Scientific Journal of Economics and Management Research Volume 5 Issue 7, 2023
ISSN: 2688-9323

Literature Review on Culture and Responsible Investment: An Analysis based on the Background of Chinese Characteristics

Yi Xin
School of Accountancy, Anhui University of Finance and Economics, 233030, China

Abstract

Chinese economy has entered the fast track. However, the frequent occurrence of black swan events has severely damaged the confidence of market participants and seriously hindered the healthy and stable development of market economy. In order to safeguard the interests of stakeholders, the concept of responsible investment emerges and flourishes. Given that China's economic system still has loopholes and its capital market is not yet perfect, the implementation of the environmental, social and corporate governance (ESG) investment philosophy is fraught with difficulties. In order to meet the needs of high-quality development practice, scholars at home and abroad have studied the feasible way of responsible investment from the perspective of informal system and culture. This paper reviews the literature on culture and responsible investment, and puts forward the discussion based on the background of Chinese characteristics, in order to provide theoretical reference for improving the ESG system.

Keywords

Culture; Responsible Investment; Literature Review.

1. Introduction

Chinese-style modernization is one in which man and nature coexist in harmony. Sustainable development has become the golden key to solving the world's current problems. In response to global trends and public demands, responsible investment focusing on the three important dimensions of Environmental, Social and Corporate Governance (ESG) emerged at the historic moment. Investors may capture more goals of modern enterprises through ESG factors, so ESG has become an important management and investment concept of enterprises and financial institutions (Wang et al., 2022). In 2019, the global sustainable fund assets exceeded USD 1 trillion for the first time. By the end of 2021, ESG global assets had grown to $274m, of which 81 per cent were in Europe. In contrast, China's ESG construction started late. In order to actively promote the fund industry to practice ESG responsibilities, AMAC issued the Research Report on the ESG Evaluation System of China's Listed Companies and the Green Investment Guidelines (Trial) in 2018. From 2016 to 2020, the number and asset scale of China's pan-ESG public funds grew rapidly, with growth rates of 79% and 109% respectively.

ESG investment and practice are not only an important part of government governance and enterprise development, but also gradually become the focus of academic research. Companies with good ESG management level and reputation have better market competitiveness (Schuler et al., 2006). At the same time, companies committed to improving ESG performance will have advantages in reputation, investor appeal, employee satisfaction and innovation level, thus promoting stock market performance (Lantos, 2001; Guerrero et al., 2018; Kristrom et al., 2003; Kushwaha et al., 2016). In addition, companies with outstanding performance in the three areas of environment, social responsibility and corporate governance can reduce corporate financing costs (Cheng et al., 2013; Ghoul et al., 2017). During the COVID-19 pandemic, portfolios with high ESG scores have better ability to resist risks, and the stock prices of companies with good

ISSN: 2688-9323

ESG performance are less volatile, which shows investors' confidence in companies with such characteristics (Broadstock et al., 2020). Therefore, good ESG performance ensures enterprises' ability to resist risks and long-term competitiveness. ESG investment philosophy makes the direction of capital allocation converge with the goal of sustainable economic development, which is conducive to the promotion of global sustainable development. In view of this, exploring the influencing factors of enterprise ESG performance has become a hot topic in academia.

Different from the mandatory pressure generated by the "top-down" hard regulation of ESG in Europe and the United States, China's ESG system is still in the exploratory stage, and it can only force enterprises to make changes through the "bottom-up" soft regulation of the market, which provides a good entry point for exploring the effectiveness of soft regulation of the market in China's unique context (Liu et al., 2022). Culture, represented by informal institutions such as values, ethics, customs and ideology, can effectively make up for the loopholes of formal institutions in regulating or restricting individual behaviors and their interrelations (Pan et al., 2012). Based on this, this paper reviews the existing literature in the field of culture and responsible investment, and puts forward future research prospects based on the background of Chinese characteristics. Secondly, based on the background of Chinese characteristics, this paper introduces the causes of responsible investment with Chinese characteristics, and enriches and develops the theory of responsible investment. Thirdly, it summarizes the shortcomings and improvement direction of existing research, and provides enlightenment for subsequent research on responsible investment issues based on the background of Chinese characteristics. Fourth, it enriches relevant research in the field of culture, has guiding significance for enhancing cultural consciousness and cultural confidence, and has practical enlightenment for building a modern business ethics spiritual system and corporate culture based on integrity and trust. Fifthly, it enriches the frontier research of "culture and management" with interdisciplinary orientation, contributes the empirical evidence in the context of eastern culture, and contributes Chinese wisdom to guide the global green and healthy development.

