The Impact of Huizhou Merchant Culture on The Formal Systems of Enterprises: A Case Study

Donghao Liu
United International College, Beijing Normal University Hong Kong Baptist University, Zhuhai, 519000, China
t330036087@mail.uic.edu.cn

Abstract. The glory of Huizhou merchants in the Ming and Qing dynasties has become history, but their rich cultural accumulation has left valuable spiritual wealth for today's entrepreneurs, which is of positive significance for adhering to the tradition of old Huizhou merchants and building a new era of Huizhou merchants. This paper mainly focuses on the human resources department, the accounting and auditing information disclosure flow and ESG or CSR building, which are three primary aspects of corporate formal systems. By taking A-share listed company Jia’ao as an instance. Firstly, this paper introduces three crucial problems in sample company’s formal systems. Secondly, according to the problems reflected in the company, this paper discusses the reasons from the Huizhou merchant culture. Ultimately, the paper proposes solutions and makes conclusions, and points out the shortcomings and the improvements of the research.

Keywords: Huizhou merchant; impact; formal systems.

1. Introduction

Both informal systems and formal systems promote the development of corporate financial condition, which is especially obvious for countries in transition with imperfect formal systems and strong traditional culture, informal systems may play a more significant role due to virtue of its "flexibility" characteristics. Research showed that formal systems are correlated with culture, since culture drives overall values, influencing behavioral tendencies within a company, and plays a pivotal role in shaping strategic directions, decision-making processes, and overall organizational performance [1]. In China, if people ignore the extensive and profound Chinese culture passed down from generation to generation, they may not be able to fully understand the characteristics of Chinese corporate decision-making behaviors.

About the influence of traditional culture on enterprise behavior, most scholars focus on religious culture and the Clan culture, but few scholars study the way in which business culture originated gradually from certain business behaviors [2]. In many aspects of traditional culture, the influence of traditional business culture on economic development is more direct. Scholars noted that the historical economic organizations such as business gangs and guilds, as well as the trading and production forms they evolved, have accumulated and formed a unique traditional business culture, which has played a long-term role in the contemporary institutional environment, human capital, professional concepts and social networks, and thus exerted a long-term impact on economic performance. Become a unique and intangible "regional capital" [3]. Business culture is the unique regional characteristics of the operation norms and values gradually formed in the long-term business practice over the centuries and it is extremely stable and invisibly provides the soil to nourish the development of enterprises [4]. Therefore, it is of great practical significance to explore how the ancient business culture affects the enterprise.

The regional business culture, as the crucial component of business culture, the formal institutions are deeply influenced by it. The most basic characteristics of Huizhou merchants are honesty, trustworthiness, and elegant demeanor. In terms of business philosophy, they adhere to the concept of "generating wealth with the right path", prioritize righteousness when seeing benefits, believe that righteousness is more important than wealth, and believe that gentlemen love wealth with the right path. The Huizhou merchant guild, which clustered in the present area of Jiangsu and Zhejiang, as
the most famous business group among all of the Chinese traditional business groups, not only has unique internal corporate structure based on consanguinity and clan, emphasizing the selection of managers and associating among clan children, but also has a unique reward and punishment mechanism and code of conduct [5]. Under the influence of Huizhou merchant culture, many enterprises with unique characteristics of Huizhou merchants’ culture have been formed in present Zhejiang and Jiangsu provinces. These corporations compared with the other companies not only have more advantages in the financial operations, but also performed well in the ESG (environment, social and government) and CSR (corporate social responsibility) practices [6].

By taking A-share listed company Jia’ao as an instance, this paper mainly focuses on three primary aspects of corporate formal systems on which the regional traditional merchant cultures have impacts: the human resources department, the accounting and auditing information disclosure flow and ESG or CSR building. First of all, this paper introduces three crucial problems in the sample company’s formal systems. Secondly, this paper is about to discuss the reasons from the Huizhou merchant culture. Ultimately, the paper would propose solutions and make conclusions, and point out the shortcomings and the improvements of the research.

2. Case Description and Analysis

2.1. Basic Information

Zhejiang Jia’ao Enprotech Stock Company (namely Jia’ao), founded in January 2003, and listed in 2016, which is an environmentally friendly technology company committed to research and development, production and sales of bio-based plasticizers and biomass energy. The company produces and sells environmentally friendly plasticizers, stabilizers and biodiesel. Since its establishment, the company has always focused on forward-looking, environmentally friendly, renewable, biodegradable bio-based plasticizer products. After years of technical accumulation, it has formed a bio-based plasticizer, benzene-free plasticizer, functional special plasticizer three series of environment-friendly product system, as well as auxiliary environment-friendly stabilizer series products to provide customers with a wide range of plasticizers, stabilizers and customized special products [6].

