

Whether Family-owned Enterprises Affect the Correlation between the Extent of export and the Acquisition of the Third-party Assurance of the Corporate Social Responsibility Reports

Hsin-Yi Huang¹, Chih-Kang Lien², Feng-Chen Lin^{3*} and I-Ting Tsai⁴

Abstract

What are the impacts of the extent of export on the corporate social responsibility (CSR) report disclosure and assurance of family firms? This research considers the role of Taiwan's supply chain around the world and compares family-owned and non-family-owned enterprises to determine if there are differences on whether the firm issue CSR report and acquire the third party assurance in accordance with the extent of export. We utilizes companies listed firms from 2008 to 2019 as the sample. The results show that family-owned enterprises are less likely to issue corporate social responsibility reports and acquire the third-party assurance even if they have high export level. The research contributes to prior CSR report disclosure literature by showing evidence on the type of companies or corporate governance mechanisms that could acquire the assurance service of the third party. Moreover, the economy in Taiwan mainly relies on the massive export. The evidence provided by this study should give valuable implications to the academia, practice and government.

Keywords: Family-owned enterprises; corporate social responsibility report; extent of export; third party assurance.

¹ Department of Accounting, Feng Chia University. Center for Research in Econometric Theory and Applications, National Taiwan University.

² Department of Accounting, National Taiwan University, Taiwan.

^{3*} Chang Jung Christian University, Taiwan. (Corresponding Author)

⁴ PricewaterhouseCoopers, Taiwan.

1. Introduction

The demand for CSR disclosures is increasing internationally (Cohen and Simnett, 2015; Zhang and Kuo, 2019; Kuo, Kuo and Chen, 2021). Investors also begin to use the CSR report provided by the enterprises to make decisions (Naughton, Wang and Yeung, 2019). Therefore, Taiwan government has paid special attention to the quality of disclosure when formulating the regulations on the issuance of the CSR reports. In the “Corporation Rules Governing the Preparation and Filing of Sustainability Reports by Taiwan Stock Exchange Listed Companies”, it is required that the CSR reports issued by the listed companies in Taiwan each year must be prepared in accordance with the guidelines of GRI. It is also required that the reports should mention whether each disclosed project acquires the assurance or guarantee of the third party.

Aray, Dikova, Garanina and Veselova (2021) found companies increase CSR communication in order to increase legitimacy in foreign markets. Taiwan’s economic demands for exports, thus, if there is no consistent preparation standard, the CSR reports issued by the companies in Taiwan would not be compared with those in other countries. For investors, they would also be useless information (Christensen, Serafeim and Sikochi, 2022).

Additionally, according to the SME White Paper released by the Ministry of Economic Affairs in 2019, 70 percent of Taiwan enterprises are family-owned. Family-owned enterprises have played an important role in the development of national economies (Sharma, Chrisman and Gersick, 2012). Barton and Gordon (1987) suggested that when the operators are formulating financial policies, they would first consider whether the policies would affect the families' permanent control, so the permanent operation became the ultimate guidelines the families pursued (McMahon and Stanger, 1995; Casson, 1999; Zapalska and Edwards, 2001). Nevertheless, due to Type II agency problem, family-owned enterprises would more unlikely to spend costs to acquire the CSR report assurance service from the third party. This research intends to explore whether family-owned enterprises with high extent of export have different policies from the non-family-owned enterprises to acquire the assurance service of the CSR reports.

The research contributions of this study are as follows: First of all the past studies discussed whether the assurance of disclosure of the CSR is acquired could increase the credibility of the information or reduce the capital cost. There is scanty research on the type of companies or corporate governance mechanisms that could acquire the assurance service of the third party. Moreover, the economy in Taiwan mainly relies on the massive export. If the regulatory system of the competent authorities can match the development of the industry, it is of great benefit to the overall economic development of the region. In summary, the evidence provided by this study should give valuable information to the academia, practice and government. Secondary, this paper discusses the influence of the family-owned enterprises. Family-owned enterprises have been the main form of companies in Taiwan. It has been an important issue for both the academia and the industry on whether family-

owned enterprises could cause agency problem. Therefore, this paper discusses whether family-owned enterprises with high extent of export acquire the third-party assurance of the CSR reports to clarify the influence of the family-owned enterprises.

The remainder of this paper is organized as follows: Section 2 describes the hypothesis inference process; Section 3 presents the research methodology, sample selection, research model and variables definition; Sections 4 discusses the results, and Section 5 offers the conclusions.

2. Literature Review and Hypotheses Development

2.1 The relationship between family-owned enterprises, the extent of export and the issuance of the CSR report

Aray, Dikova, Garanina and Veselova (2021) using Russian sample to discuss the relationship between corporate internationalization and corporate social responsibility. They found companies increase CSR communication in order to increase legitimacy in foreign markets. However, it does not account for the differences in the willingness of family businesses to disclose CSR reports.

