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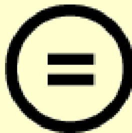
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The Effect of Family Ownership of Family Firms on Corporate Social Responsibility Performance in Korea
: the Moderating Role of Foreign Ownership

한국 가족기업의 가족소유가 기업의 사회적 책임 성과에 미치는 영향
: 외국인 소유의 조절효과를 중심으로

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경영학과 전략 및 국제경영전공
김 경 오

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: the Moderating Role of Foreign Ownership

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Abstract

The Effect of Family Ownership of Family Firms on Corporate Social Responsibility Performance in Korea : the Moderating Role of Foreign Ownership

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In Korea, family firm's effort on corporate social responsibility (CSR) performance is weaker than leading firm's effort from foreign countries. Generally, there is inconsistency in the relationship between family firms and CSR performance. On the one hand, family firms perform CSR because family firms consider socioemotional wealth the greatest motivation, building and maintaining their image and reputation. On the other hand, with respect to the agency theory, some studies insist that family firms affect CSR performance negatively and it is because family members often pursue private gains by taking advantages of their information and control, making a sacrifice of minority shareholder. Also, although many researches have considered corporate governance of family firms an important determinant of firm's performance, there are lack of researches that

explore the relationship between corporate governance of family firms and CSR performance. To fill these gaps, this paper looks into corporate governance of family firms in Korea and tests the effect of family ownership of family firms on CSR performance in Korea. Family ownership and foreign ownership are used as independent and moderating variables to test influences on CSR performance, dependent variable. The sample of 537 family firms is collected from KEJI Index from 2015-2017. The results show that there is a negative relationship between family ownership of family firms and CSR performance. Also, foreign ownership mitigates the negative relationship with positive moderating effect.

Keywords: Family Firms, Corporate Governance, Family Ownership, Foreign Ownership, Corporate Social Responsibility Performance

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1. INTRODUCTION

In Korea, family firms recently have been committing unethical business activities, illegal gift, tax evasion, and illegal exercise of power, which are against the stakeholders' benefit. It is widely known that Korean family firm's effort on corporate social responsibility (CSR) performance is weaker than leading firm's effort from foreign countries. Also, it is easily deductible that even firm's chief executive officer little aware about CSR performance. As a result, these finally resulted in causing a heavy loss nationally, socially and economically such as serious environmental pollution, damaging the country's image, and even devaluing enterprise value (김덕호, 2013).

With respect to CSR performance, both academic researchers and business practitioners have given a considerable amount of attention on CSR performance. Before grasping CSR performance, it is essential to understand CSR first. This is because, in accordance with Wood (1991), CSR performance is defined as "a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships". In other words, it is important to examine all these CSR based elements which are principles, processes, and outcomes to assess a corporate social performance (Wood, 1991). CSR is defined as corporate integrated responsibilities that cover the society's expectations on organizations in the economic, ethical, legal, and philanthropic (or discretionary) aspect (Carroll, 1979). CSR has been in the spotlight and accepted as a firm's long-term business strategy and a source of competitive advantage (Jamali & Mirshak, 2007). This is because it provides a way

to gain, maintain and repair legitimacy, enhancing a company's reputation and risk management as well (Deegan, Rankin, & Voght, 2000). Meanwhile, it also has demerits, entailing costs and voluntary actions by nature (Jamali & Mirshak, 2007).

With regard to family firms, it has drawn scholarly attention as an interesting research topic (Claessens, Djankov, & Lang, 2000; Faccio & Lang, 2002; La Porta, Lopez-de-Silanes, & Shleifer, 1999). It is because family firms have idiosyncratic corporate governance mechanisms what others have not. The effect of family on firm's performance has already been explored by researchers in the past decades (Dyer Jr & Whetten, 2006). Previous studies have already stressed enough the importance of family as an essential factor for business activities (Aldrich & Cliff, 2003), firm competitiveness (Cassia, De Massis, & Pizzurno, 2012), and firm survival (Stafford, Bhargava, Danes, Haynes, & Brewton, 2010). In terms of the former's governance, succession planning, ownership and leadership, researchers have concentrated their attention on the fundamental difference between family and non-family firms (Cuadrado-Ballesteros, Rodríguez-Ariza, & García-Sánchez, 2015). In terms of the corporate governance mechanisms, the interactive effects among shareholders have just begun to be recognized by several researchers (Aguilera, Desender, & Kabbach de Castro, 2012; Barnea & Rubin, 2010; Hoskisson, Hitt, Johnson, & Grossman, 2002). In specific, according to Aguilera et al. (2012, p.381), it notes that organizational outcomes are defined as "dependent on the bundle of governance mechanisms rather than the effectiveness of any one mechanism". Also, Barnea and Rubin (2010) highlighted that "conflict" between different major shareholders affects CSR performance as a determinant of CSR performance. More importantly,

corporate governance is one of the most essential factors influencing firm's strategic decision-making (Finkelstein, 1992) and many previous researches had already examined firm's strategic decision-making with corporate governance on R&D investment (Baysinger, Kosnik, & Turk, 1991), innovation (Kochhar & David, 1996), entrepreneurship (Zahra, 1996), and diversification (Eisenmann, 2002).

However, there are lack of studies that have explored the decision-making of family firms themselves with regard to CSR performance (Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2010; Debicki, Matherne III, Kellermanns, & Chrisman, 2009). Also, despite of a few researches on the family firms' CSR performance, they have only concentrated on the difference between family firms and non-family firms on CSR performance rather than looking inside of family firms' corporate governance. Likewise, even though previous researchers have found that different dynamics among shareholder groups exist, the interaction among shareholder groups with respect to CSR performance has not been directly theorized and empirically tested (Oh, Cha, & Chang, 2017).

