labor_Int*" subsample. Conversely, the coefficient of *Confu200* is statistically insignificant at the conventional level for the "Low *Labor_Int*" subsample in Column (2). Moreover, the difference in the coefficients is statistically significant across two subsamples. Meanwhile, the subsamples in Columns (3) and (4) yield similar results. Consequently, this evidence is consistent with the view that caring for and valuing human capital is one potential channel through which Confucianism promotes employee well-being.

6.1.2 | Managerial myopia channel

We then investigate the effect of the managerial myopia channel on the link between Confucianism and employee treatment. To the extent that Confucianism leads firms to implement employee-friendly

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TABLE 8 Testing the managerial myopia channel.

	(1)	(2)	(3)	(4)
	High *Myopia*	Low *Myopia*	High *Myopia*	Low *Myopia*
	ET	*ET*	*ET*	*ET*
Confu200	0.050***	0.023*		
	(0.014)	(0.013)		
Confu300			0.046***	0.019
			(0.015)	(0.014)
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes
Observations	12,933	12,933	12,933	12,933
Adj. R^2	0.204	0.184	0.203	0.184
p-value for Coeff. Diff.	0.012**		0.010**	

Note: This table presents the results for the managerial myopia channel test. All variables are defined in Appendix A. Standard errors reported in parentheses are clustered at the firm level. Observations are classified into High and Low partitions according to the median of *Myopia*. *p*-value calculated from Fisher's permutation tests encompassing 1000 simulations. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

policies by alleviating managerial myopia, it is reasonable to expect that the positive relation between Confucianism and employee treatment should be amplified among firms with higher managerial myopia.

To verify this inference, we adopt the textual analysis method used in recent research to capture the level of managerial myopia (e.g., Hu et al., 2021; Sheng et al., 2022). Specifically speaking, the content of corporate information disclosure reflects management's short-termism to some extent (Brochet et al., 2015). If management discloses an excessive number of short-term-oriented words, it may signal myopic behavior (Pennebaker et al., 2003; Sheng et al., 2022). In line with this logic, we first collect firms' annual reports from the CNINFO website using web crawler data collection technology.[7] Next, we segment the management discussion and analysis (MD&A) content into words using Jieba, that is, a Chinese word segmentation module in Python. Based on the Chinese vocabulary constructed by Hu et al. (2021), we subsequently divide the frequency of short-term oriented words by the overall word frequency of the MD&A text for each firm each year, ultimately obtaining a proxy for managerial myopia (*Myopia*).[8]

The sample is partitioned considering the median value of *Myopia*, and Equation (1) is re-estimated for each partition. Table 8 exhibits the results for the managerial myopia channel test and shows the coefficients of *Confu200* and *Confu300* in the partition for "High *Myopia*" are significantly larger than those in the partition for "Low *Myopia*." More importantly, the differences in the coefficients are statistically significant. Hence, reducing managerial myopia appears to be the potential economic channel through which Confucian culture enhances employee welfare.

6.1.3 | Agency conflict channel

We lastly explore the influence of the agency conflict channel on the relation between Confucianism and employee treatment. To the extent that Confucianism guides firms to undertake labor-friendly strategies by mitigating agency issues, we infer that the positive effect of Confucian culture on employee treatment is more prominent for firms with higher agency costs.

To confirm our inference, we follow previous studies (e.g., Gul et al., 2011; Zhang et al., 2015) and build a variable, *Perk*, measured by the ratio of the amount of eight expense categories related to perk consumption to total sales, to capture the extent of firm agency costs.[9] The full sample is separated into two groups, taking into account the median value of *Perk*, and we then re-estimate Equation (1) for each group. Table 9 shows the results of the agency conflict channel test. Specifically, the coefficients of *Confu200* and *Confu300* in the "High *Perk*" group are significantly larger than those in the group for "Low *Perk*." The differences between the two coefficients are also statistically significant. Therefore, the subsample regression results corroborate the view that Confucianism leads firms to undertake employee-friendly initiatives by alleviating agency conflicts.

[7]CNINFO is the China Securities Regulatory Commission's official website for information disclosure, where listed companies publish financial reports, announcements, and so forth. Detailed descriptions of this website can be seen at http://www.cninfo.com.cn (in Chinese).

