

# The Power of Belief: CEO Political Belief and Corporate Violations

Mao Mei<sup>1</sup>, Xianyue Gao<sup>1,\*</sup>, Wang Min<sup>2</sup>

<sup>1</sup>Business School, Xi'an International Studies University, Xi'an, China

<sup>2</sup>Business School, Xi'an International Studies University, Xi'an, China

\*Corresponding author

**Abstract:** Political beliefs shape individuals' perceptions and ideas and profoundly influence their decision-making behaviour. Using this as a starting point, this paper examines the impact of the CEO's political beliefs on corporate violations. The study found that the political beliefs of party CEOs, which are strongly influenced by the ideology of "working for the people, obeying the law and being clean", effectively discourage corporate misconduct, and that this discouragement is influenced by the CEO's past and current environment. The CEO's past experience of living in a revolutionary old region and the external red cultural environment of the company he is currently working in have a strengthening effect on his political beliefs, further enhancing the inhibiting effect of party members' CEO political beliefs on corporate irregularities. This paper incorporates the political beliefs of executives into the framework of corporate non-compliance research, revealing the important role of enhancing the ideological capabilities of party members in curbing corporate non-compliance, which not only broadens the thinking of behavioral governance of listed companies, but also provides a basis for strengthening the cultivation of political beliefs of party members and bringing into play the pioneering role of party members in economic development.

**Keywords:** Party CEO, Political Beliefs, Red Culture, Corporate Violations

## 1. Introduction

Despite the continuous strengthening of supervision of the capital market by the CSRC and the Shanghai and Shenzhen Stock Exchanges in China, violations by listed companies continue to be prohibited. According to statistics disclosed by the SFC, an average of more than 10% of listed companies in Shanghai and Shenzhen A-shares were punished for non-compliance each year during the period of 2010-2018. In 2018 alone, the SFC issued 310 administrative penalty decisions, 50 market bans and fines amounting to RMB10.641 billion, with the number of administrative penalty decisions, the number of market bans and the amount of forfeitures all reaching record highs [1]. Violations by listed companies not only undermine the integrity of the company's own image, but also seriously damage the vital interests of investors and pose a threat to the sustainable and healthy development of the capital market. Therefore, how to effectively manage the irregularities of listed companies has become an important issue for in-depth research in the current academic circles.

Reviewing previous studies, researchers have explored the factors influencing corporate non-compliance from two main internal and external perspectives: firstly, they have explored the role of external factors in restraining corporate non-compliance from external perspectives such as government regulation [2], economic environment [3], legal system [4] and market participants (analysts, media and auditors) [5-7]; secondly, they have interpreted corporate non-compliance from internal governance perspectives such as board characteristics [8-9], shareholding structure [10], independent directorship [11-12], corporate internal control [13] and supervisory board governance [14]. Among the internal governance factors, the influence of executives, as the key subjects of operational decisions, on corporate non-compliance decisions has attracted the attention of some scholars. According to the higher echelon theory, the established cognitive abilities and values of executives influence the strategic choices of firms, which in turn influence corporate violations [15-16].

However, as individual values and cognitive structures are not easily observable, some studies have discussed the relationship between executive traits and corporate irregularities through demographic characteristics such as age [16], gender [17], education [18] and tenure [19]. However, the analysis around the external characteristics of executives still does not visually map the internal ideology of

executives. Thus, scholars have turned their attention to acquired experiences that are closely related to the formation of individuals' cognition and perceptions, such as political experiences [20], military experiences [21], famine experiences [22] and overseas experiences [23], which have been shown to have a greater impact on individuals' psychology and have a shaping effect on the formation of their values and sense of thinking, which in turn influence the decisions made by executives regarding corporate violations. The study also demonstrated that these particular experiences have a strong influence on the psychology of individuals and shape their values and thinking, which in turn influence executives' decisions regarding corporate violations. Although these studies are difficult to accurately describe the psychological traits in the decision-making process of executives [24-25], they provide new ideas for exploring the relationship between individual ideology and corporate non-compliance. In addition, other scholars have explored the role of executive personality traits in corporate decision-making behaviour and found that highly narcissistic and overconfident executives have a stronger risk appetite and are more likely to make non-compliant decisions [26-27]. The above studies have discussed the relationship between executives and corporate non-compliance around individual physical and psychological characteristics, and on this basis some scholars have also started to pay attention to personal beliefs that reflect the ideology of executives.

Beliefs, as the basis of an individual's cognitive structure and values, have a dominant and decisive influence on his or her speech and behaviour [28]. It can perform the functions of an ideological system: guiding one's orientation to the world, regulating motivation and behaviour [29]. This means that faith as a spiritual force can provide the tools for independent thinking, enabling individuals to make autonomous judgement in the face of unclear rules and moral dilemmas. However, as 'beliefs' are abstract and complex, scholars have tended to explore the influence of executives' ideology on corporate non-compliance from the perspective of more explicit religious beliefs [30] and traditional cultural beliefs [31], while political beliefs, which are not easily captured, have rarely been addressed. However, studies have confirmed that the political ideology of corporate managers and founders can have a significant impact on a firm's business decisions [32-33]. Managers who hold political beliefs are able to integrate their own political perceptions and behavioral preferences into strategic choices, shaping organizational behaviour and decision outcomes [34]. Some scholars have studied for the U.S. scenario and found that managers' political beliefs not only promote corporate social responsibility [35], but also narrow the pay gap between management teams [36], improve labor relations [37], and enhance corporate value [38]. Studying corporate behavior from executives' political ideology is becoming a hot research topic in recent years [39]. Unfortunately, in China, one of the countries with the most unique political culture, there are not many empirical studies on the influence of individual political beliefs on corporate decision making.