Generally, there is inconsistency in the relationship between family firms and CSR performance. On the one hand, family firms perform CSR because socioemotional wealth is the greatest driving force of family firms, building and maintaining their image and reputation. In this regard, unlike non-family firms, family firms take importance on a positive reputation as an essential factor for them, leading them to focus on CSR performance which is non-financial performance (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007). On the other hand, with respect to the agency theory, some studies note that

family firms affect CSR performance negatively. For example, family members in top management become a CEO or large shareholders by processing multiple rounds of succession in family firms (Claessens et al., 2000; Faccio & Lang, 2002). Family members' inclination to personal gains with the usage of their authority, including management rights increases the chance of conflict with minority shareholders, which refers to another type of agency problem (Villalonga & Amit, 2006). In this regard, family firms are against CSR performance because it does not result in personal gains.

Different from countries in North America or Europe, firms encountering weak institutional pressure for CSR performance are inclined to aim at short-term strategies, focusing on firm performance. Also, firms located in countries with a lower level of transparency are more likely to search for personal gains other than the stakeholders' gains (Oh, Chang, & Martynov, 2011). Furthermore, family firms have less and passive reactions to the necessity of CSR performance, with not fully developed institutional environment that emphasizes CSR performance (Campbell, 2007; Yu, Ding, & Chung, 2015). Unlike Western economies, in Korea, many firms are classified as family firms (Kim, Kim, & Lee, 2008). Family firms have a high integration of ownership and control, and business groups are prevalent in South Korea (Choi, Zahra, Yoshikawa, & Han, 2015). In this regard, it is assumed that Korea offers an interesting setting for exploring links between family ownership and CSR performance in Korea family firms.

Overall, there are relatively lack of researches, assessing the relationship between the ownership structure and firm's social performance (e.g. Barnea & Rubin, 2010; Johnson & Greening, 1999). Also, in terms of proper context for

testing family ownership, other researches have argued that South Korea is an ideal context because of a high prevalence of family owners (Nam, 2004) and the fact that family owners' strong influence on their firm's business decision-making (Solomon, Solomon, & Park, 2002). In this regard, based on agency theory, this paper tries to shed lights on family firm studies, deeply examining the relationship between family ownership and CSR performance in Korea family firms, incurring the agency costs. Furthermore, this paper is worthwhile to the fact that it tries to reveal the unsolved interactive effects among shareholders, examining moderating effect of foreign ownership in family firms in terms of reducing the agency costs.

2. THEORETICAL BACKGROUND

2.1 Family Firms

2.1.1 Definition of Family Firms

With respect to family firms, they have drawn scholarly attention as an interesting research topic (Claessens et al., 2000; Faccio & Lang, 2002; La Porta et al., 1999). It is because family owned firms consist of majority of independent businesses; family firms are likely to have different management style from non-family firms and family firms would prioritize objectives differently compared to non-family firms (Westhead & Cowling, 1998).

Generally, previous studies define family firms as those in which family member act as the CEO and retain their ownership stakes (Dyer Jr & Whetten, 2006). In addition, family firms are defined as "cases where the founder or a family member is a major shareholder, director, or manager of the firm" (Anderson & Reeb, 2003; Villalonga & Amit, 2006). This paper defines "family firms as those

in which the family member take part in the management and owns 5% or more of the shares. With regard to the literature on family businesses, this 5% benchmark has been widely used" (Miller, Le Breton-Miller, Lester, & Cannella, 2007; Berrone et al., 2010).

2.1.2 Family Ownership

In South Korea, many firms are classified as family firms. A large proportion of equity ownership is owned by founders and their family members. They act as CEOs, chairpersons, or the top management team's member (Kim et al., 2008). Family firms have high integration of ownership and control, and business groups are prevalent in South Korea (Choi et al., 2015). Also, in terms of a proper context for testing family ownership, other researches have argued that South Korea is an ideal context because of a high prevalence of family owners (Nam, 2004) and the fact that family owners' strong influence on their firm's business decision-making (Solomon et al., 2002).

With respect to family members who are inside owners, they can approach firm-specific information, and take advantages of exploiting such informational and control advantages to use "financial slack" to search for their interests. Also, some recent studies note that family members pursue personal gains by often abusing their advantages of information and control against minority shareholders (Kim et al., 2008). For example, family members of Indian and Korea business groups increase their private gains and expropriate wealth from outside investors by tunneling profits among member firms (Bertrand, Mehta, & Mullainathan, 2002; Bae, Kang, & Kim, 2002; Baek, Kang, & Lee, 2006). Still, there are relatively lack of researches, assessing the relationship between the

ownership structure and firm's social performance (e.g. Barnea & Rubin, 2010; Johnson & Greening, 1999).

2.2. Firm's Corporate Social Responsibility Performance

2.2.1 Definition of Corporate Social Responsibility Performance

Both academic and business field have given a considerable amount of attention on CSR. Before grasping CSR performance, it is essential to understand CSR first. This is because, with respect to Wood (1991), CSR performance is defined as "a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships". In other words, it is important to examine all these CSR based elements which are principles, processes, and outcomes to assess a corporate social performance (Wood, 1991).

