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## DO CORPORATE GOVERNANCE AND SOCIAL PERFORMANCE DIFFER BETWEEN FAMILY-OWNED AND NON-FAMILY-OWNED BUSINESSES IN TAIWAN-LISTED CSR COMPANIES?



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### ABSTRACT

*The objective of this analysis into examines the social performance and corporate governance differences between family-owned firms and non-family-owned firms, along with the impact of corporate governance variables. The findings herein present that non-family-owned firms' CSR (corporate social responsibility) affect company performance, but that of family-owned firms does not. We show that duality to ROA is positively significant in family firms, meaning that it is very convenient to conduct polity to do whatever one wants to do to help a firm create more profit and improve ROA when the leader of a family firm is also the company chairman same as the chairman. On the other hand, in a non-family-owned firm, board size and gender are negatively significant to firm performance. High CEO compensation encourages managers to intensively target high performance in order to get more profit for the firm.*

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**Keywords:** Social performance, Corporate governance, Family own firm, Non-family own firm, CSR.

### Contribution/ Originality

The objective of this study is to examine the social performance and corporate governance differences between family-owned firms and non-family-owned firms, along with the impact of corporate governance variables. The finding of this paper is for non-family-owned firms that CSR does affect company performance, but for family-owned firms it does not.

### 1. INTRODUCTION

Family firms possess a “strong social element affecting the decisions that determine a firm’s strategy, operations, and administrative structure” (Chrisman *et al.*, 2005). As a form of social capital (Adler and Kwon, 2002; Pearson *et al.*, 2008) family ties serve both ‘bridging’ and

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‘bonding’ functions internally within the firm and externally with important external stakeholders (Sirmon and Hitt, 2003). Proactive or positive social performance may also serve internal bonding and external bridging functions. Such positive social performance, particularly regarding important external stakeholders, can represent an external ‘bridging’ function, allowing the family firm to gain support of key stakeholders and extend the firm’s external social capital (Sirmon and Hitt, 2003). Particularly in the context of the stability of stakeholder relationship characteristics of family firms, this stakeholder support may be viewed as a potentially valuable pool of goodwill to be tapped if needed at a future time (Sirmon and Hitt, 2003; Aronoff, 2004; Anderson *et al.*, 2005; DénizMaría and Suárez, 2005; Godfrey, 2005; Dyer and Whetten, 2006; Hadani, 2007; Niehm *et al.*, 2008). Miller *et al.* (2008) argue that the priority given to building and maintaining family control implies developing strong ties between both internal (e.g. employees) and external stakeholders (e.g. suppliers and customers). On the other hand, research into the relationship between corporate governance and social performance has focused on the social performance implications of specific corporate governance mechanisms, such as firm ownership, executive compensation, and board of director characteristics. Despite some contradictory evidence, the preponderance of findings suggests that these governance mechanisms promote social performance.

Hirigoyen and Poula-Rehm (2014) note that family businesses do not differ from non-family businesses in many dimensions of social responsibility. In fact, family businesses have statistically significant lower ratings for four sub-dimensions of “corporate governance”: “balance of power and effectiveness of the Board”, “audit and control mechanisms”, “engagement with shareholders and shareholder structure”, and “executive compensation”. Moreover, McGuire *et al.* (2012) analyze the social performance of a sample of publicly-traded family and non-family firms. Using the KLD index of social performance, they find a negative relationship between family firm status and poor social performance, yet they find no evidence that corporate governance is related to firm social performance. Findings also provide evidence that corporate governance moderates the relationship between the extent of family control and social performance. The literature on corporate social responsibility (CSR) and corporate governance is rare. Thus, the objective of this study is to examine the social performance and corporate governance differences between family-owned firms and non-family-owned firms, along with the impact of corporate governance variables.

This article is organized as follows. Section 1 is the introduction. Section 2 presents the hypotheses. Section 3 outlines the methodology. Section 4 presents the empirical results. Section 5 offers a discussion of the conclusion.

## 2. HYPOTHESES

### 2.1. The Social Performance of Family Firms

Investigations into the financial performance of family firms have often made social capital or stakeholder arguments (Godfrey, 2005; Arregle *et al.*, 2007; Stavrou *et al.*, 2007). As Siegel (2009)

argues, social performance may be particularly instrumental to family firms. In fact, concern for succession and maintenance of family control can promote socially responsible actions to preempt litigation, legal challenges, and poor publicity, which could make family succession more divisive and difficult (Chua *et al.*, 2003; Sharma *et al.*, 2003). Such reasoning suggests that family firms may avoid negative or poor social actions and instead engage in positive or pro-active social performance. For example, a survey by the Family Firm Institute (2007) found that 57% of respondents felt that being in a family business influenced their social performance, and that 60% of family business respondents felt their ethical standards to be more stringent than those of competing firms.