Strengthening the cultivation of political beliefs has always been the spiritual foundation and root of the self-construction and governance of the CPC. In the report of the twentieth session, General Secretary Xi pointed out that "the reason why socialism with Chinese characteristics is good is, in the final analysis, the Marxist line, the Chinese version of the Marxist line" [40]. In more than 100 years of struggle, relying on the political faith with Marxism as its core, the Party has led the Chinese people not only to victory in the revolutionary struggle, but also to glorious achievements in socialist modernization and construction. To achieve high-quality economic development in the new historical period, it is even more important to adhere to the fundamental and global position of the Party's leadership. The concrete implementation in enterprises is manifested as Party managers rely on firm political beliefs and play a pioneering and exemplary role to lead enterprises in scientific decision-making, compliant operation and orderly competition. Although academics have explored the effects of executives' political beliefs on corporate performance [41], corporate social responsibility [42], and information disclosure [43], research on individual political beliefs and corporate violations has not been seen.

As an important ideological characteristic of executives, can political beliefs play an effective role in curbing corporate violations, and what factors influence the relationship between executives' political beliefs and corporate violation decisions in the context of political culture with Chinese characteristics? These questions are worth exploring in depth. Based on this, this paper empirically examines the role of CEO's political beliefs on the governance of corporate irregularities and the influence mechanism of their role, using Shanghai and Shenzhen A-share listed companies from 2004-2019 as the research sample. Compared with previous studies, the possible contributions of this paper are: first, it discusses the influence of executives' political beliefs on corporate violations from the dimension of beliefs and expands the research results on the factors influencing corporate violations. The existing literature has mainly explored the influence of executives' physical characteristics, psychological traits, behavioral preferences, and acquired experiences on corporate violations. In contrast to existing research, this paper looks at executives' ideologies to explore how political beliefs that shape personal value propositions, spiritual pursuits, and ethics influence executives' personal perceptions and, consequently, corporate

violation decisions. This expands the research on the relationship between executives and corporate violations and provides empirical evidence for the study of the influence of executives on corporate decision making and its consequences in specific political and cultural environments. Second, the research in this paper provides new ideas for further improving the governance of corporate irregularities in China's localization. This paper specifically examines the mechanism of the role of CEO's political beliefs on corporate irregularities, which provides a basis for our Party to play a leading role in the ideological field and improve the quality of governance of listed companies, and highlights the valuable value of the fine cultural tradition of the Communist Party of China in the economic construction of the new era.

## **2. Theoretical Analysis and Research Hypothesis**

### ***2.1. The connotation of political beliefs***

The ancient Greek philosopher Aristotle pointed out that "man is a city-state animal by nature". The ancient Greek word "city-state" means "politics" in the Western language system. The natural political nature of human society determines that political concepts and beliefs have an important place in people's spiritual world and social life. Political beliefs are the recognition, conviction and admiration of individuals for certain political ideas, value systems and political institutional structures under the influence of a specific political environment [44]. It is not only an important value force to consolidate and support the legitimate political structure and stable political order [45], but also an important direction for the comprehensive and free development of individuals, which fundamentally determines the nature, content and core value orientation of people's social practice activities [46]. Political beliefs exist at two levels: first, at the social level, political beliefs are expressed as the spiritual foundation and highest value goal of political governance of a nation or state at a certain social stage, which constitutes the common ideal and ultimate value identity of society [47]; second, at the individual level, political beliefs are the spiritual system in which individuals identify with, admire and pursue a certain socio-political system, theoretical doctrines and corresponding political ideals, and internalize them as their own code of behavior [48]. By providing ideal goals and value guidance, political beliefs influence and regulate the subject's emotions, will, and behavior. Therefore, people who have specific political beliefs must have patterns of thinking and behavior that are consistent with their political beliefs [49].

Political beliefs as the common claims of group members are necessarily carried by certain political organizations such as political parties [50]. As a Marxist party, the Communist Party of China (CPC) is the highest political leadership and the only ruling party in China, and its fundamental political belief is socialism and communism [51]. As the core element of the ideology of the CPC, political beliefs not only manifest and reflect the value orientation of the CPC, but also characterize and highlight the spiritual quality of the CPC. The class position of "working for the interests of the vast majority of people" embedded in the communist faith flows in the bloodline of the Chinese Communists and runs through the century-long evolution of the communist faith, which becomes the spiritual mark of the Chinese Communists that never fades. Therefore, the political beliefs studied in this paper refer to the political ideology of the CPC, which is composed of "Marxist beliefs, communist ideals and common ideals of socialism with Chinese characteristics", which not only can meet the spiritual needs of individuals in terms of cognition and emotion, but also provide value guidance for people's social activities.

### ***2.2. Theoretical Analysis of Political Beliefs on Cognitive Shaping of Managers***

"Man is an animal hanging on a web of meaning he has woven", sociologist Max Weber graphically illustrates that people are individuals with unique perceptions who live in certain social relationships. Each person's unique perceptions and values are gradually cultivated in a certain environment. According to imprinting theory, both individuals and organizations go through several "environmentally sensitive periods" in their long developmental history. During this period, individuals develop internal traits, or stigmas, that match their environment in order to reduce uncertainty, and this stigma continues to influence them when subsequent fundamental changes in the environment occur [52]. For individuals, the formation of stigma is also seen as a specific learning process. This learning usually occurs during the period when they undergo role changes and gradually develop worldviews and values, such as early adulthood [53-55]. The events and experiences during these periods determine their interpretation of behavior and rules of conduct later in life. The full text of the article must be typeset in single column. According to imprinting theory, the environmental changes that individuals encounter during sensitive periods facilitate the socialization process of individuals, which in turn produces imprinting effects [56].

