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Does Confucian culture affect corporate cash dividend policy? Evidence from Chinese listed firms

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Abstract: This study investigates whether and how cultural norms, namely Confucianism, affect corporate cash dividend policy. Using the data from Chinese listed firms from 2007 to 2022, we find that Confucian culture is positively associated with corporate cash dividend payouts. Moreover, the positive effect of Confucianism is more pronounced for non-state-owned firms, those operating in highly competitive industries, and located in regions with less foreign cultural shocks. Mechanism tests show that Confucian culture influences firms' cash dividend payments through three channels: improving corporate altruism, alleviating financing constraints, and reducing agency costs. Our findings contribute to the growing body of literature on corporate cash dividend policy and shed light on how traditional culture shapes corporate financial decision-making in emerging markets.

Keywords: Corporate dividend policy; Confucian culture; Informal institutions; China

1. Introduction

The distribution of cash dividends represents a crucial aspect of corporate financial decision-making and serves as a key manifestation of managers' obligations to stakeholders. Additionally, this practice acts as an internal driving force for maintaining order in the capital market and promoting its vigorous development (Yang et al., 2012; Baker & Kilincarslan, 2019; Balli et al., 2022). A sound cash dividend policy serves as a critical conduit between listed firms and investors (Cooper & Lambertides, 2018). This policy is intricately linked to corporate governance, representing a pivotal mechanism through which investors can attain stable returns (Cao et al., 2022). However, Chinese listed firms often exhibit dividend anomalies (Anderson et al., 2011; Firth et al., 2016), such as prolonged periods of no dividends, unusually low dividend payouts, and poor continuity and stability in their dividend distributions. [1] In order to regulate corporate dividend practices and ensure the smooth functioning of the capital market, Chinese regulators have issued a series of institutional guidelines to help listed firms establish open and transparent dividend distribution policy[2] (Deng et al., 2015). Although formal laws and regulations have been established to guide the dividend practices of listed firms (Labhane, 2017), the effectiveness of this system is often undermined by the weak institutional framework of China's capital market (Du, 2016) and insufficient law enforcement oversight (Reddy & Rath, 2005), resulting in limited practical implementation (Yuan et al., 2023). It is hard to control the dividend policies effectively for listed companies (Du, 2016). In this regard, informal institutions are important to governance as they

[1]The institutional arrangements of China's capital market are still developing and the market is less mature than developed Western economies. The listed corporations tend to have a low propensity to pay dividends and a long-term inclination to prefer finance over shareholder rewards.

[2] On April 12, 2024, the State Council announced the "New National Nine Articles" to tighten monitoring of cash dividends and risk warnings for companies that continue to pay low or no dividends.

complement formal institutions' shortcomings due to their flexibility and adaptability (Sun et al., 2016; Chen et al., 2021).

Institutional theory posits that informal institutions serve as the foundational pillars of social systems, working in conjunction with formal institutions to ensure the seamless functioning of commercial systems (Williamson, 2000; Bedendo et al., 2020). This interaction is particularly relevant in markets with weak institutional frameworks (Zingales, 2015). An example of this is the case of China's capital market. The formal regulation of China's capital market is typically inadequate or poorly enforced (Balli et al., 2022). Informal institutions have a considerable effect on corporate decision-making processes, beyond their general effect on society (Smith & Kaminishi, 2020). Social norms, cultural values, and traditional customs are deeply embedded in corporate-level organizational behavior (Li et al., 2021). They shape decision-making and implementation (Du, 2015; Xu et al., 2019), complementing the influence of formal systems to varying degrees (Voigt, 2018). Empirical work shows the importance of informal institutions for company conduct and performance. In particular, they have been found to help enterprise innovation, investment and finance decisions (Bedendo et al., 2020), financial information quality (Li et al., 2020) and social industry performance (Li et al., 2021). Informal institutions play a key role in the sustained long-term growth of firms and provide wider market stability, hence highlighting the important function of informal institutions in the contemporary economic landscape.

Confucian culture is one of the most significant informal institutions in China, which has played a decisive role in shaping the evolution of Chinese society for thousands of years (Li et al., 2020; Zhai & Tang, 2023). The fundamental values of Confucian culture not only give a solid moral basis for individual behaviors, but also cultural direction for businesses to deal with the intricacies and dynamism of the market (Zhang et al., 2024). A substantial body of research has demonstrated the profound impact of Confucian culture's value system on corporate behavioral decision-making (Xu et al., 2019; Zhai & Tang, 2023). The influence of Confucian culture on corporate decision-making can be attributed to two primary factors. First, the principle of "righteousness and profit concept" advocated by Confucian culture emphasizes the friendly relationship among stakeholders, such as improving employee welfare (Li et al., 2023), engaging in poverty alleviation efforts (Huang et al., 2024), and implementing environmental protection initiatives (Wu et al., 2024). In addition, this value system strengthens corporate transparency (Zhao et al., 2024) and effectively improves their ability to fulfill social responsibility (Li et al., 2023), which in turn enhances their social reputation and public recognition. Second, the "loyalty concept" advocated by Confucian culture plays a vital role in alleviating agency conflicts. This concept helps safeguard shareholders' rights from managerial encroachment, prevents large shareholders from exploiting firms (Gu et al., 2024), reduces corporate default risk (Wu & Wan, 2023) and lowers the likelihood of stock price crashes (Xu et al., 2019). Additionally, this cultural principle enhances firms' ability to secure financing (Li et al., 2020). However, research on the impact of Confucian culture on corporate cash dividend policy has not been extensively researched. Therefore, this work tries to study the significant

variables affecting the corporate dividend decisions from the perspective of Confucian culture, which will be beneficial for the broader growth of research in this area.

We empirically investigate the data of Chinese listed enterprises from 2007-2022 and find that Confucian culture considerably and positively affects corporate cash dividend distribution. Mechanism analysis shows that Confucian culture leads enterprises to adopt more active cash dividend policy through strengthening altruistic tendency, relieving financial restrictions and reducing agency costs. We employed instrumental variable approaches and a difference-in-differences model to alleviate possible endogeneity concerns. The validity of our findings is also confirmed following replacing the measure indicators of Confucian culture and corporate cash distributions. Moreover, we find that the favorable effect of Confucian culture on cash dividend policy is highly heterogeneous across enterprises with diverse ownership structures, degrees of market competition, and exposure to foreign cultural shocks. Moreover, we discover that the cash dividend payout is positively related to the maximization of shareholders' wealth in a location with a strong Confucian cultural milieu.