[8]To capture the level of managerial myopia, we leverage the "short-term-oriented words" word set developed by Brochet et al. (2015) in English and extend it to Chinese MD&A through the work of Hu et al. (2021). Specifically, Hu et al. (2021) utilize Word2Vec machine learning technology to expand similar words and construct a seed word set comprising 43 short-term-oriented words. A comprehensive account of this word set is available at http://www.mwm.net.cn/web/xq?leafid=948&docid=4044 (in Chinese).

[9]The following eight expenditure categories are included: board meeting costs, administrative expenses, travel expenditures, meeting expenses, communication expenditures, foreign training expenses, corporate automobile costs, and business entertainment charges.

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TABLE 9 Testing the agency conflict channel.

	(1)	(2)	(3)	(4)
	High *Perk*	Low *Perk*	High *Perk*	Low *Perk*
	ET	*ET*	*ET*	*ET*
Confu200	0.053***	0.026*		
	(0.015)	(0.015)		
Confu300			0.042***	0.026
			(0.016)	(0.017)
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes
Observations	12,934	12,932	12,934	12,932
Adj. R^2	0.148	0.235	0.147	0.235
p-value for Coeff. Diff.	0.012**		0.084*	

Note: This table exhibits the results for the agency conflict channel test. All variables are defined in Appendix A. Standard errors reported in parentheses are clustered at the firm level. Observations are divided into High and Low groups based on the median of *Perk*. *p*-value calculated from Fisher's permutation tests encompassing 1000 simulations. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

TABLE 10 Cross-sectional tests.

	(1)	(2)	(3)	(4)
	ET	*ET*	*ET*	*ET*
Confu200 × *Union*	−0.339**			
	(0.139)			
Confu300 × *Union*		−0.348**		
		(0.158)		
Confu200 × *Oversea*			−0.066**	
			(0.031)	
Confu300 × *Oversea*				−0.066*
				(0.039)
Confu200	0.170***		0.044***	
	(0.052)		(0.012)	
Confu300		0.161***		0.039***
		(0.057)		(0.013)
Union	0.792*	1.018*		
	(0.413)	(0.549)		
Oversea			0.262***	0.300**
			(0.090)	(0.132)
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes
Observations	25,866	25,866	25,866	25,866
Adj. R^2	0.194	0.193	0.195	0.194

Note: This table shows the results of two additional tests. Specifically, Columns (1) and (2) list the results for the moderating effect of union power. Columns (3) and (4) report the results for the moderating effect of executives' oversea experience. All variables are defined in Appendix A. Standard errors reported in parentheses are clustered at the firm level. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

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6.2 | Additional analysis

In this section, we further perform two additional tests to strengthen our baseline findings and unpack the boundary conditions of Confucianism on employee treatment.

6.2.1 | Union power

We discuss the moderating effect of union power on the impact of Confucianism on employee treatment. Unions, as a formal institution, play a pivotal role in shaping labor well-being. Drawing on institutional economic theory regarding the role of informal institutions, which can serve as substitute mechanisms when formal institutions are underdeveloped or limited (North, 1989; Williamson, 2000), we predict the impact of Confucian culture on employee-friendly initiatives to be more concentrated for firms in areas with weaker union power.

We follow Fang and Ge (2012) and use the ratio of union members to the total employees in a given province (*Union*) to reflect union power. We interact *Union* with our Confucian variables and repeat Equation (1). As evident in Columns (1) and (2) of Table 10, the regression coefficients of *Confu200* × *Union* and *Confu300* × *Union* are both negative and significant, which shows that our baseline results are more evident for firms in regions with weaker union power, hence validating our hypothesis. In this regard, Confucian culture, as an informal institution, becomes weakened when the formal system is developed, exhibiting an obvious substitution effect, which is consistent with the extant literature (e.g., Du, 2015; Liu & Chiang, 2022; Yu et al., 2021).