An individual's organization is the main site of socialization and specialization, and differences in organizational contextual characteristics shape individuals' different values and behavioral preferences [57]. Party organizations as a unique organizational context play an important role in shaping the cognitive imprint of individuals. The political beliefs of Chinese communists are Marxist and communist beliefs, and the embodied form of upholding political beliefs is joining the Communist Party of China [58]. The process of joining a party organization is a role change from non-party member to party member, which is an environmentally sensitive period that individuals experience. Individuals in role transition have their original cognitive and behavioral patterns challenged, and they feel a strong sense of uncertainty about the requirements of their new role. To reduce this uncertainty, individuals enter a state of cognitive thaw [59] and adopt cognitive patterns that are more consistent with the new environment [60], after which their cognitive system tends to adapt and integrate these new patterns [53]. Joining a party organization is thus both a rigorous socialization process for individuals and an important period in which they adjust their cognition and are shaped in the following ways:

First of all, joining the CPC is a long socialization process of constantly being inculcated with the fundamental purposes, ideals and beliefs and codes of conduct of the Party [61]. From the time an ordinary person has the desire to join the Party, he or she has to go through a series of preparatory work: starting from voluntarily filling out the voluntary application form, attending theoretical knowledge training of the Party, and developing into a Party activist after passing the examination; the Party activist then goes through a year-long political education, and is approved to become a reserve member after passing the examination; the reserve member then receives a year of preparatory inspection and education, and finally becomes a full Party member after passing the examination. After passing the assessment, they finally become full members. The process of At each stage from the general public to full Party members, those who join the Party have a deeper understanding of Marxist ideology and communist ideals, and are able to form "instinctive recognition and acceptance" of the ideas and core values of the Communist Party, and internalize them into their "essence and spirit" to guide the subsequent way of thinking and behavior. Second, among many social organizations, the Party has always been regarded as a mature, disciplined and leading organization with a strong shaping effect on people. Under the daily training and political inculcation of the party organization, those who join the party gradually develop qualities and consciousness that are compatible with the party environment, such as the consciousness of dedication to "serve the people", the consciousness of "pioneering and exemplary" and the consciousness of "obeying the law". "This consciousness can guide them to firmly carry out their duties. This consciousness can guide them to firmly implement the party's line and policy and play a pioneering role in action. For the CEO, this belief imprint acts on his subjective consciousness by providing value judgments and behavioral perceptions, which in turn influence his decision-making behavior and have a significant impact on the strategic choices of the company.

The above discussion shows that the process of an individual joining the CCP and becoming a person with political beliefs is an important and sensitive period in his or her growth. During this period, individuals achieve recognition and admiration for Marxist theory and the purposes and ideas of the CPC through participation in the activities of the party organization, and then form a faith imprint. This faith imprint engraves the political culture and philosophy of the CPC into individuals' minds, helps them rebuild their ideological consciousness such as values and worldview, and realizes the shaping of their cognition and behavior.

### **2.3. CEO's Political Beliefs and Corporate Violations**

The ideological imprint of communism is the result of socialization and indoctrination of individuals by the CCP. Individuals have the ideological imprint of communist beliefs in the process of joining the CCP, which must have an impact on their decision making in corporate affairs. In essence, political beliefs reflect the political value orientation of a certain class or social group [45]. One of its basic functions is to provide believers with subjective criteria for judging the correctness or incorrectness of their practical behavior [62]: practical activities that conform to the requirements of beliefs are considered correct, and conversely, they are considered wrong. CEOs with political beliefs are regulated and bound by the beliefs they hold in both cognitive and behavioral aspects, thus influencing them to make decisions related to corporate violations.

First, at the cognitive level, political beliefs have a perceptual filtering effect, which acts as a spiritual guide to influence CEOs' perceptions of violations. Since its founding, the CPC has taken Marxism as a political faith that it firmly believes in and adheres to. The CPC not only requires all party members to always hold a firm Marxist position, but also insists on the unity of Party and people's values [63]. This belief requires party members to have not only the political virtue of "clean sleeves and honesty," but

also the public sentiment of "working for the benefit of the people and solving their worries" [64], which guides CEOs to place their personal and corporate interests in the larger interest of national development and to always create wealth with the goal of "sticking to the interests of the vast majority of people". These requirements, which embody the governing philosophy, value pursuit and basic spirit of the CPC, constitute the spiritual nutrients of the CEO and nourish the construction of its cognition. Corporate irregularities are a means for some people to seek improper benefits, which not only jeopardize social justice and the interests of most stakeholders, but also deviate from the Party and the people, and are seriously inconsistent with the CPC's propositions and requirements. The violation of corporate decisions is contrary to the cognitive system that CEOs have built up under the Party's education, making them feel uncomfortable and rejected. As a result, CEOs with political beliefs are cognitively constrained to reject corporate violations with instinctive ideological resistance.

Secondly, at the behavioral level, political beliefs have the role of guiding behavior and can dominate the behavior of individuals. As a conceptual superstructure, political belief is a value system with "compulsion". It requires believers to be absolutely convinced of the content of the beliefs and to take the position advocated by the beliefs as their action guidelines for pursuing ideal goals. It means that once an individual accepts a political belief, the individual is bound to act according to the requirements of the political belief. Under the constraints of faith, believers will also gradually internalize the positions and principles of political beliefs into their own internal value needs, turning from other discipline into self-discipline, forming the quality of faith consisting of elements such as political cognition, political emotion, political belief and political value thought. Therefore, for CEOs with political beliefs, their behaviors are not only bound by institutional arrangements such as laws and regulations, but also by various values and regulations inherent in their beliefs. In the operation of enterprises, CEOs not only base on the value position of Marxist beliefs and uphold Marxist methodology and way of thinking, but also always implement and practice Marxist political beliefs in practice to achieve the unity of "knowledge" and "action". Based on the above analysis, this paper proposes the following hypotheses:

Hypothesis 1: CEO's political beliefs can significantly inhibit corporate violations.

#### ***2.4. The Moderating Effect of CEO's Growing up Experience in Old Revolutionary Areas***

According to imprinting theory, early growth experience is an important sensitive period for individuals, and when the imprint of values formed by individuals' early experience is internally consistent with their later cognition, it will have a superposition effect. The red brand formed by CEOs growing up in old revolutionary areas during the sensitive period of their youth is highly consistent with the connotation of their later political beliefs, and the superposition effect generated by the two can strengthen the inhibiting effect of CEOs' political beliefs on corporate violations.