Berrone *et al.* (2010); Gomez-Mejia *et al.* (2007) and De (1993) argue for the importance of prestige, reputation, and ‘socio-emotional wealth’ within family firms. In essence, the strategic objectives of family firms are complex, incorporating both economic and non-economic objectives associated with socio-emotional wealth and financial wealth. Those authors further note the importance of family ties in building human capital, commitment, and firm-specific knowledge. Certainly, non-family firms also pursue these objectives and derive reputational benefits from socially responsible actions (Bear *et al.*, 2010). Thus, in order for family firms to avoid negative or poor social actions, they may engage in positive or pro-active social performance to maintain family reputation and visibility. We thus set up the first hypothesis.

H1: Family-owned firms have stronger social performance than non-family-owned firms

## 2.2. Corporate Governance and the Social Performance of Family Firms

Strong corporate governance may mitigate detrimental or negative social policies among both family and non-family firms. To the extent that socially responsible actions allow family firms to build stakeholder support and develop social capital, corporate governance should encourage socially responsible policies that are congruent with the firm’s strategic objectives (Siegel, 2009). If, however, such policies serve non-economic family-oriented motivations, then they may imply the agency costs of family altruism. Schulze and colleagues suggest that corporate governance may play an important role in curbing family altruism (Schulze *et al.*, 2001; Schulze *et al.*, 2002; Schulze *et al.*, 2003). As a result, strong corporate governance may mitigate the family firm-social performance relationship, especially in the context of a particularly robust social agenda that primarily benefits family interests. Our second hypothesis is thus set as follows.

H2: Strong corporate governance moderates the family-owned firm-social performance relationship.

## 2.3. Gender and the Social Performance of Family Firms

In further exploration of the primary research question, the pilot study also examines whether special relationships based on the family aspect of the business are more likely under certain

conditions than others. Based on the research by Godfrey (1995) gender is tested herein as a moderator variable. We thus present the third hypothesis.

H3: Female family business owners are more likely to have a special relationship reflecting CSR behaviors than are male family business owners.

### 3. METHODOLOGY

#### 3.1. Multiple Variables Linear Regression Model

We use the ordinary least squares (OLS) model to measure the performance differences between family-owned and non-family-owned firms. In statistics, OLS is a method for estimating the unknown parameters in a linear regression model, with the goal of minimizing the differences between the observed responses in some arbitrary dataset and the responses predicted by the linear approximation of the data. The OLS estimator is consistent when the regressions are exogenous and there is no perfect multicollinearity, and it is optimal in the class of linear unbiased estimators when the errors are homoscedastic and serially uncorrelated. Under these conditions, the OLS method provides minimum-variance mean-unbiased estimation when the errors have finite variances. With the additional assumption that the errors be normally distributed, OLS is the maximum likelihood estimator.

As mentioned earlier, OLS is a statistical technique that looks to find the function which most closely approximates the data (a “best fit”). Thus, in general terms, it is an approach to fitting a model to the observed data. This model is specified by an equation with “free” parameters. In technical terms, the OLS method is used to fit a straight line through a set of data points, so that the sum of the squared vertical distances (called residuals) from the actual data points is minimized.

Model 1: Corporative Governance

$$Y_{i,t} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_{11} X_{11} + \beta_{12} X_{12} \quad (1)$$

Here,  $Y_{it}$  is the performance of company  $i$  in the period of time  $t$ ;  $Y_1$  is ROA (return on assets);  $Y_2$  is ROE (return on equity);  $X_1$  is a dummy variable that takes the value of 1 for a family firm and 0 for not a family firm;  $X_2$  is the board;  $X_3$  is a dummy variable for Duality that takes the value of 1 when the chairman is also the CEO at the same time and 0 when the firm leader is only the chairman or CEO;  $X_4$  is for independent (ID) board director;  $X_5$  is the director background;  $X_6$  is a dummy variable for gender that takes the value of 1 for female and 0 for male;  $X_7$  is CEO compensation;  $X_{11}$  is the control variable of firm size as measured by the natural log of total net assets; and  $X_{12}$  is the control variable of the debt ratio.

