

# Research on the Influence of Confucian Culture on Enterprise Agency Conflicts

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**Abstract.** With Chinese listed companies from 2008 to 2019 as research samples, this paper takes the number of Confucian academies within a specific radius of the enterprise as the proxy variable of Confucian culture, which found that Confucian culture is negatively correlated with enterprise agency conflicts and can reduce enterprise agency conflicts. Furthermore, the relief effect of Confucian culture on agency conflict is more apparent in private enterprises and areas with high legalization and more openness to the outside world. The conclusion of this paper further enriches the research on the influence of informal institutions on corporate governance, which also provides some reference for regulators when formulating relevant institutions, such as forming an effective mechanism from the perspective of culture, so as to promote the enterprises by cultural restrains. During the promulgation and implementation of legal systems, we should take full advantage of the guiding role of traditional culture and combine formal systems with informal ones, thus leveraging their strengths to promote the healthy development of the market.

**Keywords:** Confucian Culture; Informal System; Agent Conflicts.

## 1. Introduction

Based on the principal-agent theory, agency conflict has been developing since 1960. Because of the application of industrial technology to large-scale production and corporate expansion, corporate ownership and control are separated. Meanwhile, corporate owners begin to hire professional managers to use their specialties to improve economic efficiency and bring more benefits. However, due to information asymmetry, it is difficult for principals (shareholders) to supervise the behavior of agents (managers). The party with information advantage (managers) may make decisions detrimental to the interests of enterprises and shareholders but beneficial to himself, thus triggering the agency problem between shareholders and managers, which is defined as agency conflicts (Jensen & Meckling, 1976; Johnson et al., 2000). In recent years, frequent incidents such as profit fraud, capital flight and false information disclosure (such as incidents about ZONECO and Kangmei Pharmaceutical Co., Ltd) have revealed severe agency conflicts of listed companies. These problems seriously undermined the trust of investors, reduce investment efficiency, and disrupted the normal track of economic operation, which hinder orderly and steady market development.

In many studies abroad, the supervision mechanism and incentive mechanism make a difference in alleviating agency conflicts. In China, the formulation and implementation mechanism of relevant laws and regulations are not perfect, and the formal system plays a limited role. However, the informal systems such as Confucian culture accumulated in the long-term historical development may be fundamental. Culture is the soul of a country and a nation, which is key to social and economic development. Since the 18th National Congress of the Chinese Communist Party, the Central Committee of the Chinese Communist Party with President Xi at its core has attached great importance to the inheritance and development of traditional culture. He contended that Chinese excellent traditional culture is the "root" and "soul" of the Chinese nation. We should spare no effort to carry forward such essential Chinese traditional culture, emphasize its profound influence, and engrave it in Chinese people as a spiritual support for realizing the Chinese dream. During the development of China for thousands of years, Confucianism has been rooted in the social life of Chinese people, which is the regular ethics "used in daily life imperceptibly". Confucian culture not

only shapes people's ideological connotation, but also plays an indispensable role in Chinese society, economy and politics (Du, 2017). Advocating "benevolence, righteousness and honesty" as moral criteria, Confucianism fosters value preference in current society and restricts people's behavior. Hence, this paper intends to analyze the influence of Confucian culture on agency conflicts, fill the research vacancy, and propose relevant suggestions according to research conclusions.

## **2. Literature Review and Research Hypothesis**

### **2.1. Confucian Culture**

Confucius is the founder of Confucian culture, which sprouted in the Spring and Autumn Period and Warring States Period. After the dissemination and development through Confucius, Mencius and their disciples, it spread to the land of Chinese civilization (Li & Nie, 2011). With colossal Confucian ideology, from the individual aspect, Confucian culture is mainly reflected in "benevolence". Besides, others such as "benevolence, righteousness, propriety, wisdom and faith" are expanded on this premise. From the national and social aspects, Confucian culture is first reflected in "philanthropy", and other more detailed moral thoughts are basically consistent with the core values proposed today, which lays a theoretical foundation for current mainstream values. Confucian culture is vital to shaping the outstanding values and ideas of contemporary Chinese people, whether it is for individuals, the whole society or the country.