The Old Base Areas of the Chinese Revolution, referred to as the Old Revolutionary Areas, are revolutionary base areas created by the Communist Party of China during the Agrarian Revolutionary War and the Anti-Japanese War, leading the majority of the people. As the strongest base for the Chinese revolution, the old revolutionary areas not only supported the development of the CPC's revolutionary struggle during the war years, but also accumulated a distinctive and heavy red culture in the common struggle with the Party. The red culture of the old revolutionary regions not only reflects the excellent character, glorious tradition and fine style formed by our Party in the practice of struggle, but also manifests the revolutionary spirit and value beliefs deep in the ideology of the people in the old regions. During the revolutionary war years, people in the old areas actively supported the front line, fought tenaciously against the reactionary forces, and wrote red chapters of history with their lives and blood. The old revolutionary areas have not only produced countless heroic deeds, but also forged a series of great revolutionary spirits,

For example, the spirit of Jinggangshan [65], which is "firm belief, seeking truth from facts, hard work and reliance on the masses"; the spirit of Yan'an [66], which is "firm and correct political direction, seeking truth from facts, single-mindedness for the people and self-reliance"; and the spirit of Xibaipo [67], which is "modesty and prudence, integrity and extravagance, and unremitting struggle". One-heartedness for the people is the core of the revolutionary spirit, highlighting the basic values of revolutionaries. Adhering to the correct political direction, seeking truth from facts, protecting integrity and abstaining from extravagance, and striving relentlessly are the ideological line for carrying out the revolutionary struggle and the fundamental guarantee for achieving victory. These revolutionary spirits have provided spiritual support and cultural nourishment for individuals in the region and have influenced generations of people in the old areas. CEOs growing up in old revolutionary areas are deeply influenced by the cultural atmosphere in the region, and grow up in the process of perceiving, experiencing, learning

and passing on the red culture, and deeply integrate the values in the red culture into their bloodline and genes, and the culture they have received since childhood will not be erased even when they are far away from their homeland. The values and codes of conduct formed by CEOs in the red culture are in line with the political beliefs of Communist Party members, and the superimposition of the two consistent brands strengthens the CEOs' consciousness of "seeking truth from facts", "integrity and public service", and "being dedicated to the people". This can effectively inhibit CEOs from making decisions that lead to corporate violations. Based on the above analysis, this paper proposes the following hypotheses:

Hypothesis 2: Growing up in the old region significantly strengthens the inhibiting effect of CEO's political beliefs on corporate irregularities.

### ***2.5. The Moderating Effect of Red Culture in The Region Where the Company is Located***

As an open economic system, enterprises are always embedded in a certain social environment, and their behavior is implicitly influenced by the culture, customs and social atmosphere of the region they live in. The red culture of the old revolutionary areas influences the values of the regional group members as a whole, and internalizes the values of integrity and self-discipline and working for the benefit of the people as the "general rule" of group life.

As a member of the old revolutionary region, the old region enterprises will recognize and accept the values embedded in the regional red culture and internalize the red culture as a part of the corporate culture. As an important manager of the enterprise, the CEO is both the builder and the main practitioner of the corporate culture, which forms an important part of the CEO's working and living environment. The imprinting theory suggests that the persistence of the ideological imprint acquired during an individual's sensitive period is influenced by the external environment in which the individual currently lives, and the better the match between the external environment of the individual's sensitive period and the environment in which he or she currently lives, the more persistent the imprinting influence. Red culture is the product of the concepts formed by the Communist Party of China and the people in the old areas during the revolutionary practice, and it is also the condensation and sublimation of the value concept, way of thinking and habits of words and deeds of the practice subjects. Therefore, the corporate cultural environment embedded with red culture is highly compatible with the CEO's existing political beliefs, which can evoke strong identification with the CEO ideologically and emotionally and make the CEO's political beliefs imprint sustainable.

The red culture of the company's location is a reflection of the ideology led by the Communist Party of China, and its embedded values such as "working for the benefit of the people, honesty and self-discipline, dedication and integrity" constitute the external social norms of the company. The CEO, as the decision maker of the company, will choose a business strategy that conforms to the regional norms and strives to be consistent with the connotation and orientation of the red culture in order to gain the recognition of the social groups in the region. Accordingly, this paper proposes the following hypothesis:

Hypothesis 3: The stronger the red culture atmosphere in the location of the enterprise, the stronger the inhibiting effect of the CEO's political beliefs on corporate violations.

## **3. Research Design**

### ***3.1. Sample Selection and Data Source***

This paper uses A-share listed companies in Shanghai and Shenzhen from 2004-2019 as the research sample and screens the sample according to the following criteria: (1) exclude financial and insurance listed companies; (2) exclude listed companies that were specially treated as ST and \*ST during the study period; (3) exclude listed companies with missing or abnormal relevant data and insolvent companies. After the above screening, 5849 annual observations were finally obtained. In addition, all continuous variables in this paper are subjected to tailoring at the upper and lower 1% level to eliminate the influence of extreme values on the research results. The corporate violation data and financial data used in this paper are obtained from the CSMAR database, and the CEO's identity such as "CCP member" and political affiliation are obtained through the personal characteristics of directors and supervisors in the CSMAR database, and manually reviewed with the help of company annual reports, Baidu Encyclopedia, Sina.com and Juchao.com, etc. The national the distribution of old revolutionary areas (prefecture-level cities and counties) in each region was collected manually.

### 3.2. Variable Definition

#### 3.2.1. Explained Variable: Enterprise Violations

Referring to the definition and measurement method of violations by Cai Zhiyue and Wu Shinnong [9], this paper defines listed companies' public condemnation, public criticism and punishment by relevant regulatory authorities for violating laws and regulations as violations and uses the dummy variable IFVIO to measure whether listed companies violate the law in the current year. If a company commits a violation and is punished in the current year, IFVIO is assigned a value of 1, otherwise it is 0.

