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Chinese Merchant Group Culture, Corporate Social Responsibility, and Cost of Debt: Evidence from Private Listed Firms in China

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Abstract: Chinese merchant groups are commercial organizations that have developed over thousands of years. Given the importance of private firms to China's sustainable development, this study investigates the impact of the traditional Chinese concept of merchant groups on corporate social responsibility (CSR) performance and cost of debt, using Chinese private listed firms during 2008–2020. We measure merchant group culture based on the company's geographic location. Ordinary least squares regression models are used to test the hypotheses. According to the results, the CSR performance of firms from five traditional Chinese merchant groups is better than non-members. A positive relationship exists between the strength of merchant group culture and CSR performance; this relationship is stronger among merchant group companies. The closer the culture to CSR values, the better the CSR performance, which is negatively related to the cost of debt. The findings are in line with the peer effect theory. Therefore, the study provides evidence that it is essential to consider the traditional Chinese merchant group culture for firms' CSR strategies beyond formal financial and regulatory factors in China. This study is a first step in exploring the impact of merchant group culture in China on CSR performance and the economic application of this relationship.

Keywords: Chinese merchant group; merchant group culture; corporate social responsibility; debt cost; informal institution



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1. Introduction

Prior studies on law and finance by Andrei and Robert [1] and La Porta et al. [2] have mainly focused on developed countries, using a Western-centric approach to property rights to develop legal systems, thereby giving legal protections to investors. Thus, these studies cannot explain Chinese economic development over the past 40 years, which has occurred without a fully developed legal system. Granato et al. [3] and Guiso et al. [4] demonstrated that scholars have addressed research on informal institutional mechanisms like culture, which aids economic development, facilitates the financing and operating of firms, and accelerates economic growth, as in China [5–8].

China has 5000 years of rich history. In this time, dynasties have risen and fallen, families have aligned themselves with various dynastic rulers, and merchants have developed unique business cultures. Culture is a tool that groups use to maintain an identity. From a cultural evolutionary perspective, cultural characteristics can influence an economy through indirect mechanisms despite not directly affecting the economy [4].

Fei's (1985) seminal work [9] shows that interpersonal relationships in Chinese society are based on geography and blood relationships, expanding into the social network. Chinese business cultures from different regions present significant diversification, given

the vast Chinese territory, reflecting the distribution of multi-ethnic and generational migration. The Chinese merchant group is a commercial organization that has developed over thousands of years. It provides a platform for Chinese manufacturers and traders to make business strategies and seek cooperation. Chinese merchant groups have unique guidelines for commercial and social responsibility, which are inherited and determined by the culture of every merchant group. The unique characteristics stem from various informal systems, such as clan systems, merchant group statutes, and religious beliefs [7].

Given the ongoing deterioration of the natural environment caused by human industrial civilization and the internationalization of enterprise management, sustainable development is garnering increasing attention. In this context, the present study addresses the following questions. Does Chinese merchant group culture lead to corporate social responsibility (CSR)? If so, is there any important economic consequence?

We examine the relationship between Chinese merchant group culture and CSR using firm-level data for Chinese private listed firms. We find that belonging to a merchant group is associated with higher CSR performance. The relationship is stronger for firms closer to the place of origin of the merchant group culture, suggesting that distance plays a role in the diffusion of cultural influence. We also find that CSR can reduce the cost of debt more in merchant group firms. Collectively, our findings have important implications for academics and practitioners in understanding the function of Chinese traditional business culture in CSR performance and its economic consequences.

This study makes the following contributions to the literature. First, it sheds light on the impact of merchant group culture on CSR. Second, to the best of our knowledge, this study is the first to analyze the impact of CSR performance on the cost of debt of private listed firms in China using the merchant group culture. Third, this study employs a new comprehensive method to measure the merchant group culture, thereby bridging a gap in the literature on merchant group culture relating to CSR in China.

The remainder of the paper is structured as follows. Section 2 reviews the literature. Section 3 develops the hypotheses. Section 4 presents the research methodology. Section 5 reports the empirical results. Section 6 concludes.

2. Literature Review

2.1. Culture and Economic Growth

Since the 1990s, the relationship between culture and economy has garnered much scholarly attention. The neo-institutional school of Coase [10] regarded culture as an important part of the informal system, positing that culture influences a country's economic development by influencing the formal institutional structure [11–13]. Many scholars have analyzed the impact of cultural capital on economic growth [14,15]. By introducing cultural capital into the endogenous growth model, Bucci and Segre [16] theoretically demonstrated the relation between cultural capital and economic growth. Alesina and Fuchs-Schundeln [17] and Alesina et al. [18] believe the role of culture warrants special attention, as historical and geographical factors influence the modern economy via cultural characteristics from generation to generation.

The mechanism underlying culture's impact on economic development lies in the hindering effect of culture on technology diffusion [19–21]. Petrakis et al. [22] categorized culture into economic and social efficiency-oriented culture, the former exerting a significant and positive impact on economic growth, and the latter, a negative impact. Fukuyama [23] revealed a significant effect of Confucian culture on East Asian economic growth. Greif and Guido [8] found a strong causal relationship between cultural inheritance and economic growth based on data from eight European countries. Afzal et al. [24] found a positive correlation between trust and respect for Asian countries' economic growth. Lonner et al. [25] found that the cluster of national culture can be interpreted via geographical, religious, and linguistic factors. Davidov et al. [26] divided social values into seven dimensions: security, self-direction, stimulation, hedonism, tradition-conformity, universalism-benevolence, and power-achievement values. Their multi-group confirmatory factor analysis has explanatory

power when reviewing several countries. Gorodnichenko and Roland [27] adopted Hofstede's [28] cultural analysis and found that individual innovation behavior yields higher social rewards and recognition in an individualistic cultural region. Thus, individualism can make up for the negative impact of a bad system on economic growth. Maridal [29] established that culture affects economic performance through two channels: cultural traits that stimulate individual motivation, and traits that develop social capital within society. Culture has become part of the explanation and not just an outcome variable.