Family-owned enterprises usually pass on the business to their own members, and family members are more prudent in their investments and policies for the sake of the next generation and the survival of the company.

James (1999) suggested that compared with non-family-owned enterprises, family-owned enterprises would choose more efficient investment to transfer the assets to family members, thus improving the viability of the company. Dyer and Whetten (2006), Deephouse and Jaskiewicz (2013) found that compared with non-family-owned enterprises, the family-owned enterprises have better reputation. CSR is one of the strategies of the permanent development of enterprises, and helps the enterprises to improve their reputation, which is a better attraction for family-owned enterprises that are more willing to assume the CSR (Cruz, Larrazza-Kintana, Garcés-Galdeano and Berrone, 2014; Aronoff and Ward, 1995).

However, family-owned enterprises may also suffer from earnings management problems due to information asymmetries with other shareholders and may place more emphasis on short-term performance than long-term because of the potential proprietary costs (Tai, 2017; Chen, Chen and Cheng, 2008). Dhaliwal, Li, Tsang and Yang (2011) indicated that there is no relationship between the disclosure of the CSR and the future changes in the company's cost of equity capital. Therefore, family-owned enterprises have no reasons to voluntarily conduct the issuance of the CSR reports (Nekhilia, Nagatib, Chtiouic and Rebolledod, 2017). Peng (2020) took the Taiwan family-owned enterprises from 2009 to 2016 as the subjects and discussed the relationship between family-owned enterprises and the voluntary assurance of the CSR reports. The results indicated that family-owned enterprises are less motivated to engage in the voluntary assurance of the CSR reports. Family-owned enterprises are less likely to engage in voluntary CSR when the degree of deviation between control and cash power was higher. Therefore, this study inferred

that family-owned enterprises with high extent of export would less likely to issue CSR report and acquire the assurance service of the CSR report. The research hypotheses are proposed as follows:

H1a: Compared with non-family-owned enterprises, the higher the extent of export of the family-owned enterprises, the less likely it is for the family-owned enterprise to issue the CSR report.

H1b: Compared with non-family-owned enterprises, the higher the extent of export of the family-owned enterprises, the less likely it is for the family-owned enterprise to acquire assurance of their CSR report.

3. Research Method

3.1 Source of data and selection of samples

In 2008, Taiwan Financial Supervisory Commission revised the regulations of the disclosure of the CSR. Taipei Exchange and Taiwan Stock Exchange announced “Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies” and “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” in 2010. It provided the first principles of CSR implementation for listed companies, and it guided them to implement CSR and further achieve permanent development. In 2014, the Stock Exchange required listed companies in specific industries and companies with paid-in capital of more than NTD 10 billion to prepare a CSR report, and in 2015, it was amended to require listed companies with equity capital of more than NTD 5 billion and less than NTD 10 billion to prepare and file a CSR report for 2016 in 2017, but if there was a cumulative loss in the annual accounts, the application may be postponed to 2019. In this study, our sample period spans from 2008 to 2019, and the data source was Taiwan Economic Journal (TEJ). A total of 20,070 observations were obtained from all listed companies excluding the financial industry, and after deducting 7111 missing data such as external sales ratio and financial variables, the remaining sample size of CSR was 12,959. The sample size of whether a company acquired the third-party assurance was based on the condition that the company has issued a CSR report, so after deducting 10,612 unreleased reports observations, the final sample size of whether a company acquired the third-party assurance was 2,347. The detailed sample distribution is shown in Table 1.

Table 1: Full sample industry distribution table

Industry code	Industry name	CSR		ASSURE	
		Sample	Percentage	Sample	Percentage
1	Cement industry	70	0.5%	32	1.4%
2	Food industry	254	2.0%	134	5.7%
3	Plastic industry	224	1.7%	64	2.7%
4	Textile industry	468	3.6%	50	2.1%
5	Motor machinery	634	4.9%	55	2.3%
6	Electrical cable	139	1.1%	13	0.6%
8	Glass ceramic	42	0.3%	6	0.3%
9	Paper industry	54	0.4%	22	0.9%
10	Iron industry	378	2.9%	76	3.2%
11	Rubber industry	101	0.8%	21	0.9%
12	Auto industry	212	1.6%	54	2.3%
14	Building materials manufacturing	613	4.7%	69	2.9%
15	Shipping	171	1.3%	57	2.4%
16	Sightseeing	253	2.0%	65	2.8%
17	Finance	300	2.3%	188	8.0%
18	Trade department store	260	2.0%	47	2.0%
20	Others	832	6.4%	143	6.1%
21	Chemical industry	323	2.5%	198	8.4%
22	Biomedical	753	5.8%	104	4.4%
23	Oil, electricity and gas	103	0.8%	16	0.7%
24	Semiconductor industry	1122	8.7%	178	7.6%
25	Computer and peripheral equipment industry	861	6.6%	192	8.2%
26	Optoelectronics	941	7.3%	128	5.5%
27	Communication network industry	677	5.2%	109	4.6%
28	Electronic parts group	1707	13.2%	195	8.3%
29	Electronic channel industry	308	2.4%	18	0.8%