In ancient China, numerous Confucius temples and academies provided important places for holding Confucius sacrifice ceremonies, which also penetrated Confucianism. Confucius academies, first built in the Tang Dynasty (AD 618-907), have been a stronghold of Confucian education and formed a system in the Song Dynasty (AD 960-1297). Confucius portraits or statues are usually enshrined in academies where Confucius sacrifice ceremonies are often held. Therefore, academies are of the essence to spread Confucianism (Wan, 2010). In recent years, Confucian culture has emerged as a strong revival trend (Du, 2015). In fact, the ceremony of offering sacrifices to Confucius Temple in Qufu has revived, attracting a large number of tourists and researchers every year. In addition, the study of Confucian culture in contemporary China is increasingly prosperous.

### **2.2. Confucian Culture Affects Corporate Behavior**

Confucian culture is the most important traditional culture in China. A large number of previous literatures have studied its influence on corporate behavior. Hill (2006) focuses on whether the social values of Confucian culture will affect the management style of Chinese enterprises (such as leadership mode, personal values and interpersonal communication). It is found that Confucianism helps explain the cooperative relationship in management and promotes the formation of corporate culture. Du (2015) believes that Confucian culture has a positive impact on corporate ethics, thus reducing the capital occupation behavior of major shareholders. According to Du (2016), the prejudice against women in Confucian culture leads to the low proportion of female directors on the board of directors, indicating that the negative effects of Confucian culture put a barrier to the gender diversity of the board of directors. Chen et al. (2019) found that Confucian culture can improve the financial reporting quality of Chinese listed companies and effectively curb their over-investment behavior. Thus, there are not many studies on the influence of Confucian culture on enterprise agency behavior. In addition, most studies focus on its influence on enterprise agency conflicts from a local perspective, while few on a comprehensive analysis of how Confucian culture affects enterprise agency behavior.

### **2.3. Influencing Factors of Enterprise Agency Conflicts**

In modern enterprises, ownership and control rights are not integrated. With different information obtained by both parties, the principal is at the disadvantage of getting information, which makes it difficult for the principal to supervise the agent who may make decisions unfavorable to the company and shareholders but beneficial to himself, resulting in agency conflicts between shareholders and

managers (Jensen & Meckling, 1976). After the development of the principal-agent theory, La Porta (1999) put forward that the main agency conflict of most enterprises worldwide is the agency conflict between large shareholders and small shareholders. With most rights of listed companies, large shareholders can use their privilege to influence corporate management and decision-making, which may damage the rights and interests of small shareholders. In this way, the contradiction between large shareholders and weak shareholders can be ignited, triggering their agency conflicts. Meanwhile, many factors affect the agency conflicts between shareholders and managers. The previous research pays attention to equity allocation, regulatory and incentive measures, and managers' characteristics. According to Li Minghui (2009), the more concentrated the equity of listed companies, the lower the agency conflicts. Using the balanced panel data of listed companies in China, Xu Ning and Jiang Nannan (2016) conducted the empirical test, which concludes that the higher the executive compensation incentive, the higher the on-the-job consumption. Dai et al. (2016) believe that the social network and psychological characteristics of managers will affect the agency conflicts between shareholders and managers.

Previous studies have focused on the formal system or its impact on agency conflicts from a local perspective, while fewer studies are about how the informal system affects agency conflicts.