Our contribution to the literature is: First, from the standpoint of culture, the research scope of corporate cash dividend policy is expanded, and the debate of existing literature is enriched and deepened. The vast majority of previous studies have examined the impact of legal and regulatory restrictions, shifts in the financial environment, internal governance characteristics, macroeconomic conditions, industry competition, and tax policy on corporate dividend policy (Abreu & Gulamhussen, 2013; Hillmann, 2023). This study differs from this study in the way that the focus is on the role of informal institutions, especially the effect of cultural norms on the cash dividend policy. Our results extend our understanding of corporate financial decision-making from the standpoint of informal institutions and provide a new analytical framework.

Second, it improves our understanding of the economic consequences of Confucian culture and examines its pragmatic applicability in the modern business environment. Existing research on Confucian culture has mainly focused on philosophy and sociology (Smith & Kaminishi, 2020), but more and more literature has begun to explore its impact on corporate behavior and decision making. For example, research has shown that Confucian culture promotes corporate R&D investment (Li et al., 2020), improves trade credit (Li et al., 2020), alleviates agency conflicts (Du, 2015) and enhances corporate investment efficiency (Chen et al., 2019). Based on these findings, we discuss the positive effect of Confucian culture on corporate cash dividend policy, the importance of financial decision-making, and the economic importance of cultural factors in the Chinese economy.

Finally, it adds a new dimension to the literature on culture and finance in the frontier, which has predominantly explored Western cultural aspects such as religious beliefs. However, we empirically test Chinese listed firms and find that Confucian culture has a positive impact on corporate cash dividend policy. We also find that Confucianism, rather than religious beliefs, significantly impacts Chinese cash dividend policy. This contribution makes a significant contribution to the theoretical framework of culture and business studies and deepens our

understanding of the role and influence of informal institutions in different cultural contexts. Moreover, the study draws useful methodological insights and practical guidance for future research in the area by examining the interaction between cultural factors and monetary systems.

The remainder of the study is organized as follows: the second section details the literature review and hypothesis development. The third part presents the data and model settings and conducts descriptive statistics. The fourth section presents the empirical results and analysis, including benchmark regression and various tests. The fifth part is the mechanism test and heterogeneity analysis. The sixth section provides further analysis, focusing on the impact on firm value. The final section presents the conclusion and policy recommendations of the study.

2. Literature review and hypothesis development

2.1. Research on corporate cash dividend policy

A review of dividend policies of Chinese listed firms reveals several anomalies, the most notable being a persistently low payout ratio. In fact, many firms, especially in high-growth industries, prefer to reinvest earnings to grow market share and enhance competitiveness rather than distribute dividends (David & Ginglinger, 2016). In response to this tendency the China Securities Regulatory Commission (CSRC) introduced a semi-mandatory dividend policy, which made payment of cash dividends a precondition for refinancing (Firth et al., 2016). The CSRC has been gradually increasing dividend regulations since 2001, including minimum payout requirements in 2006 and 2008. Between 2013 and 2018, firms adopted diversified strategies for rewarding investors following a different set of regulatory guidelines (Labhane, 2017). In 2024, the State Council also mandated listed companies to adopt long-term and stable dividend policies to increase returns for investors. However, such improvements in formal regulation and corporate governance have not resulted in significant increases in dividend payouts of Chinese listed firms, suggesting the possible importance of informal institutional factors.

Many studies have been conducted on the cash dividend policy of listed firms and it is established that dividend decisions are influenced by several factors (Li et al., 2018). According to Abreu and Gulamhussen (2013), the legal and regulatory framework is an important determinant of dividend policies, with firms located in countries with weak legal protection more likely to retain profits than to pay dividends. The importance of corporate governance structures is further emphasized by Hillmann (2023). If managerial oversight and board independence are low, managers might choose to retain earnings to increase their power over corporate resources. Furthermore, the level of economic development and maturity of the market also impact the dividend policy (Faccio et al., 2001). In less developed capital markets in developing countries, firms hold more cash to hedge against economic uncertainty and financing constraints. The studies emphasize the significance of formal institutions, such as legal systems and governance structures (Hillmann, 2023). However, the role of informal institutions, e.g., cultural norms and social trust, remains relatively understudied.

2.2. Development of Confucian culture in China

Confucian culture is the soul of traditional Chinese culture, founded by Confucius in the Spring and Autumn Period. Confucianism has shaped the Chinese society, politics, culture, and education for more than two thousand years. It still shows renewed vitality and contemporary significance even nowadays. It advocates "benevolence" to promote moral integrity and "ritual" to maintain social order. In the Warring States Period, Confucianism, Taoism, Mohism and Legalism together stimulated intellectual development. In the Western Han Dynasty, the Han Emperor Wu "abolished all schools of thought and respected Confucianism alone", making it the orthodox state ideology (Zhai & Tang, 2023). While there were many schools of thought in the Tang Dynasty, Confucianism was the foundation of governance, and during the "Reign of Zhenguan" Emperor Taizong further promoted the "people-oriented" philosophy. In the Song Dynasty, scholars such as Zhu Xi developed Neo-Confucianism that integrated Confucianism with Buddhism and Taoism, emphasizing moral cultivation and natural principles (Li et al., 2020). 21st century, Confucianism, with its focus on ethics and social harmony, has become an important factor for cultural revival and the construction of national soft power, and continues to influence traditional Chinese culture.

Confucian culture is the core of the traditional culture of China, which carries important economic management concepts. Woods and Lamond (2011) argue that the Confucian "principle of integrity" necessitates firms to maintain transparency and credibility in business operations to establish long-term trust and cooperation. Moreover, the concept of "righteousness before benefits" emphasizes balancing social responsibility and profit goals, and promotes enterprises to stick to ethical principles and pursue sustainable development (Yu et al., 2021a). Gu et al. (2024) also point out that the Confucian concept of "loyalty" stresses the ideas of responsibility and commitment, demanding consistency between words and actions. These values are consistent with the principles of corporate governance, as they are expected to motivate firms to find a compromise between the interests of shareholders and to reduce the risk of asset expropriation in the formulation of dividend policies. Therefore, exploring the modern practical significance of Confucian culture can help explain the influence of Confucian culture on corporate dividend policies, and promote the high-quality development of firms.