2.2. Culture and Corporate Social Responsibility

CSR is linked to the seminal work of Bowen [30], who argued that the social responsibilities of businesspeople are obligations "to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society". Carroll [31] proposed four CSR evaluation categories: economic, legal, ethical, and charitable responsibilities. Wood [32] defined CSR performance via public responsibility, managerial discretion, and legitimacy. Combined with the stakeholder theory of Freeman [33], the theoretical and practical development of CSR has been vigorous [34–36].

Some scholars study CSR from the perspective of management response. Since CSR strategy is such a complex process, management discretion is essential. The attitude of management to CSR inevitably influences corporate culture. McDonald et al. [37] posited that corporate culture is an important original motivation for CSR. Ullmann [38] found that the attitudes and responses of entrepreneurs toward society directly affect CSR performance. If an entrepreneur is socially responsible, CSR performance is generally good. A selfish entrepreneur takes a negative attitude to CSR issues. Post et al. [39] identified entrepreneurs as decision-makers and managers, determining the core business ethics and providing a standard for employees. Mudrack [40] probed the relationship between entrepreneurs' personal characteristics and enterprise social responsibility performance from the individual perspective and found that entrepreneurs' personality, style, and thinking affect enterprise social responsibility performance. Wang and Juslin [41] redefined CSR in China from the Confucian harmony perspective. Godfrey [42] and Godfrey et al. [43] found that, in developing countries, the motivation of entrepreneurs to fulfill social responsibilities is the internal driving mechanism for producing positive moral capital, benefiting communities and stakeholders. Moral capital ensures tangible assets and contributes to shareholder wealth.

2.3. Corporate Social Responsibility and Financing Cost

The literature yields inconsistent results on the relationship between CSR and financial performance [44–46]. Investors might accept a higher risk for firms engaging in CSR [47–51]. However, other studies identify a negative relationship between CSR and financial risk [52–54]. Some studies find a negative relationship between idiosyncratic risk and CSR performance [55–60]. CSR performance can curb information asymmetry and lower capital constraints in the financial market [50,61–64].

Some studies focus on CSR and cost of equity [65], examining the negative relationship between CSR performance with a weighted average cost of capital in the financial market [62,66,67]. Based on the reputation theory, Diamond [68] identified a negative relationship between the cost of debt and CSR performance. Fombrun and Gardberg [69] demonstrated a relationship between CSR and firm reputation. Schnietz and Epstein [70] argued that CSR affects risk reduction. CSR can enhance firm reputation, benefiting firms in capital markets [71,72]. CSR may increase trust and reduce transaction costs by aligning with stakeholder incentives [73]. Empirical results demonstrate a positive relationship between CSR and a firm's credit ratings [49,55,74–77]. Other studies have examined the relationship between CSR performance and the cost of debt [60,78,79] and also found a negative relationship [48,74,76,80].

3. Hypothesis Development

The influence of culture has increasingly been investigated by economists [4]. Spolaore and Wacziarg [21] summarized how economists develop a deeper understanding of factors other than formal institutions, such as geographical, historical, and cultural factors (fundamental factors), to explain economic activity and growth. Merchant group culture plays an important role in the decision-making of Chinese enterprises.

As a unique informal system in the history of the economy, Chinese merchant group culture has a long-term and profound impact on regional economic development. The appeal of merchant group culture spreads from different ethnic groups through various channels, such as value preference, community network, and human capital. The migration of China's vast territory and multi-ethnic groups makes the commercial culture of different regions diversified, and has created some merchant groups with great regional characteristics, which have become the most active and powerful commercial units during China's economic development. Chinese traditional merchant groups are spontaneous, semi-formal, regional business organizations based on the identity of geography and blood relationships with the purpose of "social contacts and mutual assistance". Chinese merchant groups integrate traditional Confucian culture and business practice, to promote the development of regional economy by influencing the value of enterprise faith and governance mechanisms.

Over a history of 1000 years, the spirit core of Confucian culture (benevolence, righteousness, courtesy, wisdom, and trust) have penetrated China's regional commercial culture. Some excellent traits of Chinese traditional culture, such as zeal for public welfare, balancing virtue and justice, right behavior, and pragmatism, have become part of firm culture, providing a cultural basis for CSR and guiding firms to implement socially responsible practices.

Justice–benefit value is a notion from Confucian economic ethics. Justice refers to ethical norms and moral principles, while benefit refers to one's material interests. In other words, people should balance the pursuit of justice and economic benefit. Confucianism emphasizes justice as perfectly justified within one's jurisdiction. All regulations and institutions, customs and etiquette, and ethical relationships should be set in norms. Among Chinese traditional merchant groups, having the correct view of justice and benefit is the ultimate honor of a respectable businessperson. The correct justice–benefit value posits value creation for society and other stakeholders in pursuit of less material wealth, and is similar to the social responsibility theory. The concept of *guanxi* (connections) and *mianzi* (saving face) are clearly demonstrated within such constructs. The merchant group's motivation to do the right thing is valued more highly than mere compliance with rules and regulations. Money worship is a distorted justice–benefit value that ignores morality and integrity. The justice–benefit value is a cultural basis for Chinese private entrepreneurs to undertake CSR.

3.1. Merchant Group Culture and Corporate Social Responsibility

From the economic history perspective, governance of a merchant group cannot be separated from its culture, region, and institutional environment. According to a systematic merchant group study in the middle-ages around the Mediterranean Sea, a multilateral punishment mechanism and the cultural belief of traders were key to governance [13,81]. Akerlof [82] established a model to reflect how social customs affect individual behavior, demonstrating that the more people follow a behavioral norm, the higher the incentive to obey the code, and hence, the more likely the local social custom influences the culture of firms.