#### **2.4. Influence of Confucian Culture on Enterprise Agency Conflicts**

In Confucian culture, "the principle of pursuing the greater good and shared interests" is that righteousness outweighs interests. When righteousness and interests conflict, righteousness should be preceded by interests, and morality outweighs interests. When managers face the benefits of on-the-job consumption, Confucian culture will restrain them to reduce excessive on-the-job consumption and reduce agency conflicts. "Faithfulness" referring to loyalty and fidelity emphasizes the principles of honesty and credit, which can restrain managers' self-interest behavior and make more effective decisions to maximize the corporate value. Such professional ethics motivate agents to be more dedicated to creating value for the enterprise, reduce lazy management, and undercut agency conflicts. Based on the philosophy of "self-discipline", you can't harm others and benefit yourself without supervision. If managers are influenced by this philosophy, they will take the initiative to reduce self-interest behavior. Even without the supervision of shareholders, they will strive to maximize the corporate value, instead of seeking personal gain, thus reducing agency conflicts.

The agency conflicts between major shareholders and minority shareholders are mainly caused by their agency problems, which largely result from their information asymmetry and the self-interest tendency of major shareholders. Most enterprises in China have relatively concentrated equity. Due to imperfect protection mechanisms for minority shareholders in China, minority shareholders are often at an extreme disadvantage and more vulnerable to interest infringement by major shareholders. On this occasion, such an informal system as Confucian culture can play a significant role, which influences their behavior strategies by shaping the values of major shareholders. The influence of Confucian culture on agency conflicts between major shareholders and minority shareholders is the same as that between shareholders and managers. Both influence their behavior and decision-making by fostering their values, and then have an impact on agency conflicts. Similarly, "the principle of pursuing the greater good and shared interests" emphasizes that loyalty outweighs interests, which restricts major shareholders from taking ill-gotten gains, and then restrains the "tunneling" behavior of major shareholders to the company. Thus, the damage to the interests of minority shareholders can be decreased accordingly to reduce agency conflicts. "Faithfulness" pays attention to the moral character of honesty and credit. If the major shareholders are influenced by Confucian culture, they will less "exhaust" enterprises for personal interests by various means, thus reducing agency conflicts. The philosophy of "self-discipline" emphasizes that we can't harm others and benefit ourselves without supervision. Accordingly, if we are influenced by such a philosophy, even without supervision from minority shareholders and the external world, major shareholders can restrain their

self-interest desires and not harm the interests of minority shareholders and the company, thus undermining agency conflicts.

To sum up, this paper puts forward hypothesis H1.

H1: By limiting other conditions, Confucian culture can reduce enterprise agency conflicts.

### **3. Research Design**

#### **3.1. Sample Selection and Data Sources**

This paper selects A-share listed companies in Shanghai and Shenzhen from 2008 to 2019 as research samples. On this basis, the sample data are processed as follows: delete financial and ST companies; delete companies with missing main index data and obvious abnormal data; reduce main continuous variables at 1% and 99% to eliminate extreme values. After the above treatment, 23470 samples were finally observed. The relevant data related to listed companies are all from the CSMAR database, and the information on Confucian academies is collected and calculated from the China Confucius Temple Network.

#### **3.2. Definition and Measurement of Variables**

##### **1. Agent Conflicts (OER)**

The explained variable is the degree of enterprise agency conflicts. Based on the method of Singh and Davidson (2003), this paper uses agency cost to measure the degree of agency conflicts. The specific index adopts the operating expense rate (OER) to measure the agency cost between shareholders and managers, with  $(\text{management expenses} + \text{sales expenses}) / \text{operating income}$  as the calculation formula. The larger the value, the more serious the agency problem between shareholders and managers, that is, the more serious agency conflicts.

##### **2. Confucian Culture (*Confu\_R*)**

The explanatory variable is the influence degree of Confucian culture (*Confu\_R*). Referring to the research of Gu Zhihui (2015), the number of Confucian academies within 100km, 200km and 300km of the registered places of listed companies is used to measure the influence of Confucian culture on enterprises. In this paper, according to the China Confucius Temple Network, the location of the academy is collected. Besides, the longitude and latitude corresponding to the registered place of each listed company and the academy are manually obtained by xGeocoding through the Baidu map. According to the longitude and latitude coordinates, the number of academies within 100km, 200km and 300km of the registered place of each company are counted. Meanwhile, 1 is added to take the natural logarithm for standardization and get the distance variables *Confu\_100*, *Confu\_200* and *Confu\_300* of Confucian culture intensity, so as to measure the influence degree of Confucian culture on enterprises.

