Can Confucian Culture Effectively Enhance Corporate ESG Performance? — Evidence from Informal Institutions

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ABSTRACT

Confucian culture, as a representative informal institution, plays a significant role in shaping corporate decision-making and serves as a solid foundation for China's dual-carbon objectives. Understanding how Confucian culture exerts environmental, social, and governance (ESG) effects to incentivize firms to enhance ESG performance is an important research question. Using a sample of A-share listed companies on the Shanghai and Shenzhen Stock Exchanges from 2015 to 2024, this study examines the impact of Confucian culture on corporate ESG performance. Empirical results indicate that Confucian culture positively influences ESG performance, with robustness and endogeneity tests supporting this conclusion. Mechanism analysis reveals that Confucian culture promotes ESG performance by reducing managerial self-interest, and voluntary environmental regulations positively moderate the relationship between Confucian culture and ESG performance. Further heterogeneity analyses show that the effect of Confucian culture on ESG performance varies across ownership type, analyst attention, and managerial shareholding. Specifically, the positive effect is more pronounced for state-owned enterprises, firms with higher analyst coverage, and firms with lower managerial ownership. This study contributes to the literature on informal institutions by providing evidence of their emerging effectiveness in corporate governance and offers new insights for firms to actively advance ESG practices and achieve sustainable development.

JEL Codes:

Keywords: Confucian culture; informal institutions; ESG performance; voluntary environmental regulation; managerial self-interest