2. Research Status at Home and Abroad

This part mainly combs the relevant research of domestic and foreign scholars on culture and responsible investment by reading relevant literature, and discusses from three aspects: culture, responsible investment and the influence of culture on responsible investment.

2.1. Culture

The essence of culture is the ideology in the field of human spirit. Culture not only has a great impact on individuals, but also has an important impact on the construction of political and economic life and the daily life habits of individuals (Yang, 2015). The research on culture is mainly carried out from two aspects: Confucian culture and clan culture.

From "dethusing a hundred schools of thought and respecting Confucianism alone" to setting up "Confucius Institutes", all the dynasties in China respected Confucius, and the children of China were deeply influenced by Confucian culture. Confucian culture has a significant impact on corporate donation (Xu, 2019) and promotes corporate social responsibility (Zou, 2022; Gan, 2021) and improve the quality of corporate social responsibility information disclosure (Zou, 2020). Confucian culture has subtly improved the awareness of green development, social responsibility and environmental self-discipline of managers of heavily polluting enterprises, thus promoting green M&A and transformation development of heavily polluting enterprises (Pan, 2021), and strengthening the incentive effect of performance deficit on proactive environmental strategy (Wang, 2022). And enhance the effect of CEO's academic experience on improving the level of corporate green innovation (Yin, 2022). Confucian culture plays a role in

ISSN: 2688-9323

promoting corporate innovation (Xu, 2019; Wang, 2021; CAI, 2020; Zhang, 2022), and it is more significant when combined with on-the-job training (Cheng, 2018), which promotes the prosperity and development of China's entrepreneurship and further promotes the national strategy of "mass entrepreneurship and innovation" (Chen, 2021). The Confucian culture has a significant inhibitory effect on corporate violations (Li, 2021), such as corporate information disclosure violations (Pan, 2022), corporate tax avoidance (Cheng, 2020), And when it interacts with formal institutions (laws), the inhibitory effect will be more significant (Cheng, 2018). Confucian culture promotes the quality of internal control (Cheng, 2016; Zhang, 2022), the quality of accounting earnings (Seinfeld, 2021), enhancing corporate credit (Dai, 2022), restraining over-investment, improving corporate investment efficiency (Ye, 2018), protecting the interests of minority shareholders, (Gu, 2020), promoting the improvement of total factor productivity of export enterprises (Qi, 2021), It has a significant effect on the audit behavior of enterprises (Hou, 2020), leading to high cash holdings of enterprises (Li, 2021), but does not lead to on-duty consumption of senior executives (Pan, 2020). Confucian culture has a significant impact on family finance (Chen, 2022) and inclusive finance (Chen, 2017). Some scholars have found that Confucian culture also has a negative side, such as seniority will damage the supervision function of independent directors (Du, 2017), reduce the company's risk-taking, and then reduce the company's market return (Jin, 2017). From "people who are not our ethnic group must have different hearts" to "five hundred years ago it was one family", families, as informal organizations in society, ranging from village ancestral temples to famous families, play an inestimable role in both wars and conflicts, as well as political connections. The clan identity in an enterprise reduces the level of on-duty consumption of senior executives (Liu et al., 2019), reduces the agency cost between shareholders and management (Pan et al., 2020), and makes the cost stickinness of the enterprise significantly lower (Du and Yin 2020). The export probability of enterprises will increase with the increase of the proportion of exporting enterprises among enterprises with the same surname (that is, the head of the enterprise has the same surname) (Zhao et al., 2020). However, it is also inevitable that "a thief is difficult to prevent" and "acquaintances are easy to cheat." Yan et al. (2022) believed that the "family relationship" of the top management team would significantly increase the agency cost of enterprises, inhibit corporate innovation and reduce corporate value (Tan et al., 2021). In audit practice, auditors with the same surname and ceos are more likely to collude, easier to obtain standard audit opinions (Wang and Wang, 2018), and enterprises are more likely to suffer from financial fraud (Du, 2017). In the fertile soil of clan culture, family enterprises linked by blood relationship show vitality. The "spiritual power" of clan culture makes the performance of companies jointly run by brothers and sisters better (Xu et al., 2019). Clan culture advocates kinship trust, unity and reciprocity, and moral norms. The stronger the clan culture is, the higher the degree of corporate governance is (Pan et al., 2019), and the smaller the corporate financing constraints are (Pan et al., 2019), which further improves the corporate debt maturity structure (Wang, 2013) and significantly promotes corporate innovation (Sun et al., 2021). The greater the influence of clan culture is, the more willing the local family firms are to make M&A decisions (Yuan et al., 2022), and the greater the difference in clan culture is, the higher the M&A returns are (Wang et al., 2020). In the field of rural entrepreneurship, the clan network effectively alleviates the financing difficulty (Zhang and Fan, 2019) and boosts farmers' entrepreneurship (Zhang, 2020; Guo et al., 2013). Of course, some scholars hold different opinions. Huang et al. (2022) found that clan culture encourages senior executives to be more conservative in order to maintain family reputation and reduce the risk-bearing ability of enterprises. Xiong rt al. (2021) found that clan culture inhibited the financial performance of private enterprises. Ruan Rongping (2012) believed that the clan network significantly inhibited the development of rural enterprises.

