

The Influence of Regional Cultural Factors on Corporate Behavior

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Abstract. Differences in business behavior due to regional cultural differences are a primary concern in studying the capital markets. This paper highlights the impact of regional trust, regional corruption, and religious beliefs on local business behavior. Firstly, the paper compares the phenomena that occur in companies because of cultural differences between regions. Then, this study analyzes the effect of these regional differences on local business behavior, taking the attitudes of auditors in China and the United States toward the discovery of problems, the prevalence of corruption in 64 transition economies in Eastern Europe and the Middle East and North Africa, and the impact of Islam on local business as examples. Secondly, the paper analyzes the factors influencing business behavior in terms of social trust, corruption, and religion based on the existing literature. Finally, after summarizing the findings of the above literature, this paper suggests possible future research directions. Overall, this study provides a new insight for future studies concerning the impact of local culture on business activities.

Keywords: Social Trust, Corruption, Religion, Corporate Social Responsibility, Corporate Behavior.

1. Introduction

A company has to face different types of challenges or be influenced by various aspects in addition to completing its daily operations. Social trust, corruption and religious beliefs are among the major factors that influence business behavior in different regions.

For business, trust is crucial. It is no more than family and friends knowing each other by heart. All people in this environment need to rely on their own judgment and recognition of others, and sincerity to go on. Employees' perceptions of the company, customers' perceptions of the company, and partners' perceptions of the company all have a bearing on the speed and quality of development of the entire industry. The first and foremost point is to reduce costs. Sufficient security can save a lot of money for a project. In this information age, transparent data analysis allows those involved to see accurate reporting and make their own independent judgments. Gewirth and Hosmer said, "ethics and trust are bound up together" [1]. The mutual discipline and achievement of ethics and trust are what make the economy grow faster and faster.

One study on the causes of corruption shows that corruption is prevalent in economically weakened countries in 64 transition economies of Eastern Europe and the Middle East, and North Africa [2]. Corruption is most likely an obstacle to the establishment of capitalist economies in emerging countries, as excessive government intervention in local businesses will create a vicious cycle of corruption, human capital and poverty [2]. Similarly, within a country, the level of corruption varies accordingly from region to region. Economically prosperous cities tend to have more transparent information and more healthy competition among firms, while more corruption and bribery problems arise in remote towns where the local government has a heavy say in the development of firms. Corruption is more of a drain on the economy and an additional problem that needs to be solved in the path of corporate growth.

Many countries have their own historic religious beliefs and have unique styles and opinions. In society, religions maintain their independence and have distinctive philosophies and approaches from other religions, but they are also relevant to the community, leading the spiritual and practical direction of most believers. Therefore, religion also acts as a historical force influencing business behavior, and it can act as a regulator to directly impact business behavior [3]. When analysing the

relationship between culture and business in a country, religion must be the primary object of study. This is because one can become more comfortable in society after understanding thoroughly what is and is not acceptable business behavior in each context. When religion is present in a company, there are different levels of influence in the codes of conduct and regulations. Also, religious institutions, such as “churches”, “synagogues”, “mosques”, and “temples”, can bring together people with shared values or beliefs for discussion [3]. In short, responsible business practices are basically determined by regional, national, or local cultures.

2. The Impact of Regional Trust Integrity on Business

Everything is built on trust. From small exchanges between strangers to the peace of the entire planet, trust is the foundation. Whenever there is communication between people, a transaction that ends with sincerity often results in a mutually satisfying outcome. Therefore, many sociologists and economists have worked hard to study how much good trust has done for people.

2.1. The influence of social trust on corporate CSR

Social trust, as a moral norm and standard, influences corporate social responsibility to some extent in a particular social structure environment. In a study conducted by Chen and Wan, a sample of 4209 observations was selected from 788 Chinese companies from 2008 to 2015 based on social trust and CSR and concluded that the relationship between the two was positive [4]. Trust, as a combination of social norms and traditional culture, strongly influences CSR, and the study found that the causes of declining trust in China are low costs of violation, weak enforcement practices, and inaccessible channels. Unlike some developed countries, informal institutions in China usually occupy a more central position, which also hinders the healthy development of businesses. Meanwhile, Chen et al. found that the level of social trust in China varies greatly across regions. Most notably, there are uneven rates of development across regions, such as economy, education and marketization, and these lead to differences in the degree of social trust. Also, they found that social trust helps corporate managers to protect stakeholders’ interests by engaging in corporate social responsibility, and the positive relationship between the two is stronger for state-owned enterprises [4].