Furthermore, as corporate culture is an important motivation for CSR [83], the attitude, mode, and style of entrepreneurs in society directly influence CSR performance [38–40] and comprise a more consistent internal driving mechanism of CSR in developing countries [43].

Thus, it is appropriate to investigate the effect of culture on CSR in China. From the ebb and flow perspective of Chinese merchant groups, the core ideas of Chinese traditional

culture, such as benevolence, morality, courtesy, and righteousness, are internalized into the spiritual connotation of integrity, kindness, justice, and benefit in merchant groups, arguably impacting CSR performance. Furthermore, the peer effect theory explains the appeal of CSR to merchant group culture, as per Fu and Gupta-Mukherjee [84]. The five traditional Chinese merchant groups have their distinct cultural beliefs, regulations, and codes of conduct, which disperses the influence of culture. Given the merchant group culture appeal, CSR implementation reflects the peer effect and aspects of Confucian virtues. Merchant groups advocate a historical mission and social responsibility to treat people with virtue, similar to the CSR theory. Therefore, we propose the following three hypotheses.

Hypothesis 1 (H1). *Firms belonging to the five merchant groups achieve better CSR performance than non-members.*

Hypothesis 2 (H2). *There is a positive relationship between merchant group culture appeal and CSR performance.*

Hypothesis 3 (H3). *The greater the merchant group culture appeal, the better the CSR performance of member firms.*

3.2. Importance of Corporate Social Responsibility in Each Merchant Group Culture

Although merchant groups are all influenced by the justice–benefit value in Confucianism, each culture has unique characteristics, and hence, each of the five traditional Chinese merchant group attaches different importance to CSR.

3.2.1. Hui Merchant Group Culture

Hui merchant group culture evolved from Shanyue and Xin’an culture. Xin’an neo-Confucianism originated in the Southern Song Dynasty more than 800 years ago in the Huizhou area of China. Loyalty, filial piety, benevolence, and righteousness are its core values. In the Ming dynasty, the ideas of the ancient Chinese philosopher, Wang Yangming, were prevalent in Anhui province. He advocated for a standard social norm for different classes. In a society in which fame came first, discrimination against businesspeople had been somewhat eliminated. Under the guidance of the justice–benefit value, Hui culture merchants viewed themselves as businesspeople under Confucianism, emphasizing credibility and honor. They sponsored cultural activities with business profits and regarded business as a useful political tool. Hui merchants prefer to be officials to boost family prestige and earn government protection. In business operations, they depend on political connections to expand development opportunities. After accumulating enormous material wealth, Hui merchants tend to donate to build schools and hire teachers. To build reputation, they support education, repair roads and bridges, and help the poor.

3.2.2. Jin Merchant Group Culture

Jin merchants emerged from the Ming and Qing Dynasties. Their splendid achievements in business spanned approximately 500 years. They were loyal to China’s Emperors. Jin merchants subscribe to Confucianism, in which they seek the justice–benefit value. In particular, characteristics of loyalty, righteousness, sincerity, and trustworthiness, as advocated by the well-known ancient Chinese legend, Guan Gong, form the basis of moral and conduct rules requiring Jin traders to be courteous, fair, and sincere. Accordingly, Jin merchants impart the spirit of loyalty to employees, inducing them to be honest and trustworthy in commercial activities. The justice–benefit value in Confucianism has been internalized in the code of conduct of Jin merchants, enhancing credibility in the tradition. However, Jin merchants had a close relationship with the government in the Qing dynasty, the collapse of which induced their gradual decline.

3.2.3. Zhe Merchant Group Culture

People of Zhejiang province of China are good at business and proud of being wealthy. After the Jiajing and Wanli eras of the Ming Dynasty, China transitioned into a crucial period that saw the emergence of modern commercial activities. Free businesspeople emerged, as represented by merchant groups in the Longyou and Ningbo areas of Zhejiang province. In the late Ming and early Qing dynasties, given the growing merchant economic power, traders advocated for developing the handicraft industry and commodity circulation; effectively, it was a political declaration to enrich the people and citizens.

Given the weak state-owned enterprises in Zhejiang province, the private economy grew prosperously, inducing the development of private firms country-wide after the birth of the People's Republic of China. The rise of Zhejiang merchants reflects the achievements of the reform and vitality of the new system in China. Zhejiang merchants view clan and family as core business members and cooperate with nearby peers. Their distinctive characteristic is mutual support and cooperation among hometown fellows. Cooperation is an important means for minimizing business risks, inducing astounding success. Most members of the Zhe merchant group were small-scale sellers of handicrafts. Their most prominent trait is being kind to employees, reflecting their historical inheritance of humanitarianism. Many Zhe merchants provide living facilities and treatment for migrants. Rooted in the commercial activity ideology, Zhe merchants adhere to a practical and pragmatic philosophy.

3.2.4. Yue Merchant Group Culture

Yue is the merchant group in Guangdong province, the first region in China to accept capitalism. Given Guangdong's adjacency to Hong Kong, Western thought developed more freely in the province than in other areas of China. Pragmatism and individualism are integrated with the modern CSR concept in this area. From a geographical view, Guangdong is far from central China; thus, the official Confucian ideology is not as strong in Yue merchant culture as in other merchant group cultures. Ideas from Chinese traditional religions (Daoism and Buddhism) and schools of thought (Confucianism, Legalism, etc.) shape the complex ethos of the Yue merchant group. From its orthodox ideology, the Yue merchant group culture lacks high ethical positions and principles. However, Yue merchants are good at addressing world affairs and technology; they are shrewd bargainers and promote their interests. They are agile in mastering new skills and innovation. Most Yue traders view a low profile, pragmatism, entrepreneurship, and self-revolution as their main cultural traits. Pragmatism and individualism are key characteristics, reflecting Western utilitarianism and instrumentalism.