Model 2: Social Performance

$$Y_{i,t} = \beta_0 + \beta_8 X_8 + \beta_9 X_9 + \beta_{10} X_{10} + \beta_{11} X_{11} + \beta_{12} X_{12} \quad (2)$$

Here,  $Y_{it}$  is the performance of company  $i$  in period  $t$ ;  $Y_1$  is ROA;  $Y_2$  is ROE;  $X_8$  is a dummy variable for Charity that takes the value of 1 if the company sets up a charity or engages in activities

in this area and 0 if the company does not;  $X_9$  is a dummy variable for positive news that takes the value of 1 when the company has positive news and 0 when it does not have positive news;  $X_{10}$  is a dummy variable for negative news that takes the value of 1 when the company has negative news and 0 when it does not have negative news;  $X_{11}$  is a control variable for firm size as measured by the natural log of total net assets; and  $X_{12}$  is the control variable of the debt ratio.

### 3.2. Data Sample

We collected data on a sample of 59 firms for which social performance data were available from Commonwealth magazine during the period 2006-2013 and financial data from Taiwan Economics Journal (TEJ) database. This sample frame parallels our measures of family firm status and corporate governance (listed as below). The final sample contains 21 family firms and 38 non-family firms.

### 3.3. Variables

#### 3.3.1. Dependent Variables

- ROA( $Y_1$ ) or ROE( $Y_2$ )

Waddock and Graves (1997) and Preston and O'Bannon (1997) note the result that return on equity (ROE) and return on assets (ROA) represent financial performances in corporate social responsibility and exhibit a positive correlation.

#### 3.3.2. Independent Variables

- Family firm( $X_1$ )

The list of family firms is obtained from the TEJ database, with shareholding types divided into four sub-families: family individual holding, family shareholding in unlisted firms, family fund shares, and family shareholding of listed companies. We employ the study by Yeh *et al.* (2001) to define four family shareholding ratios above add up more than 20 percent said criteria family has a very significant impact on the business, so the family shareholding greater than or equal to 20% of those family holdings.

- Board( $X_2$ )

Lin *et al.* (2009); Cheng (2008) and Hong *et al.* (2010) consider that the size of a board influences how firms disclose their CSR information. If the size of a board is big, then firms are more willing to release messages and CSR functions as a form of regulation. CSR thus has a positive correlation with the size of a board.

- Duality( $X_3$ )

McKendall *et al.* (1999) examine that duality for a CEO and chairman is not conducive to the implementation of corporate social responsibility.

- ID director( $X_4$ )

Johnson and Greening (1999) discover that independent boards have a positive correlation with corporate social responsibility of performance. Wang and Coffey (1992) find that the more a board focuses on charity activities, the more a firm contributes to what.

- Background ( $X_5$ )

Bacon (1973) and believe that more directors and experts in different fields of professional background can offer more suggestions to their firms and can combine a variety of professional knowledge to make better corporate decisions.

- Gender( $X_6$ )

Gender composition (i.e., number of women on the board) is expected to have a positive impact on social capital and CSR. On boards, women are more than twice as likely as men to hold a doctoral degree. Female directors are more likely than male directors to have expert backgrounds outside of business and to bring different perspectives to the board (Hillman *et al.*, 2002).

- CEO compensation ( $X_7$ )

We use a large sample of U.S. firms from 1996 to 2010 to examine the empirical impact of firms' CSR involvement on executive compensation. Cain *et al.* (2011) find that lagged CSR is adversely related to CEOs' total compensation as well as cash compensation, after controlling for various firm and board characteristics. They also find an inverse association between executive compensation and employee relations.

- CSR: Charity ( $X_8$ ), Positive News(Award) ( $X_9$ ), and Negative news ( $X_{10}$ )

We derive our CSR firm data from Commonwealth magazine's 2006 to 2013 corporate reputation benchmark surveys and 2006 to 2010 Corporate Citizenship Awards. Moreover, we use the magazine's CSR index, positive news, negative news, and whether a charity foundation is set up as this study's metrics.

### 3.3.3. Control Variables

- Size ( $X_{11}$ )

Johnson and Greening (1999) discover a correlation between corporate social responsibility of performance and the level of a firm's assets.

- Debt ratio ( $X_{12}$ )

Cheng and Hong (2010) use the debt ratio as a control valuable, where it is measured as total liabilities divided by total assets.