##### **3. Control Variables**

To more accurately explore the impact of Confucian culture on the agency conflicts, this paper further controls other factors that may affect the agency conflicts, including enterprise size (*Size*), financial leverage (*Lev*), return on assets (*Roa*), growth ability (*Growth*), ownership concentration (*Top1*), CEO duality (*Dual*), independent director ratio (*Ind\_r*), nature of property rights (*Soe*). In addition, it also controls year variables (*Year*) and industry variables (*Ind*), with specific definitions of the main variables shown in Table 1.

#### **3.3. Model Setting**

To test the effect of Confucian culture on enterprise agency conflicts, this paper establishes the following regression model:

$$OER_{i,t} = a_0 + a_1 Confu\_R_{i,t} + a_2 Control_{i,t} + \sum Year + \sum Ind + \varepsilon_{i,t} \quad (1)$$

**Table 1.** Definition of Main Variables

Variable Name	Description of Variable Definition
<i>OER</i>	Operating expense rate, equals to (management expenses + sales expenses)/operating income
<i>Confu_R</i>	The influence variables of Confucian culture include the following three indicators:
<i>Confu_100</i>	The influence of Confucian culture is equal to the number of Confucian academies within 100km of the registered place of the company plus the natural logarithm of 1
<i>Confu_200</i>	The influence of Confucian culture is equal to the number of Confucian academies within 200km of the registered place of the company plus the natural logarithm of 1
<i>Confu_300</i>	The influence of Confucian culture is equal to the number of Confucian academies within 300km of the registered place of the company plus the natural logarithm of 1
<i>Size</i>	The enterprise size is equal to the natural logarithm of the total assets of the company plus 1
<i>Lev</i>	Financial leverage is equal to the asset-liability ratio of the company
<i>Roa</i>	Return on assets is equal to the net profit of the company except the total assets
<i>Growth</i>	Growth ability is equal to the growth rate of the corporate operating income
<i>Top1</i>	Ownership concentration is equal to the shareholding ratio of the largest shareholder
<i>Dual</i>	If the roles of chairman and CEO are integrated, the value is 1; otherwise, it is 0
<i>Ind_r</i>	The proportion of independent directors is equal to the ratio of the number of independent directors to the number of directors
<i>Soe</i>	If the actual enterprise controller is state-owned as the nature of the property right, the value is 1, otherwise it is 0
<i>Year</i>	Annual dummy variable
<i>Ind</i>	Industry dummy variable

In model (1), *i* represents the enterprise, *t* represents time, *OER* is the agency conflict measured by operating expense rate, and *Confu\_R* is the influence of Confucian culture and also the explanatory variable. *Control* represents the Control variable, *Year* and *Ind* are the Year and industry effects of Control respectively, which are random error terms.

## 4. Empirical Test and Analysis

### 4.1. Results of Basic Regression Analysis

Table 2 reports the regression results of Confucian culture to enterprise agency conflicts, which verifies the influence of Confucian culture on enterprise agency conflicts. Column (1) is listed as the regression result without control variables and not controlling year and industry effects. Column (2) is listed as the regression result adding control variables but not controlling year and industry effects. Column (3) is listed as the regression result adding control variables and controlling year and industry effects. Column (4) and Column (5) are regression results with distance variables R of 200 and 300. In all the regression results mentioned above, the coefficients of OER are significantly negative, and they are at least significant at the statistical level of 5%, which shows that Confucian culture can reduce enterprise agency conflicts, that is, H1 works.