CSR refers to combined corporate responsibilities that cover the society's expectations on organizations in the economic, ethical, legal, and philanthropic (or discretionary) aspect (Carroll, 1979). CSR has been accepted as a "long-term business strategy" (Jamali & Mirshak, 2007) because it provides firms with legitimacy, enhancing a company's reputation and risk management as well (Deegan et al., 2000). However, it entails costs and voluntary actions by nature (Jamali & Mirshak, 2007).

Instead of examining determinants of CSR, early studies on CSR mostly focused on the outcomes (Borgatti & Foster, 2003). Having had a prevailing criticism that firms rarely gain a financial profit from participating in CSR, studies

on antecedents of CSR have remained opaque when comparing with the outcomes (Orlitzky, Schmidt, & Rynes, 2003).

In terms of CSR in Korea, Koreas' history of CSR is short compared to the United States where CSR has been examined since the 1950s. After the Korean war, in the 1950s and 1960s, the supply of goods and services rarely existed in the country. After the 1997 Asian Financial Crisis, corporate governance, ethical business management, and CSR began to receive a lot of attention from firms. At last, Large firms initiated full-fledged CSR performances corresponding to international standards in the 2000s (Kim & Lee, 2018).

2.2.2 Family Firms and Corporate Social Responsibility Performance

There is inconsistency in the relationship between family firms and CSR performance. On the one hand, family firms, in general, perform CSR because socioemotional wealth is the greatest family firms' motivation, building and maintaining their image and reputation. This point contrasts with non-family firms where maximizing economic wealth acts as incentive (Berrone et al., 2010). Also, family shareholders who are afraid of deterioration of firm's reputation consider their firms as personal extensions because the deteriorated reputation could result in negative effect of their family firms (Dyer Jr & Whetten, 2006; de Vries, 1993). In addition, leaving their firms to descendants is always families' consideration. In this regard, unlike non-family firms, family firms take importance on a positive reputation as an indispensable factor for them, letting them focus on CSR which is non-financial performance (Gómez-Mejía et al., 2007).

On the other hand, with respect to the agency theory, some studies argue that family firms affect CSR performance negatively. For example, family

members in top management become a CEO or large shareholders by processing multiple rounds of succession in family firms (Claessens et al., 2000; Faccio & Lang, 2002). Agency theory posits family owners and managers act more out of narrow-minded preferences and self-interested purposes (Bertrand & Schoar, 2006; Morck, Wolfenzon, & Yeung, 2005; Wiseman & Gómez-Mejía, 1998). Family members' inclination to personal gains with the usage of their authority, including management rights increases the chance of conflict with minority shareholders, which refers to another type of agency problem (Villalonga & Amit, 2006). Although owner-agent agency costs occur less in family firms due to concentrated ownership, another costs so called owner-owner agency costs occur in family firms where family owners exploit their superior knowledge, sacrificing other shareholders (Wasserman, 2006). In order to benefit the family, family owners use asymmetry of power and information. In specific, strategies of conservatism and scarce investment that only serve selfish family objectives derive from family preferences for dodging risk, retaining control, and gaining regular income and security (Bertrand & Schoar, 2006; Classens et al., 2002; Gómez-Mejía et al., 2007; Morck, 2000, Morck & Yeung, 2003; Wiseman & Gómez-Mejía, 1998). Also, in terms of risk aversion, family owners are inclined to be risk averse because wealth is bound in a single enterprise and failure from risk taking brings a lot to lose (Beatty & Zajac, 1990; Tversky & Kahneman, 1986). In addition, having assured undeserved position, compensation, and collateral benefits in the company, family owners and managers may be magnanimous toward their offspring (Le Bretron-Miller, Miller, & Lester, 2011; Lubatkin, Ling, & Schulze, 2007). Such agency costs may affect family owners and managers' management participation

negatively, and damage in business integrity and transparency could derive from them (Lubatkin et al., 2007). In this regard, family firms are against investment in CSR because it does not result in personal gains. Also, there is an empirical study by Rees and Rodionova (2015) that there is a negative relationship between share of family ownership and environmental, social, and governance performance. Moreover, according to El Ghoul, Guedhami, Wang, and Kwok's study (2016), it notes family firms have lower CSR performance compared to non-family firms because they are motivated to maximize personal gains rather than investing in CSR.

2.2.3 Foreign Ownership and Corporate Social Responsibility Performance

Many researchers suggest that heavy investment from foreign country might suggest a greater influence of foreign practices (e.g., Jeon, Lee, & Moffett, 2011; Yoshikawa, Rasheed, & Del Brio, 2010). Recently, western-style management practices have largely influenced Asian countries to follow the tendencies of CSR implementation (Oh et al., 2011). Also, there are empirical findings supporting this argument. For example, Chapple and Moon (2005) argued that firms' CSR participation in Asian countries is enhanced by globalization. In addition, according to Brancato (1997), it notes that firms, more than 60 years, have been pressured by U.S. shareholders to deal with CSR issues.

