



รางวัลงานวิจัยดีด้านตลาดทุน

SET Research Scholarship 2023

“How does ESG affect listed family firms’ performance?”

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Environmental, Social, and Governance (ESG) factors play a significant role in affecting business operations.



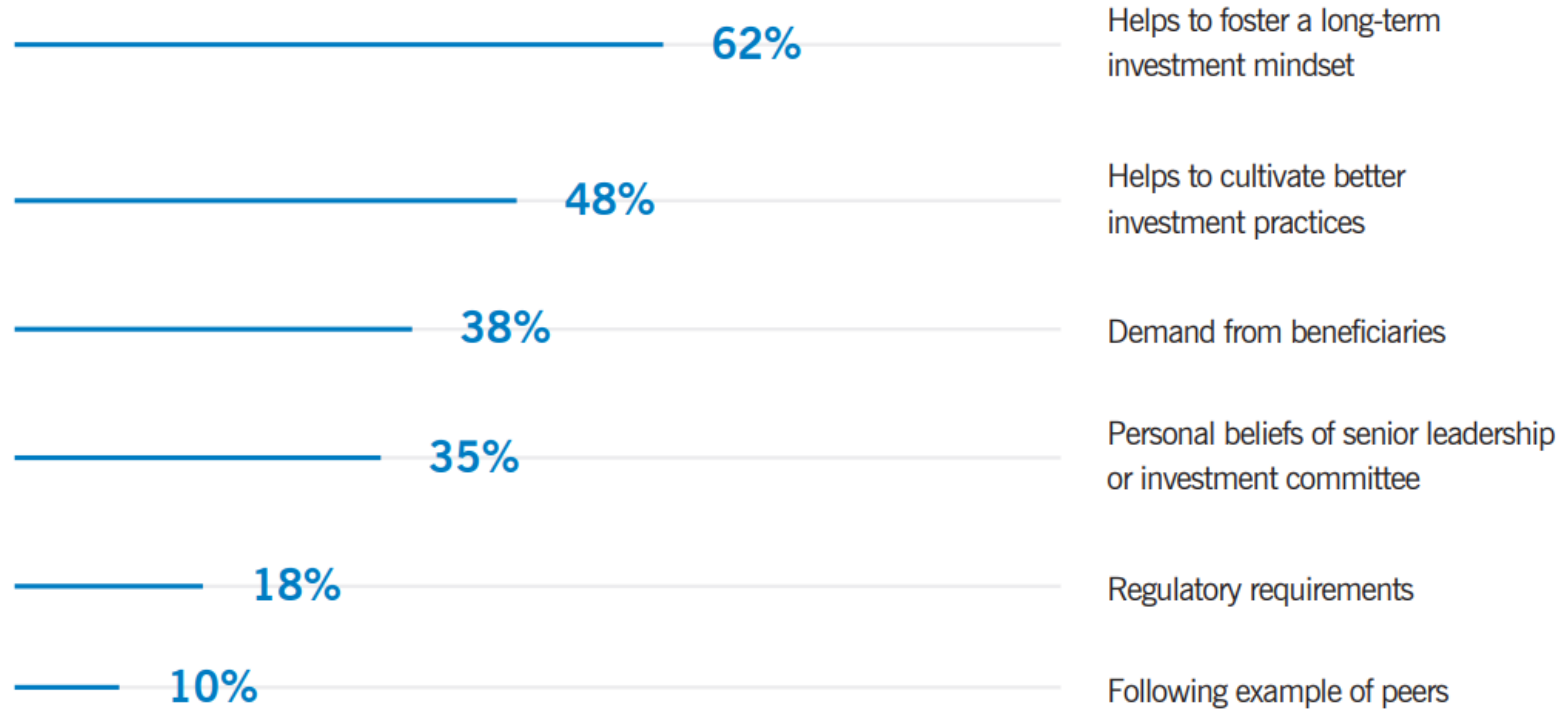
- American institutional investors are part of the worldwide movement in adopting ESG principles.
 - ESG investing accounts for about 20% of the total assets under professional management in the U.S.

- The EU's Non-Financial Reporting Directive has just begun to require 6,000 companies to report ESG information annually.

- A growing number of empirical studies have found a positive relationship between ESG factors and corporate financial performance (Carnini Pulino, Ciaburri, Magnanelli, & Nasta, 2022; Cornett, Erhemjamts, & Tehranian, 2016; Yoon, Lee, & Byun, 2018).