3.2 Empirical models and variable definitions

We employed the following logistic model to test our hypotheses:

$$CSR / ASSURE = \alpha_0 + \alpha_1 FSR \times Family + \alpha_2 LEV + \alpha_3 SIZE + \alpha_4 FIR + \alpha_5 INST + \alpha_6 BSH + \alpha_7 DUAL + \alpha_8 IND_BOARD + \alpha_9 YEAR + \alpha_{10} IND + \varepsilon \quad (1)$$

where, CSR equals 1 if the company has issued CSR report, and 0 otherwise; ASSURE equals 1 if the company got third party assurance of their CSR report, and 0 if not; FSR is the foreign sales ratio of total foreign sales divided by total sales; the family-owned enterprises (FAMILY), which was 1 if it is a family-owned enterprise and 0 otherwise; LEV is the total liabilities divided by total assets; SIZE is the size of the company, measured as the natural logarithm of total assets; IND is the industry; FIR is the percentage of foreign ownership; INST is the institutional investors; BSH is the shareholding of major shareholders for corporate governance-related variables; DUAL is the percentage of chairman and managing director; IND_BOARD is the percentage of independent directors.

4. Empirical Results

4.1 Descriptive statistics

Table 2 lists the descriptive statistics of H1a. The dependent variable is whether enterprises have issued CSR reports, and the independent variable is the foreign sales ratio (FSR). To alleviate the influence of outliers, we winsorize all continuous variables by 1% and 99%.

As could be seen from the mean values, 18.1% of enterprises had issued CSR reports during the period of study, and approximately 54% of listed companies conducted export trade. Moreover, 62.8% of the enterprises were family enterprises in our sample. The debt ratio was 41.6%, the shareholding ratio of foreign investment was 10.83%, and institutional investors accounted for 9.7%. The shareholding ratio of major shareholders was 22.27%, that of the directors and supervisors was 24%, and the ratio of independent directors was 2.8%.

Table 2: Descriptive statistics (N = 12,959)

	Mean	SD	Medium	Minimal	Maximum
Dependent variable					
CSR	0.181	0.385	0.000	0.000	1.000
Independent variable					
FSR	54.272	38.155	64.450	0.000	100.000
FAMILY	0.628	0.483	1.000	0.000	1.000
Control variable					
LEV	0.416	0.190	0.411	0.043	0.934
SIZE	15.406	1.570	15.162	12.098	20.825
FIR	10.828	16.015	4.060	0.000	76.550
INST	9.699	13.232	4.350	0.000	62.060
BSH	22.267	12.175	19.910	3.420	63.320
IND_BOARD	0.240	0.171	0.250	0.000	0.667
DUAL	0.028	0.165	0.000	0.000	1.000

Notes:

1. CSR = dummy variable. It represents whether the CSR reports have been issued or not. If yes, it is 1; otherwise, it is 0. FSR = foreign sales ratio; FAMILY = dummy variable. If enterprises are family enterprises, it is 1; otherwise, it is 0. LEV = debt ratio, with total liabilities divided by total assets. SIZE = company size, and the total assets should be a natural logarithm. FIR = shareholding ratio of foreign investment; INST = ratio of institutional investors; BSH = shareholding ratio of major shareholders; IND_BOARD = ratio of the chairman holding a concurrent post of general manager; and DUAL = ratio of independent directors.

Table 3 shows the descriptive statistics for assurance service tests. As shown in Table 3, under the circumstance that enterprises had issued CSR reports, approximately 49% of enterprises had acquired a third-party assurance, and 45.6% of companies conducted export trade. Moreover, 60.3% of enterprises were family firms. The debt ratio was approximately 47%, the shareholding ratio of foreign investment was 18.6%, and institutional investors accounted for approximately 17%. The shareholding ratio of major shareholders was 21.8%, that of the directors and supervisors was 31.4%, and the ratio of independent directors was 2%.