**Table 2.** Basic Regression Results

	(1)	(2)	(3)	(4)	(5)
	<i>OER</i>	<i>OER</i>	<i>OER</i>	<i>OER</i>	<i>OER</i>
<i>Confu_100</i>	<b>-0.002**</b>	<b>-0.007***</b>	<b>-0.007***</b>		
	<b>(-2.494)</b>	<b>(-9.118)</b>	<b>(-10.401)</b>		
<i>Confu_200</i>				<b>-0.008***</b>	
				<b>(-12.135)</b>	
<i>Confu_300</i>					<b>-0.008***</b>
					<b>(-11.520)</b>
<i>Controls</i>		Yes	Yes	Yes	Yes
<i>Year</i>	No	No	Yes	Yes	Yes
<i>Ind</i>	No	No	Yes	Yes	Yes
<i>N</i>	23470	23470	23470	23470	23470
<i>Adj.R<sup>2</sup></i>	0.0001	0.1740	0.2550	0.2560	0.2560

Note: \*\*\*, \*\* and \* are statistically significant at the levels of 1%, 5% and 10% respectively. The t value is in parentheses, which will be the same hereinafter.

### 4.2. Heterogeneity Test

#### 1. Confucian Culture and Enterprise Agency Conflicts: Analysis Based on the Nature of Property Rights

This paper considers whether the restraining effect of Confucian culture on agency conflicts will be affected by different natures of property rights of various enterprises. The reasons are as follows: On the one hand, the natural political connection of state-owned enterprises makes them more affected by government intervention when making business decisions, with maximizing social benefits as their business goal. Compared with private enterprises, state-owned listed companies will pay more attention to the protection of investors' rights and interests as well as the long-term development of the company (Tang & Xie, 2006; Xu & Li, 2019). On the other hand, most state-owned enterprise executives are members of the Communist Party of China, and their beliefs are Marxist rather than religious (Confucian culture is also called "Confucianism" with religious elements), which weakens the influence of Confucian tradition in state-owned enterprises. According to Table 3 that shows the regression results of this sample, the coefficient of *Confu\_R* (R=100, 200, 300) is more significant

and the absolute value is larger in private enterprises. Therefore, Confucian culture can alleviate agency conflicts more in private enterprises.

**Table 3.** Heterogeneity Analysis Results Based on the Nature of Property Rights

	(1)	(2)	(3)	(4)	(5)	(6)
	State-owned enterprises	State-owned enterprises	State-owned enterprises	Private enterprises	Private enterprises	Private enterprises
	<i>OER</i>	<i>OER</i>	<i>OER</i>	<i>OER</i>	<i>OER</i>	<i>OER</i>
	R=100	R=200	R=300	R=100	R=200	R=300
<b><i>Confu_R</i></b>	<b>-0.001*</b>	<b>-0.003***</b>	<b>-0.002***</b>	<b>-0.013***</b>	<b>-0.014***</b>	<b>-0.015***</b>
	<b>(-1.868)</b>	<b>(-3.791)</b>	<b>(-3.240)</b>	<b>(-10.962)</b>	<b>(-11.865)</b>	<b>(-11.639)</b>
<i>Controls</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Year</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Ind</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>N</i>	9857	9857	9857	13613	13613	13613
<i>Adj.R2</i>	0.2760	0.2770	0.2770	0.2080	0.2100	0.2100

## 2. Confucian Culture and Enterprise Agency Conflicts: Analysis Based on the Legalization Development.

**Table 4.** Heterogeneity Analysis Results Based on the Legalization Development

	(1)	(2)	(3)	(4)	(5)	(6)
	High legalization			Low legalization		
	<i>OER</i>	<i>OER</i>	<i>OER</i>	<i>OER</i>	<i>OER</i>	<i>OER</i>
	R=100	R=200	R=300	R=100	R=200	R=300
<b><i>Confu_R</i></b>	<b>-0.012***</b>	<b>-0.019***</b>	<b>-0.022***</b>	<b>-0.006***</b>	<b>-0.006***</b>	<b>-0.006***</b>
	<b>(-6.770)</b>	<b>(-9.255)</b>	<b>(-9.836)</b>	<b>(-7.355)</b>	<b>(-8.360)</b>	<b>(-7.723)</b>
<i>Controls</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Year</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Ind</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>N</i>	11841	11841	11841	11629	11629	11629
<i>Adj.R<sup>2</sup></i>	0.2560	0.2600	0.2610	0.2620	0.2630	0.2620