Furthermore, with regard to "Chaebol (i.e. Korean form of business conglomerate meaning business family, e.g. Samsung, Hyundai, and LG)", old chaebol firms were criticized prior to the financial crisis in late 1990s for their "low transparency of corporate decision-making, low accountability of managers, and little or no separation of ownership and control" (Kim, 2007, p.1168). In return,

the Korean government drove the reformation of Chaebol as a reaction to criticism from foreign investors and foreign investment affected the reform of the corporate governance of Chaebol positively (e.g. Haggard, Lim, & Kim, 2003). It is also suggested that foreign investors positively influenced many Korean firms to spread CSR performances throughout the firms because the goals of Chaebol reformation were coincided with the fundamental ideas of CSR (i.e. emphasizing firms' social, ethical, and environmental responsibilities) (Choi & Aguilera, 2009). In this regard, Western firms might not always take the lead in CSR compared to Asian counterparts (Welford, 2005), but it is deducible that foreign investors can possibly wield their power on Korean firms and encourage them to build transparent corporate governance and perform CSR to a certain extent.

Overall, there are empirical studies on the positive relationship between foreign ownership and CSR performance. In specific, Choi, Park, and Yoo (2007) found that foreign investors have influenced significantly Korean firms to endeavor to achieve responsible and transparent governance structures since the Asian crisis of late 1990s by applying shareholder activism and board participation. In addition, Oh et al. (2011) examined that enhanced CSR ratings are related with the foreign countries' heavy investment into Korea.

3. HYPOTHESES

Based on agency theory, it posits family owners and managers acts more out of narrow-minded preferences and self-interested purposes (Bertrand & Schoar, 2006; Morck et al., 2005; Wiseman & Gómez-Mejía, 1998). Although owner-agent agency costs occur less in family firms due to concentrated ownership, another

costs so called owner-owner agency costs occur in family firms where family owners exploit their superior knowledge, sacrificing other shareholders (Wasserman, 2006). In order to benefit the family, family owners use asymmetry of power and information. In specific, strategies of conservatism and scarce investment that only serve selfish family objectives derive from family preferences for dodging risk, retaining control, and gaining regular income and security (Bertrand & Schoar, 2006; Classens et al., 2002; Gómez-Mejía et al., 2007; Morck, 2000, Morck & Yeung, 2003; Wiseman & Gómez-Mejía, 1998).

Different from countries in North America or Europe, firms encountering weak institutional pressure for CSR performance are inclined to aim at short-term strategies, focusing on firm performance. Also, firms located in countries with a lower level of transparency are more likely to search for personal gains other than the stakeholders' gains (Oh et al., 2011). Furthermore, family firms have less and passive reactions to the necessity of CSR performance, with not fully developed institutional environment that emphasizes CSR performance (Campbell, 2007; Yu et al., 2015).

In this regard, with respect to family ownership, a large proportion of equity ownership is owned by founders and their family members. Family members act as CEOs, chairpersons, or other members of the top management team (Kim et al., 2008). With respect to family members who are inside owners, they can approach firm-specific information, and take advantages of exploiting such informational and control advantages to use "financial slack" to search for their interests. Also, some recent studies note that family members pursue personal gains by often abusing their advantages of information and control against minority

shareholders (Kim et al., 2008). For example, family members of Indian and Korea business groups increase their individual profits and expropriate wealth from outside investors by tunneling profits among member firms (Bertrand et al., 2002; Bae et al., 2002; Baek et al., 2006). Furthermore, there is a recent empirical finding that the share of family ownership affects environmental, social, and governance performance negatively as well (Rees & Rodinova, 2015). In terms of CSR in Korea, Koreas' history of CSR is short compared to the United States where CSR has been examined since the 1950s (Kim & Lee, 2018). When considering nature of CSR, which it entails costs and voluntary actions (Jamali & Mirshak, 2007), and of family firms, family owners would highly deter from CSR when they own shares in the company, and this effect would be exacerbated as the shares of family ownership increases. Therefore, hypothesis is presented as follows.

Hypothesis 1: There is a negative relationship between the ratio of common shares of family owners and their CSR performance.

In order to reduce the agency costs incurred from family ownership, agency theory argues that dispersion of corporate ownership can be increased by ownership by foreign owners (Haniffa & Cooke, 2002). Many researchers suggest that heavy investment from foreign country might suggest a greater influence of foreign practices (e.g., Jeon et al., 2011; Yoshikawa et al., 2010). Recently, western-style management practices have largely influenced Asian countries to follow the tendencies of CSR implementation (Oh et al., 2011). According to Chapple and Moon (2005), it notes that "the higher the level of investment into a country from abroad, the higher the likely influence of foreign practices on domestic companies (p. 420)". In addition, Chapple and Moon (2005) argued that

firms' CSR engagement in Asian countries is enhanced by globalization. Moreover, according to Brancato (1997), it notes that firms, more than 60 years, have been pressured by U.S. shareholders to deal with CSR issues.

However, oversimplifying the attributes of foreign investors and overlooking the variability of their profiles can be a potential jump of that logic. Thus, it is important to identify the foreign owners' profiles, indicating their investment orientations and preferences before asserting the positive influence of foreign ownership on CSR (Oh et al., 2011).

First of all, in the case of Korea, countries where CSR is seen as desirable such as Europe and North America have conducted a substantial proportion of foreign investment. That is, western countries such as E.U. (32.9%) and the U.S. (20.2%) largely consist of investments in Korea, and these investors are more inclined to facilitate CSR participation (Oh et al., 2011). Having considered these regional investors' preferences on active CSR engagement, foreign shareholders from these countries are likely to be inclined to show active CSR participation in terms of exerting their power on Korean firms (Brancato, 1997; Chapple & Moon, 2005). For example, according to Jeon et al. (2011), it examined that Korea firms pay more dividends (i.e., payout ratio) which is one of the critical evaluative criteria for CSR performance in Korea because of the influence of foreign investor with substantial shareholdings (more than 5%).