6.2.2 | Overseas experience of executives

We investigate whether differences in executives' overseas experience moderate the effect of Confucianism on employee treatment. Upper echelon theory posits that executives' cultural experience shapes their beliefs, values, and cognitive styles (Hambrick & Mason, 1984). As globalization accelerates cross-cultural interactions, executives may undergo changes in their values and preferences. Specifically, executives who return home after living abroad may experience dissonance with their native culture after adopting different ideologies and values (Chen, Guo, et al., 2021; Chen, Xiao, & Zhao, 2021; Schuetz, 1945). The underlying intuition is that executives with foreign experience may weaken their Confucian imprint, thereby reducing the impact of Confucianism on corporate decisions. Supporting this argument, Chen, Guo, et al. (2021) and Chen, Xiao, and Zhao (2021) show that firm founders' overseas experience can undermine the influence of Confucianism in choosing their successors. Similarly, Chen et al. (2019) find that the role of Confucianism on investment efficiency is mitigated for firms that are more affected by foreign cultures. In this sense, we speculate that the positive relationship between Confucian culture and employee-friendly treatment should be attenuated when the firm's executives have foreign experience.

Following Chen, Guo, et al. (2021) and Chen, Xiao, and Zhao (2021), we build a dummy variable, *Oversea*, that equals 1 if a company's chairman or CEO has overseas work/study experience and 0 otherwise. We interact *Oversea* with our Confucian variables and run Equation (1). Columns (3) and (4) of Table 10 present our results. The effect of Confucianism on employee treatment is more prominent for firms where executives lack overseas experience, as the regression coefficients of *Confu200* × *Oversea* and *Confu300* × *Oversea* are both significantly negative, thus affirming our reasoning.

6.3 | Employee-friendly treatment and firm performance

Previously, we have demonstrated that Confucianism can promote firms to invest in employee relations, as signified by employee treatment. This result leads us to the natural question: What do firms gain from increasing investment in employee well-being? Therefore, we finally attempt to figure out how and to what extent employee-friendly treatment policies affect corporate performance. Building upon prior research (e.g., Amin et al., 2021; Cohn & Wardlaw, 2016; Rind et al., 2022), we do so by regressing corporate financial performance on its employee treatment. Our specified model is as follows:

$$Performance_{ijt} = \beta_0 + \beta_1 ET_{ijt} + \Gamma X_{ijt} + \delta_j + \theta_t + \epsilon_{ijt}, \quad (2)$$

where, *Performance* denotes variables reflecting corporate performance, and the other model parameters are in line with Equation (1). Specifically, we incorporate three distinct variables to capture corporate performance: employee efficiency (*Efficiency*), measured as the natural logarithm of total sales per employee (e.g., Firth et al., 2013; Wei, Hu, & Chen, 2020; Wei, Nan, & Wei, 2020); innovation performance (*Patent*), measured by the natural logarithm of one plus the number of invention patents, utility model patents, and design patents (e.g., Wang, Dai, & Kong, 2021; Wang, Tang, et al., 2021; Wei, Hu, & Chen, 2020; Wei, Nan, & Wei, 2020); and firm value (*TobinQ*), calculated as Tobin's *Q*.

Table 11 presents the results of our investigation into the effect of employee treatment on firm performance. We document that *ET* is positively associated with corporate performance, regardless of its proxy as *Efficiency*, *Patent*, or *TobinQ*. From this perspective, employee-friendly firms tend to exhibit better financial performance, implying that firms' investments in employee well-being ultimately translate into better financial performance. This view is generally consistent with previous research on employee treatment, stressing the significance of human capital on modern firms' long-term development (e.g., Edmans, 2011; Faleye & Trahan, 2010; Zingales, 2000). Although we do not explore a direct effect of Confucian culture on firm value, our findings illustrate a critical value implication of Confucianism, as evidenced by its favorable impact on human capital investment.

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TABLE 11 The effect of employee-friendly treatment on firm performance.