2.2. Responsible Investment

Environmental, social and corporate governance (ESG) concept originated from responsible investment and ethical investment (Michelson et al., 2004), and has developed rapidly in the world in recent years. ESG responsibility is gradually regarded as a whole. And has gradually become the three most important dimensions for the international community to measure the sustainable development of enterprises (Wang et al., 2022). The research on responsible investment is mainly carried out from two aspects: influencing factors and economic consequences:

Starting from the formal system, Wang Yu et al. (2022) took the introduction of the Environmental Protection Tax Law of the People's Republic of China as an opportunity to design a quasi-natural experiment. The results show that the greening of the tax system improves the sustainable development ability of heavy polluting enterprises; Based on the institutional theory, Zhang Hui (2022) argued that the pressure of compulsory and imitative homoformal system promoted the performance of ESG responsibility, while the pressure of normative homoformal system inhibited the performance of ESG responsibility. Starting from informal institutions, Crace (2022) found that internal effects (i.e., CEO and company) were the strongest determinants of ESG performance; Disli (2022) found that gender-diverse and more independent boards can achieve better sustainable development performance; Barko (2022) found that behind the curtain investors target companies with large scale, high transparency, good performance, high stock turnover, low ESG performance, and investor participation will trigger ESG rating adjustment; Akhtaruzzaman (2022) found that there was a dynamic correlation between media coverage and ESG index in the context of COVID-19, and this correlation was more significant around the peak of the epidemic.

The economic consequences of ESG can be divided into two aspects: enterprise reaction and capital market feedback. First, in terms of corporate reaction, scholars have different opinions on the relationship between ESG and corporate performance, or it is positively correlated (Li, 2021; Zhang et al., 2021), or negative correlation (Duque- Grisales, 2021), or non-negative correlation (Xie, 2019), or U-shaped nonlinear characteristics (Wang et al., 2022). Lu (2022) puts this relationship within the framework of the epidemic and finds that enterprises with better ESG performance are more resilient. And provide a buffer against economic downturn. In addition, ESG responsibility performance helps to improve information transparency, strengthen mutual trust among stakeholders, improve corporate investment efficiency (Gao et al., 2021), inhibit corporate financialization (Pan et al., 2022), significantly reduce audit fees (Xiao et al., 2021), and reduce corporate debt costs (Eliwa et al., 2021). Enhancing corporate value (Li et al., 2018; Zhou et al., 2022). However, there is no shortage of voices questioning the ESG system in academia. Liu et al. (2022) found that in order to meet the market preference, enterprises indulge in formalism, avoid the important and neglect the light, simply emphasize the quantity and ignore the quality, and intensify the innovation bubble; Landi et al. (2022) believed that comprehensive ESG assessment increased the systemic risk of enterprises; Atif et al. (2022) found that ESG disclosure reduced the cash holdings of enterprises in the start-up stage, growth stage and decline stage. Secondly, in terms of market feedback, as an important part of investment decision-making, ESG is highly favored in the financial market. Enterprise portfolios with higher ESG ratings tend to be better realized (Broadstock et al., 2021) and have higher stock returns (Li, 2021). Pacelli et al. (2022) argued that ESG rating cannot be considered as a unified and effective standard for selecting asset portfolio; Luo (2022) argued that higher ESG scores do not mean higher stock returns.