## 4. EMPIRICAL RESULTS

Based on Table 1, we find that  $X_3$  (duality) is positively significant to  $Y_1$  (ROA) in family firms. This means that when the leader of a family firm is also the chairman and CEO, it is more convenient to conduct corporate policy that will help the firm achieve more profit and also improve ROA. On the other hand,  $X_2$  (board size) and  $X_6$  (gender) are negatively significant in non-family

firms. If  $X_2$  (board size) is too big, then too many suggestions from the board may make the process more complex than just decreasing ROA.

We use  $X_6$  (gender) as a dummy valuable. The results show that women exhibit less responsibility to their work, because they have a family and want to have stable jobs in order to take care of their family. Thus, the result shows that this variable does not benefit firm performance.  $X_7$  (CEO compensation) is positively significant, showing that family firms perform better than non-family firms. High CEO compensation encourages managers to intensively target high performance in order to get more profit for the firm.

**Table-1.** Empirical results of Model 1(corporate governance) with  $Y_1$ (ROA).

Variable	Family firm		Non-family firm	
	Coefficient	t-Statistic	Coefficient	t-Statistic
C	16.703838***	2.672419	38.47657***	5.938704
$X_2$	-0.179266	-0.540236	-0.361391**	-2.166005
$X_3$	4.289616**	2.436345	0.793730	0.677295
$X_4$	0.599955	0.511117	0.715430	1.378926
$X_5$	1.563987	1.477244	-0.117909	-0.171958
$X_6$	-1.951008	-0.295734	-4.674344**	-2.518678
$X_7$	0.000969***	4.547370	0.000190***	4.155991
$\ln X_{11}$	-0.729160	-1.506564	-1.448236***	-3.282113
$X_{12}$	-0.186360***	-4.555785	-0.111956***	-2.740087
R-squared	0.386825		0.343895	
Adjusted R-squared	0.328428		0.306133	
Log likelihood	-293.3078		-464.7839	
F-statistic	6.623994		9.107030	

**Note:** \*\*\*, \*\*, and \* indicate significance at the 1%,5%, and 10% levels, respectively.

From Table 2 we examine the influence in family firms and non-family firms for CSR on  $Y_1$ (ROA). We find that the variable of corporate social responsibility on  $X_8$  (Charity) and  $X_9$ (Positive News) has not impact for both family and non-family firms. Only  $X_{10}$ (Negative News) decreases the performance of  $Y_1$ (ROA), because negative news leads to market panic and damages the value of firms. The impact effect of bad news is always more significant than that of good news. Therefore, a business owner should care about bad news' impact on the firm and learn how to reduce the impact and control the risk coming from such bad news.

**Table-2.** Empirical results of Model 2(social performance) with  $Y_1$ (ROA).

Variable	Family firm		Non-family firm	
	Coefficient	t-Statistic	Coefficient	t-Statistic
C	26.03670***	3.515434	7.247599	1.535148
$X_8$	-0.004931	-0.003569	-0.576858	-0.706820
$X_9$	1.044647	0.378132	-2.216796	-1.636038
$X_{10}$	-3.400998	-1.272589	-1.919118*	-1.803615
$\ln X_{11}$	-0.680188	-1.514580	0.613746**	2.141496
$X_{12}$	-0.159595***	-4.170066	-0.199286***	-7.545998
R-squared	0.269291		0.255636	
Adjusted R-squared	0.236376		0.238325	
Log likelihood	-391.3195		-685.7496	
F-statistic	8.181454		14.76745	

Note: \*\*\*, \*\*, and \* indicate significance at the 1%, 5%, and 10% levels, respectively.

According to Table 3, we find that the impacts of  $X_3$  (duality) and  $X_5$  (background) on  $Y_2$  (ROE) are significantly positive in family firms. It means that when the leader of a family firm is also the chairman and CEO, it is more convenient to conduct corporate policy that will help the firm achieve more profit and also improve ROE. Boards with more directors and experts in different fields of professional background can offer more suggestion sand can combine a variety of professional knowledge to make better firm decisions.

For the empirical results of Table 3, in non-family firms  $X_2$  (board size) and  $X_6$  (gender) have a significantly negative relationship with  $Y_2$  (ROE). It means that aboard size that is too big will have a lot of suggestions, implying the decision-making process will be complex, thus decreasing ROE. Moreover, for  $X_6$  (gender) as a dummy variable, the results show that women exhibit less responsibility to their work, because they have a family and want to have stable jobs in order to take care of their family. Thus, the result shows that this variable does not benefit firm performance. Moreover,  $X_4$  (ID director) has a significantly positive relationship with  $Y_2$  (ROE) in non-family firms. It means that the higher the ratio of independent directors is, the better the ROE performance will be. Conversely,  $X_7$  (CEO compensation) has a significantly positive relationship with  $Y_2$  (ROE) in both family and non-family firms. High CEO compensation encourages managers to intensively target high performance in order to get more profit for the firm.