Investors identified the two greatest benefits of ESG investing as “fostering a long-term mindset” (62%), followed by “cultivating better investment practices” (48%)



Robert G. Eccles, Saïd Business School Oxford University, Mirtha D. Kastrapeli, Global Head of the Center for Applied Research at State Street, and Stephanie J. Potter, Sustainability Research Consultant



Past studies have revealed a variety of relationships between market characteristics and ESG.



Primary Variable	Independent/Dependent Variable of Interest	Sign	Citation
Country economic development	Independent	+	Cai et al. (2016)
Lack of civil liberties and political rights	Independent	+	Cai et al. (2016)
Harmony	Independent	+	Cai et al. (2016)
Autonomy	Independent	+	Cai et al. (2016)
Country legal origin: Civil	Independent	+	Liang and Renneboog (2017b)
Cross-listing	Independent	+	Boubakri et al. (2016)
Multinational indicator	Independent	+	Cai et al. (2016)
Political leanings of state's citizens	Independent		
Democrat		+	Di Giuli and Kostovetsky (2014)
Republican		-	Di Giuli and Kostovetsky (2014)
Social capital of county	Independent	+	Jha and Cox (2015)
Industry	Independent	+/-	Borghesi et al. (2014)



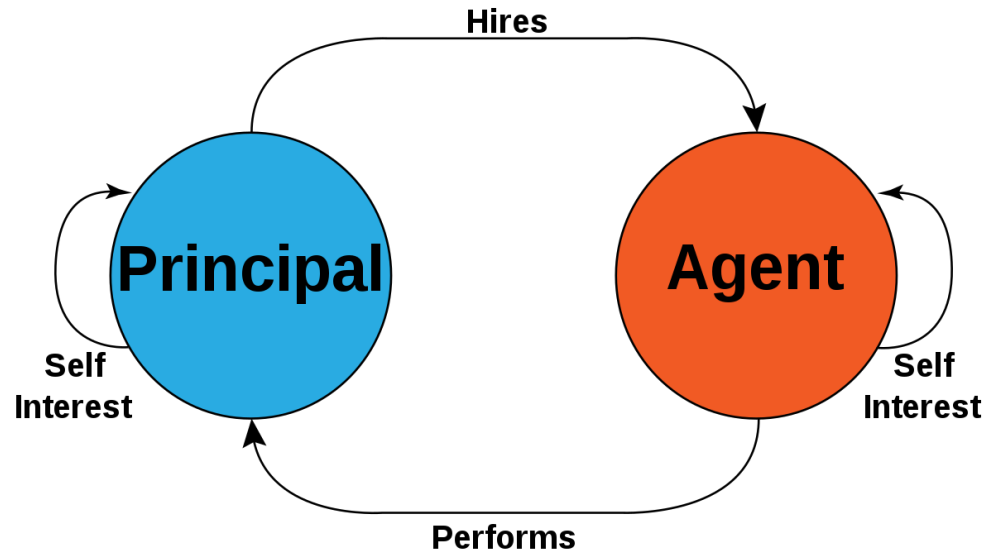
STARK's financial performance is above the industry average, but its non-financial performance is below the industry average.



	ESG	E	S	G	ROA (%)	Tobin's Q
Avg. Indus	38.51	20.55	40.03	60.61	6.01	1.14
STARK	21.80	1.68	21.78	45.95	9.47	2.50

Refinitiv, Avg, 2020-2022

Conflicts between agents and principal, or large shareholders and small shareholders, often correlate with lower operating performance.



Type I: Shareholder and manager

(Jensen and Meckling, 1976)



Type II: Large shareholders and small shareholders

(Anderson and Reeb (2003); Villalonga and Amit (2006))



The ownership structures have positive and negative effects on firm performance.

Bhagat and Bolton (2008)

- The stock ownership of board members and CEO-Chair separation positively correlate with operating performance.

Baek, Kang and Park (2004)

- Chaebol firms with concentrated ownership by controlling family shareholders experienced a larger drop in the value of their equity.



Family ownership has both positive and negative relationships with ESG.