2.2. Human Resources

The human resources (HR) management, as the support activities and costs part of the corporate value chain, plays an increasingly crucial role in corporations’ operations [7]. As the core of the enterprises, it not only selects and trains the appropriate talents to promote the long-term development of the company, but also forms unique corporate culture and establishes a rewarding system to motivate employees to enhance efficiency.

The first crucial problem in HR management is presented in the rewarding system [8]. It is commonly permitted that the company may distribute its profits in cash, stocks or a combination of cash and stocks or in other ways permitted by laws and regulations to their employees and stakeholders. This rewarding system usually appears in traditional China, which mainly focuses on material and spiritual motivations. For example, the Huizhou merchants usually used promotion as a way in both business and clansman to inspire the employees. Therefore, under the impact of Huizhou traditional merchants’ culture, the case corporation primarily focus on the rewards on the material aspects. However, with the rapidly changing values and opinions of the new generations, these traditional rewarding systems seemed not to be efficient, as the new generations of employees are more concerned about the indirect financial rewards that provide more work comfort and security to them [9]. As the case corporation displayed on the human resource report, though the employees’ satisfaction is around 80 percent [10]. It is essential to alter the traditional rewarding system to the modern one. According to the two-factor theory of a rewarding system, it demonstrates the dichotomous nature of rewards and employee values [10]. The components of rewards including the major factors of extrinsic rewards like basic salaries, benefits and bonuses by themselves, are not
sufficient to motivate employees at their workplaces. Even though these components significantly contribute to demotivation, the real motivators are the intrinsic forms of rewards such as work by its authority responsibility, working requirement and environment and career development. Hence, the forms of motivation occupy a dominant position in the rewarding system, which means that the case company needs to change its rewarding system from extrinsic motivations to the intrinsic ones. Thus, it demonstrated that material and spiritual motivations perform vital role in company systems.

2.3. Corporate Social Responsibility

Corporate social responsibility (CSR) refers to the concept that while creating profits and bearing legal responsibilities to shareholders and employees, enterprises also bear responsibilities to consumers, communities and the environment. Corporate social responsibility requires enterprises to go beyond the traditional concept of taking profit as the only goal and emphasize the value of people in the production process. Emphasis on the contribution to the environment, consumers and society. Cai et al. believed that the different degree of influence of different business groups by clan culture leads to huge differences in the trust radius of different business groups [11]. Because of the strong clan culture, trust in the clan members tends to be low. Therefore, the culture has a profound influence, and the Huizhou business merchants’ culture have both positive and negative impacts on the case enterprise’s CSR image disclosure system.

In the negative aspects, the first significant problem of the corporate CSR data disclosure system is the corporate collusion. In the traditional culture of Huizhou merchants, collusion between the government and business was a common phenomenon, and Huizhou merchants often sought their own interests through bribery and the placement of family members within the government. In the context of China's vigorous anti-corruption, the phenomenon of collusion between governments and business has been greatly reduced, but the phenomenon of withholding information and collusion between parent companies and subsidiaries is still widespread. A circular report from the 2021 China Securities Regulatory Commission Zhejiang Regulatory Bureau claimed that the case corporation was fined and criticized due to the collusion with its other subsidiaries and foreign entries. Noted that the case corporation still have problems in its credibility and transparency [12].

2.4. Accounting Data Disclosure System

With the rapid development of our capital market, more and more investors have become aware of the importance of the quality of accounting information disclosure. High-quality information disclosure can help investors reduce the possibility of investment failure and the randomness of investment target selection, which could attract more funds.

According to the theory of information asymmetry, changeable economic and market forms will cause great asymmetric phenomenon of information, which is difficult to eliminate, but high-quality information disclosure can reduce the level of information asymmetry, guide investors to choose the right investment project and determine the appropriate investment scale [12]. From the upper echelon theory, the characteristics of managers affect the decision of their development strategy, thus affecting the decision-making behavior of the company [13]. Most of the decision-making and strategic choices in the enterprise come from the senior managers, which means that the managers have a great impact on the quality of accounting information disclosure of the enterprise.