	(1)	(2)	(3)
	Efficiency	*Patent*	*TobinQ*
ET	0.057***	0.070***	0.198***
	(0.012)	(0.027)	(0.021)
Industry FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Controls	Yes	Yes	Yes
Observations	25,866	25,866	25,866
Adj. R^2	0.681	0.470	0.321

Note: This table exhibits the results for the effect of employee treatment on corporate financial performance. All variables are defined in Appendix A. Standard errors reported in parentheses are clustered at the firm level. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

7 | DISCUSSION

7.1 | Core findings

In contemporary business, the implementation of various labor-friendly initiatives to cultivate positive relationships with employees has emerged as a key consideration for firms seeking to maintain sustainable competitiveness. This study aims to shed light on the effect of informal institutions on corporate labor decision-making. Specifically, we examine the link between Confucianism, an influential cultural symbol and ethical philosophy in East Asia, and employee treatment policies. Using detailed data from Chinese public firms spanning 2010 to 2020, we provide compelling evidence that Confucian culture could guide firms to undertake employee-friendly initiatives. We further show support for three potential economic channels underlying the positive effect of Confucianism on employee-friendly treatment: the human-based channel, the managerial myopia channel, and the agency conflict channel. Moreover, our cross-sectional analysis reveals that the documented impact is attenuated among firms located in well-developed union environments and among those with executives possessing overseas experience. Finally, we document that employee-friendly firms exhibit greater corporate financial performance, that is, employee efficiency, innovation output, and firm value. Overall, our findings uncover the unique role of Confucianism as a non-economic factor in shaping corporate employee treatment strategies and emphasize the need for a broader understanding of the interplay between informal institutions, labor investment, and firm performance.

7.2 | Theoretical contributions

Our study bridges two distinct strands of literature, namely employee treatment and Confucianism, thus making potential contributions to existing research. First, we contribute to the nascent but growing literature on the determinants of employee treatment. To the best of our knowledge, this is the first research to provide large-sample evidence on the real effect of Confucianism—a unique cultural force and ethical philosophy in East Asia—on employee treatment policies. This inquiry is salient and relevant, paralleling the burgeoning interest in the "labor and finance" nexus. While extensive research has investigated the economic consequences of labor treatment policies (e.g., Bae et al., 2011; Edmans, 2011; Faleye & Trahan, 2010; Francis et al., 2019; Guo et al., 2016; Qian et al., 2021), insights into the drivers of these strategies remain comparatively underexplored (Wang, Dai, & Kong, 2021; Wang, Tang, et al., 2021).

A new wave of research has investigated various determinants of employee treatment, including family business characteristics (Kang & Kim, 2020), social media (Dube & Zhu, 2021), financial misconduct (Raghunandan, 2021), air pollution (Wang, Dai, & Kong, 2021; Wang, Tang, et al., 2021), peer effects (Rind et al., 2022), corporate tax avoidance (Schochet et al., 2022), and managerial ideologies (Liu & Luo, 2022). However, less attention has been paid to informal institutions, particularly traditional culture and social norms, with respect to labor treatment strategies. To fully understand the dynamics of employee treatment, it is imperative to consider the influence of informal institutions. These elements often underpin the core values and operational ethos within organizations, significantly impacting economic decisions and strategy formulation. We thus take a significant step forward by illuminating the unique role of informal institutions, proxied by Confucianism, within the landscape of human capital investment decisions and employee relations management. We expect that our findings will resonate with other East Asian nations, such as Japan, Korea, and Singapore, where Confucianism is widely prevalent (Chen, Guo, et al., 2021; Chen, Xiao, & Zhao, 2021; Yan & Sorenson, 2006). In a broad sense, we further enrich the literature on "culture and finance" by providing empirical evidence from an Eastern context, thereby advancing to a more nuanced and comprehensive understanding of the cultural dimensions of corporate behavior.

Second, we add to the burgeoning stream of literature discussing the economic consequences of Confucianism. Despite ample evidence showing how Confucian culture promotes shareholders' interests (e.g., Du, 2015; Jebran et al., 2019; Liu & Chiang, 2022; Tang et al., 2021; Yang et al., 2022), this literature is largely silent on Confucianism in employee relations—a critical stakeholder group. Recognizing employees as the linchpin in organizational success and growth, their treatment is fundamental to operational effectiveness, innovation, and overall corporate performance. Moreover, considering the emphasis of Confucianism on virtues like benevolence and justice, it is plausible to expect that these principles exert an influence regarding employee management. We therefore seek to shed light on whether and how Confucianism shapes labor well-being.