2.3. Hypothesis development

With a long history in China, Confucian culture influences people's behavior and values through traditions, customs, and social norms, eliminating the need for laws or formal regulations. This cultural framework also plays a significant role in corporate decision-making. Specifically, as analyzed below, Confucian culture may influence listed firms' cash dividend policies in several ways:

First, the Confucian principle of "benevolence" enhances the altruism of listed firms and encourages them to pay more attention to their responsibilities to stakeholders. The theory of corporate altruism emphasizes the responsibility of firms to consumers, society and the environment, rather than simply maximizing profits (Chen et al., 2018). The increase in cash

dividends is a reflection of the firm’s commitment to shareholders and society (Benlemlih, 2019) and helps to build a positive social image, which improves investor trust and market reputation (Yu et al., 2021; Trihermanto & Nainggolan, 2018). The Confucian idea of benevolence, which is about caring for and respecting others (Sun et al., 2023), encourages managers to put long-term stakeholder relationships ahead of short-term interests (Wu et al., 2026). Therefore, companies affected by Confucian benevolence are more likely to have stronger altruistic tendencies and adopt more active cash dividend policies to provide stable returns to shareholders.

Second, the Confucian “integrity” doctrine enables firms to establish strong credit reputations, which in turn eases financing constraints and promotes cash dividend payments. Firms facing financing constraints are more likely to hold internal funds to handle uncertainty and the high costs of external financing, which results in lower dividends (Abreu & Gulamhussen, 2013; Ye et al., 2019). In Confucian culture, integrity and credibility are important, thus encouraging firms to enhance credit management and preserve reputational capital (Zhai & Tang, 2023). This cultural influence increases the confidence of investors and financial institutions in the repayment ability of the firms, which decreases the risk premiums and the financing costs (Höwer, 2016; Zhai & Tang, 2023). In addition, firms that are shaped by Confucian values may have better access to informal financing channels such as trade credit, especially in countries where formal financial structures are underdeveloped (Chen et al., 2019). Lower financing constraints allow firms to pay higher cash dividends and improve shareholder returns.

Third, the Confucian idea of “righteousness before benefits” reduces agency problems in firms and lessens the incentives of managers to infringe upon the interests of shareholders. Agency problems arise when managers are more focused on their own benefits than the value of shareholders. This often results in overinvestments, excessive perks, and less dividend payment (Cai et al., 2016; Du, 2015; Sheikh, 2022). The Confucian emphasis on righteousness over profit motivates managers to prioritize long-term corporate interests and shareholder rights. This helps reduce agency conflicts and governance costs (Xu et al., 2019; Zhai & Tang, 2023). This cultural influence leads to better corporate governance and lower agency costs (Li et al., 2020), which motivates firms to adopt more proactive cash dividend policies. Therefore, we propose the following hypothesis 1:

H1: *Confucian culture is positively associated with the cash dividend distribution of listed firms.*

3. Data and methods

3.1. Data

The sample is drawn from Shanghai and Shenzhen A-share listed firms from 2007 to 2022. Specifically, the sample is constructed as follows. We exclude financial and insurance companies, ST (special treatment) companies, foreign-controlled firms, and those with missing data. The final

research sample consists of 38295 observations, covering 4411 listed firms. The data on Confucian culture are manually collected and processed; detailed information is provided in the variable definitions section. Cash dividend data and other financial data of listed firms are obtained from the *CSMAR* database (China Stock Market and Accounting Research, a frequently used database in extant China studies), *Wind* database and *CNRDS* database. To mitigate the impact of extreme values, all continuous variables are winsorized at the level of 1% above and below.

3.2. Empirical model

To estimate the effect of Confucian culture on corporate cash dividend payouts, we construct the following model:

$$PAYRATIO_{i,t} = \alpha + \beta Confucian_{i,t} + \gamma X_{i,t} + Industy_t + Year_i + \varepsilon_{i,t} \quad (1)$$

In model (1), the dependent variable $PAYRATIO_{i,t}$ represents the relative payment strength of cash dividends of listed firms, and the explanatory variable $Confucian_{i,t}$ represents the strength of Confucian culture. $X_{i,t}$ is the control variable. In addition, $Industy_t$ is the industry fixed effect, $Year_i$ is the year fixed effect, and $\varepsilon_{i,t}$ is the random error term. β is the focus of this study, which represents the impact of the strength of Confucian culture on the relative payment strength of cash dividends of listed firms. The statistical standard errors are clustered at the firm level.

3.3. Variable definition

3.3.1. Confucian culture

Following existing research (Gu et al., 2024), we use the number of Confucius temples in a region as a quantitative indicator of Confucian cultural intensity. This approach captures the potential influence of this informal institution on corporate dividend behavior. Confucius temples (*Wenmiao*) are symbolic institutions of Confucian culture and important venues for the dissemination and practice of Confucianism (Huang et al., 2024). The development of Confucius temples has historically been closely linked with regional Confucian traditions, serving as key nodes for cultural transmission and social education (Li et al., 2023; Du, 2016). Through ceremonies, lectures and others activities, these temples are constantly promoting the spread and influence of Confucian culture.

In line with Huang et al. (2024), we utilize geographic information system (GIS) technology to analyze the spatial distribution of Confucius temples across 31 provinces and municipalities in China. The registered locations of listed firms and 491 Confucius temples were obtained from Google Maps and Baidu Maps respectively, and the spherical distance between the registered locations of firms and Confucius temples was calculated. For this purpose, we construct two proxy variables, CONFUCIAN_1 and CONFUCIAN_2, which are equal to the sum of the number of Confucian temples within 200 km and 300 km, respectively, of the registered location of a firm plus one, and take the natural logarithm. This approach captures the impact of Confucian culture on the local environment of firms. The more Confucius temples nearby, the stronger the cultural impact.

3.3.2. Cash dividend policy of listed firms

We select cash dividend intensity as the explained variable. Building upon the research of Attig et al. (2021), we employ the dividend payout ratio (*PAYRATIO*) indicator as the explained variable. The variable is constructed as follows: The dividend payout ratio (*PAYRATIO*) is employed to assess the relative strength of cash dividends distributed by listed firms, defined as the ratio of cash dividends per share paid in the year to earnings per share. The robustness of the indicator is assessed through subsequent tests of cash dividend per share (*DPS*) and the dividend yield (*DIVY*).

3.3.3. Control variables

Referring to existing research, we control a series of core influencing factors at the enterprise level in the empirical analysis (Attig et al., 2021; Javadi et al., 2021). We encompass two main dimensions of enterprise characteristics. On the one hand, at the level of financial characteristics, key indicators such as firm size (*SIZE*), leverage ratio (*LEV*), firm age (*FIRMAGE*), cash flow (*CFO*), return on assets (*ROA*), operating income growth rate (*INCREASE*) and current ratio (*LIQUID*) are selected. On the other hand, at the level of shareholder and board characteristics, variables such as percentage of ownership by the largest shareholder (*SHARE1*), board size (*BOARD*), proportion of independent directors (*INDIR*) and CEO duality (*DUAL*) are included. The specific measurement method is shown in Table 1.

