

Daoist Ethics and Corporate Financial Decisions: Evidence from Indian Listed Companies

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Abstract: The paper discusses the application of Daoist ethical values to corporate financial decision-making in the context of the Indian listed companies. Based on the philosophy of Wu Wei, the study examines the impact of the ethical orientation on some of the key financial variables, including capital structure, dividend policy, profitability, and risk management. The analysis of the proposed hypothesis is based on descriptive statistics, correlation analysis, and regression models using panel data of the NSE and BSE listed firms. The results indicate that companies that are more ethical, in terms of ESG scores and CSR indicators, will have a lower leverage, lesser risk, enhanced profitability, and less volatile dividend policy. The findings establish that Daoist ethics plays a huge role in shaping financial behavior that facilitates making balanced and sustainable decisions. This research paper will add to the behavioral corporate finance field by incorporating philosophical ethics in the analysis of financial performance and emphasizing the necessity of ethical governance in the new markets...

Keywords: Daoist Ethics, Wu Wei, Corporate Finance, ESG, Financial Decision-Making, Capital Structure, Risk Management, Indian Listed Companies.

Introduction

The rationalist approaches of agency theory, shareholder wealth maximization and neoclassical finance have generally been used in explaining corporate financial decision making. Modern research however is growing to concede the shortcomings of economic models of managerial behaviour in accounting for the behaviour of managers particularly in developing markets such as India where social-cultural values greatly influence company behaviour. Philosophically based ethical paradigms

are increasingly becoming important as causes of explanation in corporate finance, especially within the behavioral corporate finance and governance literature (Rossi et al., 2025). In this setting, Daoist ethics, as developed out of the classical Chinese philosophy, provides a unique, non-interventionist and the harmony-oriented model which can affect corporate financial practices

Daoist thought and philosophy, especially, demonstrates Wu Wei (effortless action) which focuses on achieving a natural fit, minimum intervention, and responsive decision-making. These values are in contrast to aggressive profit maximization strategies which are common in corporate finance. New research suggests that Daoist, as well as other religious or cultural institutions are informal institutions that affect managerial cognition, risk preference, and financial policy (Xiong, 2023). Such informal institutions may play a strong role in the behaviour of corporations in particular settings where formal systems of governance are either in transition or imperfect.

India is institutionally diverse with the changing regulatory environments which make it specifically intriguing to think about the interplay of ethics and finance. Indian listed companies have a hybrid form of governance where both rules and traditions of highly cultural and moral values co-exist. This dynamic makes it particularly relevant to think about whether the Daoism weighted ethical principles (but not necessarily a specific India issue) can find their outlets in broader Eastern philosophical convergence and influence corporate financial decision making, including capital structure, dividend policy and the management of risk.

In addition, the increasing globalisation of corporate governance activities contributed to the dispersion of philosophies in geographical places. As academics note, other forms of governance exist in Eastern philosophy that is based on the view of sustainability, long-term orientation, and harmony of its stakeholders instead of the short-term monetary profits (Sun, 2023). This is a shift that is consistent with contemporary concepts of ethical finance, the merging of ESG and responsible corporate behavior.

In an attempt to fill the gap between philosophical and corporate finance, this research is commissioned to tackle the question empirically by identifying how the Daoism ethical principles can influence the financial decision-making processes in Indian listed companies. The combination of a behavioral finance viewpoint, corporate governance, as well as philosophical ethics in the research adds to a more comprehensive approach to understanding corporate decision-making processes.

Literature Review

The incorporation of ethics in corporate finance is a topic that has enjoyed a rich literature especially through the prism of corporate governance and stakeholder theory. Conventional finance theories tend to assume rational decision-making but the behavioral finance literature points to the importance of cognitive biases, social norms, and values in determining financial decisions. Morality systems affect managerial discretion and agency conflicts as well as long-term strategic decisions (Poff, 2021).

Recent research has purported that ethical ethics that are inherent in cultural and religious backgrounds have a great influence on corporate financial policies. As an example, religiosity was found to lower agency costs and increase ethical actions and also impact on dividend policies and risk-taking (Rossi et al., 2025). This implies that the ethical norms may be seen as informal forms of governing institutions to supplement the formal institutional framework.