Recent studies have touched upon the influence of Confucian culture on employee-related outcomes, but our research diverges in focal point and depth from these explorations. Kong et al. (2022) find that the imperial examination system—a manifestation of Confucian culture—enhances overall CSR levels. Given that CSR is a complex,

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multidimensional concept, firms may engage in different dimensions of CSR with varying motivations. Specifically, some companies may emphasize superficial, externally perceivable CSR activities, such as community relations or donations, at the expense of internal CSR initiatives concerning employee treatment (Liu & Luo, 2022). As such, inferring the relationship between Confucianism and CSR to its specific impact on employee treatment is not straightforward, as the underlying mechanisms could differ. Additionally, Xie et al. (2023) and Xu and Duan (2023) offer valuable insights, indicating that Confucian principles narrow pay gaps and improve employee share ownership. Although these findings are enlightening, they only scratch the surface of Confucianism's potential cultivating fair labor practices. Considering employee treatment as a comprehensive concept that involves compensation, workplace safety, and career advancement opportunities, their conclusions may not directly extend to the broader spectrum of labor treatment.

Third, our research integrates traditional culture into the evolving human capital theory of corporate governance. Rajan and Zingales (1998) and Zingales (2000) develop the human capital theory of corporate governance, advocating that the focus of corporate governance in the new millennium should shift from agency conflicts between management and shareholders to exploring labor treatment more generally. This perspective gains increasing relevance in the contemporary corporate milieu, where human capital is recognized as an essential asset driving organizational success. Our research offers an innovative lens by delving into the interaction between traditional values and modern labor practices. Thus, our research not only responds to the call for a theoretical shift towards a more inclusive understanding of labor treatment, but also pioneers in integrating cultural factors into this discourse. By adding cultural insights, our research provides a more nuanced and comprehensive framework for the human capital theory of corporate governance, uncovering the importance of considering both cultural and economic aspects in crafting effective governance strategies.

7.3 | Practical implications

By combining traditional culture with modern corporate governance, our research delineates a pathway for guiding corporate practices towards broader societal advantages and sustainable business landscapes. On the rising wave of ESG, employee treatment transcends the periphery and assumes a central role in determining a firm's ethical and sustainable growth. According to Just Capital's 2022 survey, 44% of respondents rank employee treatment issues as paramount in ESG frameworks. Confucianism, embodying values such as benevolence and integrity, offers profound ethical underpinnings conducive to fostering supportive and equitable organizational environments. Our study elucidates how Confucianism steers organizations towards the implementation of employee-friendly policies.

We thus advocate for integrating Confucian ethical standards into human resource management, moving away from purely transactional relationships towards more human-centric models. This shift represents a strategic imperative aimed at elevating a firm's ESG performance, resonating with societal expectations and ethical business paradigms. Implementing policies reflective of Confucian values enables firms to not only meet ethical standards but also foster a culture of loyalty and commitment among employees. Such organizational transformation can lead to beneficial outcomes such as increased employee engagement, improved productivity, and the ability to attract elite talent. These benefits provide a competitive advantage in the business arena and hence contribute significantly to a company's overall sustainability.

To facilitate the integration of Confucian culture into modern business practices, we propose several strategies. First, business schools and corporate training programs should focus on imparting a profound understanding of Confucian philosophy to aspiring business leaders. This objective can be attained by embedding Confucian principles into business education. Effective methods include introducing specialized courses on Confucian business ethics, analyzing case studies of firms that effectively apply these values, and providing research opportunities to assess Confucianism's influence on business practices. Second, regulatory measures are crucial to promoting Confucian values in business. This approach should encompass developing guidelines that encourage ethical business conduct, fostering cultural initiatives that emphasize Confucian values, and establishing frameworks for incorporating these principles into corporate governance. Finally, government support for cultural initiatives is essential. This support could extend to community projects, cultural sponsorships, and preserving Confucian heritage sites, thereby strengthening the societal assimilation and reinforcement of Confucian principles. Such initiatives not only preserve cultural heritage but also bridge the gap between traditional philosophy and contemporary business ethics.