Table 1. Variable definitions

VARIABLES	*Method of measurement*
CONFUCIAN_1	Confucian cultural influence, measured as the natural logarithm of the number of Confucius temples within 200 kilometers of the firm's registered location plus one.
CONFUCIAN_2	Confucian cultural influence, measured as the natural logarithm of the number of Confucius temples within 300 kilometers of the firm's registered location plus one.
PAYRATIO	Dividend payout ratio, calculated as cash dividends per share divided by earnings per share.
SIZE	Firm size, measured as the natural logarithm of total assets.
LEV	Leverage ratio, calculated as total liabilities divided by total assets.
FIRMAGE	Firm age, measured as the number of years since the firm's registration.
CFO	Cash flow, calculated as net cash flow from operating activities divided by total assets at the end of the period.
ROA	Return on asset, measured as the net profit divided by total assets.
INCREASE	Operating income growth rate, calculated as the growth rate of operating income from year t-1 to year t.
LIQUID	Current ratio, calculated as total current assets divided by total current liabilities.
SHARE1	Percentage of ownership by the largest shareholder, measured as the percentage of shares held by the largest shareholder (scaled by 100).
BOARD	Board size, measured as the natural logarithm of the number of formal directors on the board.
INDIR	Proportion of independent directors, measured as the proportion of independent directors on the board.
DUAL	CEO duality (referring to the combination of the roles of CEO and chairman of the board), if the board chairman also serves as the general manager, *DUAL* is assigned a value of 1; otherwise, *DUAL* is assigned a value of 0.

3.3.4. Descriptive statistics

Table 2 shows the descriptive statistics for the main variables. As illustrated in the table, the mean of the explained variable, the dividend payout ratio (*PAYRATIO*), of listed firms is 23.87%, while the median is 19.6%. On average, each listed company distributes only 23.87% of its net profit to investors in the form of cash dividends, according to the mean value. Half of the listed firms have a dividend payout ratio of less than 20%. The findings indicate that the dividend distribution level of most listed firms in China is low, and there are large differences between different companies. The mean values of Confucian cultural intensity, measured by *CONFUCIAN_1* and *CONFUCIAN_2*, are 2.6662 and 3.2493, respectively, while the corresponding maximum values are 3.8501 and 4.4308. This finding suggests that different companies may be influenced by Confucian culture to varying degrees.

Table 2. Descriptive statistics

VARIABLES	*N*	*Mean*	*SD*	*Min*	*Median*	*Max*
PAYRATIO	38295	0.2387	0.2487	0	0.1960	1.0617
CONFUCIAN 1	38295	2.6662	0.7758	0	2.7726	3.8501
CONFUCIAN 2	38295	3.2493	0.7289	0.6931	3.4012	4.4308
SIZE	38295	22.0426	1.2877	19.4514	21.8696	25.4705
LEV	38295	0.4295	0.2117	0.0679	0.4201	0.8929
FIRMAGE	38295	18.9005	5.8765	8	19	34
CFO	38295	0.0468	0.0693	-0.1321	0.0464	0.2196
ROA	38295	0.0387	0.0596	-0.1804	0.0386	0.1828
INCREASE	38295	0.3484	0.7987	-0.5667	0.1315	4.0795
LIQUID	38295	2.4578	2.4141	0.3571	1.6385	12.7263
SHARE1	38295	0.3458	0.1469	0.1023	0.3246	0.6916
BOARD	38295	2.1310	0.1946	1.6094	2.1972	2.5649
INDIR	38295	0.3732	0.0490	0.3333	0.3333	0.5000
DUAL	38295	0.2726	0.4453	0	0	1

4. Empirical results

4.1. Baseline result

Table 3 shows the results of the regression analysis of the effect of Confucian culture on the cash dividends of listed firms. Among them, columns (1) and (2) are baseline regressions, and columns (3) and (4) add firm-level control variables to the model. The regression coefficients on *CONFUCIAN_1* and *CONFUCIAN_2* are 0.0099 and 0.0093, respectively, both of which are significantly positive at the 1% level. These results suggest that a stronger influence of Confucian culture on a listed company is associated with higher cash dividend payments. Regarding control variables, the leverage ratio (*LEV*), firm age (*Firmage*), and operating income growth rate (*INCREASE*) are negatively associated with cash dividend payments. Regarding control variables, leverage (*LEV*), firm age (*Firmage*), and operating income growth (*INCREASE*) are negatively

associated with cash dividend payments, whereas firm size (*SIZE*), cash flow (*CFO*), return on assets (*ROA*), liquidity (*LIQUID*), ownership concentration (*SHARE1*), board size (*BOARD*), and CEO duality (*DUAL*) exhibit significantly positive coefficients.

Table 3. Basic regression

VARIABLES	(1)	(2)	(3)	(4)
	PAYRATIO	*PAYRATIO*	*PAYRATIO*	*PAYRATIO*
CONFUCIAN_1	0.0160***		0.0099***	
	(4.57)		(3.34)	
CONFUCIAN_2		0.0145***		0.0091***
		(3.90)		(2.96)
SIZE			0.0164***	0.0163***
			(8.02)	(7.99)
LEV			-0.2352***	-0.2354***
			(-17.00)	(-17.01)
FIRMAGE			-0.0012***	-0.0012***
			(-2.72)	(-2.68)
CFO			0.2172***	0.2167***
			(9.24)	(9.22)
ROA			0.5373***	0.5383***
			(19.05)	(19.08)
INCREASE			-0.0075***	-0.0076***
			(-3.42)	(-3.48)
LIQUID			0.0062***	0.0062***
			(5.29)	(5.30)
SHARE1			0.1859***	0.1868***
			(11.72)	(11.79)
BOARD			0.0517***	0.0509***
			(3.97)	(3.91)
INDIR			-0.0298	-0.0308
			(-0.63)	(-0.65)
DUAL			0.0072	0.0073*
			(1.62)	(1.65)
Constant	0.1960***	0.1915***	-0.2344***	-0.2350***
	(20.29)	(15.53)	(-4.34)	(-4.32)
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Observations	38295	38295	38295	38295
Adj.R^2	0.022	0.021	0.143	0.143

Notes: Values in parentheses are statistical t-values; *, **, *** respectively indicate significance at the 10%, 5%, and 1% levels. The same applies to the following tables.