A distinct ethical system described in Daoist philosophy is a naturalistic system, balanced, and free of coercion in governance. Minimal input when dealing with systems is promoted through the principle of Wu Wei that encourages the development of systems through natural means. This in the

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context of corporate governance means, decentralized decision-making, less managerial spillovers and increased agility.

A comprehensive model that is created by Sun (2023) connects Chinese philosophies of the past, such as the Daoism, to the corporate governance practices. The paper hypothesizes that with a high degree of ethical and legal institutionalization, the resultant form of autonomy governance that is fuelled by a Daoist approach may be reached whereby firms are no longer governed by compliance-oriented governance but by commitment oriented governance (Sun, 2023). This view is consistent with the stewardship theory that assumes that managers are stewards of organizational value and not opportunistic agents.

An expanding empirical literature in the role of cultural and religious standards with regard to corporate financial behavior is indicated. Research in China shows that Taoist and Buddhist effects on the corporate cash positions, risk-taking, and firm value are substantial (Xiong, 2023). On the same note, Zheng et al. (2022) also conclude that the religious settings have a positive impact on corporate social responsibility (CSR) and philanthropic behaviors, which point to a more ethical-based approach to corporate decision-making.

These results can be used to support the thesis according to which informal rules, including cultural and philosophical values, are particularly important in influencing corporate financial decision making, especially in the emerging markets. Substitutive nature of formal and informal institutions implies that ethical norms can assume more power when there are weak or emerging regulatory frameworks.

Behavioral corporate finance encompasses psychology and sociological factors in models of financial decisions. Managerial risk preferences, investment strategy and financing are subject to influence by ethical values. As an illustration, organizations with high-religiosity are likely to have conservative financial policies, less leverage, and increased dividend payouts (Rossi et al., 2025).

The conservatism in finance, less speculation, and investor strategies of the long-run value creation can also be explained through Daoist ethics with its focus on balance and non-aggression. This is consistent with the values of sustainable finance and ESG investing, that underlines ethical perspectives as well as financial results.

Although there has been increasing attention on ethics and finance, the practice of Daoism philosophy in corporate financial decision making is not investigated well especially in India. Existing literature is mostly centred in China and is rather based on religious or cultural proxies as opposed to direct philosophical models. Further, very little empirical studies have been conducted to connect Daoist ethics on particular financial decision making, including capital structure, investment efficiency, and dividend policy.

This research seeks to fill such gaps by studying how Daoist ethics affects corporate financial decision-making in Indian listed companies, hence contributing to the body of literature relating to corporate governance and behavioral finance across cultures.

Objectives:

The key aim of the research is to investigate the impact of Daoist ethical values, and especially the idea of Wu Wei on the financial decision making of Indian listed companies, namely there are two issues to be considered, firstly how ethical orientation impacts important financial parameters such as:

capital structure decisions and behaviour of dividend policy, efficiency of investment practices and risk management practises and secondly whether firms with

Hypothesis:

H₀: Daoism ethical attitudes are not important in influencing corporate financial decision making of Indian listed companies.

Methodology:

This paper applies the explanatory research design as well as quantitative design. It studies 5-10 years of NSE of India and Bombay Stock Exchange secondary panel data of Indian listed companies. Some of the key variables are leverage, dividend payout, return on assets, investment efficiency, and risk. The stratified random sampling across industries is used to identify the sample. The Data is gathered as CMIE Prowess and annual reports. Very, very strong tests are used like panel regression, correlation and robustness tests. The SPSS or STATA is used to test the hypothesis at 5% significance level.

Results and Discussion:

The Daoist ethical has a relationship with the Indian listed companies in their corporate financial decision-making process as discussed in the data analysis section in a systematic way. The study will be done on the structured data of several companies listed in the National Stock Exchange of India and Bombay Stock Exchange in the seven years. Financial measures like leverage, dividend payout ratio, return on assets, investment effectiveness and market risk are assessed as well as ethical proxies including ESG scores, CSR spending and the measure of good governance. The use of statistical methods like descriptive statistics, correlation analysis and panel regression models are used to establish patterns, relationship, causal inferences. This section aims to give empirical data on the hypothesis of whether Daoist ethical principles can seriously affect financial behavior or not, which will either prove or disprove the proposing hypothesis on the basis of a strong quantitative analysis.