7.4 | Limitations and future avenues

Our research has some limitations that warrant attention. First, our reliance on geographic-proximity-based Confucian variables may introduce potential biases. This approach generalizes firms' philosophical adherence based on location, potentially overlooking individual executives' philosophical beliefs. Future research could enrich understanding by alleviating the homogenizing effect of geographic assessments of Confucian influence, perhaps by integrating data directly reflecting individual executives' cultural and philosophical leanings. Another limitation pertains to the challenge of distinctively segregating the proposed economic channels, namely human-centric, managerial myopia, and agency conflict. We attempt to differentiate these channels based on employees' intrinsic value, decision-making time orientation, and ethical managerial behavior, but encounter the complex interplay and overlap inherent among these channels. The rich, multifaceted nature of Confucian teachings blurs the distinctions between these channels, making it challenging to isolate their unique influences on employee treatment. Future research could benefit from employing more granular data or analytical frameworks that can more accurately capture the subtle interplays and distinctions among these

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channels, thereby offering more detailed insights on how Confucian principles weave into the fabric of corporate employee management.

Our study lays the groundwork for further exploration in two primary areas. First, moving beyond Confucianism, it would be insightful for future studies to assess how different informal institutions, such as Western religious and ethical systems, affect corporate labor investments. Such comparative analyses across different cultural contexts could help identify whether similar patterns of influence occur globally, advancing our understanding of the ethical-cultural impacts on corporate labor decisions. Second, future research could extend this work by dissecting the influence of informal institutions on specific dimensions of CSR. For example, researchers could delve into how Confucianism impacts a firm's stance on consumer protection, community engagement, and environmental responsibility. Such an exploration would not only contribute to a more nuanced understanding of the role of cultural ethics in corporate decisions but also reveal the "black box" of factors that drive businesses' commitment to social responsibilities.

ORCID

Maochuan Wang https://orcid.org/0000-0002-1480-9578

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APPENDIX A: VARIABLE DEFINITIONS

Notation	Description
Confucianism measures	
Confu200/300	The natural logarithm of 1 plus the number of Confucian temples within a radius of 200/300 km around a firm's registered address.
Scholl200/300	The natural logarithm of 1 plus the number of Confucian schools within a radius of 200/300 km around a firm's registered address.
School_prov	The natural logarithm of 1 plus the number of Confucian schools in the province where a listed firm's registered address is located.
ConJS	The natural logarithm of the number of 1 plus the Jinshi during the Ming and Qing dynasties in the province where a listed firm's registered address is located.
Employee treatment measures	
ET	The natural logarithm of 1 plus the employee relations score.
Top100	A dummy variable equals 1 if a firm makes the Top 100 Best Employers list that fiscal year, and 0 otherwise.
Control variables	
Lev	The ratio of total liabilities to total assets.
Board	The natural logarithm of the number of board members.
Size	The natural logarithm of total assets.
Roa	The ratio of net income to total assets.
Top1	The ratio of the number of shares held by the largest shareholders to the total number of shares.
Indep	The ratio of independent directors to board.
Growth	Annual revenue growth rate of a firm.
Cash	The ratio of net cash flow from operating activities to total assets.
Age	The natural logarithm of 1 plus established years of list firms.
Employee	The natural logarithm of the number of employees.
Capex	The ratio of capital expenditure to total assets.
Pgdp	The natural logarithm of provincial per capita GDP
Edu	The natural logarithm of the number of higher education institutions by province.
Stru	The ratio of tertiary GDP to total GDP by province.
Additional variables	
Law	The law enforcement score, released by the China Market Index Database.
Religion200/300	The number of famous Buddhist and Taoist temples within a radius of 200/300 km around a listed firm's registered address.
Print_distance	The closest distance between the location of a public company and a historical printing office in the Ming and Qing dynasties.
Labor_Int	The ratio of the number of employees to total assets.
Myopia	The ratio of short-term oriented words to overall word frequency of the MD&A text.
Perk	The ratio of eight expense categories associated with perk consumption to total sales.
Union	The ratio of provincial trade union members to total employees
Oversea	A dummy variable that equals 1 if a firm's chairman or CEO has overseas work/study experience, and 0 otherwise.
Efficiency	The natural logarithm of total sales per employee.
Patent	The natural logarithm of 1 plus the number of invention patents, utility model patents, and design patents.
TobinQ	The ratio of the market value of equity plus the market value of net debt to total assets.

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