#### 3.2.2. Explanatory Variable: Political Belief

In previous studies on political beliefs, scholars mostly used questionnaires to judge the status of individuals' political beliefs, and although fruitful research results were achieved, the authenticity of beliefs was doubtful due to the subjective initiative of individuals, and the respondents were able to whitewash their ideologies. Therefore, this paper integrates previous studies and draws on Yi-Ning Zhou and An-Ning Hu's approach [42] to operationalize political beliefs as CCP members. Party membership is a critical and sensitive period for individuals, and long-term and rigorous socialization and inculcation imprint political beliefs on each entrant; at the same time, after individuals join the party organization, CCP political beliefs become the spiritual system that supports their daily words and actions [68]. Thus, it is reasonable to indirectly measure the political beliefs of individuals by distinguishing whether they have party membership or not. In this paper, the dummy variable CCP is constructed by examining the CEO who holds the main voice in the company, and the CCP is assigned a value of 1 if the CEO is a member of the CPC, and 0 otherwise.

#### 3.2.3. Moderator

CEO's experience in the old revolutionary area. In this paper, we choose the birthplace of CEO to measure CEO's revolutionary old area experience. Childhood is a critical period for the formation of one's personality traits and values, and the personality and values formed during an individual's childhood are less likely to change even in adulthood [69]. Thus, birthplace information is a relatively more accurate measure of the social environment in which a person grows up and the values he or she is shaped by [70]. This paper is based on the "14th Five-Year Plan for the Revitalization and Development of Special Types of Regions" (hereinafter referred to as "the Plan") issued by the State Council, and the 12 old revolutionary regions clearly defined in the Plan are taken as the research objects of this paper. First, the old revolutionary area (prefecture-level city) variable is constructed based on the current administrative divisions in China. If a prefecture-level city includes the old revolutionary area specified in the Plan under a prefecture-level city, the prefecture-level city is defined as the old revolutionary area city. So if the CEO is born in a revolutionary old district (prefecture-level city), then set CEO\_LQ=1, otherwise = 0.

The red culture of the location where the company operates. Referring to the study of Yu Wei et al [71], red culture is measured in terms of old revolutionary areas. In this paper, we collected the distribution of counties (including county-level cities) belonging to old revolutionary areas across the country based on the 12 old revolutionary areas in the "14th Five-Year Plan for the Revitalization and Development of Special Types of Areas" issued by the State Council, and constructed the dummy variable Co\_LQ. If the number of old revolutionary counties included in the prefecture-level city where the listed company is located is higher, it means that the listed company is more deeply influenced by the red culture.

#### 3.2.4. Control Variables

Drawing on the research results of Liang Gu and Zhenjie Liu [18] on the individual characteristics of executives, this paper selects age, education, CEO tenure, shareholding ratio, and political affiliation as the control variables at the individual level of CEOs. In addition, firm-level variables such as the proportion of sole directors, equity concentration, firm size, firm profitability, growth capacity, solvency, whether the auditor is from a Big 4 international accounting firm, and audit opinion are also controlled with reference to the studies of Cai Zhuyue, Wu Shinnong [9] and Dai Yiyi [39]. Also, year and industry fixed effects were controlled for in the model. The detailed meanings and measurements of the variables are shown in Table 1 below.

Table 1: Meaning and Symbolic Representation of Variables

Category	Variable name	Variable Symbol	Variable Measurement
Explained variable	Company violation	IFVIO	If the listed company violates the rules in that year, the assigned value is 1, otherwise it is 0
Explanatory variable	Political belief	CCP	If the CEO is party member, CCP is assigned to 1, otherwise it is 0
Moderator	CEO's experience in the old revolutionary base areas	CEO_LQ	If the birthplace of CEO is an old revolutionary base area, the CEO_LQ is assigned to 1, otherwise it is 0
	Red cultural atmosphere in the area where the enterprise is located	Co_LQ	The number of revolutionary old districts and counties in the prefecture-level city where the company is located
Control variable	Age	Age	The actual age of CEO takes logarithm
	Degree	Degree	1= technical secondary school and below, 2= junior college, 3= undergraduate, 4= master's degree, 5= doctoral degree, 6=MBA/EMBA
	Tunture	Tunture	Add 1 to the month of CEO's term to take the logarithm
	CEO shareholding ratio	CEO_hold	CEO shares/total shares
	Political connection	Polic	If the CEO has served as a deputy to the National People's Congress or a member of the Chinese People's Political Consultative Conference, or has served in a government department, set Polic=1, otherwise =0
	Proportion of independent directors	Outdir	Number of independent directors/total number of directors
	Ownership concentration	Top1	Number of shares held by the largest shareholder/total number of shares
	Company size	Size	Natural logarithm of total assets at the end of the period
	Profitability	ROA	Total net profit/average total assets
	Develop ability	Growth	(Operating income at the end of this period-operating income at the end of last period)/operating income at the end of last period
	Debt paying ability	Lev	Total liabilities/total assets
	Audit of four major firms	Big4	If the company was audited by the four major international accounting firms in that year, take 1, otherwise take 0.
	Audit opinion	Opinion	The standard unqualified opinion is 1, otherwise it is 0
	Year	Year	Dummy variable
Industry	Ind	Dummy variable	

### 3.3. Model Design

In order to verify the proposed hypothesis, this paper sets the following models to be tested:

$$IFVIO_{it} = a_0 + \beta_1 CCP_{it} + \beta_2 \sum Controls_{it} + \beta_3 Y_{rit} + \beta_4 In_{it} + \varepsilon_{it} \quad (1)$$

$$IFVIO_{it} = a_0 + \beta_1 CCP_{it} + \beta_2 CEO\_LQ_{it} + \beta_3 CCP_{it} \times CEO\_LQ_{it} + \beta_4 \sum Controls_{it} + \beta_5 Y_{rit} + \beta_6 In_{it} + \varepsilon_{it} \quad (2)$$

$$IFVIO_{it} = a_0 + \beta_1 CCP_{it} + \beta_2 Co\_LQ_{it} + \beta_3 CCP_{it} \times Co\_LQ_{it} + \beta_4 \sum Controls_{it} + \beta_5 Y_{rit} + \beta_6 In_{it} + \varepsilon_{it} \quad (3)$$