Primary Variable	Independent/Dependent Variable of Interest	Sign	Citation
Size of instl ownership	Independent	-	Borghesi et al. (2014)
	Independent	+/-	Nofsinger et al. (2019)
	Independent	+	Chava (2014)
	Independent	+/-	Fernando et al. (2017)
	Independent	-	Gillan et al. (2010)
	Independent	+	Chen et al. (2020)
Size of social-norm-constrained instl ownership	Dependent	+	Hong and Kacperczyk (2009)
Size of Democratic-leaning instl ownership	Dependent	+	Hong and Kostovetsky (2012)
Size of long-term instl ownership	Independent	+	Gloßner (2019)
	Dependent	+	Starks et al. (2019)
Instl investor engagement	Independent	+	Dyck et al. (2019)
	Independent	+	Dimson et al. (2015)
	Independent	+	Barko et al. (2018)
	Independent	+	Hoepner et al. (2019)
	Independent	+	Dimson et al. (2018)
	Independent	+	Naaraayanan et al. (2019)
	Independent	+	Cao et al. (2019)
	Independent	+	Kim et al. (2019)
	Independent	-	Hwang et al. (2017)
	Independent	+	Abeysekera and Fernando (2020)
Change in instl ownership horizon	Independent	+	Gillan et al. (2020)
	Independent	+	El Ghouli et al. (2016)
	Independent	-	Hsu et al. (2018)
Change in instl ownership	Independent	+	Boubakri et al. (2019)
	Independent	-	McGuinness et al. (2017)
Family ownership	Independent	+	Hsu et al. (2018)
	Independent	+	Boubakri et al. (2019)
	Independent	-	McGuinness et al. (2017)
State ownership	Independent	+	Hsu et al. (2018)
	Independent	+	Boubakri et al. (2019)
	Independent	-	McGuinness et al. (2017)



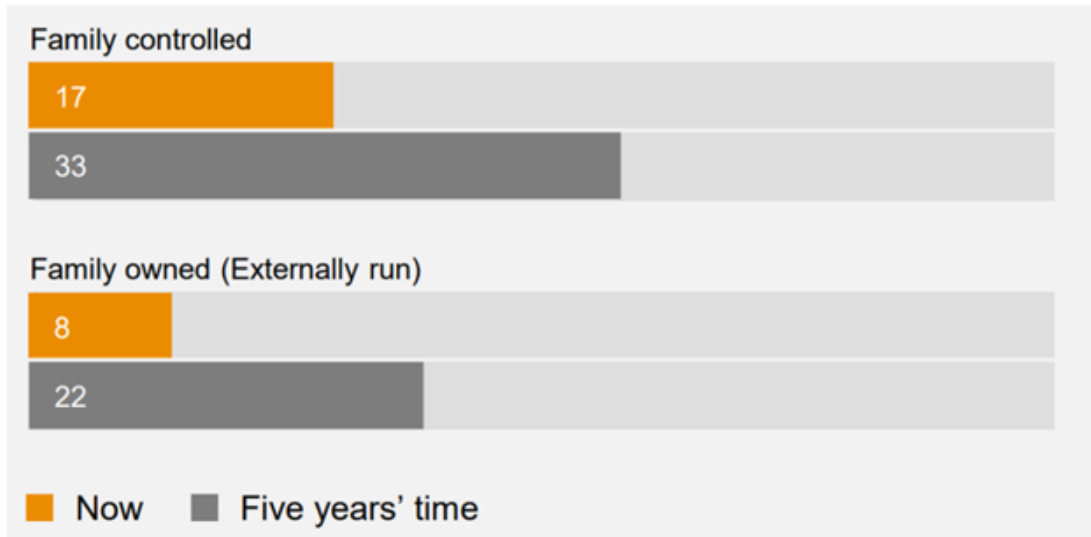
Family ownership has both positive and negative relationships with ESG.



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	Independent	-	McGuinness et al. (2017)



Nearly 80 percent of the companies listed on the SET are family businesses.



About 80% of non-financial companies traded on the Stock Exchange of Thailand are family-owned (Wiwattanakantang, 2000).