3.2.5. Min Merchant Group Culture

Min merchants have an excellent international perspective and market sense in China. Since the Tang Dynasty, the southeast coast of China has been the vanguard of the capitalist mode of production. Min merchants emerged with the development of commercial trade in Fujian province, especially overseas trade in the late Tang Dynasty. Min merchants were located in marginalized areas excluded by feudal centralization and agricultural activities. In the Ming and Qing dynasties, unlike Jin and Hui traders, who had already become vassals of feudal centralization, Min merchants were the abandoned people of feudal dynasties and were considered smugglers under a policy that banned maritime trade.

In their long history of business operations, Min merchants formed their values, ethics, and codes of conduct closely based on the culture of the Mazu, the Goddess of the sea. Mazu culture champions peace and inclusiveness, prominent adventure, and cosmopolitan spirit, thereby distinguishing Min merchants from the traditional agriculture civilization in central China and the nomadic culture of northwest China. From the start of the 20th century, Min merchants have continuously created commercial activities and built business empires. They supported native people after acquiring vast wealth [85].

The five merchant groups' differing cultures and beliefs and their complex relationships with social responsibility theory yield the following hypothesis.

Hypothesis 4 (H4). *The more CSR is valued by a merchant group culture, the better the CSR performance of firms of that merchant group.*

3.3. Merchant Group Culture, Corporate Social Responsibility, and Cost of Debt

Instrumental stakeholder theory [64] posits that CSR performance improves firm value in two ways. First, managers can balance the requirements of different stakeholders to improve the firm's ability to adapt to the external environment. Second, stakeholder satisfaction directly affects a firm's reputation and value. Stakeholder theory is viewed as most closely related to CSR by Wood and Jones [86]. Waddock and Graves [87] proposed the concepts of the explicit and implicit cost of a firm from the stakeholder governance perspective and noted that if firms fail to implement CSR, the implicit cost increases, inducing higher explicit cost, thereby losing competitive advantage [88,89]. Managers must strike an effective balance between their stakeholders to avoid transforming implicit costs into explicit ones [90,91].

The most important consensus of prior research appears to be that CSR practices can build trust between a firm and its stakeholders and investors [92], leading to a lower cost of debt [93]. When firms engage in CSR, investors may require a lower risk premium, and the financial risk decreases [53,54]. Other CSR risk reduction studies [47,48] also find that CSR performance is negatively related to the cost of debt [52,74,76,78]. Hence, our next hypothesis is as follows.

Hypothesis 5 (H5). *There is a negative relationship between CSR performance and the cost of debt, and the relationship is more pronounced within firms of the five merchant groups.*

We summarize our hypotheses and research models in Table 1.

Table 1. Summary of hypotheses and research models.

Hypotheses	Hypothesis 1 (H1): <i>Firms belonging to the five merchant groups achieve better CSR performance than non-members.</i>
	Hypothesis 2 (H2): <i>There is a positive relationship between merchant group culture appeal and CSR performance.</i>
	Hypothesis 3 (H3): <i>The greater the merchant group culture appeal, the better the CSR performance of member firms.</i>
	Hypothesis 4 (H4): <i>The more CSR is valued by a merchant group culture, the better the CSR performance of firms of that merchant group.</i>
	Hypothesis 5 (H5): <i>There is a negative relationship between CSR performance and the cost of debt, and the relationship is more pronounced within firms of the five merchant groups.</i>
Research Models	Model (1) : $CSR_{i,t}$ $= \beta_0 + \beta_1 MG_{i,t} + \beta_2 LNSIZE_{i,t} + \beta_3 LEV_{i,t} + \beta_4 ROA_{i,t} + \beta_5 SGROW_{i,t} + \beta_6 HERFINDAHL_{i,t} + \beta_7 MStop3_{i,t} + \text{Year fixed effects} + \text{Industry fixed effects} + \varepsilon_{i,t}$
	Model (2) : $CSR_{i,t}$ $= \beta_0 + \beta_1 APPEAL_{i,t} + \beta_2 LNSIZE_{i,t} + \beta_3 LEV_{i,t} + \beta_4 ROA_{i,t} + \beta_5 SGROW_{i,t} + \beta_6 HERFINDAHL_{i,t} + \beta_7 MStop3_{i,t} + \text{Year fixed effects} + \text{Industry fixed effects} + \varepsilon_{i,t}$
	Model (3) : $CSR_{i,t}$ $= \beta_0 + \beta_1 MG_{i,t} + \beta_2 APPEAL_{i,t} + \beta_3 MG \times APPEAL_{i,t} + \beta_4 LNSIZE_{i,t} + \beta_5 LEV_{i,t} + \beta_6 ROA_{i,t} + \beta_7 SGROW_{i,t} + \beta_8 HERFINDAHL_{i,t} + \beta_9 MStop3_{i,t} + \text{Year fixed effects} + \text{Industry fixed effects} + \varepsilon_{i,t}$
	Model (4) : $COST_{i,t}$ $= \beta_0 + \beta_1 CSR_{i,t} + \beta_2 LNSIZE_{i,t} + \beta_3 LEV_{i,t} + \beta_4 ROA_{i,t} + \beta_5 SGROW_{i,t} + \beta_6 HERFINDAHL_{i,t} + \beta_7 MStop3_{i,t} + \text{Year fixed effects} + \text{Industry fixed effects} + \varepsilon_{i,t}$

4. Research Design

4.1. Measurement of Variables and Data Source

Scholars use the religious environment of a firm's location to measure the religious influence on the firm [94,95]. Accordingly, Hilary and Hui [96] gauged the index of religious influence on listed firms. The religious environment of a region can be proxied by the

number of religious sites and people therein and their proportion to the total population. According to the prior literature, we measure merchant group firm and merchant group cultural appeal as follows. If the registered locations of private listed firms are in Shanxi (JIN), Anhui (HUI), Fujian (MIN), Zhejiang (ZHE), or Guangdong (YUE) province, they are defined as merchant group firms.