4.2. Endogeneity analyses

4.2.1. Instrumental variable approach

Although using historical information to proxy for Confucian culture helps alleviate endogeneity concerns from reverse causality, omitted variables may still exist. For example, historical educational traditions rooted in Confucian values may correlate with both cultural persistence and corporate behavior. To address this issue, we employ the number of *Jinshi* in the Ming and Qing Dynasties (*IV_Jinshi*) in the region where listed firms are located as an instrumental variable (Yan et al., 2024; Gu et al., 2024). Using a two-stage instrumental variable regression helps mitigate endogeneity concerns. The rationale is that regions with a stronger historical emphasis on

Confucian education tended to produce more Jinshi, indicating deeper Confucian cultural influence, while the number of Jinshi has no direct causal relationship with modern firms' cash dividend policies. As shown in Table 4, the first-stage results indicate that IV_Jinshi is significantly correlated with *CONFUCIAN_1* and *CONFUCIAN_2* at the 1% level. Additionally, the weak instrument test (F-statistic >10) and the LM statistic confirm the validity of the instrumental variable. The second-stage results are consistent with the baseline findings.

Table 4. Instrumental variable approach

VARIABLES	(1)	(2)	(3)	(4)
	First-stage	*Second-stage*	*First-stage*	*Second-stage*
	CONFUCIAN_1	*PAYRATIO*	*CONFUCIAN_2*	*PAYRATIO*
IV_Jinshi	0.0002***		0.0001***	
	(16.69)		(14.93)	
CONFUCIAN_1		0.0727***		
		(5.33)		
CONFUCIAN_2				0.0956***
				(5.31)
Controls	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Observations	28246	28246	28246	28246
KP Wald F statistic	278.47		222.89	
LM statistics	217.18***		180.20***	

4.2.2. Difference-in-difference method

To address potential concerns about endogeneity, we use a generalized difference-in-difference (DID) model to study the effect of Confucian culture on firms' cash dividend policies in response to policy changes (Duchin, 2010). The DID approach requires identifying the timing of policy shocks and constructing appropriate treatment variables. Since the 18th National Congress of the Communist Party of China in 2012, the government has placed a greater emphasis on preserving and developing traditional Chinese culture. This includes Confucian values such as "integrity" and "righteousness before benefits." Accordingly, we introduce a time dummy variable Post, which equals 1 for years after 2012 and 0 otherwise. Following existing research, we also construct an index measuring Confucian cultural intensity (*CONFUCIAN*), based on the number of Confucius temples within 200 kilometers of a firm's registered location. [3]

Based on the above analysis, we involve the following generalized DID Model:

$$Payratio_{i,t} = \alpha + \beta CONFUCIAN_i \times POST_t + \gamma X_{i,t} + Industy_t + Year_i + \varepsilon_{i,t} \quad (2)$$

Among them, *i* represents the listed company, *t* represents the year. $PAYRATIO_{i,t}$ is the explained

[3]In the empirical analysis, we measure Confucian cultural influence using the natural logarithm of the number of Confucius temples located within 200 kilometers of a firm's registered address. As a robustness check, we construct an alternative measure based on the number of Confucius temples within a 300-kilometer radius. The main results remain qualitatively unchanged and are therefore not reported here for brevity's sake.

variable, which is used to measure the cash dividend payment level of the enterprise. $CONFUCIAN_i \times POST_t$ is the core explanatory variable, equal to the product of the intensity variable $CONFUCIAN_i$ and the time dummy variable $POST_t$. In addition, $X_{i,t}$ is a series of control variables, $Industy_t$ is the industry fixed effect, $Year_i$ is the year fixed effect, and $\varepsilon_{i,t}$ is the random error term. β is the coefficient of the interaction term, representing the impact of policy changes on the intensity of cash dividend payments by listed firms. The empirical results shown in Table 5 indicate that the coefficient of the interaction term is significantly positive at least at the 1% level, which further confirms that the influence of cultural policy has a significant promoting effect on cash dividend policy in areas with a strong Confucian cultural atmosphere.

Table 5. Difference-in-difference method

VARIABLES	(1)	(2)
	PAYRATIO	*PAYRATIO*
CONFUCIAN × POST	0.0156***	0.0103***
	(3.80)	(2.96)
Controls	NO	YES
Year FE	YES	YES
Industry FE	YES	YES
Observations	38295	38295
Adj.R²	0.021	0.143

4.3. Robustness tests

4.3.1. Alternative measures of cash dividend payouts

In the previous analysis, we mainly use the relative payment intensity of cash dividends (*PAYRATIO*) as the proxy for cash dividends. To avoid indicator selection bias, we introduce two additional dependent variables for empirical verification based on existing research (Attig et al., 2021): cash dividend per share (*DPS*) and dividend yield (*DIVY*). *DPS* measures the absolute intensity of cash dividend payments by listed firms and equals the amount of cash dividend per share distributed in a given year; if no cash dividends are paid, *DPS* = 0. Dividend yield (*DIVY*) is defined as the ratio of cash dividend per share to the year-end stock price. Table 6 shows that the coefficients of *CONFUCIAN_1* and *CONFUCIAN_2* are positive and statistically significant at the 1% level. The results indicate that the higher the influence of Confucianism on a firm, the more likely it is to pay cash dividends and to increase dividend payments per share. Our theoretical arguments are corroborated by results that are robust to alternative specifications.

Table 6. Alternative measures of cash dividend payouts

VARIABLES	(1)	(2)	(3)	(4)
	DPS	*DPS*	*DIVY*	*DIVY*
CONFUCIAN _1	0.0056***		0.0004***	
	(2.96)		(3.20)	
CONFUCIAN _2		0.0051**		0.0004***

		(2.46)		(3.40)
Controls	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Observations	38295	38295	38149	38149
Adj.R²	0.339	0.339	0.292	0.292

4.3.2. Alternative measures of Confucian culture

To ensure the robustness and validity of the empirical results, we employ alternative measures of Confucian cultural intensity. Following Huang et al. (2024), we construct a regional cultural intensity index (CONFUCIAN_3) using listed firms within a 100-kilometer radius. Column (1) of Table 7 reports the empirical results. Furthermore, Confucian academies are important institutions for the transmission of knowledge and the dissemination of culture, which signifies the depth and breadth of Confucian influence across the regions. Like Yan et al. (2024), we also construct the variables SCHOOL_200 and SCHOOL_300 based on the number of Confucian academies within 200 kilometers and 300 kilometers of the registered locations of firms. These variables measure the local Confucian cultural intensity, which reflects the regional penetration of Confucian influence. The results in columns (2) and (3) of Table 7 are still positive and significant, which provide robustness of our results to alternative measures of Confucian culture.