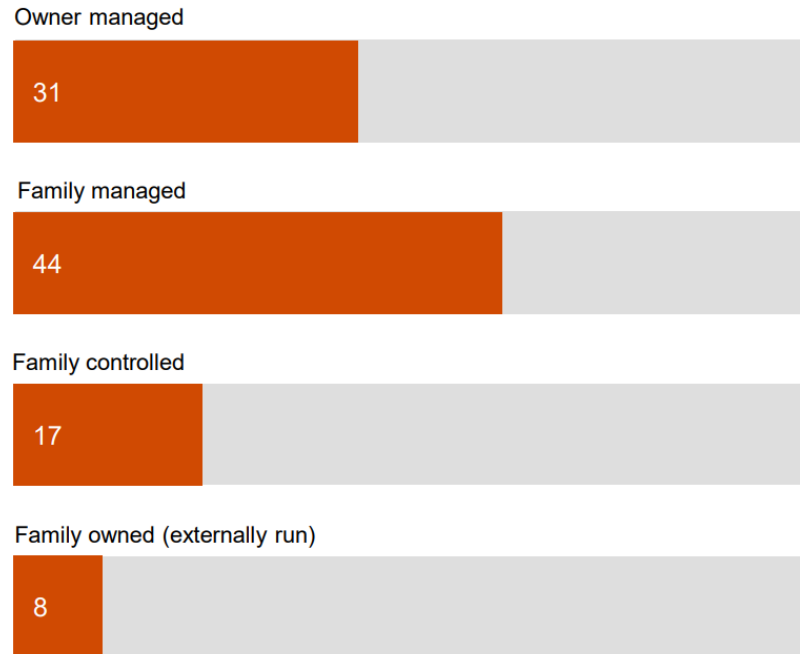
Global Family Business Survey 2021 – Thailand Report



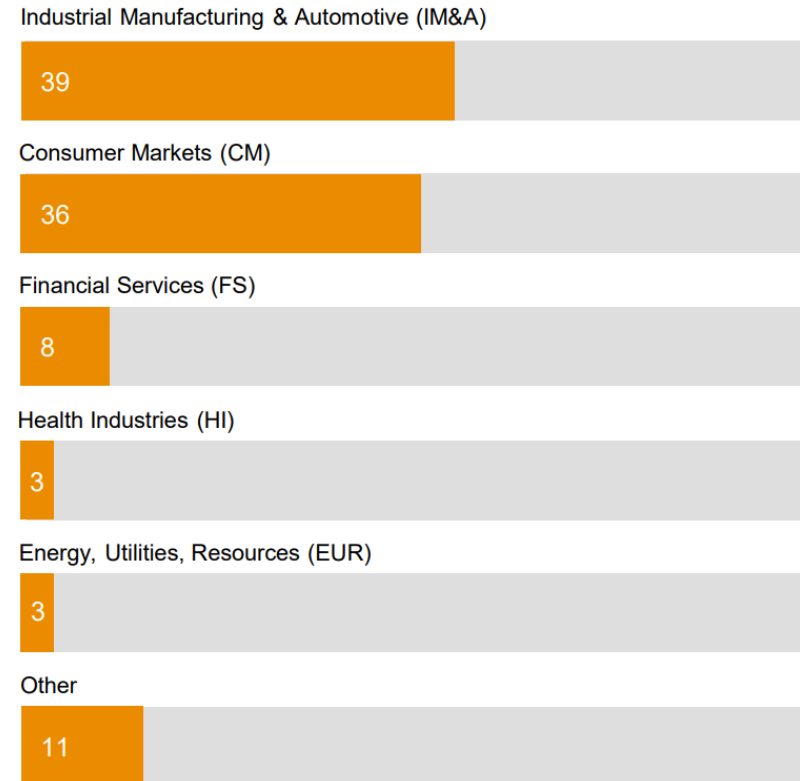
Listed family businesses spread across all industries.



Family's role in the business



* Sector (2020)