There are 14 cradles of the five merchant group cultures. The cradles are the locations of origin. JIN has two cradles: Pingyao and Linfen. HUI has six cradles: She Town, Xiuning, Wuyuan, Qimen, Yi Town, and Jixi. ZHE has three cradles: Huzhou, Ningbo, and Wenzhou. YUE has two cradles: Guanzhou and Chaozhou. MIN has one cradle: Fuzhou. The merchant group cultural appeal is measured in two dimensions. The first is the nearest straight-line distance between the registered location of firms and the corresponding cradle of merchant group culture. However, geographical factors, such as landform, transport, and topography, may hinder the merchant group cultural appeal; thus, a straight-line distance might not reflect the appeal effectively. The second dimension is the nearest driving distance between the registered location of firms and the corresponding cradle. The smaller the values, the stronger the merchant group cultural appeal. The two dimensions are continuous variables at the geographic level. The straight line and driving distance are obtained by manual collection. Specifically, using Google Maps, the study first orientates the longitude and latitude of each listed firm's registered location and the 14 cradles of the five merchant group cultures. The study then calculates the straight-line distance between each firm and the 14 cradles. Finally, we settle on the smallest of the 14 values as the index of the appeal of the merchant group culture to the firm. The driving distance calculation follows that of the straight-line distance.

Social responsibility performance is proxied by 2008–2020 CSR scores obtained from the Chinese Research Data Services Platform (CNRDS) database. The CSR score, prevalent in academia, gauges the strength and weakness of firms' environment, diversity, employee relations, human rights, community relations, product quality, and safety dimensions. The cost of debt is calculated by dividing interest expense by the principal of debt, which includes short-term debt in current liabilities, long-term debt, long-term debt due within a year, and long-term bonds in non-current liabilities, obtained from the China Stock Market & Accounting Research Database (CSMAR).

To mitigate endogeneity, we control for several firm-level factors. Given that larger firms are under more pressure and possess more resources than small firms, they should commit to higher CSR levels [97]. Thus, the study controls for firm size (LNSIZE). We also consider leverage (LEV), as debtholders may influence a firm's decision by restricting funds for CSR or encouraging a company to go green. We use return on assets (ROA) to control for the effect of financial resources and extra funds on ethical activities and CSR decisions [98]. We control for sales growth rate (SGROW), representing the growth of firms, which influences firms' CSR and financial decisions.

Meanwhile, we consider the influence of internal corporate governance, ownership concentration, and management compensation. Higher ownership concentration (HERFINDAHL) means that a firm's CSR and financial decisions are arbitrarily decided by the largest shareholders. As an effective incentive mechanism, reasonable management compensation (MStop3) can make managers combine their own interests with long-term strategies to effectively respond to different stakeholder interests, promoting firm social responsibility performance. We also control for the age of a firm since its listing and industry- and year-fixed effects. The variable definitions are reported in Table 2.

Table 2. Variable definitions.

Variable	Definition	Source
MG	An indicator variable that equals 1 if the firm is in the five merchant groups (Anhui, Shanxi, Zhejiang, Fujian, and Guangdong provinces) and 0 otherwise	CSMAR
APPEAL	The appeal of the merchant group culture, measured by the following two dimensions: <ul style="list-style-type: none"> the straight-line distance (1000 km) between the registered location of the firms and the cradle of the merchant group culture (APPEAL1); and the driving distance (1000 km) between the registered location of the firms and the cradle of the merchant group culture (APPEAL2) 	Google Maps
CSR	Corporate social responsibility index of firms calculated by the KLD method	CNRDS Database
COST	Interest of debt divided by principal of debt (%)	CSMAR Database
Control Variables		
LNSIZE	Natural logarithm of total assets	CSMAR Database
LEV	Total debt (measured as short-term debt, current portion of long-term debt, and long-term debt) divided by total assets	CSMAR Database
ROA	Net income divided by total assets	CSMAR Database
SGROW	The increasing amount of sales in this year divided by sales of last year	CSMAR Database
HERFINDAHL	The sum of squares of proportion shareholding by the top 10 shareholders	CSMAR Database
MStop3	The top three managers' compensation divided by net income	CSMAR Database

4.2. Model Design

We use ordinary least-squares (OLS) regression models to test the study hypotheses. They are specified as follows: Model (1) tests for H1, Model (2) tests for H2, and Model (3) tests for H3. Furthermore, we use Model (1) to conduct a separate regression for each merchant group so as to verify H4. Model (4) tests for H5.

$$CSR_{i,t} = \beta_0 + \beta_1 MG_{i,t} + \beta_2 LNSIZE_{i,t} + \beta_3 LEV_{i,t} + \beta_4 ROA_{i,t} + \beta_5 SGROW_{i,t} + \beta_6 HERFINDAHL_{i,t} + \beta_7 MStop3_{i,t} + \text{Year fixed effects} + \text{Industry fixed effects} + \varepsilon_{i,t} \quad (1)$$

$$CSR_{i,t} = \beta_0 + \beta_1 APPEAL_{i,t} + \beta_2 LNSIZE_{i,t} + \beta_3 LEV_{i,t} + \beta_4 ROA_{i,t} + \beta_5 SGROW_{i,t} + \beta_6 HERFINDAHL_{i,t} + \beta_7 MStop3_{i,t} + \text{Year fixed effects} + \text{Industry fixed effects} + \varepsilon_{i,t} \quad (2)$$

$$CSR_{i,t} = \beta_0 + \beta_1 MG_{i,t} + \beta_2 APPEAL_{i,t} + \beta_3 MG \times APPEAL_{i,t} + \beta_4 LNSIZE_{i,t} + \beta_5 LEV_{i,t} + \beta_6 ROA_{i,t} + \beta_7 SGROW_{i,t} + \beta_8 HERFINDAHL_{i,t} + \beta_9 MStop3_{i,t} + \text{Year fixed effects} + \text{Industry fixed effects} + \varepsilon_{i,t} \quad (3)$$

$$COST_{i,t} = \beta_0 + \beta_1 CSR_{i,t} + \beta_2 LNSIZE_{i,t} + \beta_3 LEV_{i,t} + \beta_4 ROA_{i,t} + \beta_5 SGROW_{i,t} + \beta_6 HERFINDAHL_{i,t} + \beta_7 MStop3_{i,t} + \text{Year fixed effects} + \text{Industry fixed effects} + \varepsilon_{i,t} \quad (4)$$

