FIN16

ESG Reputational Risk in Family Firms: Evidence from Korean Chaebols

Hojong Shin[1], Daewoung Choi[2], Jieun Im[3], Min Jung Kang[4]
[1]California State University, Long Beach, Long Beach, CA, USA. [2]University of Washington, Bothell, Bothell, WA, USA. [3]Hansung University, Seoul, Seoul, Korea, Republic of. [4]University of Michigan, Flint, Flint, MI, USA

Abstract

We identify family succession as a novel determinant of the firm's exposure to reputational risk in ESG practices, as captured by negative media coverage. Using a sample of South Korean chaebol firms from 2007 to 2015, we find that chaebol firms that undergo business succession exhibit greater negative ESG media exposure than chaebol firms without succession or non-chaebol firms. Moreover, ESG reputational risk is greater for chaebol firms with controlling shareholders' high cash-flow rights, family disputes over management, and high related-party transactions. Consequently, chaebol firms, at a higher risk of suffering ESG reputational damage, tend to increase their donations or disclose their sustainability reports voluntarily but are less engaged in fraudulent or entertainment activities. We interpret this behavior as a strategic attempt by chaebol firms to preserve socio-emotional wealth (SEW) gains during the time of business succession.

Conference Track

Finance and Investment