With respect to the 2004 annual report of Korea Financial Supervisory Services (KFSS), it notes that total foreign shareholdings invested in Korean firms almost consist of foreign institutional investors (99.8%) which include mutual funds (50.9%), banks (20.2%), and pension funds (10.4%), whereas individual

investors only own 0.2% of the shareholdings. In this regard, foreign ownership in Korea can be best referred to institutional ownership than other kinds (Oh et al., 2011).

Furthermore, with regard to “Chaebol (i.e. Korean form of business conglomerate meaning business family, e.g. Samsung, Hyundai, and LG)", old chaebol firms were criticized prior to the financial crisis in late 1990s for their “low transparency of corporate decision-making, low accountability of managers, and little or no separation of ownership and control” (Kim, 2007, p.1168). In return, the Korean government drove the reformation of Chaebol as a reaction to criticism from foreign investors and foreign investment affected the reform of the corporate governance of Chaebol positively (e.g. Haggard et al., 2003). It is also suggested that foreign investors positively influenced many Korean firms to spread CSR performances throughout the firms because the goals of Chaebol reformation are coincided with the fundamental ideas of CSR (i.e. emphasizing firms’ social, ethical, and environmental responsibilities) (Choi & Aguilera, 2009). In this regard, Western firms might not always take the lead in CSR compared to Asian counterparts (Welford, 2005), but it is deducible that foreign investors can possibly wield their power on Korean firms and encourage them to build transparent corporate governance and perform CSR to a certain extent.

In addition, with regard to uncertainty reduction, investing in a foreign country represents risky and uncertain actions because of growth of information asymmetries (Gehrig, 1993). Having considered this point, companies may differentiate themselves and signal their trustworthiness by performing CSR investments. In this case, the institutional investors invest in socially responsible

companies in order to reduce risk under the uncertainty and finally verify their high reputation to their clients (Oh et al., 2011). Overall, there are empirical studies on the positive relationship between foreign ownership and CSR performance. In specific, Choi et al. (2007) found that foreign investors have influenced significantly Korean firms to endeavor to achieve responsible and transparent governance structures since the Asian crisis of late 1990s by applying shareholder activism and board participation. In addition, Oh et al. (2011) examined that enhanced CSR ratings are related with the foreign countries' heavy investment into Korea. Thus, the following hypothesis is presented.

Hypothesis 2: The negative relationship between the ratio of common shares of family owners and their CSR performance weakens as the ratio of common shares of foreign ownership in family firms increases.

4. METHOD

4.1 Data and Sample

This study uses 200 firms from the KEJI Index, released by the Korean Economic Justice Institute (KEJI) from 2015 to 2017, as the sample for the empirical analysis and all sample firms are out of the firms listed at the Korea Exchange. The 2015, 2016, and 2017 KEJI Index was based on upon the CSR ratings in 2014, 2015, and 2016. (i.e., there is a year time lag between the fiscal year and the year of publication). KEJI is a leading Korean corporate social responsibility institution. It evaluates the listed firms and announces ratings of their CSR every year. Released since 1991, numerous CSR studies utilized the KEJI Index as a comprehensive performance evaluation model on firm's ethical

practices and CSR (e.g. Chang, Oh, Jung, & Lee, 2012; Choi, Kwak, & Choe, 2010; Choi, Lee, & Park, 2013; Jung & Kim, 2016; Oh et al., 2011). All financial data from the Korea Investors Service's KIS-VALUE and FnGuide are used for the analysis, including independent variables and control variables except the data used to classify family firms and industry. These data are obtained from the individual firm's annual business reports, provided by the Financial Supervisory Service (dart.fss.or.kr), and KEJI.

4.2 Variables

4.2.1 Independent and Moderating Variables

(1) Family Ownership

Family firms are defined by existing researches as firms where family members have ownership stakes and possess senior management positions (Dyer Jr & Whetten, 2006). Also, family firms are defined as "cases where the founder or a family member is a major shareholder, director, or manager of the firm" (Anderson & Reeb, 2003; Villalonga & Amit, 2006). To examine family ownership, firstly, this paper defines family firms as those where the family member takes part in the management and owns 5% or more of the shares in the sample years. With regard to the literature on family businesses, this 5% benchmark has been widely used (Miller et al., 2007; Berrone et al., 2010). This paper created a dummy variable coded as 1 if it is a family firm and 0 otherwise, and selected family firms only as the final sample. Next, consistent with prior researches (Chang, 2003), family ownership is defined as the ratio of the common shares of a family firm that the largest shareholder and other entities having a special relationship with the shareholder hold. Usually, family ownership includes family members and

affiliated firms (Bae et al., 2002; Chang, 2003). Affiliates' ownership is included in family ownership because the business group's family owns and controls affiliates in the Korea context and thus the affiliates are similar to divisions in diversified corporations (Chang, 2003; Chang & Choi, 1988).

(2) Foreign Ownership

This paper uses the ratio of common shares held by foreign owners as foreign ownership. With respect to the 2004 annual report of Korea Financial Supervisory Services (KFSS), it notes that total foreign shareholdings invested in Korean firms almost consist of foreign institutional investors (99.8%) which include mutual funds (50.9%), banks (20.2%), and pension funds (10.4%), whereas individual investors only own 0.2% of the shareholdings. In this regard, foreign ownership in Korea can be best referred to institutional ownership than other kinds (Oh et al., 2011). To examine moderating effect of foreign ownership, this paper created interaction variables by multiplying the ratio of common shares of family owners and the ratio of common shares held by foreign owners.