Additionally, corporate social behavior resulting from social trust also has a massive impact on the development of the company. For example, the food and beverage industry in Pakistan places a high value on customer satisfaction and brand loyalty with respect to food [5]. The general environment of the food industry is in a phase of rapid development and the diversity of restaurants has brought more choices to the guests. In Pakistani culture, people are starting to prefer to eat at fast food restaurants with their close family, colleagues and friends [5]. This also indicates the need for stores to capture the preferences of guests in a short period of time, especially in attracting new customers while retaining existing ones. At the same time, customer satisfaction and brand loyalty are the primary criteria for evaluating a fast-food restaurant. Customers will prefer the place if the restaurant meets all legal requirements with ethical exemplars or participates in social welfare support. For example, the menu can be used as a tool to communicate the CSR of the fast-food restaurant to the public or use healthy food items to show that the company cares about the health of its customers, and these positive behaviors will greatly improve the customer’s evaluation and goodwill towards this restaurant. On the contrary, restaurants that cause more than one bad experience or breach of trust to their customers, this will directly affect the brand loyalty and thus lead to poorer performance.

Likewise, companies in India view corporate social responsibility as particularly important. In India, spirituality and CSR have an intertwined relationship [6]. After the Indian stock market scam was uncovered, most people lacked trust in the regulator. One of the largest banks in India, ICICI Bank, confirmed this statement. Text messages about the bank being on the verge of bankruptcy caused customers to queue up and masse to withdraw their money, eventually causing the Reserve Bank of India to intervene to put the matter to rest [6].

2.2. The impact of social trust on the economic development of firms

The degree of trust can have different results on the development of business economy, especially the different effects of each region's environment, such as foreign direct investment, education level, government size, urbanization, population density and transportation facilities [7]. Taking the example of the integrity and economic situation of different regions in China, the same distrust exists between provinces. For example, 17.6% of Zhejiang people voted to trust Beijing, while in contrast, only 1.0% of Beijingers voted for Zhejiang province. This illustrates how trust issues in China make for uneven financial development. In addition, the level of trust also has a relative impact on the size and organization of economic entities, with some non-government businesses preferring family businesses to ensure business succession. In terms of educational attainment, highly educated people tend to be recognized by others for their qualities. One of the more apparent phenomena in China is the control of business by government officials. When the ratio of officials is out of proportion, corruption can occur, directly affecting the trust of businesses and economic development. There will also be different codes of conduct if it is between other countries. Auditors in the U.S. and China will look at things very differently when dealing with business. U.S. auditors typically use an analytical mindset, which means focusing on a subset of uncertain information, in contrast to Chinese auditors, who tend to use a holistic perspective, focusing on a balanced set of confirmed and unconfirmed information [7]. This shows that Chinese auditors tend to be conservative and less skeptical in their judgments, while American auditors tend to remain skeptical, and such cultural differences also lead to a rise in trust and improvements and innovations in economic entities.

2.3. Impact of social trust on firm costs

Taking a sample of Chinese firms between 2001 and 2016, Chen et al. find that social trust badness reduces firms' earnings management [8]. They conclude that a high social trust environment can increase a firm's ethics, thus reducing the need for earnings management, and can also outperform firms with weak legal awareness. Dong et al. find that in an environment with high trust, firms rarely engage in misconduct, such as tax avoidance and cheating. In conjunction with EarningsMgt, Chen et al. have conducted a study on the social confidence of Chinese listed firms. Social trust was studied and tested in thirty-one different provinces [8]. Based on the differences in economy and education, the trust level varies from region to area. It was found that a strong trust level of social trust can mitigate unethical management behavior and thus reduce the impact of earnings management.

3. The impact of regional corruption on business

Corruption exists in almost every country in the world, and it is only the state of development of the country that leads to different levels of corruption. Corruption is generally a means by which government officials use their power at work for personal gain, and this behavior has a profound impact on the development of business. At the same time, many scholars who study the effect of corruption on business have different attitudes about it.

In the opinion of most of them, the very existence of corruption has seriously destroyed the development and innovation of economic entities. In an unstable environment, business innovation is a prerequisite for sustainable business improvement [2]. A survey of companies in 20 emerging countries found that the database results for the period 2006-2013 show that corruption has the most negative impact on business development and innovation, especially in emerging countries [3]. Thus, corruption may lead to the trend in a developing country's economy, while a country with a good economy will be affected minimally. However, there are still some researchers who hold another position, the "grease the wheels" theory, where corruption can act as grease on the wheels to make them run faster. Especially in some backward countries, proper bribery can lead to lower government requirements for business development, which can lead to a rapid rise in the region's economy and more opportunities for local businesses to do business. Officials who receive benefits have increased

power over the progress of projects, so some people believe that corruption can overcome bureaucratic obstacles and rigid legal frameworks [2].

3.1. The negative impact of corruption on corporate behavior

Many research experts have tested the impact of corruption on firms to identify the problems that may arise in the development of the firm. Liu concluded in his study of corporate misconduct based on four types of opportunistic behavior that firms with high levels of corruption are more tolerant of such behavior [9]. Each unit increase in the value of crime is associated with a greater likelihood of malpractice such as earnings management, accounting fraud and option backdating. Similarly, Agrawal et al. found that low standards of corporate responsiveness hindered company performance and increased costs [10]. The concern of many policymakers is that improper corporate behavior can lead to corruption. Generally, corruption is divided into two aspects, one is the demand for money by government officials, and the other is the attempt of companies as suppliers to get some advantages in the government. In the context of globalization, multinational companies are also increasing, which indirectly leads to whether small and medium-sized companies can get a foothold in the region. In order to survive, some companies choose to bribe officials to stabilize their growth. Although the contribution of MNCs to global commercialization cannot be denied, it does create a shock to many local companies.