Xunzi, a representative of Confucianism and the ancestor of prose and poems, has students such as Han Feizi and Li Si who have become representatives of Legalism. After the Han Dynasty, Confucianism was key to the legislative and judicial process. Thus, Confucian ethics and the legal system have always been intertwined with certain synergistic effects (Bi et al., 2015). Scholars represented by La Porta et al. (1999) and Johnson et al. (2000) propose that the legal system can protect the rights and interests of investors and restrain agency conflicts such as tunneling by major shareholders. However, some scholars have believed that the analytical framework of law and finance has limited explanations for Chinese corporate financing behavior, because the Confucian substitute

legal system has been a vital mechanism to protect investors' legitimate rights and interests (Allen et al., 2005).

Therefore, this paper uses "Development of Market Intermediary Organizations and Legal System Environment" compiled by Wang Xiaolu and Fan Gang (2016) as the sub-index to measure the regional legal development (*Law*) and divide the total sample into two groups according to the median of the regional legal development (*Law*). When the regional legal development is greater than the median, it means that the regional legal development is higher and the investor protection is more perfect. As shown in Table 4, the absolute value of *Confu\_R* (R=100, 200, 300) coefficient is larger in areas with higher regional legal development. Hence, Confucian culture and legal constraints are two aspects to reduce enterprise agency conflicts with a synergistic effect. In other words, in areas with high legal development, Confucian culture has a better role in alleviating enterprise agency conflicts.

### 3. Confucian Culture and Enterprise Agency Conflict: Analysis Based on the Regional Openness to the Outside World

From the late Ming Dynasty to modern times, the academic thoughts of Western civilization continued to be disseminated to China, which was historically called the "Eastward Spread of Western Learning". "Learn from the foreigners in order to gain command of them" put forward by Wei Yuan became the guiding ideology in the early stage of the Westernization Movement, which also ushered in the "learning from the West" as a new issue to the Chinese people in the great historical changes. Since then, the Reform Movement of 1898 initiated by Kang Youwei and Liang Qichao, the Revolution of 1911 led by Sun Yat-sen, the New Culture Movement initiated by Chen Duxiu, and the spread of Marxism in the May Fourth Movement have been all inspired by the West to varying degrees. After the reform and opening up, China is gradually integrated into the process of globalization, and Chinese traditional culture was inevitably impacted by foreign culture again (Jin et al., 2017; Xu & Li, 2019). It is worth mentioning that there are significant differences in the degree and sequence of opening to the outside world in various regions due to geographical location, economic development, policy orientation, ideas and other factors, which provide conditions for this study.

**Table 5.** Heterogeneity Analysis Results Based on Regional Openness

	(1)	(2)	(3)	(4)	(5)	(6)
	High Openness			Low Openness		
	<i>OER</i>	<i>OER</i>	<i>OER</i>	<i>OER</i>	<i>OER</i>	<i>OER</i>
	R=100	R=200	R=300	R=100	R=200	R=300
<b><i>Confu_R</i></b>	<b>-0.013***</b>	<b>-0.013***</b>	<b>-0.014***</b>	<b>-0.003***</b>	<b>-0.005***</b>	<b>-0.004***</b>
	<b>(-10.119)</b>	<b>(-10.353)</b>	<b>(-10.056)</b>	<b>(-3.990)</b>	<b>(-5.760)</b>	<b>(-5.582)</b>
<i>Controls</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Year</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Ind</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>N</i>	11742	11742	11742	11728	11728	11728
<i>Adj.R<sup>2</sup></i>	0.2520	0.2520	0.2520	0.2690	0.2700	0.2700

