**Abstract**

**How Does Religiosity Enhance Risk-taking of Chinese Private Enterprises: Internal Control or Social Supervision?**

Religious beliefs influence corporate risk-taking through social monitoring. In contrast to previous research findings, using data from Chinese private firms, we find a positive relationship between the level of religious beliefs in the locality and corporate risk-taking. Mechanism analysis further confirms that religious beliefs contribute to the reduction of corporate risk-taking by enhancing internal control mechanisms and fostering charitable behaviour. Furthermore, the evidence suggests that religious beliefs also increase corporate risk-taking by reinforcing local public monitoring of firms and executives. This can be observed through media coverage that evaluates corporate image, thereby increasing potential reputational risks. This study emphasizes that the effect of religious beliefs on corporate risk-taking varies across different religions, which can be attributed to differences in the geographic distribution of religions and the level of public acceptance.

**Contribution**

This paper contributes to existing literature in several ways:

* examines the role of informal institutions alongside formal ones in influencing corporate risk-taking, expanding on previous studies that primarily focused on formal institutions.
* analyses the unique characteristics of Chinese private enterprises' religious beliefs and ownership structures, which differ from Western firms and state-owned enterprises, thus adding to the understanding of corporate risk-taking in China.
* explores both the negative and positive mechanisms through which religious beliefs impact corporate risk-taking, addressing a gap in previous research that mainly focused on the negative relationship.
* considers the heterogeneity of religious beliefs in China, and contrast with previous studies that treated all religious beliefs as homogeneous.
* expands the focus beyond individual executives to examine how corporate and executive social images influence risk-taking behaviours through external factors.

The main research objective of this paper is to examine the mechanism of the impact of religious beliefs on corporate risk-taking through social monitoring as an external factor and internal factors from the perspective of informal institutions.

We consider the internal factors of corporate misconduct (McGuire et al., 2012), charitable donations (Du et al., 2014), internal control deficiencies reported for private enterprises in areas such as human resources, financial reporting, and procurement, including major, important, and general deficiencies. Moreover, we calculate the sum of the amount of charitable donations made by enterprises based on the business expenses items in their financial statements.  We also use the internal control index score provided by the DiBo risk control research team as a proxy for internal control quality.

To investigate the external factors of religious beliefs on corporate behaviour and risk-taking, we analyse network news reports. The data is obtained from the Chinese Research Data Services Platform, which includes news reports from over 400 major network media sources.

The fig following illustrates the research structure.

A diagram of a research structure

Description automatically generated

**Empirical findings**

In contrast to previous findings (Hilary and Hui, 2009), we identify a positive relationship between religious belief and corporate risk-taking using a sample of Chinese private enterprises. The study further discusses the religious beliefs of the five major religions respectively and conduct the analysis using segmented regression, both of which confirm the positive relationship between religious belief and corporate risk-taking. In the mechanism analysis, the study explores internal factors and external factors as dissemination channel through which religious belief influences corporate risk-taking.

Hence, the impact of religious belief on corporate risk-taking has social external factors, manifested in the evaluation of companies and their executives by the general public, leading to higher reputation risk for the companies. While religious belief reduces risk-taking by strengthening internal controls and reducing instances of default, this is not the only pathway. The religious belief level in a region is directly reflected in the risk aversion of the population, motivating believers to supervise the behaviour of local companies, which is reflected in news media coverage of company images. The social image of companies and executives is related to reputation risk, and regions with higher levels of religious belief tend to have more news coverage of company behaviour. Negative behaviours expose companies to greater risks. Therefore, the social manifestation of religious belief is the supervision of company behaviours, exposing the true image of companies through news coverage, with companies engaging in negative behaviours facing greater risks.

Result suggests that the mechanism through which religious belief reduces corporate risk-taking through internal factors may not be effective, or there may be an external factor that strengthens the positive effect of religious belief on corporate risk-taking. The heterogeneity in the impact of different religious beliefs on corporate risk-taking can be explained by the differences in the geographical distribution of religions and the acceptance of religions by the population. Buddhism and Taoism, as indigenous religions in China, are widely accepted by the population and have an influence on the governance of Chinese private enterprises. Islam, due to its uneven distribution in China, with 90% of Islamic activity centres concentrated in three north western provinces but only 1.7% of Chinese private enterprises located there, does not accurately reflect the impact of Islamic religious belief in studies of corporate risk-taking. Due to the influence of the introduction time factor, Catholicism was popular in China earlier than Protestantism, making it easier to be accepted by the population and leading to a wider dissemination of its doctrines and culture. As a result, there is heterogeneity in the impact of these two religions on the risk-taking of Chinese private enterprises. Therefore, the uneven geographical distribution of religions and the time limit for the development of religions in regions directly contribute to the differences in the impact of religious belief on corporate risk-taking.

**References**

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