4.3. Sample Selection

The initial sample was 2008–2020 private listed firms in mainland China. We used private firms because they are an important force in China's sustainable development, while state-owned enterprises mainly serve the goals of the government and are less affected by local merchant group culture. The study excluded B- and H-share issuing firms, because CSR benchmarks differ by institutional environment. We excluded firms with 3 years of losses and firms with missing data. The final sample comprises 2633 observations across 29 provinces and 16 industries. Table 3 shows the distribution of sample firms by year.

Table 3. Sample distribution by year.

Year	Firms of Five Merchant Groups	Other Private Listed Firms	Total
2008	36	41	77
2009	57	62	119
2010	64	70	134
2011	80	90	170
2012	89	103	192
2013	97	111	208
2014	96	124	220
2015	99	133	232
2016	105	147	252
2017	120	163	283
2018	107	139	246
2019	106	138	244
2020	115	141	256
Total	1171	1462	2633

5. Empirical Results

5.1. Descriptive Statistics

Table 4 summarizes the descriptive statistics for the variables. The mean CSR is 17.221; thus, the average CSR in the sample firms is not high. The mean merchant group (MG) is 0.445; hence, approximately 45% of the sample firms operate within the five merchant groups. The mean straight distance (APPEAL1) and driving distance (APPEAL2) between firms' registered location and cradle of merchant group culture are 0.364 and 0.455, respectively. The average cost of debt of private listed firms is 6.616%.

Table 4. Descriptive statistics.

Variable	Obs	Mean	SD	Min	Max
CSR	2633	17.221	5.745	6	33
MG	2633	0.445	0.497	0	1
APPEAL1	2633	0.364	0.466	0	2.207
APPEAL2	2633	0.455	0.576	0	2.692
LNSIZE	2633	22.751	1.232	20.188	26.080
LEV	2633	0.466	0.190	0.059	0.867
SGROWTH	2633	0.170	0.388	−0.548	2.343
ROA	2633	0.069	0.061	−0.094	0.287
HERFINDAHL	2633	0.142	0.110	0.011	0.526
MStop3	2633	0.016	0.030	−0.019	0.198
COST	746	6.616	8.423	0.102	125.289

Regarding the control variables, the mean of LNSIZE, which is the natural logarithm of total assets, is 22.751, suggesting that the sample firms are representative. The average ROA and LEV in our sample are approximately 6.9% and 46.6%, respectively. The mean SGROW is approximately 17%, implying a high growth rate of Chinese private listed firms. The mean HERFINDAHL is 0.142, which means the ownership concentration in Chinese private firms is not high. The mean MStop3 is 0.016, representing the top three managers' compensation divided by net income. The descriptive statistics demonstrate a representative sample.

Table 5 shows the correlations between the dependent variable CSR and independent variables. The correlation coefficient between straight distance and driving distance is 0.998. None of the other correlation coefficients is greater than 0.7, which Judge et al. [99] suggested as a cutoff level for deciding whether two variables can enter the regression models simultaneously.

Table 5. Correlation matrix.

Variable	COST	CSR	MG	APPEAL1	APPEAL2	LNSIZE	LEV	SGROWTH	ROA	HERFINDAHL	MStop3
COST	1.000										
CSR	−0.049	1.000									
MG	0.031	0.074	1.000								
APPEAL1	−0.018	−0.015	−0.499	1.000							
APPEAL2	−0.014	−0.014	−0.501	0.998	1.000						
LNSIZE	0.129	0.317	−0.107	0.062	0.064	1.000					
LEV	0.098	−0.026	−0.090	0.092	0.088	0.456	1.000				
SGROWTH	0.040	−0.039	−0.011	0.014	0.014	0.076	0.060	1.000			
ROA	0.009	−0.045	0.103	−0.131	−0.128	−0.081	−0.307	0.227	1.000		
HERFINDAHL	0.029	0.007	−0.088	0.008	0.016	0.180	0.099	0.057	0.123	1.000	
MStop3	−0.042	−0.088	0.007	0.004	0.004	−0.298	−0.053	−0.068	−0.188	−0.114	1.000

5.2. Results Analysis

The sequence of empirical regression analysis in this study is as follows. First, we compare the CSR between the five merchant groups and others and further examine the appeal of merchant group culture to CSR performance. Second, the study tests the consistency of each merchant group culture with the CSR value. Finally, we test the merchant group culture, CSR performance, and cost of debt relationship from 2018 to 2020, since the data of cost of debt are available from 2018.

5.2.1. Merchant Group Culture and Corporate Social Responsibility

We estimated Models (1), (2), and (3) to test the relationship between merchant group culture and CSR performance. The correlation analysis shows that the two dimensions of cultural appeal are significantly correlated. Table 6 presents the empirical results, using straight-line distance (1000 km) between the registered location of the firms and the cradle of the merchant group culture (APPEAL1) and driving distance (1000 km) between the registered location of the firms and the cradle of the merchant group culture (APPEAL2) as the key explanatory variable.

Table 6. Merchant group culture and CSR.

Dependent Variable = CSR	(1)	(2)	(3)	(4)	(5)
Variables	CSR	CSR	CSR	CSR	CSR
MG	0.779 *** (4.16)			1.504 *** (2.91)	1.970 *** (3.16)
APPEAL1		−0.530 * (−1.95)		3.982 * (1.74)	
APPEAL2			−0.640 *** (−2.78)		5.615 ** (2.05)
MG×APPEAL1				−5.384 (−1.65) *	
MG×APPEAL2					−6.843 ** (−2.09)
LNSIZE	1.649 *** (15.19)	1.517 *** (13.85)	1.551 *** (14.12)	1.795 *** (13.92)	1.850 *** (13.93)
LEV	−1.402 ** (−2.02)	−1.288 * (−1.85)	−1.193 * (−1.71)	−1.870 ** (−2.17)	−1.813 ** (−2.07)

Table 6. Cont.