Table 3: Descriptive statistics (N = 2,347)

	Mean	SD	Medium	Minimal	Maximum
Dependent variable					
ASSURE	0.490	0.500	0.000	0.000	1.000
Independent variable					
FSR	45.599	38.870	55.410	0.000	100.000
FAMILY	0.603	0.489	1.000	0.000	1.000
Control variable					
LEV	0.470	0.205	0.462	0.043	0.934
SIZE	16.940	1.835	16.744	12.141	20.825
FIR	18.572	18.223	12.270	0.000	76.550
INST	17.034	16.170	11.740	0.000	62.060
BSH	21.824	11.712	19.620	3.420	63.320
IND_BOARD	0.314	0.175	0.300	0.000	0.667
DUAL	0.020	0.142	0.000	0.000	1.000

Notes:

1. ASSURE = dummy variable. It represents whether the CSR reports have acquired a third-party assurance or not. If yes, it is 1; otherwise, it is 0. FSR = foreign sales ratio FAMILY = dummy variable. If enterprises are family enterprises, it is 1; otherwise, it is 0. LEV = debt ratio, with total liabilities divided by total assets. SIZE = company size, and the total assets should be a natural logarithm. FIR = shareholding ratio of foreign investment; INST = ratio of institutional investors; BSH = shareholding ratio of major shareholders; IND_BOARD = ratio of the chairman holding a concurrent post of general manager; and DUAL = ratio of independent directors. The number of samples was 2,347.

4.2 Regression results

Table 4 is the regression results of H1a and H1b. The dependent variable of Columns (1) is whether the firm issued the CSR report, and the dependent variable of Columns (2) is whether the CSR report has acquired a third-party assurance. As seen in the table, the coefficients of the major variable, family enterprises, in Columns 1 have a positive correlation. The coefficient is 0.387 ($t = 0.558$) and insignificant. It indicates that family enterprise has no effects on the fact of whether CSR reports have been issued and get the assurance.

Column (1) shows that the coefficient on the interaction term FSR×FAMILY is negative and significant, suggesting that family firms who have higher exports level are less likely to issue CSR report. In column (2), where the sample is limited to CSR report issuers, we find negative coefficients on both FAMILY and the interaction term FSR×FAMILY. These results are consistent with our expectation that Compared to non-family-owned enterprises, the higher the extent of export level, the less likely it is for the family-owned enterprise to acquire the third-party assurance. Overall, the empirical results suggest that family ownership have a negative influence on the relation between export level and both the issuance of CSR reports and acquirement of the assurance.

Table 4: Regression analysis on CSR reports of family enterprises and the third-party assurance acquired

	(1)	(2)
	CSR	ASSURE
FSR	-0.011	-0.001
	(0.007)	(0.005)
FAMILY	0.387	-0.544
	(0.558)	(0.370)
FSR*FAMILY	-0.013*	-0.004
	(0.008)	(0.005)
LEV	-6.081***	-0.162
	(0.835)	(0.675)
SIZE	5.585***	0.915***
	(0.358)	(0.100)
FIR	-0.012	-0.007
	(0.012)	(0.007)
INST	0.045***	0.015
	(0.015)	(0.010)
BSH	-0.056***	-0.009
	(0.012)	(0.009)
IND_BOARD	11.893***	0.474
	(1.090)	(0.580)
DUAL	0.060	0.216
	(0.467)	(0.353)
Constant	-106.840***	-18.145***
	(6.883)	(2.053)
Observations	12,959	2,347
Industry Fixed Effects	Yes	Yes
Year Fixed Effects	Yes	Yes
Pseudo R ²	0.910	0.351

5. Conclusion and Suggestions

With the development of internationalization in recent years, many countries choose the way of export trade to improve their economic performance, and the importance of enterprises' social responsibilities has been emphasized. Many large-scale enterprises take CSR reports into consideration when choosing other manufacturers for cooperation. In 2014 and 2015 in Taiwan, enterprises whose stock capital exceeded a certain amount and in specific industries were mandatorily required to issue CSR reports and acquire a third-party assurance. However, it is only applicable to companies belonging to the food industry, chemical industry, and finance and insurance industry according to the Company's "Industry Classification for Listed Companies and Key Adjustments" at the end of the recent fiscal year, as

well as those companies whose ratio of catering income to its total business income is more than 50% according to the financial report of the recent fiscal year submitted for a check, just like Article 36 of Securities and Exchange Act stipulates. Taiwan is an export-oriented economy, and many domestic enterprises play significant parts in the global supply chain. During the process of enterprises' CSR, sustainability and ESG are being increasingly emphasized internationally, and so the specification of laws and regulations should focus on assisting them in acting on an international convention.

Will family enterprises with a high degree of exports influence the disclosure of their CSR reports and the acquisition of third-party assurance? The answer is no. Indeed, if enterprises are family firms, then they might probably ignore the effect of disclosing CSR reports and the acquisition of third-party assurance for their long-term development due to their emphasis on short-term performance. This study result runs in line with Peng (2020).

The findings of this study suggest that the government should expand the industries that are mandatory to be disclosure, and force the export industry to obtain third-party assurance, so as to reduce the impact of family businesses and assist in the internationalization of the industry.

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