IFVIO<sub>it</sub> indicates whether the enterprise is in violation. CCP<sub>it</sub> indicates the CEO's political belief status, if the CEO has party membership, the CEO is considered to have political beliefs, then CCP is set to 1, otherwise it is 0. CEO\_LQ<sub>it</sub> and Co\_LQ<sub>it</sub> are moderating variables, CEO\_LQ<sub>it</sub> indicates the CEO's revolutionary old area growth experience, Co\_LQ<sub>it</sub> indicates the enterprise location's red cultural atmosphere. Controls<sub>it</sub> represents a series of control variables; Y<sub>rit</sub> represents the annual dummy variable



to control the possible impact of annual change trend on enterprise violation; Init represents the industry dummy variable to control the possible impact of industry variability on enterprise violation, and  $\varepsilon$  is a random disturbance term. Model (1) is used to test hypothesis 1 of this paper, and models (2) and (3) are used to test the moderating effects of two indicators, such as CEO's birthplace and the red culture atmosphere of the company's location, on the relationship between CEO's political beliefs and corporate violations, respectively. Given the characteristics of the data, this paper uses a logit model for regression.

## 4. Empirical Results and Analysis

### 4.1. Descriptive statistic

Table 2 presents the descriptive statistics of the main variables, from which it can be seen that: the mean value of IFVIO is 0.165, indicating that approximately 16.5% of the listed companies in Shanghai and Shenzhen A-shares have committed violations during 2004-2019. In terms of personal characteristics of executives, the mean value of CEO political belief (CCP) is 0.601, indicating that more than half of the CEOs of listed companies in the study sample have party membership and uphold the political belief of the Communist Party of China. the mean value of CEO birthplace (CEO\_LQ) is 0.323, indicating that 32.3% of the CEOs in the sample were born in old revolutionary areas and have experienced the red culture of old areas; the enterprise The maximum value of red old area county (Co\_LQ) in the location of the company is 18, the minimum is 0, and the standard deviation is 2.045, indicating that there is a large difference in the red culture atmosphere in the region where the company is located. Descriptive statistics of other variables are detailed in Table 2.

Table 2: Descriptive Statistics of Main Variables.

Variable	Mean	Std.Dev	Min	Max
IFVIO	0.165	0.372	0.000	1.000
CCP	0.601	0.490	0.000	1.000
CEO_LQ	0.323	0.468	0.000	1.000
Co_LQ	0.767	2.045	0.000	18.000
Age	3.892	0.139	3.497	4.205
Degree	3.625	1.076	1.000	6.000
Tunture	3.536	1.031	0.693	5.165
CEO_hold	0.050	0.117	0.000	0.553
Polic	0.348	0.476	0.000	1.000
Outdir	0.373	0.056	0.286	0.571
Top1	0.368	0.154	0.098	0.743
Size	22.236	1.402	19.810	26.458
ROA	0.039	0.054	-0.188	0.194
Growth	0.193	0.425	-0.522	2.789
Lev	0.460	0.202	0.057	0.875
Big4	0.076	0.265	0.000	1.000
Opinion	0.976	0.154	0.000	1.000

Note: N=5849

### 4.2. Regression Result

#### 4.2.1. A test of the relationship between CEO's political belief and enterprise violation

Table 3 lists the regression analysis results of model (1). The CCP coefficient in column (1) of table 3 is -0.215( $p < 0.05$ ), indicating that the CEO's political belief can inhibit the occurrence of irregularities in his enterprise, and hypothesis 1 is verified.

#### 4.2.2. The Moderating Effect of CEO's Growing up Experience in Old Revolutionary Areas

Column (2) of Table 3 analyzes the moderating effect of CEO's experience in the old revolutionary base areas (CEO\_LQ) on the relationship between CEO's political beliefs and corporate violations. The results show that the coefficient of interaction between CEO's experience in the old revolutionary base areas and his political beliefs (CCP×CEO\_LQ) is -0.383( $p < 0.05$ ), indicating that CEO's experience in the old revolutionary base areas can strengthen his political beliefs and make the CEO's company less likely to commit violations.

#### 4.2.3. The Moderating Effect of Red Culture in The Region Where The Company is Located

Column (3) of Table 3 examines the moderating effect of the red cultural atmosphere (Co\_LQ) where the enterprise is located on the relationship between CEO's political beliefs and enterprise violations. The results show that the regression coefficient of the interaction between the red cultural atmosphere where the enterprise is located and its political beliefs (CCP×Co\_LQ) is -0.067( $p < 0.1$ ), indicating that when the external cultural environment (the red cultural atmosphere where the enterprise is located) shows consistency with CEO's political beliefs.

Table 3: The Influence of CEO's Political Belief on Company Violation

Variable	(1)	(2)	(3)
CCP	-0.215**	-0.100	-0.165*
	(-2.570)	(-1.000)	(-1.860)
CEO_LQ		0.443***	
		(3.900)	
CCP×CEO_LQ		-0.383**	
		(-2.470)	
Co_LQ			0.078***
			(2.680)
CCP×Co_LQ			-0.067*
			(-1.800)
Age	0.268	0.349	0.273
	(0.900)	(1.170)	(0.920)
Degree	-0.038	-0.034	-0.033
	(-1.080)	(-0.970)	(-0.950)
Tunture	-0.121***	-0.122***	-0.117***
	(-3.350)	(-3.370)	(-3.210)
CEO_hold	1.789***	1.679***	1.829***
	(5.830)	(5.510)	(5.960)
Polic	0.053	0.025	0.048
	(0.650)	(0.310)	(0.580)
Outdir	-0.321	-0.376	-0.231
	(-0.470)	(-0.560)	(-0.340)
Top1	-1.084***	-1.059***	-1.105***
	(-3.840)	(-3.750)	(-3.930)
Size	-0.149***	-0.149***	-0.155***
	(-3.690)	(-3.700)	(-3.830)
ROA	-5.367***	-5.429***	-5.360***
	(-6.320)	(-6.360)	(-6.350)
Growth	0.160*	0.151*	0.156*
	(1.820)	(1.730)	(1.770)
Lev	1.690***	1.660***	1.706***
	(6.240)	(6.110)	(6.290)
Big4	-0.367*	-0.350*	-0.356*
	(-1.810)	(-1.730)	(-1.750)
Opinion	-1.296***	-1.286***	-1.285***
	(-6.140)	(-6.080)	(-6.060)
Industry and Year	YES	YES	YES
R <sup>2</sup>	0.107	0.110	0.108
OBS	5849	5849	5849

Note: \*\*\*, \*\*, \* represent  $p < 0.01$ ,  $p < 0.05$ ,  $p < 0.1$ , respectively T statistics parentheses.