Therefore, this paper uses the ratio of total import and export volume of each province to regional GDP as an index to measure the regional openness to the outside world (*Open*) and divides the total sample into two groups according to the median of this variable. When the regional openness to the outside world is greater than the median, it means that regional openness to the outside world is high. The results of grouping regression are shown in Table 5. The absolute value of *Confu\_R* (R=100, 200,

300) is larger in the regions with higher openness to the outside world, which shows that Confucian culture can better alleviate enterprise agency conflicts in regions with greater influence from foreign cultures. The possible reason is that Confucian culture has a profound historical background and universal values, which makes it easier to be understood by people from different cultural backgrounds and reduce agency conflicts caused by cultural differences. In addition, in areas with high openness to the outside world, enterprises may face more public supervision and media exposure, so values like Confucian culture may be paid more attention, which makes managers emphasize honesty, thus reducing agency conflicts. Meanwhile, Confucian culture attaches importance to personnel training and encouragement, and enterprises in areas with high openness to the outside world also value personnel introduction and training. Hence, Confucian culture may be more easily applied and popularized, which is beneficial to improve managers' enthusiasm and satisfaction, enhance loyalty and trust in enterprises, and then reduce agency conflicts.

## **5. Research Conclusion and Prospects**

Taking Chinese listed companies from 2008 to 2019 as research samples, this paper explores the influence of Confucian culture on enterprise agency conflict. It is found that Confucian culture is negatively correlated with enterprise agency conflict, which indicates that Confucian culture reduces agency conflicts between shareholders and managers as well as that between major shareholders and minority shareholders. In addition, enterprises in private enterprises, areas with high legal development and high openness to the outside world are more effective. The conclusions of this paper are helpful to deepen the understanding of the relationship between Confucian culture and Chinese corporate governance.

The policy implications of this paper are as follows. (1) The outstanding Confucian culture can effectively alleviate the agency conflict of listed companies, which shows that Confucian culture can adapt and promote the effective conduct of corporate governance to a certain extent. Therefore, we should fully leverage the essence of Chinese traditional culture and form an effective mechanism to restrain and promote corporate development by culture. According to Williamson (2000), culture located at the bottom of the system with a lasting and far-reaching impact on social activities plays an important role in shaping values, ethics and preferences, which is also an indispensable guide for individual behavior and decision-making. Chinese enterprises are not perfect in the formulation and implementation of relevant systems. In this case, Chinese excellent traditional culture is used as lubrication and supplement to alleviate corporate governance problems and shape the qualities of managers and shareholders, such as righteousness outweighs interests, loyalty and self-discipline, so as to alleviate the enterprise agency conflicts and help the enterprise develop a better and steady market. (2) A mechanism in which Chinese traditional culture and formal systems such as law complement each other to serve society can be established, so as to build a harmonious and stable society. The extent to which the formal system is effectively implemented depends on how much it can be supported by the social norms formed by a specific culture (Zhang & Deng, 2003). More scholars have verified the economic influence of Confucian culture, and the role of traditional culture in corporate governance has been valued and recognized. The excellent behavioral norms in Confucian culture can be combined with the formulation or implementation of formal systems to check whether they conform to the norms in Confucian culture when formulating and implementing policies and regulations. Government departments should make full use of the guiding role of traditional culture and its advantages more easily accepted by people to improve the implementation speed and effect of various policies and regulations, which not only aims to better solve corporate governance, but also create a stable and effective environment for the economic operation. (3) President Xi emphasized in his important speech at the celebration of the 95th anniversary of the founding of the Party that "Cultural self-confidence is a more basic, broader and deeper self-confidence". Compared with most developed economies, China's economic system construction is relatively backward, but its cultural heritage is profound. Giving full play to the regulatory role of excellent traditional culture in economic development will help to further stimulate the vitality of

rapid economic development (Dai et al., 2016). Therefore, we should always adhere to cultural self-confidence, earnestly absorb the theoretical essence of Confucian excellent traditional thoughts, inherit and carry forward them in combination with the conditions of the times, so as to endow them with new meanings and provide Chinese wisdom and solutions for the construction of modern commercial civilization.

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