4.2.2 Dependent Variables

As mentioned above, the KEJI Index indicates CSR performance. With a history of more than 20 years, the KEJI Index's reliability has been reinforced by its extensive use in research of more than 20 years as the first comprehensive evaluation model (e.g. Chang et al., 2012; Choi et al., 2010; Oh et al., 2011; Jung & Kim, 2016). These categories are comparable to those of Kinder Lyden Domini Index (KLD) ratings in the United States (Oh et al., 2011). As such, the KEJI Index which consists of six criteria; integrity, fairness, community contribution, customer protection, environment management, and employee satisfaction (KEJI, 2015;

KEJI, 2016; KEJI, 2017). Similar to KLD ratings, the KEJI Index evaluates firms with standardized values based on original interval scales, ranging from A to E (Kim & Lee, 2018). A full score of KEJI Index is 100. This paper used KEJI Index from 2015 (24th release) to 2017 (26th release). Out of 350 listed firms in Korea, KEJI Index only covers the top 200 firms every year, excluding three-year net loss firms, impaired capital firms, firms with an earned interest ratio of less than 1.0., merger firms, firms with changed settlement terms, newly listed firms, and firms without submitted data (KEJI, 2015; KEJI, 2016; KEJI, 2017). The 2015, 2016, and 2017 KEJI Index are based on upon the CSR ratings in 2014, 2015, and 2016. (i.e., there is a year time lag between the fiscal year and the year of publication). In sum, due to the lack of full data availability, the number of final sample firms used in this study consists of 580 firm-year observations over 2014-2016; 537 family firms and 43 non-family firms. A selection bias is possible because this study is limited to firms listed in the KEJI Index. However, in spite of these limitations, KEJI Index is the best and reliable variable for measuring Korea's CSR performance in terms of coverage and measurement (Choi et al., 2010).

4.2.3 Control Variables

The control variables used in this study include the firm's financial performance, debt ratio, firm's age, firm's size, board size, ratio of outside directors, chaebol variables and dummy variables for industry and year. According to Waddock and Graves (1997), it notes that firms with better performance have more resources, thereby, is more likely to invest in CSR. For this reason, this study includes financial performance in the form of return on assets (ROA). Adopting from studies by Waddock and Graves (1997), this paper uses the debt ratio as a

control variable to control for the firm's risk level, which could affect CSR activities. The debt ratio is gained by dividing total debt by total assets and took the natural log value of debt ratio. With respect to firm age, previous studies have examined that the relationship between firm age and corporate social performance was significant (Oh et al., 2011; Orlitzky, Siegel, & Waldman, 2011). In this regard, this paper obtains firm age as a control variable, calculated by subtracting firm's established year form the year of KEJI Index and takes logarithms of the firm age. In terms of firm size, the more firm grows, the more market attention increases as well. Finally, it causes demand for CSR, raising investment in CSR activities (Barnea & Rubin, 2010). Thus, firm size is defined as the natural log value of total sales. There is a positive relationship between greater representation of independent directors and higher level of CSR (e.g., Chang et al., 2012). Board size is also controlled and it is measured by the total number of directors on the board. This is because larger boards may bring more expertise and knowledge (Dalton, Daily, Johnson, & Ellstrand, 1999), resulting in effective stakeholder management. This paper gains the ratio of outside directors by dividing the number of outside directors on a board by the total number of board members. Moreover, this paper considers the chaebol variable influential and includes it in a control variable to identify the effect of family ownership on CSR performance in family firms with more clarity. According to Chang (2003), chaebols refers to strong affiliation between owners and top managers and family controlled corporate structures, and it is a characteristic of corporate governance in Korea. This paper created the chaebol variable coded 1 as if it is chaebol and 0 otherwise. Lastly, this

paper includes industry and year dummies in the analysis to control for industry and year effects.

4.3. Analysis Methods

To test hypotheses, this paper used random effect model, one of the panel data analysis methods. The sample was analyzed by statistics program SPSS. With respect to the sample panel structure, which has numerous number of firms and relatively small number of years, it would incur a great loss of degree of freedom, using fixed model. Also, to make sure dummy variables do not change over time, Hausman test was implemented and random effect model was chosen (Park, 2015).

5. RESULTS

The means, standard deviations for sample firms are presented in Table 1. Total of 537 samples were used for analysis over 3 years period. Average of CSR performance is 63.4541 with standard deviation of 2.13600. Also, average of family ownership is 42.4536 with standard deviation of 14.93237. In addition, average of foreign ownership is 10.3255846 with standard deviation of 12.1678983.

Table 2 shows correlation matrix among variables. To find out multicollinearity issue, this study conducts verification test on variance inflation factor (VIF). VIF indicates whether correlation coefficient among variables are eligible for regression analysis. Commonly, VIF's value over 10 indicates multicollinearity issue. However, all the measures are below cut-off threshold of 10, which tell the fact that the regression analysis is free from multicollinearity issue.

Table 3 shows results of regression analysis. Model 1 only includes control variables. Model 2 tests the effect of family ownership on CSR performance. Model 2 indicates that there is a negative relationship between family ownership in family firms and their CSR performance. That is, model 2 is statistically significant and supports the hypothesis 1 with regression coefficient of -0.034 ($P < 0.01$). Model 3 tests the moderating effect of foreign ownership on the relationship between family ownership in family firms and their CSR performance. Regression coefficient of 0.001 ($P<0.05$) shows there is the moderating effect of foreign ownership on the relationship between family ownership in family firms and their CSR performance and it tells the negative relationship between the ratio of common shares of family owners and their CSR performance weakens as the ratio of common shares of foreign ownership in family firms increases. Thus, hypothesis 2 is supported.