#### 4.3. Robustness Test

##### 4.3.1. Replace The Interpreted Variable

Corporate violations can be measured not only by whether a violation occurs in a listed company (IFVIO), but also by the degree of violation (VIO\_DEGREE). The severity of the violation (VIO\_DEGREE) is then referred to the practice of Zhou Ze will and Liu Zhongyan [72], and the severity

of the violation is judged based on the way of punishment. If a listed company is not punished in a year, it is assigned a value of 0. If it is publicly criticized, it is assigned a value of 1; if it is condemned and warned, it is assigned a value of 2; if it is fined, confiscated illegal income, cancelled business license (ordered to close) and banned from the market, it is assigned a value of 3. The larger the value, the more serious the violation is. If a listed company is punished several times in a year, the most serious type of punishment is assigned. The specific regression results are shown in Table 4. The coefficient of CCP term in column (1) of Table 4 is -0.202 ( $p < 0.05$ ), and the coefficients of CCP×CEO\_LQ and CCP×Co\_LQ in columns (2) and (3) are -0.393 ( $p < 0.01$ ) and -0.071 ( $p < 0.1$ ). The conclusions of this paper were again verified that the regression results did not change substantially after replacing the explanatory variables, and the study findings were relatively robust.

Table 4: Robustness tests: replacing the explanatory variable

Variable	(1)	(2)	(3)
CCP	-0.202** (-2.450)	-0.085 (-0.860)	-0.149* (-1.720)
CEO_LQ		0.440*** (3.930)	
CCP×CEO_LQ		-0.393*** (-2.580)	
Co_LQ			0.080*** (2.780)
CCP×Co_LQ			-0.071* (-1.930)
Age	0.319 (1.100)	0.399 (1.370)	0.333 (1.150)
Degree	-0.042 (-1.190)	-0.039 (-1.120)	-0.038 (-1.080)
Tunture	-0.123*** (-3.480)	-0.122*** (-3.480)	-0.117*** (-3.320)
CEO_hold	1.671*** (5.440)	1.550*** (5.060)	1.707*** (5.560)
Polic	0.047 (0.580)	0.020 (0.250)	0.041 (0.500)
Outdir	-0.333 (-0.500)	-0.381 (-0.580)	-0.239 (-0.360)
Top1	-1.085*** (-3.890)	-1.068*** (-3.820)	-1.119*** (-4.020)
Size	-0.149*** (-3.720)	-0.149*** (-3.700)	-0.155*** (-3.850)
ROA	-4.971*** (-6.150)	-5.031*** (-6.190)	-4.953*** (-6.180)
Growth	0.169* (1.920)	0.159* (1.790)	0.165* (1.860)
Lev	1.675*** (6.190)	1.640*** (6.040)	1.691*** (6.260)
Big4	-0.349* (-1.710)	-0.335 (-1.640)	-0.338* (-1.650)
Opinion	-1.340*** (-6.640)	-1.341*** (-6.570)	-1.325*** (-6.520)
Industry and Year	YES	YES	YES
R <sup>2</sup>	0.094	0.096	0.095
OBS	5849	5849	5849

Note: \*\*\*, \*\*, \* represent  $p < 0.01$ ,  $p < 0.05$ ,  $p < 0.1$ , respectively T statistics parentheses.

#### 4.3.2. Increase Control Variable

Although the regression model in this paper controls for many influencing factors, there may still be the problem of omitted variables. In addition to the personal traits of executives and corporate governance factors, corporate violations are also deeply influenced by the external institutional environment and

economic environment. Based on this, this paper adds control variables such as market-oriented environment and regional economic development level to the model for regression again. The marketization environment is measured by the "China Marketization Index Report by Provinces (2021)" published by Wang Xiaolu et al. The "Total Marketization Index" is used as a measure of the marketization environment, and the regional economic development is measured by the GDP per capita of each province published by the National Bureau of Statistics. The regression results are shown in Table 5. Hypothesis 1, hypothesis 2 and hypothesis 3 are still valid after controlling for external environmental variables such as marketization environment and regional economic development level, which again proves the reliability of the research results in this paper.