Table 7. Alternative measures of Confucian culture

VARIABLES	(1) *PAYRATIO*	(2) *PAYRATIO*	(3) *PAYRATIO*
CONFUCIAN_3	0.0109*** (3.38)		
SCHOOL_200		0.0093*** (2.45)	
SCHOOL_300			0.0070** (2.02)
Controls	YES	YES	YES
Year FE	YES	YES	YES
Industry FE	YES	YES	YES
Observations	38295	34553	34553
Adj.R²	0.143	0.130	0.130

4.3.3. Controlling for other culture factors

Religious culture can influence firms' strategic decision-making and management practices by shaping the values of corporate decision-makers (Cai et al., 2020; Du, 2013). In regions with strong religious cultural traditions, firms may place greater emphasis on social responsibility in profit distribution, which may affect the cash dividend policies of listed firms (Du et al., 2015). To eliminate the potential interference of religious culture, we introduce a control variable for religious cultural intensity following Li et al. (2020). Specifically, given the profound influence of Buddhism

and Taoism in China, we measure religious culture by counting the number of Buddhist (*TempleA*) and Taoist (*TempleB*) temples in prefecture-level cities, and we incorporate these numbers into a regression model. Table 8 shows that the coefficient of Confucian cultural intensity remains positive and significant at the 1% level, suggesting that our main results are robust after controlling for religious culture. The findings also further highlight the unique role of Confucian culture as a nonreligious cultural factor in determining the cash dividend policies of Chinese listed companies.

Table 8. Controlling for other culture factors

VARIABLES	(1)	(2)	(3)	(4)
	PAYRATIO	*PAYRATIO*	*PAYRATIO*	*PAYRATIO*
CONFUCIAN_1	0.0072**		0.0105***	
	(2.37)		(3.15)	
CONFUCIAN_2		0.0063**		0.0092***
		(1.97)		(2.74)
TempleA	0.0059***	0.0061***		
	(3.91)	(4.02)		
TempleB			0.0028	0.0029
			(1.24)	(1.32)
Controls	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Observations	38295	38295	24731	24731
Adj.R^2	0.144	0.144	0.145	0.145

4.3.4. Considering the exclusive explanation

External factors, especially formal institutions, might affect the influence of Confucian culture on corporate cash dividend policies (Firth et al., 2016). In August 2015, the China Securities Regulatory Commission (CSRC) issued a semi-mandatory dividend policy linking refinancing eligibility to dividend distribution,[4] which may affect firms' dividend decisions (Deng et al., 2015). We use an exclusion strategy to isolate policy-driven influences from cultural effects. We divide firms into affected and unaffected groups based on whether they are subject to the semi-mandatory dividend policy, following Li et al. (2024). Specifically, we define firms as treated if the firm-year observation is after 2015 and the firm's revenue growth is above the industry median, and untreated otherwise. We then estimate the baseline regressions separately for the two subsamples. If the observed effects are primarily driven by policy intervention, the coefficients should be stronger in the affected group; conversely, if they reflect cultural influence, the effects should be more pronounced among unaffected firms. The results in Table 9 show that Confucian culture has a significantly positive effect on *PAYRATIO* in the unaffected group, while the coefficients become statistically insignificant in the affected group. These findings suggest that the positive effect of

[4] In August 2015, the China Securities Regulatory Commission (CSRC) issued the *Notice on Encouraging Listed Companies to Engage in Mergers and Acquisitions, Cash Dividends, and Share Buybacks*. The notice emphasized the need for listed firms to establish cash dividend policies, prioritize cash dividends over stock dividends in their articles of association, and increase the proportion of cash dividends in profit distribution.

Confucian culture on corporate cash dividend policy is not driven by the semi-mandatory dividend policy.

Table 9. Exclusive explanation

VARIABLES	(1)	(2)	(3)	(4)
	Unaffected	*Affected*	*Unaffected*	*Affected*
	PAYRATIO	*PAYRATIO*	*PAYRATIO*	*PAYRATIO*
Confu_200	0.0106***	0.0072		
	(3.49)	(1.31)		
Confu_300			0.0094***	0.0077
			(2.93)	(1.41)
Controls	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Observations	27546	10748	27546	10748
Adj.R^2	0.148	0.135	0.147	0.135

4.3.5. Two-way cluster analysis

Following existing research (Attig et al., 2021; Javadi et al., 2021), we use two-way cluster analysis at the firm and year levels in Table 10. This approach significantly enhances the robustness of our study by effectively reducing potential biases induced by heteroskedasticity and serial correlation. As shown in columns (1) and (2), the results show a positive correlation between the intensity of Confucian culture and firms' dividend policy at the level of statistical significance, which remains consistent at the 1% significance level. This finding underscores the significant influence of Confucian culture in shaping corporate dividend policies and further reinforces the earlier conclusion that stronger Confucian cultural intensity drives listed firms to adopt proactive cash dividend policies.

Table 10. Robustness test of two-way cluster analysis

VARIABLES	(1)	(2)
	PAYRATIO	*PAYRATIO*
CONFUCIAN_1	0.0099***	
	(3.53)	
CONFUCIAN_2		0.0091***
		(3.14)
Controls	YES	YES
Year FE	YES	YES
Industry FE	YES	YES
Observations	38295	38295
Adj.R^2	0.143	0.143

5. Mechanism tests and heterogeneity analysis

5.1. Mechanism tests

In the subsequent analysis, we investigate in depth how Confucian culture promotes listed firms to expand the scale of cash dividend distribution by strengthening corporate altruistic tendencies, easing financing constraints, and reducing agency costs. We conducted a mechanism analysis with a two-step regression approach based on the study of Di Giuli and Laux (2022). First, we examined the impact of Confucian cultural intensity on the mechanism variables. In the second step we further estimated the effects of these mechanism variables on the level of cash dividend payouts by using their predicted values. To improve the robustness and further understand the underlying mechanisms, we add two indicators, *CONFUCIAN_1* and *CONFUCIAN_2*, to capture the Confucian cultural intensity.