Table 1. Descriptive statistics of the sample.

	Family Firms (n = 537)			
	Min	Max	Mean	Sd.
CSR Performance	59.19	70.19	63.4541	2.13600
Firm's Sale (log)	16.6084286	26.0521415	19.6827757	1.30464001
Firm's Age (log)	0.00000	4.29045944	3.45087670	0.825668729
Firm's debt ratio (log)	1.62334082	7.67877512	4.18456304	0.946640425
ROA	-1.72	22.35	5.7932	3.99678
Board Size	2	14	5.83	1.975
Ratio of outside directors	0.00	0.80	0.3979	0.15076
Family Ownership	5.40	84.07	42.4536	14.93237
Foreign Ownership	0.00000	67.8322817	10.3255846	12.1678983

Table 2. Correlation matrix.

	1	2	3	4	5	6	7	8	9
CSR Performance	1	0.057	-0.073	-0.098*	0.153**	-0.006	-0.173**	-0.215**	0.135**
Firm's Sales (log)	0.057	1	-0.153**	0.309**	0.142**	0.295**	0.116**	-0.009	0.430**
Firm's Age (log)	-0.073	-0.153**	1	-0.073	-0.150**	-0.098*	0.021	-0.031	-0.098*
Firm's debt ratio (log)	-0.098*	0.309**	-0.073	1	-0.144**	-0.003	0.047	-0.067	-0.137**
ROA	0.153**	0.142**	-0.150**	-0.144**	1	0.023	0.013	-0.029	0.253**
Board Size	-0.006	0.295**	-0.098*	-0.003	0.023	1	0.326**	-0.127**	0.252**
Ratio of outside directors	-0.173**	0.116**	0.021	0.047	0.013	0.326**	1	-0.029	0.099*
Family Ownership	-0.215**	-0.009	-0.031	-0.067	-0.029	-0.127**	-0.029	1	-0.301**
Foreign Ownership	0.135**	0.430**	-0.098*	-0.137**	0.253**	0.252**	0.099*	-0.301**	1

Note: Significant at *5% level; **1% level

Table 3. Family Ownership and CSR performance in Family Firms.

	Model 1 (n = 537)	Model 2 (n = 537)	Model 3 (n = 537)
Firm's Sales (log)	0.193* (0.089)	0.233** (0.087)	0.238* (0.096)
Firm's age (log)	-0.082 (0.111)	-0.112 (0.107)	-0.128 (0.108)
Firm's debt ratio (log)	-0.241* (0.102)	-0.296** (0.099)	-0.313** (0.104)
ROA	0.068** (0.023)	0.061** (0.023)	0.065** (0.023)
Board Size	-0.026 (0.051)	-0.071 (0.050)	-0.074 (0.050)
Ratio of outside directors	-4.051** (0.721)	-4.057** (0.699)	-4.036** (0.698)
Chaebol	-0.188 (0.277)	-0.277 (0.270)	-0.281 (0.270)
Family Ownership		-0.034** (0.006)	-0.043** (0.007)
Foreign Ownership			-0.029 (0.016)
Family x Foreign Ownership			0.001* (0.000)
Constant	62.778** (1.716)	64.130** (1.681)	64.523** (1.770)
Industry dummies	Included	Included	Included
Year dummies	Included	Included	Included
Adjusted R^2	0.083	0.137	0.141
F	6.395**	9.535**	8.347**

Note: Standardized regression coefficients are listed with standard errors in parentheses, significant at *5% level; **1% level

6. DISCUSSION

Previous studies have already stressed enough the importance of family as an essential factor for business activities (Aldrich & Cliff, 2003), firm competitiveness (Cassia et al., 2012), and firm survival (Stafford et al., 2010). With regard to CSR performance, it also has been in the spotlight and accepted as a firm's long-term business strategy and a source of competitive advantage (Jamali & Mirshak, 2007). This is because it provides a way to gain, maintain and repair legitimacy, enhancing a company's reputation and risk management as well (Deegan et al., 2000). Meanwhile, it also has demerits, entailing costs and voluntary actions by nature (Jamali & Mirshak, 2007). However, there are lack of studies that have explored the effect of family firms on CSR performance (Berrone et al., 2010; Debicki et al, 2009) and their results are even mixed. Also, despite of a few researches on the family firms' CSR performance, they have only focused on the difference between family firms and non-family firms on CSR performance rather than looking inside of corporate governance of family firms. Thus, previous researches on family firms on CSR have left unsolved research question: *what are the determinants of family firms affecting their CSR performance?* In this regard, contrary to prior studies, this paper focuses on how the peculiar dynamics in corporate governance of family firms act on their CSR performance and how the interaction effect affects CSR performance. In other words, this paper investigates the relationship between family ownership of family firms and their CSR performance and the moderating effect of foreign ownership on the above relationship in the idiosyncratic corporate governance mechanism of family firms. Using panel data from 537 firms listed at Korea Exchange, I found that there is a

negative relationship between family ownership of family firms and their CSR performance. Further, this relationship gets weakened as foreign ownership increases, which is captured by the ratio of common shares held by foreign owners. Overall, these findings suggest that peculiar corporate governance mechanism of family firms hampers legitimate decision-making on CSR performance and it is mitigated when foreign ownership interacts with family ownership as the moderator.