Dependent Variable = CSR	(1)	(2)	(3)	(4)	(5)
Variables	CSR	CSR	CSR	CSR	CSR
SGROWTH	−0.0264 (−0.11)	0.0404 (0.16)	0.0507 (0.20)	−0.0764 (−0.24)	−0.125 (−0.39)
ROA	2.993 (1.63)	3.009 (1.63)	2.797 (1.52)	0.330 (0.15)	−0.513 (−0.24)
HERFINDAHL	0.0502 (0.06)	0.650 (0.73)	−0.153 (−0.17)	−1.760 (−1.56)	−0.869 (−0.74)
MStop3	2.725 (0.84)	3.033 (0.93)	3.012 (0.92)	3.318 (0.87)	3.649 (0.94)
Industry-fixed effects	YES	YES	YES	YES	YES
Year-fixed effects	YES	YES	YES	YES	YES
_cons	−20.66 *** (−8.29)	−18.57 *** (−7.35)	−18.55 *** (−7.39)	−23.71 *** (−7.32)	−24.92 *** (−8.34)
N	2633	2557	2547	1730	1637
adj. R ²	0.356	0.359	0.360	0.392	0.399

Notes: This table estimates the effect of merchant groups on firm CSR performance. Table 2 defines all variables. $MG \times APPEAL1$ is the interaction term of the merchant group and Appeal1. $MG \times APPEAL2$ is the interaction term of the merchant group and Appeal2. The dependent variable is the firm's CSR performance rating scores. The sample period spans 2008 to 2020. All columns control for the industry- and year-fixed effects. Robust standard errors are clustered at the firm level. *t* values are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels (two-tailed), respectively.

The adjusted R^2 of the five models is greater than 0.3; thus, a certain percentage of the sample variation in CSR performance is explained. We estimated the coefficients for all specifications using OLS regression controlling for industry- and year-fixed effects. The coefficient on MG is positive and significant at the 1% level in Model (1), confirming H1, consistent with other literature [94–96]. Moreover, the coefficient of Appeal1 is negative and significant at the 10% level in Model (2), and that of $MG \times APPEAL1$ is negative and significant at the 10% level in Model (4). Furthermore, in Model (3), the Appeal2 coefficient is negative and significant at the 1% level, and that of $MG \times APPEAL2$ is negative and significant at the 5% level. Models (2) to (5) confirm H2 and H3.

Regarding the control variables, LNSIZE is positively linked to CSR performance; thus, larger firms with extra resources are more socially responsible [97]. Consistent with the expectation, LEV negatively impacts CSR performance and is significant in the five models [98]. However, ROA or SGROW show no significant relationship with CSR performance. Regarding governance-level control variables, neither HERFINDAHL nor MStop3 are significant in our models, likely because cultural factors of merchant groups may have a stronger effect on CSR than governance and some financial factors. This finding highlights the argument for the importance of non-market and non-governance factors: merchant group culture may significantly influence CSR performance.

5.2.2. Consistency of Merchant Group Culture with Corporate Social Responsibility Value

From Equation (1), we tested the relationship between the five merchant group cultures (YUE, JIN, HUI, MIN, and ZHE) and CSR, and we analyzed the consistency of each culture with the CSR value. Table 7 reports specific results.

Table 7. Regression results of five merchant groups.

Dependent Variable = CSR	(1)	(2)	(3)	(4)	(5)
Variables	Hui Merchant Group	Jin Merchant Group	Yue Merchant Group	Min Merchant Group	Zhe Merchant Group
MG	2.210 *** (3.82)	−0.657 (−0.50)	2.576 *** (9.13)	−0.582 * (−1.77)	0.0220 (0.08)
LNSIZE	1.609 *** (10.94)	1.591 *** (10.70)	1.730 *** (13.56)	1.443 *** (10.74)	1.431 *** (10.81)
LEV	−1.230 (−1.38)	−1.301 (−1.45)	−0.963 (−1.18)	−1.200 (−1.51)	−1.773 ** (−2.17)
SGROWTH	0.151 (0.50)	0.0796 (0.26)	0.0293 (0.10)	−0.0921 (−0.33)	0.187 (0.65)
ROA	5.008 ** (2.05)	6.117 ** (2.42)	4.667 ** (2.10)	3.531 (1.57)	6.271 *** (2.83)
HERFINDAHL	−1.043 (−0.92)	−1.679 (−1.46)	−1.087 (−1.06)	−0.880 (−0.82)	−0.830 (−0.81)
MStop3	−1.952 (−0.43)	−0.921 (−0.20)	3.070 (0.76)	−1.682 (−0.43)	0.446 (0.11)
Industry-fixed effects	YES	YES	YES	YES	YES
Year-fixed effects	YES	YES	YES	YES	YES
_cons	−19.69 *** (−5.43)	−19.61 *** (−6.02)	−22.93 *** (−8.09)	−16.05 *** (−5.40)	−15.82 *** (−4.70)
N	1544	1475	1810	1744	1908
adj. R ²	0.353	0.350	0.394	0.339	0.344

Notes: This table reports the effect of the merchant group culture on firm CSR performance based on the categories of merchant groups. Table 2 defines all variables. The dependent variable is the firm CSR performance rating scores. The sample period spans 2008 to 2020. All columns control for industry- and year-fixed effects. Robust standard errors are clustered at the firm level. *t* values are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels (two-tailed), respectively.