5.1.1. Confucian culture and corporate altruism

The "view of righteousness and benefit" of Confucian culture suggests that firms should pay attention to altruistic behavior in their pursuit of economic interests and abide by the principle of "righteousness prior to benefit" (Cao et al., 2024). This ethical perspective influences corporate decision-making and results in companies in areas affected by Confucian culture showing more altruistic tendencies (Li et al., 2023). Thus, we propose a positive relationship between the degree of Confucian culture and corporate altruistic behavior. According to signaling theory, firms with higher levels of altruism signal financial stability and long-term commitment to investors by using active cash dividend policies (Benlemlih, 2019), which can increase investor confidence and market trust (Graafland & Smid, 2014). Therefore, these kinds of firms are more likely to pay cash dividends and have higher dividend payout ratios (Trihermanto & Nainggolan, 2018). Corporate social responsibility is a major form of corporate altruism. Following Chen et al. (2018), we construct the corporate altruism variable (*ALTRU*) based on the CSR ratings from Hexun.com. Table 11 Results show that Confucian cultural intensity is positively associated with corporate altruistic behavior. Predicted *ALTRU* significantly increases firms' cash dividend payouts. These results suggest that Confucian culture increases firms' altruistic tendencies, and thus, promotes cash dividend payments.

Table 11. Mechanism analysis of enterprise altruism

VARIABLES	(1)	(2)	(3)	(4)
	ALTRU	*PAYRATIO*	*ALTRU*	*PAYRATIO*
CONFUCIAN_1	0.1095**			
	(2.45)			
CONFUCIAN_2			0.1064**	
			(2.28)	
$\widehat{Altru}$		0.0925***		0.0870***
		(3.39)		(2.98)

Controls	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Observations	37310	37310	37310	37310
Adj.R^2	0.248	0.141	0.247	0.140

5.1.2. Confucian culture and financing constraints

The Confucian concept of "integrity" shapes firms' credibility and helps build trust in the capital market. The Confucian culture influences firms to have a stronger repayment discipline, which increases investors' confidence and decreases risk premiums, and thus reduces financing costs (Zhai & Tang, 2023). Such firms are also more likely to develop long-term relationships with banks and receive better loan conditions (Liu et al., 2018). However, when firms face financing constraints, managers often retain internal funds to cope with liquidity pressures and financing costs, reducing their willingness to distribute cash dividends (Li et al., 2024). Therefore, we expect that stronger Confucian cultural influence enhances firms' credibility, alleviates financing constraints, and encourages more active cash dividend distribution. To test this mechanism, we construct a financing constraint variable based on the KZ index (*KZ*) following Höwer (2016), with a higher value indicating a more severe financing constraint. As shown in Table 12, columns (1) and (3) indicate that stronger Confucian cultural influence significantly reduces firms' financing constraints. Firms facing fewer constraints are more willing to adopt active cash dividend policies and increase dividend payments.

Table 12. Mechanism analysis of financing constraints

VARIABLES	(1)	(2)	(3)	(4)
	KZ	*PAYRATIO*	*KZ*	*PAYRATIO*
CONFUCIAN_1	-0.0496***			
	(-3.06)			
CONFUCIAN_2			-0.0440***	
			(-2.71)	
$\widehat{KZ}$		-0.1726***		-0.1746***
		(-2.73)		(-2.38)
Controls	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Observations	33292	33292	33292	33292
Adj.R^2	0.734	0.128	0.734	0.128

5.1.3. Confucian culture and agency costs

Corporate agency theory suggests that managers tend to retain cash within firms (Jensen, 1986) rather than distribute dividends, as larger cash reserves increase their control over corporate resources and may encourage self-serving behavior (Liu et al., 2015). Conversely, Confucian values

such as 'loyalty' and 'benevolence' impose moral restraints on managers, encouraging them to focus on long-term corporate interests and shareholder value (Du, 2015; Wu et al., 2021). This cultural effect reduces managerial opportunism and agency costs and encourages firms to increase their cash dividend payouts (Zhai & Tang 2023). To test this mechanism, we use the management expense ratio (*FEE*) as a proxy for agency costs following Javadi et al. (2021), which is management expenses divided by operating revenue. Table 13 shows that Confucian cultural intensity decreases agency costs (columns 1 and 3) and predicted agency costs are negatively related to cash dividend payments (columns 2 and 4). These findings indicate that Confucian culture promotes cash dividend payouts by reducing agency costs.

Table 13. Mechanism analysis of agency cost

VARIABLES	(1)	(2)	(3)	(4)
	FEE	*PAYRATIO*	*FEE*	*PAYRATIO*
CONFUCIAN_1	-0.0048***			
	(-4.29)			
CONFUCIAN_2			-0.0050***	
			(-4.50)	
$\widehat{Fee}$		-2.0717***		-1.8241***
		(-3.34)		(-2.96)
Controls	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Observations	38294	38294	38294	38294
Adj.R^2	0.301	0.143	0.301	0.143

5.2. Heterogeneity analyses

Given the significant differences among listed firms in terms of ownership nature, market competition, and external cultural influences, we further analyze the heterogeneous impact of Confucian culture on different types of enterprises, deepening and enriching the research conclusions.

5.2.1. The role of enterprise ownership

State-owned enterprises (SOEs) differ substantially from private firms in terms of resource access, market competition, and policy support due to their close ties with the government (Deng et al., 2025). Their decision-making is often influenced by government intervention and macro policy objectives, which may weaken the role of cultural factors (Hillmann, 2023). In contrast, non-state-owned enterprises, with greater participation from individual and institutional investors, are more responsive to Confucian values such as "righteousness and benefit" and "loyalty and trustworthiness," which may encourage stronger dividend policies. Therefore, we expect the effect of Confucian culture on cash dividend policy to be more pronounced in non-state-owned firms. To test this hypothesis, we divide the sample into SOEs and non-SOEs and conduct subsample regressions. The results in Table 14 show that both *CONFUCIAN_1* and *CONFUCIAN_2* are

significantly positive at the 1% level for non-SOEs, indicating that Confucian culture has a stronger promoting effect on cash dividend payouts among non-state-owned firms.

Table 14. Heterogeneity analysis of enterprise ownership

VARIABLES	(1)	(2)	(3)	(4)
	Non-SOEs	*SOEs*	*Non-SOEs*	*SOEs*
	PAYRATIO	*PAYRATIO*	*PAYRATIO*	*PAYRATIO*
CONFUCIAN_1	0.0155***	-0.0006		
	(4.05)	(-0.14)		
CONFUCIAN_2			0.0141***	0.0005
			(3.40)	(0.11)
Controls	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Observations	24457	13838	24457	13838
Adj.R^2	0.149	0.141	0.149	0.141

5.2.2. The role of market competition

In highly competitive markets, traditional listed companies are forced to maintain the shareholders' trust while pursuing profit (Tang, 2018). Confucian values like "benevolence" and "righteousness before profit" encourage firms to avoid actions that harm shareholders and adopt more active cash dividend policies, which strengthen shareholder relationships and market confidence (Chen et al., 2021). In less competitive markets, in contrast, Confucian culture may be more reflected in internal governance and long-term development rather than in dividend distribution. Thus, we examine whether market competition moderates the relationship between Confucian culture and cash dividend policy. We measure market competition using the industry Lerner index following Elzinga and Mills (2011). Lower values of the index imply stronger competition. We divide the sample into high- and low-competition groups based on the mean Lerner index and estimate regressions separately for each subsample. As shown in Table 15, both *CONFUCIAN_1* and *CONFUCIAN_2* are significantly positive at 1% level in highly competitive industries, indicating that Confucian culture has a stronger effect on promoting cash dividend payouts when there is intense market competition.