The theoretical and practical implications of these findings extend beyond academia to the broader domain of research on family firm with regard to CSR performance. First, this research contributes to clarify the determinants of family firms' decision-making on CSR performance. While previous studies on family firms on CSR performance only focused on the difference between family firms and non-family firms, this study managed to deeply look into corporate governance structure of family firms and found the determinants of family firms' decision-making on CSR performance. The study suggests that family owners, a major shareholder, director, or manager of the firm, highly deter from CSR performance because of its costly nature and, in turn, their myopic attitude of CSR performance. In addition, while many researches on family firms have heavily focused on family firms in U.S. or Europe in terms of their distinctive corporate governance structure, this study examined corporate governance structure of family firms and CSR performance in Korean context. Furthermore, while previous studies only examined the positive disposition of foreign ownership towards CSR performance, this study found the moderating effect of foreign ownership on the relationship between family ownership of Korean family firms and their CSR performance.

These findings in my study have practical implications in enhancement of family firms' behavior on CSR performance throughout family firms in Korea. As results show the negative relationship between family ownership of family firms and CSR performance, it is easily assumed that the results may be derived from concentrated ownership structure in corporate governance of family firms. Since I was able to explore that the foreign ownership mitigates the negative effect of family ownership of Korean family firms on CSR performance, drawing foreign ownership is one of the most effective ways to improve family firms' transparency and CSR performance. Also, with regard to risk-averse attitude of the foreign institutional investors, it is worthwhile for family firms to perform CSR in order to draw foreign investment, considering that the foreign institutional investors may invest their money in socially responsible companies for reducing risk and increasing reputation. Thus, it is deducible that performing CSR performance is beneficial to Korean family firms in the long-term. For policy makers, it is also necessary to conduct a legal and institutional modification to commit to global CSR performance standards so that the capital market's perception on CSR performance is prevalent and taken for granted. The examples of legal and institutional modification are to offer tax benefits or the government subsidies to Korean firms who commit to global CSR performance.

7. LIMITATIONS AND FUTURE RESEARCH

Despite of some contributions above, this study is not exempt from limitations. First, to define family ownership, this study considered the extent that family member takes part in the management and owns 5% or more of the shares in

the sample years. Besides this point, there can be other factors related to corporate governance structure of family firms such as founder's share ratio or descendent CEO's share ratio. These factors can yield different results. Second, this paper used KEJI index as the measure for CSR performance. Although the KEJI index is used in numerous studies that addresses CSR, since KEJI index represents only top 200 firms announced in the sample years, this could create sample bias occurred from sample firms that have relatively high CSR performance. Thus, additional analysis is needed to increase general validity. Third, although the KEJI index is the most representative index for evaluation of CSR performance, its categories may not fully capture the actual CSR performance of Korean family firms. Further analysis, utilizing qualitative characteristics obtained from a variety of sources, could increase the significance of the results in this study. Fourth, this study collected the data of 3-year period for the regression analysis, which is the minimum period required for panel data analysis. Future research could be conducted in an advanced longitudinal research in order to improve credibility and reliability of the results. Lastly, this study used foreign ownership as moderating variables without subdividing foreign owners' profile specifically because of lack of the data. For future research, it would be meaningful to subdivide foreign owners and investigate which of them influence more over Korean family firms on CSR performance.

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국문초록

한국 가족기업의 가족소유가 기업의 사회적 책임 성과에 미치는 영향
: 외국인 소유의 조절효과를 중심으로

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한국의 가족기업은 외국의 선도기업보다 기업의 사회적 책임 성과에 대한 노력이 부족한 실정이다. 대개 가족기업과 기업의 사회적 책임 성과간의 관계는 불일치한 양상을 보인다. 가족기업이 좋은 평판과 인상을 유지하기 위해 사회 정서적 부를 추구하며 기업의 사회적 책임 성과를 행한다는 주장이 있는 반면, 대리인 이론을 기반으로 한 다른 연구는 가족기업이 기업의 사회적 책임 성과에 부정적인 영향을 미친다고 주장하는데 그 이유는 가족구성원이 소주주를 희생하면서 그들의 정보적, 통제적 이점을 남용하기 때문이다. 또한 비록 많은 연구자들이 가족기업의 지배구조를 기업 성과의 주요한 결정요인이라고 주장해왔지만 가족기업의 지배구조와 기업의 사회적 책임성과간의

관계를 조사하는 연구는 아직까지 부족하다. 이러한 공백을 채우기 위해서 본 논문은 한국가족기업의 지배구조 속을 들여다보고 기업의 사회적 책임 성과에 대한 가족소유의 영향을 검사해 보고자 한다. 가족소유와 외국인소유는 각각 독립변수와 조절변수로 사용되었으며 사회적 책임 성과는 종속변수로 사용되었다. 표본은 2015 년부터 2017 년까지 KEJI Index 로부터 수집한 총 537 개의 가족기업이다. 본 논문은 가족기업의 가족소유와 기업의 사회적 책임 성과간의 부정적인 관계를 발견하였다. 또한 외국소유의 증가가 가족소유와 기업의 사회적 책임 성과간의 부정적인 관계를 약화시킴으로써 긍정적인 조절효과로 작용하였음을 증명하였다.

주요어: 가족기업, 기업지배구조, 가족소유, 외국인소유, 기업의 사회적 책임 성과
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