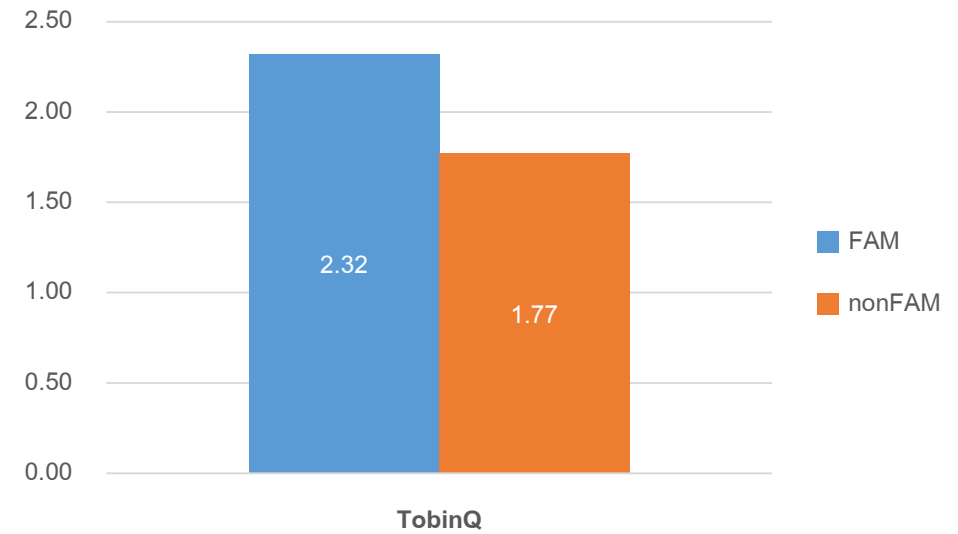
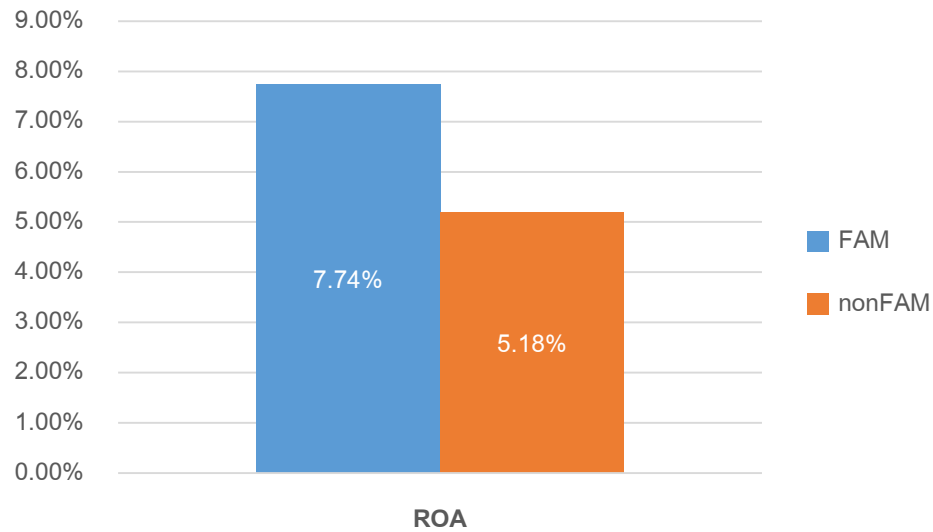
Most studies have found that family businesses perform better than non-family businesses.



- The presence of controlling shareholders (family controlled) is associated with higher performance (Wiwattanakantang, 2001).
- Family firms which CEO also holds the significant level of shares deliver the higher stock performance than the other firms (WONGAKARADETH & Maneenop, 2019).
- Corporate Governance doesn't show any mediating effect between family aspects and firm's financial performances (Ongkamongkol, Tapachai, Hensawang, & Laohavichien, 2022)