Table 15. Heterogeneity analysis of market competition

VARIABLES	(1)	(2)	(3)	(4)
	High Competition	*Low Competition*	*High Competition*	*Low Competition*
	PAYRATIO	*PAYRATIO*	*PAYRATIO*	*PAYRATIO*
CONFUCIAN_1	0.0148***	0.0019		
	(4.32)	(0.45)		
CONFUCIAN_2			0.0136***	0.0013
			(3.86)	(0.27)
Controls	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Industry FE	YES	YES	YES	YES
Observations	22757	15538	22757	15538
Adj.R^2	0.146	0.146	0.145	0.146

5.2.3. The role of foreign cultural shocks

Since the reform and opening up of China, the inflow of foreign culture has had an impact on traditional culture and business behavior, especially in the coastal areas which are more exposed to international markets (Froese et al., 2019). Such external cultural factors may also influence corporate financial decisions such as cash dividend policies. We use the amount of foreign direct investment (FDI) in each city as a proxy for openness and divide the sample into relatively high- and low-openness groups based on the median value of this measure. Table 16 shows that the positive effect of Confucian culture on cash dividend payout is stronger in regions with low opening, but weaker in regions with high opening. The result suggests that the effect of the Confucian culture on the corporate dividend policy is weakened by a higher degree of openness to foreign markets.

Table 16. Heterogeneity analysis of foreign cultural shocks

VARIABLES	(1)	(2)	(3)	(4)
	Low Opening	*High Opening*	*Low Opening*	*High Opening*
	PAYRATIO	*PAYRATIO*	*PAYRATIO*	*PAYRATIO*
CONFUCIAN_1	0.0089**	-0.0006		
	(2.03)	(-0.13)		
CONFUCIAN_2			0.0078***	-0.0017
			(1.83)	(-0.35)
Controls	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Observations	11058	9150	11058	9150
Adj.R^2	0.151	0.153	0.151	0.153

6. Further tests: Impact on firm value

The above analysis indicates that firms' cash dividend payouts are positively associated with Confucian culture. However, its focus on stability and prudence may also promote the adoption of more conservative strategies by firms, especially in high-risk investment and innovation, which may restrict long-term profitability and firm value (Chen et al., 2019; Yang et al., 2022). This brings us to an important question. Can more active cash dividend policies increase firm value in regions with strong Confucian cultural influence? In this context, the economic consequences of dividend policies are analyzed below. Book-to-market ratio (*MB*) is used as a proxy for firm value following An et al. (2025). Following Javadi et al. (2021), we regress *MB* on Confucian cultural strength (*CONFUCIAN_1*, *CONFUCIAN_2*), cash dividend intensity (*PAYRATIO*), their interaction terms, and control variables. To minimize the potential for multicollinearity, *PAYRATIO* is orthogonalized by removing the linear effects of Confucian cultural strength and other controls. The results are

shown in Table 17. The results indicate that the interaction term is positive and significant at 10% level, meaning that higher dividend payouts may increase the firm value in areas with stronger Confucian cultural influence. Confucian culture is negatively related to firm value, but firms in Confucian culture are more proactive in their dividend policies to mitigate the effect of Confucian culture. These findings suggest that the increase in cash dividend payment is consistent with the objective of maximizing firm value under the strong influence of Confucian culture.

Table 17. Further analysis

VARIABLES	(1)	(2)
	MB	*MB*
$Confucian_1 \times PAYRATIO_orth$	0.0245**	
	(1.98)	
$Confucian_2 \times PAYRATIO_orth$		0.0242*
		(1.88)
CONFUCIAN_1	-0.0086*	
	(-2.08)	
CONFUCIAN_2		-0.0043
		(-1.01)
PAYRATIO_orth	0.0122	-0.0011
	(0.34)	(-0.02)
Controls	YES	YES
Year FE	YES	YES
Industry FE	YES	YES
Observations	37471	37471
Adj.R^2	0.539	0.539

7. Conclusion and policy recommendations

Based on the perspective of informal institutions, we investigate the effects and mechanisms of Confucian culture on corporate cash dividend policy. The empirical results indicate that Confucian culture significantly positively affects the cash dividends of listed firms. Specifically, firms under stronger influence of Confucian culture have higher cash dividend payouts. Mechanism analysis shows that Confucian culture mainly affects the cash dividend policy of listed companies through three channels, namely the increase of corporate altruism, the alleviation of corporate financing constraints and the decline of corporate agency costs. These results add to our comprehension of the impact of culture on corporate financial decision-making and underscore the positive economic value of the Confucian culture in modern corporate governance. Our results are also more relevant when considering non-state owned firms, highly competitive markets, and firms less influenced by external culture. Finally, further tests show that in regions with a strong Confucian cultural atmosphere, increasing cash dividend payouts are internally consistent with the goal of maximizing shareholder wealth. The finding implies that Confucian culture plays an important role in promoting the realization of shareholder wealth maximization by affecting corporate financial

behavior, and it shows the deep integration of economic and cultural values.

The results of this study have important policy implications. First, regulators may consider promoting the incorporation of the core values of Confucian culture, such as integrity and social responsibility, into the corporate governance framework of firms. This can be promoted by a reward and punishment mechanism or by establishing a guiding framework, especially in the case of SMEs and non-state-owned enterprises, to enhance their willingness to pay dividends and improve returns to shareholders. Second, the government should encourage enterprises to assume social responsibility and support them to improve their sense of social responsibility through measures such as tax exemption, subsidies or public recognition. This not only benefits the market reputation of firms but also allows them to return to society and avoid hoarding excess cash. This is consistent with the Confucian idea of “righteousness before profit”. Thirdly, the government and financial institutions can appropriately relax credit conditions for enterprises that are more affected by Confucian culture, and give enterprises with honest operations higher credit ratings and lower financing costs. This will help enterprises to alleviate financing constraints and improve their competitiveness and stability in the capital market, and at the same time encourage these enterprises to maintain a stable dividend distribution policy.

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