From Table 7, the HUI merchant group and YUE merchant group have a significant positive relationship with CSR at the 1% level, indicating that the CSR performance in the HUI and YUE merchant group is significantly better than that of private listed firms that do not belong to the five merchant groups. These groups admire pragmatism, consistent with the values advocated by Western capitalism and integrated with the pragmatic spirit of social responsibility. There is a significant negative relationship between the MIN merchant group and CSR at the 10% level; thus, the CSR performance in the MIN merchant group is worse than in the non-merchant-group firms. The spiritual core of the MIN merchant group is adventure and struggle, and value for social responsibility is not fully emphasized during business operations. After accumulating wealth, MIN merchants give back to native places with no consideration for other stakeholders. Hence, based on the empirical results, the MIN merchant group culture is inconsistent with broader CSR values, which consider stakeholder interests first.

However, no significant relationship exists between JIN or ZHE and CSR performance in the sample; thus, the culture of these two merchant groups might not accord with CSR values. Justice–benefit and political connections are admired in the JIN merchant group. Bureaucracy and ideology are entrenched. The ZHE merchant group considers blood relations as key, is short-term profit oriented, and advocates for unity based on geographical and blood relations. However, social responsibility value is not fully emphasized during business operations in the JIN and ZHE merchant groups.

5.2.3. Merchant Group Culture, Corporate Social Responsibility, and Cost of Debt

We tested the relationship between CSR performance and the cost of debt from 2018 to 2020. Based on whether or not the sub-samples belong to each of the five merchant groups, further tests report the difference in regression results of the relationship between CSR and cost of debt. Table 8 presents the regression results.

Table 8. Regression results of CSR performance and cost of debt.

Dependent Variable = COST	(1)	(2)	(3)
Variables	Full Sample	MG = 1	MG = 0
CSR	−0.105 ** (−2.16)	−0.139 ** (−2.30)	−0.0873 (−1.16)
LNSIZE	0.345 (1.15)	0.460 (1.22)	0.130 (0.27)
LEV	−18.63 *** (−8.47)	−18.22 *** (−6.09)	−18.32 *** (−5.70)
SGROWTH	−2.106 ** (−2.58)	−2.916 ** (−2.46)	−1.801 (−1.59)
ROA	48.85 *** (8.71)	48.27 *** (6.84)	50.22 *** (5.79)
HERFINDAHL	2.748 (0.99)	1.667 (0.44)	4.837 (1.17)
MStop3	−9.430 (−1.06)	2.784 (0.28)	−25.88 * (−1.69)
Industry-fixed effects	YES	YES	YES
Year-fixed effects	YES	YES	YES
_cons	7.920 (1.19)	3.260 (0.37)	12.38 (1.23)
N	746	328	418
adj. R ²	0.301	0.410	0.237

Notes: This table reports the effect of firm CSR performance on the cost of debt. Table 2 defines all variables. The dependent variable is the cost of debt. The sample period spans 2018 to 2020. All columns control for industry- and year-fixed effects. Robust standard errors are clustered at the firm level. *t* values are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels (two-tailed), respectively.

From Table 8, we tested the relationship between cost of debt and CSR of private firms that disclosed their cost of debt information from 2018 to 2020 in Model (1). Furthermore, we analyzed the relationship in the sub-samples, and the influence of CSR to cost of debt in merchant groups and others were conducted in Model (2) and Model (3), respectively. The cost of debt is negatively significant with CSR performance at the 5% level in Model (1), which indicates that a higher CSR performance lowers the cost of debt [74,80]. In a further test, the coefficient of CSR in Model (2) is negatively significant with a cost of debt at the 5% level, which means the CSR performance has a greater impact on the cost of debt in the firms belonging to the five merchant groups in the sample. Meanwhile, CSR performance and the cost of debt in non-merchant groups yield no significant results in Model (3). The empirical results confirm H5.

Regarding control variables, LNSIZE and HERFINDAHL are positively related to cost of debt in Models (1), (2), and (3) but are not significant. LEV and cost of debt yield negatively significant results in Models (1), (2), and (3) at the 1% level, which may be due to the different policies that private firms implement within different local provinces corresponding to the uncertainty of the external environment, such as international trade friction in 2018 and the COVID-19 pandemic in 2019. ROA is positively significant with cost of debt at the 1% level in the three models. MStop3 and cost of debt yield a negatively significant result in Model (3) but not in Models (1) or (2). SGROW is negatively significant with cost of debt at the 10% level in Models (1) and (2), and not significant in Model (3).

6. Conclusions

This study shows that the CSR performance of Chinese private listed firms is associated with exogenous informal institutions, such as merchant group culture, affecting the philosophy and attitudes of firm management strategy as a key factor. Using a comprehensive sample of publicly traded private firms in the Chinese market, we have provided new empirical findings that the CSR performance hinges on the idiosyncratic merchant group culture. Specifically, the CSR performance of the five merchant groups is better than that of other private listed firms. Furthermore, the appeal of the merchant group culture is positively related to CSR performance, and the positive relationship is stronger among the five merchant groups. By analyzing the historical origin and spiritual core of the five merchant groups, this study demonstrated that if the merchant group culture is closer to CSR values, CSR performance is better. Meanwhile, CSR performance is negatively related to the cost of debt in Chinese private listed firms, and this empirical result is more pronounced in the five merchant groups. The empirical results generally support the theoretical argument.

The study contributes nuanced insight into how merchant group culture affects CSR performance. Regarding policy and practical implications, policymakers should consider the Chinese merchant group culture when developing CSR policies. Private firms should pay attention to the unique merchant group cultural backgrounds of various regions when undertaking CSR.

This study has some limitations. For example, the sample only includes Chinese private listed firms. Thus, caution should be exercised when applying the results to state-owned enterprises. Moreover, the study considers only merchant group culture, and ignores organizational culture and the personal beliefs of managers or directors. This study is an early step in exploring the impact of merchant group culture on CSR performance. Future studies could expand the research by exploring the relationship between merchant group culture and the cost of equity.

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