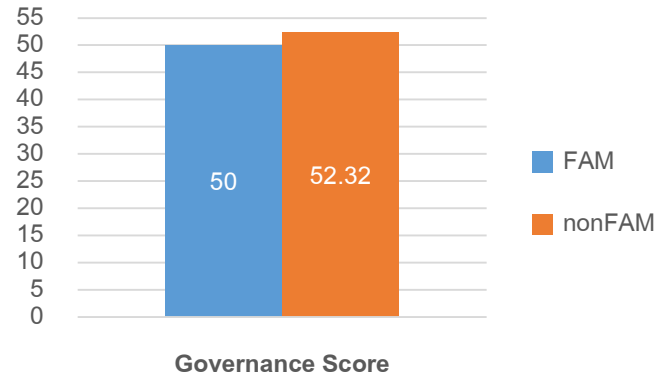
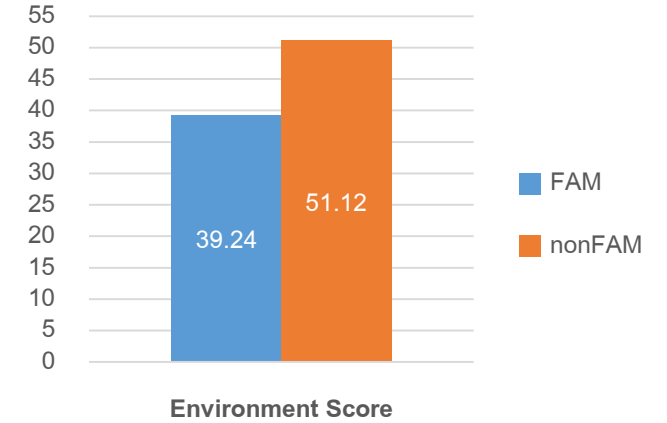
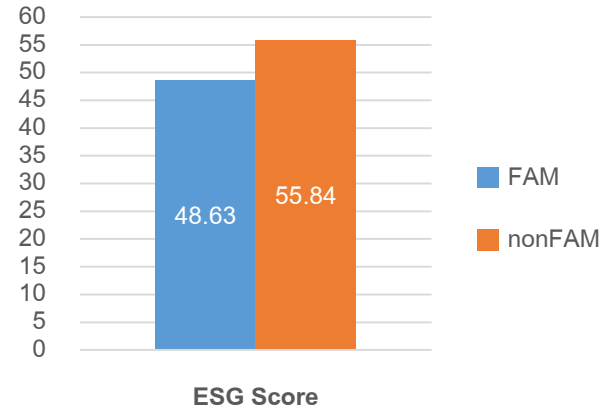
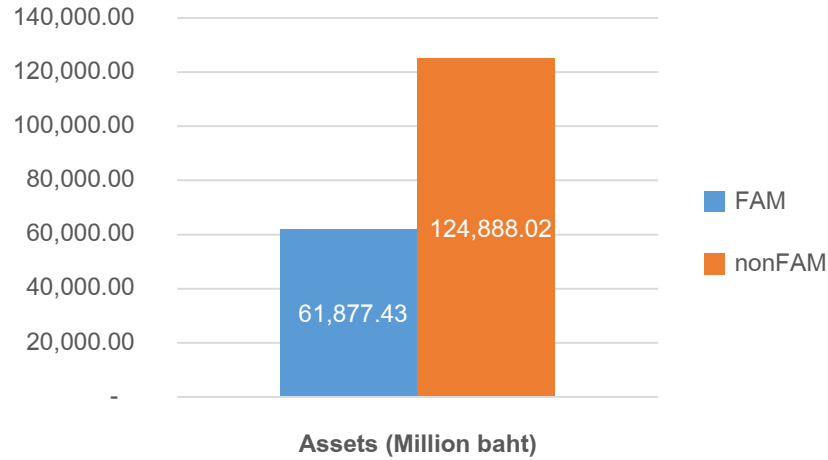


The family company has a higher financial performance than other companies.





Family companies are smaller in size and ESG scores than other companies.





The difference in both financial performance and non-financial performance brings up three key research questions.



- How are family businesses related to ESG operations?
- How does ESG performance affect firm performance?
- How does a family business with good ESG performance affect firm performance?



Three important assumptions for this study

- **Hypothesis 1**

- There is a positive relationship between ESG disclosure and the family firm.

Testing model: $ESG_{i,t} = \beta_0 + \beta_1 Family_{i,t} + \sum_{k=1}^n \beta_k X_{i,t} + \varepsilon_{i,t}$

- **Hypothesis 2**

- A positive relationship exists between ESG disclosure and financial performance in the long run.

Testing model: $TobinQ_{i,t=+1\ to\ +3} = \beta_0 + \beta_1 ESG_{i,t=0} + \sum_{k=1}^n \beta_k X_{i,t} + \varepsilon_{i,t}$

- **Hypothesis 3**

- Family firms with higher ESG scores have higher financial performance in the long run.

Testing model: $TobinQ_{i,t=+1\ to\ +3} = \beta_0 + \beta_1 Family_{i,t} + \beta_2 ESG_Score_{i,t=0} + \beta_3 Family * ESG_Score_{i,t=0} + \sum_{k=1}^n \beta_k X_{i,t} + \varepsilon_{i,t}$



- The samples in this study are companies listed on the Stock Exchange of Thailand, except in the financial and insurance sectors. The financial data and related information are collected from the financial report and other related sources, such as websites published by the SET.
 - 561 firm-year observations (excluded Banking and Finance)

- To examine the role of ESG on the relationship between family firms and firm performance, we apply the Two-stage least-squares regression analysis (2SLS) to overcome the endogeneity problem.
 - Industry ESG scores are applied as instrument variables in the Two-stage least-squares regression (2SLS) (Ghoul, Guedhami, Kwok, & Mishra, 2011).