Therefore, the accounting problems in the case company mainly concentrates on the accounting data disclosure decisions made by the managers. As an informal system, the Huizhou merchants’ culture has a subtle influence on managers and their decision makers, and this influence is likely to be reflected in the quality of accounting information disclosure of enterprises through managers. From the reports issued by China Securities Regulatory Commission, in the company's annual financial statements in 2019, in order to expand profits and offset part of the tax, the company's chairman and chief financial officer privately included its subsidiaries in the scope of the company's consolidated financial statements, carried out internal offsetting treatment for the sales and procurement business incurred in 2019, and reclassified part of the sales expenses into operating costs
and adjusted them. This demonstrates that under the influence of Huizhou Business merchant’s guild culture, the senior management of the company took improper and illegal actions for the benefit of the head office, which contrary to the spirit of righteousness over wealth themselves [12].

3. Critical Thinking and Suggestions

3.1. Solutions in the Human Resources Spheres

As it mentioned before the biggest problem in the case corporate Human Resources institutions is the rewarding system. The case enterprise mainly focused on the material reward like bonus and ignored to inspire their internal active, which may create more values and attract more young people to work.

Therefore, to solve the rewarding system problems, the corporations could stimulate the employees by inspiring the intrinsic reward of the employees from the perspective of ESG integration [8]. This means that the company should use some “soft” skills. For instances, the corporations could assign tasks to those employees who have voluntary engagement for the inherent interest and satisfaction derived from the task itself [10]. Also, the enterprise could start at the sources, and do a good job in training new employees with the corporate culture so as to generate intrinsic motivation, when training new employees [13]. And set career plans and long-term and short-term goals for different employees in different periods, so that they can obtain a sense of accomplishment when completing tasks step by step. Also, the work demands goals mediated by psychological rewards positively impact employee's loyalty toward their organization.

3.2. Solutions in CSR Data Disclosure System

From the internal governance institutions spheres, the case corporation could regulate the managers’ organizational citizenship behaviors (OCB), and improve incentives to executives [10]. First of all, according to the Testa at al., CSR values are positively related to managers' OCBs. That is because managers’ OCBs can be perceived as exemplary behaviours which indicates their personal and genuine commitment for helping and supporting colleagues. A manager who struggles to prevent problems with his employees or is willing to guide new employees or always attends and actively participates in company’s events can generate a sense of moral responsibility in other colleagues, in shift, increases their willingness to be committed and involved in organizational issues [6]. Therefore, to solve the problems in its CSR value aspect, the case corporation should concentrate on its managers’ OCBs by various means. For instance, the case corporate managers should focus on its moral image and ideological, improving his or her ethics and credibility, and serve as a role model to influence the company's overall operation and CSR values. Meanwhile, the case corporate regulations and institutions also need to be improved, for example, revising the company's internal bylaws to enhance the ethical ideology of senior executives or using big data science and artificial intelligence technology to make its internal data more transparent.

3.3. Solutions in Accounting Data Disclosure System

The crucial problem of the the accounting data disclosure system data fraud due to the wrong decision made by the managers. Therefore to solve this problem, the case corporation can still improve its formal institutions from the governance and social perspectives.

From the formal institution aspect, the case company could improve its accounting audit system, by using the latest data technology, such as big data, clouding computer and block chain technology. The big data concentrated on the management and analysis of quantity data to drive decision-making, while cloud computing emphasizes providing efficient IT solutions to support data processing and storage needs. This convergence of big data, cloud computing, and advanced technologies elevates the importance of data as a critical factor of production, surpassing traditional assets like land and capital, helping the case enterprise improve data processing and storage capabilities and make auditing system automated and popular. By the big data and the cloud computing, the case enterprise
can establish financial sharing systems and enable real-time data access and storage, which decrease the probability of artificial modifying accounting data [8].

4. Conclusion

This paper explores whether the formal systems of enterprises are influenced by Huizhou merchant culture. Taking A-share listed company Jia’ao as an instance, this paper finds that the human resources management, CSR building, and accounting data disclosure system would be deeply affected by the traditional Huizhou merchant culture. This paper thus proposes some solutions, including inspiring the intrinsic reward of the employees from the perspective of ESG integration, concentrating on the managers’ organizational citizenship behaviors by various means, and employing the latest data technology, etc. There are some limitations in this paper, including insufficient explanation of the deficiencies of Huizhou merchant culture, and how to better carry forward and inherit the excellent aspects of Huizhou merchant culture.

References