Lopattal et al. used data from Global Engagement Services (GES), an international risk rating agency were used to investigate whether the risk factors affecting corporate corruption are related to corporate social responsibility as well as the level of financial constraints [11]. Their study found that a firm's CSR performance is more effective in mitigating its exposure to corruption risk, while the odds of increasing corruption in a firm increase due to financial constraints. Thus, corruption leads to a decrease in corporate social responsibility and is positively associated with the ability to limit finances [11]. At the same time, investors and markets in the financial sector are continuously concerned about CSR and information transparency and have a negative perception of companies that act with bribery, market risk and firm growth. Their study showed a negative relationship between investment commitment and corruption. Firms with weaker financial returns tend to be found where corruption is a more severe problem.

3.2. The impact of corruption on corporate innovation

In an era of rapid growth in any industry, innovation becomes an indispensable part of a firm's stable survival. In an environment of corruption, innovation still needs to exist. Although a corrupt environment affects all companies broadly, companies may need to interact more with government officials for new products such as operating permits, safety inspections, building permits or regulatory approval [12]. Businesses bribe some powerful officials to gain easier access to entrepreneurial opportunities. But when the initial period of innovation reform passes, some disadvantages become apparent. The consequences of innovative activities are long-term, and companies are responsible for the adverse effects that come later, such as bankruptcy. However, government officials who take bribes only need to receive money to facilitate access for firms in one way or another in the short term, as the high cost of fixes also reduces the quantity and quality of local innovation to some extent.

4. The impact of religious beliefs on business in different regions

The religious beliefs that emerge in different regions can have other implications for business. For the comparison of religion across areas, the vast majority needs to use the country as a unit. Hoogendoorn et al. found a positive relationship between religion and business ownership in a study of 30 OECD countries from 1984 to 2010. These data adequately reflect the intra-firm aspects, beliefs and behavioral norms of religiosity [13]. Islamic teachings promote the predominance of individual independent work rather than relying on or hiring others to earn a living. Also, Islamic teachings are against debt and people are always accustomed to personal savings for business activities [13]. Such

religious beliefs can create some passivity for businesses, and businessmen are unable to conduct large-scale business activities because they do not have much money to develop, which in turn lowers the average level of businesses in the region.

4.1. The relationship between corporate financial information and religion

Using the level of religiosity in the county where the U.S. company is headquartered as a proxy, Dyreng, Mayew, and Williams showed that a high level of religiosity is associated with a lower likelihood of financial restatement and thus a lower risk of misstatement of financial statements due to high levels of religiosity [14]. Additionally, the study showed that companies located in areas with high levels of religiosity rarely engage in tax avoidance activities and are more open to bad news and make it public in a timely manner. McGuire et al. find that firms headquartered in areas with strong religious social norms tend to have fewer financial reporting violations because managers there always make the most conservative decisions and thus reduce the risk [15]. To some extent, local religious beliefs can affect a firm's debt financing since borrowing is defined in many religions as a negative behavior belonging to financial debt.

4.2. Association between religious beliefs and entrepreneurship

Although the religious environment can exert some influence on the financial discipline of a firm, an overly strong level of religion can lead to a decrease in corporate social responsibility. Zolotoy et al. use a longitudinal sample of U.S. public companies to point out that local religious norms can weaken the positive impact of corporate social responsibility on the value of the firm's headquarters [16]. They also found that the more tolerant the constraints of corporate headquarters located in a religious environment region, the greater the positive impact of CSR on firm value. In addition, the study showed that solid religious norms attenuated the positive association between CSR and abnormal stock returns during the 2008-2009 financial crisis. However, at the same time, their study proves that religious influence and CSR provide valuable protection for firms to some extent by weakening stakeholders' reactions to adverse events, such as product discontinuation and fraud.

5. Conclusions

Environmental differences in different regions must have some impact on the development of some local businesses. The article cites the different attitudes of Chinese and American auditors towards finding problems with audit data, the prevalence of corruption in transition economies in Eastern Europe and the Middle East and North Africa, and the impact of Islam on local businesses to provide an in-depth analysis of the different consequences of the effect of different environments on firms. The article then dissects the impact of regional trust on firm development in terms of social trust on corporate CSR, corporate economic growth, and corporate costs. Then, the analysis is discussed in terms of corruption on corporate innovation and its negative impact. Finally, it concludes in terms of how religious beliefs are related to corporate finance and spirituality. Based on the existing literature, this article analyzes the factors influencing corporate behavior in social trust, corruption, and religion. Based on the literature analysis in this article, this paper suggests the following research directions that can be further explored. Firstly, more research should be conducted on the factors of regional culture that influence corporate behavior. Secondly, use more city databases to corroborate the consequences of this factor on local firms to prevent specificity.

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