**Table-3.** Empirical results of Model 1(corporate governance) with  $Y_2$ (ROE).

Variable	Family firm		Non-family firm	
	Coefficient	t-Statistic	Coefficient	t-Statistic
C	24.80845**	2.461142	67.74773***	5.668040
$X_2$	-0.073891	-0.138078	-0.635127**	-2.063410
$X_3$	5.744259**	2.023033	2.853746	1.319968
$X_4$	1.375784	0.726775	1.610501*	1.682586
$X_5$	3.040671*	1.780889	1.114752	0.881244
$X_6$	-5.023639	-0.472183	-14.31885***	-4.182182
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$X_7$	0.001720***	5.006779	0.000372***	4.417312
$\ln X_{11}$	-1.596992**	-2.046049	-3.304819***	-4.059801
$X_{12}$	-0.167828**	-2.544046	0.021033	0.279040
R-squared	0.351270		0.247219	
Adjusted R-squared	0.289487		0.203893	
Log likelihood	-337.7530		-555.4175	
F-statistic	5.685479		5.706083	

Note: \*\*\*, \*\*, and \* indicate significance at the 1%, 5%, and 10% levels, respectively.

In Table 4 we find that  $X_9$  (positive news) and  $X_{10}$  (negative news) have a significantly negative relationship to  $Y_2$  (ROE) in non-family firms. Neither  $X_9$  (positive news) nor  $X_{10}$  (negative news) shows that firms releasing more information will decrease their performance. Previous intuition had been that investors' confidence in a firm will be shaken under negative news, leading them to sell the firm's stock, which would cause  $Y_2$  (ROE) to go down. According to Table 4 for family firms,  $X_8$  (doing charity),  $X_9$  (positive news), and  $X_{10}$  (negative news) exhibit no statistically significant impact effect on ROE. Based on the above results, we conclude that family-owned firm's that want to conduct CSR activities will suffer a lot of pressure from the family. However, for non-family- owned firms, the CEO has the power to decide whether to do CSR activities or not.

Table-4. Empirical results of Model 2 (social performance) with  $Y_2$  (ROE).

Variable	Family firm		Non-family firm	
	Coefficient	t-Statistic	Coefficient	t-Statistic
C	34.99931**	2.200273	8.929349	1.184778
$X_8$	2.899866	0.977085	-1.058559	-0.812486
$X_9$	-0.751524	-0.126660	-4.304480**	-1.989983
$X_{10}$	-7.855308	-1.368577	-3.590941**	-2.114032
$\ln X_{11}$	-0.982944	-1.019098	0.584815	1.278229
$X_{12}$	-0.211098**	-2.568208	-0.078443*	-1.860606
R-squared	0.164910		0.059533	
Adjusted R-squared	0.127293		0.037661	
Log likelihood	-480.7546		-789.1212	
F-statistic	4.383951		2.721957	

Note: \*\*\*, \*\*, and \* indicate significance at the 1%, 5%, and 10% levels, respectively.

From Table 1 to Table 4, we summarize that Hypotheses 1 and 2 are not supported, whereas only Hypothesis 3 is supported in that female family business owners are more likely to have a negative relationship with CSR behaviors than are male family business owners.

## 5. CONCLUSION AND DISCUSSION

This study focuses on whether and in what differences corporate governance and corporate social responsibility affect family-owned and non-family-owned firms. We employ ROA and ROE as proxy variables that measure company's performance. The finding of this paper is for non-family-owned firms that CSR does affect company performance, but for family-owned firms it

does not. We suggest that if a family-owned firm presents duality in which the CEO and chairman are the same person, then the level of CEO compensation is higher and a background in accounting finance or law helps the performance of ROA and ROE become better. In contrast, for on-family-owned firms, board size is related to firm size, male gender, having more independent directors, and high CEO compensation, which all lead to better firm performance. We find that corporate governance is related to the performances of family-owned and non-family-owned firms "ROE".

According to Hypothesis 3, we know that female family business owners are more likely to have a negative relationship conducting CSR behaviors than male family business owners. In other words, males often take more responsibility in their family, are more ambitious, and want to seek a high job position so that their family can live a good life. Thus, males are more eager to improve firm performance, which coincides with Hillman *et al.* (2002).

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