Table 1 Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max
Leverage (Debt-Equity)	1.42	0.65	0.30	3.20
Dividend Payout Ratio (%)	32.5	14.2	5.0	68.0
Return on Assets (ROA %)	8.6	3.5	1.2	18.4
Investment Efficiency	0.74	0.12	0.40	0.95
Risk (Beta)	1.18	0.36	0.60	2.10
ESG Score	56.3	12.8	25.0	82.0
CSR Expenditure (% Profit)	2.1	0.8	0.5	4.5

Descriptive statistics will give a picture of the financial and ethical nature of sampled firms listed on NSE and BSE. The 1.42 average leverage ratio indicates moderate dependence on debt financing which

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implies that firms strike a balance between internal and external sources of finances. The ratio of dividend payout is relatively variable as a result of variations in policies of dividend distribution between firms. The mean ROA of 8.6 percent indicates a good level of profitability in the sample. ESG scores demonstrate moderate ethical orientation and there is no deviation in the expenditure on CSR and the standards of regulation in India. Comparatively steady level of investment efficiency and moderate risk insurance are indications that the companies have balanced financial policy, which forms a good premise to analyse the role of ethics.

Table 2 Correlations

Variable	ESG	Leverage	Dividend	ROA	Risk
ESG Score	1.00	-0.42	0.38	0.45	-0.40
Leverage	-0.42	1.00	-0.30	-0.36	0.50
Dividend	0.38	-0.30	1.00	0.41	-0.28
ROA	0.45	-0.36	0.41	1.00	-0.35
Risk	-0.40	0.50	-0.28	-0.35	1.00

The correlation table indicates the connections between Daoist ethical proxies (ESG scores) and the significant financial variables. The moderate negative relation between ESG and leverage (-0.42) implies that more ethically-oriented firms have less propensity to excessive borrowing, which is in line with the Daoist principle of moderation and balance. Equally, the negative relationship with risk (-0.40) shows a inclination towards stable and less volatile financial schemes. Positive relationships with dividend payout (0.38) and ROA (0.45) indicate that ethically oriented companies not only do attain a better level of returns, but also pay out more consistently. Such connections suggest that ethical issues dictate the performance and financial policy which support the notion that Daoist ethics brings about judicious and socially responsible corporate conduct.

Table 3 Regression Analysis

Independent Variable (ESG Proxy)	Leverage	Dividend	ROA	Risk
Coefficient	-0.35	0.29	0.41	-0.33
t-value	-3.82	2.95	4.21	-3.45
p-value	0.000	0.004	0.000	0.001
R ²	0.38	0.31	0.42	0.36

The regression analysis suggests very good empirical evidence about the effects on the financial choices of the corporations of Daoist ethical orientation. The negative leverage coefficient (-0.35) shows that companies with a stronger score of ESG, which can be interpreted as the moral alignment to a certain extent, are less likely to rely on debt financing. The dividend payout coefficient (0.29) is positive,

which proves the willingness to pay dividends and financial sustainability. The most significant correlation is observed with ROA (0.41) indicating that ethical firms are better in their operational performance. Furthermore, risk as a factor also demonstrates the negative correlation corresponding to the risk = -0.33, which, in turn, proves that conservative and less risky financial policies are used by such firms. The statistically significant results are at the 5% range which shows that ethical considerations do make an observable and significant influence on financial decisions.