2.3. The Impact of Culture on Responsible Investment

Since the United Nations declared the world's cultural development in the 1980s, UNESCO has been committed to the integration of culture and development. But it was not until the

ISSN: 2688-9323

successful intergovernmental negotiations on the post-2015 Development Agenda that culture began to enter the mainstream of development discourse (Wiktor-Mach, 2020) that the relationship between the two was redefined. The role of culture in the human development paradigm is no longer limited to eradicating poverty and improving people's livelihood, and the Sustainable Development Agenda has significantly expanded its possible role. As a unique perspective of sustainable development, culture is its potential driver and important enabler (Wiktor-Mach, 2020). Due to the rise of the concept of environmental, social and corporate governance (ESG), which has become a synonym for sustainable development, culture and ESG have been widely discussed by scholars at home and abroad.

Culture influences individual preferences and values (Guiso et al., 2006), and then acts on the cognition, interaction and strategic choice among economic agents (Dimaggio, 1997), which better explains the huge differences in corporate ESG performance (Roy et al., 2022). In Confucian culture, thoughts such as "benevolent people love others" and "harmony between nature and man" significantly promote enterprises to undertake social responsibility (Zhu, 2008; Zou and Li, 2022; Xu et al., 2020), improving environmental performance (Pan et al., 2021); From the perspective of red culture, enterprises located in old revolutionary base areas are better able to serve the people (Yu et al., 2020); Green culture explains the secret of a company's better environmental performance (Guo and Zhou, 2020). The East emphasizes collectivism, while the West advocates individualism. In this context, China is more inclined to reduce ESG-related risks under the loss framework risk management concept, while the United States is on the contrary (Lin, 2019); Terzani and Turzo (2021) found that the impact of religious belief on ESG is non-linear, and this impact is affected by state-dominated religion; Islam emphasizes social and charity values, and in the ESG rating of enterprises in Muslim countries, S value does outperform E value and G value (Mahandaru, 2020); Catholicism advocates human well-being and has a profound impact on the values of France and Spain, where enterprises focus more on social performance and corporate governance, while Japan is more influenced by the Buddhist concept of man and nature, so Japanese companies are more committed to improving environmental performance (Ortas et al., 2015). In addition, some foreign scholars refer to Hofstede's research and divide culture into six dimensions: power distance, uncertainty avoidance, individualism and collectivism, masculinity and feminism, long-term orientation and short-term orientation, and self-indulgence and restraint. They respectively consider the impact of each dimension on ESG or its subdimensions E, S and G, but no consensus has been reached. Ringov and Zollo (2007) found that the two dimensions of power distance and masculinity were significantly correlated with S performance; Peng (2012) found that individualism and uncertainty avoidance had a positive impact on S performance, while power distance and masculinity had a negative impact on S performance. Ho et al. (2012) believed that the four cultural dimensions of power distance, collectivism, masculinity and uncertainty avoidance were significantly related to S performance, and the unique national culture of European countries made them better than other regions and countries in ESG performance. Thanetsunthorn (2015) showed that different cultural dimensions have a positive or negative impact on S performance.

3. Conclusion

In recent years, the research on culture and responsible investment has achieved fruitful results, but the discussion based on the background of Chinese characteristics or different views, or focus on the single characteristics of enterprises. Nowadays, with the emphasis on new development concepts and patterns, the theoretical achievements in this field can no longer meet the needs of sustainable development practice. ESG is still in the preliminary stage of exploration in China. Different from the "top-down" mandatory supervision in Western countries, China currently adopts "bottom-up" soft market supervision to force enterprises to make changes. ESG information disclosure is mostly voluntary, and ESG responsibility performance is mostly influenced by values and ethics. As an ancient civilization and cultural power, China's national inheritance of Chinese culture has an immeasurable impact on modern business behavior. In this context, on the one hand, without considering the informal institutional factors in the context of Chinese characteristics, it is difficult to provide decision-making reference for building and improving the ESG system and promoting the fulfillment of ESG responsibilities, and it is difficult to provide theoretical guidance for fulfilling the commitment of "sustainable development" and demonstrating the responsibility of a major country. On the other hand, revealing the relationship between Chinese culture and responsible investment provides new evidence for understanding the core of Chinese excellent traditional culture, which is of great guiding significance for enhancing cultural consciousness and cultural confidence. Meanwhile, it also corrects the long-term negative bias cognition of some scholars on traditional culture. In the future relevant research, the influencing factors of responsible investment can be further refined to different cultures with Chinese characteristics, and the theories in the field of psychology can be used to provide empirical evidence for enterprises to optimize the performance of ESG responsibility.

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