Table 5: Robustness Test: Adding Control Variables

Variable	(1)	(2)	(3)
CCP	-0.248*** (-2.940)	-0.132 (-1.310)	-0.198** (-2.210)
CEO_LQ		0.444*** (3.910)	
CCP×CEO_LQ		-0.390** (-2.500)	
Co_LQ			0.070** (2.390)
CCP×Co_LQ			-0.063* (-1.680)
Age	0.306 (1.020)	0.377 (1.250)	0.300 (1.000)
Degree	-0.037 (-1.050)	-0.034 (-0.960)	-0.034 (-0.950)
Tunture	-0.109*** (-2.980)	-0.109*** (-2.980)	-0.106*** (-2.880)
CEO_hold	1.882*** (6.070)	1.777*** (5.770)	1.912*** (6.160)
Polic	0.054 (0.660)	0.029 (0.350)	0.051 (0.620)
Outdir	-0.329 (-0.480)	-0.381 (-0.560)	-0.247 (-0.360)
Top1	-1.059*** (-3.740)	-1.039*** (-3.670)	-1.084*** (-3.840)
Size	-0.142*** (-3.520)	-0.143*** (-3.530)	-0.148*** (-3.660)
ROA	-5.388*** (-6.350)	-5.445*** (-6.380)	-5.380*** (-6.370)
Growth	0.154* (1.760)	0.147* (1.670)	0.152* (1.730)
Lev	1.622*** (5.940)	1.596*** (5.840)	1.644*** (6.020)
Big4	-0.327 (-1.600)	-0.313 (-1.540)	-0.324 (-1.590)
Opinion	-1.308*** (-6.230)	-1.300*** (-6.180)	-1.299*** (-6.160)
Mardex	-0.031 (-0.740)	-0.042 (-1.000)	-0.036 (-0.850)
GDP	-0.140 (-0.870)	-0.094 (-0.570)	-0.095 (-0.580)
Industry and Year	YES	YES	YES
R <sup>2</sup>	0.108	0.111	0.109
OBS	5849	5849	5849

Note: \*\*\*, \*\*, \* represent  $p < 0.01$ ,  $p < 0.05$ ,  $p < 0.1$ , respectively T statistics parentheses.

#### 4.3.3. Endogeneity Test: PSM Pairing

Considering the possible endogeneity problem, this paper re-runs the regression of model (1) by matching the propensity score samples at a ratio of 1:1. Column (1) in Table 6 shows the regression results of the propensity score allocation sample without controlling for the year effect and the industry effect, and column (2) shows the regression results of the propensity score controlling for both the industry effect and the year effect. The empirical results show that the coefficients of CEO political

beliefs (CCP) are -0.314 and -0.250, which are significant at the 1% and 5% levels, respectively, and the results of the robustness test are consistent with the previous paper, indicating that the results of this paper are somewhat robust.

Table 6: Endogenous Test

Variable	(1)	(2)
CCP	-0.314***	-0.250**
	(-2.880)	(-2.160)
Age	0.330	-0.086
	(0.810)	(-0.200)
Degree	-0.006	-0.024
	(-0.130)	(-0.480)
Tunture	-0.062	-0.106**
	(-1.160)	(-2.020)
CEO hold	2.021***	1.548***
	(4.940)	(3.470)
Polic	0.003	0.067
	(0.030)	(0.550)
Outdir	1.494	0.872
	(1.560)	(0.870)
Top1	-1.617***	-1.414***
	(-3.940)	(-3.290)
Size	-0.023	-0.132**
	(-0.410)	(-2.240)
ROA	-6.368***	-6.293***
	(-5.480)	(-5.220)
Growth	0.298**	0.260**
	(2.550)	(2.070)
Lev	1.288***	2.008***
	(3.490)	(4.960)
Big4	-0.811**	-0.582*
	(-2.490)	(-1.820)
Opinion	-0.974***	-1.130***
	(-2.910)	(-3.300)
Industry and Year	NO	YES
R <sup>2</sup>	0.075	0.116
OBS	2594	2594

Note: \*\*\*, \*\*, \* represent  $p < 0.01$ ,  $p < 0.05$ ,  $p < 0.1$ , respectively T statistics parentheses.

## 5. Conclusions

The political faith in the Chinese context is the communist, Marxist faith. General Secretary's report of the 20th National Congress points out that political faith with Marxism at its core is fundamental to the success of the Communist Party of China in leading the economic construction of socialism with Chinese characteristics. Political beliefs shape the cognition and perceptions of individual party members and profoundly influence their decision-making behavior. Taking this as a starting point, this paper focuses on the impact of political beliefs in the Chinese context on shaping the cognitive structure and behavioral patterns of corporate CEOs, and thus on their business decisions. The results of the study confirm that the Chinese Marxist political beliefs formed by the Chinese Communist Party during its century-long struggle have shaped the CEOs' values of "working for the people", "integrity and self-discipline", "honesty and professionalism", and thus their influence on their business decisions. The value orientation of "integrity and professionalism" has a restraining effect on corporate violations. On this basis, this paper examines the culture of the CEO's birthplace and the location of the enterprise, and finds that the experience of growing up in the old revolutionary region strengthens the CEO's political beliefs, and the restraining effect of political beliefs on corporate violations is further enhanced; the value proposition embedded in the red culture of the enterprise's location constitutes the social norm outside the enterprise and fits with the CEO's political beliefs, and this fit further strengthens the CEO. This fit also further strengthens the restraining effect of political beliefs on corporate violations.

Based on the above findings, this paper has gained some insights: First, at the individual level, political beliefs are the guiding principles for believing individuals to engage in social practice activities, and can provide value judgment standards and spiritual support for believers' social behavior. Party managers of enterprises should focus on the role of their ideology in guiding values and behavioral decisions, strengthen their own faith building, listen to the Party and follow the Party. Ideology is a concept is also a kind of ability, party managers should strengthen the theoretical armament, enhance the awareness of the position, guide the enterprise decision-making with the ideals and beliefs given by political beliefs, and enhance their own responsibility and guidance in management decisions. Second, from the enterprise level, political beliefs, as a socialist ideology, profoundly influence the decision-making behavior of enterprises by shaping the cognition and thinking patterns of enterprise managers. Therefore, it is necessary to incorporate political beliefs into the criteria of enterprise management selection, strengthen the leading role of party organizations within enterprises, and give full play to the edifying effect of Chineseized and contemporary Marxist beliefs in inhibiting enterprise irregularities through party managers. Finally, at the institutional level, it is necessary to strengthen the leading position of Marxism in the ideological field, persistently use the Chineseized and modernized Marxism to arm the mind and guide practice, and give full play to the Party's role in the governance of micro enterprises in the economic field. At the same time, we should strengthen the education of market players' ideals and beliefs, cultivate the consciousness of faith of "putting the people at the center and doing everything for the interests of the people", resist the hypocrisy and greed of capital with firm political beliefs, and realize the purification of the market environment and the stable operation of the capital market.

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