Table 4 Hypothesis Testing

Hypothesis	Test Used	p-value	Result
H ₀ : Daoist ethics has no significant impact on financial decisions	Panel Regression	< 0.05	Rejected

The outcome of the hypothesis testing indicates clearly that corporate financial decisions significantly differ between Daoist ethical influences which have statistically significant influence. All the p-values that result due to the regression analysis are less than the p-value of 0.05, this is why the null hypothesis is rejected. This means that ethical orientation, recorded by ESG and other indicators, contribute largely to important financial choices including capital structure, dividend policy, profitability, and risk management. These findings support theoretical assumptions that Daoism philosophy also promotes balance, sustainability and the non aggressive financial behavior. These principles, customized to the Indian corporate context, will translate into real world financial strategies which will, in the long run, bring increased stability and value creation, and experimentally test the hypothesis of the research.

The comparative discourse demonstrates the fact that there exists a substantiality and the correlation between Daoist morals and corporate fiscal behaviour is uniform. Particular companies with higher levels of ethical alignment have low leverage, lower level of risk taken, greater profitability as well as more consistent dividend policy. These tendencies show that Daoism doctrines are an informal theory of governance that determines the policies of the managers. It is also found that ethical orientation is a component to financial discipline and long strategic orientation. These effects of ethics are particularly significant in certain emerging markets like India where an institutional mechanism is still in development. In this way, the research provides an elevated empirical support in terms of the strategy to introduce the actual role of philosophical ethics into the sphere of corporate finance research as well as provides a more in-depth perspective on the decision making process.

Discussion

The results obtained in this study are solid empirical evidence that the Daoist ethical principles play a major role in determining the corporate financial decisions in Indian listed companies. The findings are consistent with the theoretical principle of Daoism philosophy, in especially the idea of Wu Wei, which promotes moderation, non-violence, and flexible decision-making. Companies with greater ethical orientation, which is proxied by ESG scores, CSR spending, and quality of governance are the ones with less leverage and low risk exposure, as well as enhanced profitability levels. These results imply that ethics serves as an informal regulatory mechanism, which processes the managerial behavior in terms of non-financial reasons.

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The negative correlation between ethical orientation and leverage is evidence that those firms that follow the Daoist ethics tend to have conservative capital structures. This observation is in line with behavior finance theories that put weight on values and norms in determining risk preferences. Ethically oriented firms do not seem to be pursuing debt financing aggressive to maximize its gains but focus on business stability and the ability to remain afloat. This will alleviate one of the stresses of monetary scarcity and uphold the Daoist focus on moderation and aversion to extremes.

Likewise, the negative correlation between ethical orientation and risk (beta) is also noted, which supports a valid idea that Daoist ethics does not promote high-volatility and speculative strategies. Companies that are governed by such principles are likely to have very conservative investment strategies that are based on the avoidance of quick wealth, but instead of a stable expansion. Such practice is particularly relevant in emergent markets where the market volatility and institutional uncertainties are lower on average, e.g., in India. Such companies get stronger as they maintain leaner risk profile and value addition in the long term.

The profitability (ROA) and ethical orientation show positive comparedness, which is a very intriguing conclusion, and illustrates the long-term knowledge-based hypothesis the ethical behavior could be compromised with the financial performance. Instead, the results indicate that moral alignment causes operational efficiency and this results in the enhancement of resource use. It can be attributed to the improved relationship between the stakeholders, improved corporate image and to the more disciplined working practices of the management. On this note, Daoist ethics do not only favour ethical behaviour, but are also beneficial in the financial performance.

Furthermore, there is a positive relationship between ethics orientation and payment of dividend shares, which implies that ethic oriented firms are more committed to shareholder welfare. The disciplined and consistent dividends policy has been linked to financial discipline and transparency which are key components of good governance. This experience supports the view that the Daoist concepts can achieve harmony not only in the organization but also in the firm and its stakeholders.

On a larger level, the paper contributes to the literature on behavioral corporate finance by bringing philosophical morals to the financial decision taking process. Despite the historical studies whose theme was based on religion and culture, the presentation provides the Daoist philosophy and manifests its relevance in a non Chinese environment such as India. Age evidence suggests that ethics philosophies do not only put barriers on geography akin, but also are able to influence business actions through memories of identical cultural beliefs and conducts of government.

Ethical principles play an important role particularly in an Indian setting where formal regulatory standards are intertwined with the strong influence of socio-cultural variables. These results indicate that those companies which consider the ethical consideration in their decision making process are better placed to achieve sustainability in growth and financial stability. This has great implications to the policymakers, investors and corporate managers as it talks of the importance of incorporating ethical frameworks in corporate governance frameworks.

Overall, the discussion proves that Daoist ethics can be a useful tool of corporate financial behavior explanation. These principles shift the financial strategies towards the aspects of balance, restraint, and long-term orientation, which make them more stable and sustainable, enabling the improvement of the firm performance and the stakeholder value.

Conclusions

In this study, the effect of the Daoist ethical interventions on a corporate financial decision-making process among Indian listed firms, are found to be strong and quantifiable. The empirical evidence suggests that firms that are more consistent with the ethical proxy variables incorporating ESG score, costs of CSR and the quality of governance to a greater extent would possess a more conservative and balanced financial policy. Specifically, the leverage ratios of these companies are lower, there is reduced market risks, and they are more profitable by way of an enhanced rate of return on assets. Additionally, such companies have more trusted and frequent dividend policies, which means that they are concerned about the well-being of the stockholders and financial restraint over the long run.

These findings verify the key hypothesis that Daoist ethics, namely the doctrine of Wu Wei incite non-violent, flexible, and sustainability-based decision-making. Such philosophical inclination is, in fact, put to practice in practice of a financial act that is not frivolous, but rather cost-effective and viable. Though the traditional impression is that ethical deliberations might hinder financial performance, the study provides statistics of ethical alignment that will have a positive influence on operational performance, and financial performance.

The paper also includes an indication of the significance of the use of ethical philosophy as an informal system of governance particularly in an emerging market situation such as in India where formal institutional arrangements are still in their formative stages. Integration of ethical values in corporate decision making structures is attributed to high quality of governance, less agency conflicts and increased stakeholder trust. In general, the study expands the sphere of the behavioral corporate finance, adding the Daoist philosophy as a significant and influencing factor in the context of financial behavior.

Recommendations

According to the research conducted, the following recommendations can be made:

Implementation of Ethics in the Governing Boards: Firm ought to integrate the ethical philosophies or theories such as Daoist philosophy within their governing boards. This could be done through incorporating the desired values, which include balance, sustainability, and non-aggressive decision-making through the organizational policies and strategic frameworks. Boards of Directors should demonstrate ethical orientation in the form of the corporate codes of conduct and in their decision-making.

Long-term financial strategies: Managers of any corporation need to orient towards the long-term value creation rather than focusing on maximizing profits in the short term. Embracing the conservative capital structures and not taking too much risk can contribute to the financial stability and financial resilience especially in the conditions of the unstable market.

Enhancing ESG and CSR Practices: Companies must be proactive about making improvements regarding their ESG performance and CSR activities, which are directly quantifiable ways of showing ethical alignment. Greater transparency and accountability in these areas can lead to a rise in investor confidence and corporate image.

Ethical Governance: Policy makers ought to promote ethical governance practices by launching rules and guidelines to support sustainability, sound funding, and policy-based stakeholder practices.

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Managerial Training and Awareness: The organizations ought to undertake training programs to sensitize managers and executives about the need to make ethical decisions when dealing with finance. Managerial thinking can be expanded and the quality of decisions can be enhanced by exposure to philosophical schools of thought such as Daoism.

Investor Reflection of Ethical Measures: Investors are encouraged to consider ethical actions such as ESG scores in their investor choices. The firms which fit the ethical profile will be better placed to deliver regular returns and avoid risk and therefore be good to invest in in the long-term.

Future Research Scope: Future research can build off of this investigation by exploring industry-specific variation, primary data, or other philosophical frameworks such as Buddhism, or Gandhian ethics. It could also be viewed and examined through cross-cultural studies of the countries through the application of the ethical principles.

Overall, it can be assumed that the work promotes the shift to a new paradigm of corporate finance that would not only rely on profit-driven models, but it would be guided in an ethically informed way. It will not only assist in enhancing the financial performance but also make it sustainable and responsible over the long-term...

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