Family companies show lower ESG scores and company size than other companies. However, they have higher financial performance and market value of assets to the book value of assets.



	Family		Non-Family		Difference
	Mean	N	Mean	N	
ESG	48.628	291	55.836	270	-7.208***
ENVIRON	39.241	291	51.120	270	-11.879***
SOCIAL	54.657	291	61.503	270	-6.846***
GOVERN	50.007	291	52.323	270	-2.316
ROA	7.741	291	5.181	270	2.560***
TobinQ	2.322	291	1.770	270	0.552***
LEVER	1.452	291	1.422	270	0.030
MTB	2.322	291	1.770	270	0.552***
SALE_G	0.158	282	0.105	261	0.054
SIZE	24.496	291	25.098	270	-0.602***
AGE	7.591	291	7.592	270	-0.001

Mean difference t-test

Dependent variable:

	ESG (1)	ENVIRON (2)	SOCIAL (3)	GOVERN (4)
FAM	-5.212*** (1.520)	-5.890*** (2.112)	-5.241*** (1.722)	-3.632* (1.892)
SIZE	5.769*** (0.532)	8.524*** (0.739)	6.894*** (0.602)	0.992 (0.662)
AGE	-60.978 (54.334)	7.525 (75.483)	-49.112 (61.526)	-146.849** (67.608)
LEVER	-1.535*** (0.484)	-1.116* (0.672)	-1.623*** (0.548)	-1.623*** (0.602)
MTB	-0.563 (0.514)	-1.274* (0.714)	-1.039* (0.582)	0.425 (0.639)
COVID19	6.792 (4.159)	8.647 (5.777)	9.634** (4.709)	2.493 (5.175)
Constant	373.823 (413.832)	-220.589 (574.915)	257.965 (468.609)	1,144.821** (514.932)
Year	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
Observations	561	561	561	561
R2	0.295	0.316	0.312	0.131
Adjusted R2	0.268	0.289	0.286	0.097
F Statistic (df = 21;	10.761***	11.856***	11.663***	3.875***

Family companies have lower ESG scores than other companies in all four models.



Two-Stage least squares (2SLS) regression



Dependent variable:

	TobinQ (t+0) (1)	TobinQ (t+1) (2)	TobinQ (t+2) (3)	TobinQ (t+3) (4)
ESG	-0.165*** (0.039)	-0.145*** (0.034)	-0.092*** (0.023)	-0.067*** (0.019)
LEVER	-0.343*** (0.093)	-0.426*** (0.110)	-0.348*** (0.103)	-0.282*** (0.106)
SIZE	0.392** (0.156)	0.209 (0.139)	-0.097 (0.120)	-0.133 (0.137)
AGE	4.619 (8.203)	5.064 (8.161)	6.002 (8.071)	14.489 (9.708)
SALE_G	-0.280* (0.143)	-0.261** (0.130)	-0.136 (0.107)	-0.142 (0.101)
COVID19	-7.811*** (1.896)	-7.023*** (1.657)	-4.866*** (1.206)	-3.881*** (1.281)
ESG * COVID19	0.143*** (0.035)	0.128*** (0.031)	0.081*** (0.022)	0.061*** (0.023)
Constant	-33.312 (62.404)	-33.105 (62.176)	-35.361 (61.611)	-100.312 (74.147)
Observations	543	397	275	186
R2	-1.693	-0.918	-0.191	-0.057
Adjusted R2	-1.728	-0.953	-0.222	-0.098
Residual Std. Error	.450 (df = 535)	.090 (df = 389)	.692 (df = 267)	.633 (df = 178)

A higher ESG score significantly negatively affects financial performance. However, a higher ESG score resulted in higher performance during the COVID-19 pandemic than in other periods.

Dependent variable:

	TobinQ (t+0) (1)	TobinQ (t+1) (2)	TobinQ (t+2) (3)	TobinQ (t+3) (4)
ENVIRON	-0.134*** (0.032)	-0.145*** (0.037)	-0.109*** (0.028)	-0.090*** (0.024)
LEVER	-0.250*** (0.087)	-0.319*** (0.117)	-0.306** (0.123)	-0.282** (0.135)
SIZE	0.544*** (0.194)	0.530** (0.230)	0.258 (0.215)	0.326 (0.250)
AGE	13.83 (9.012)	18.826* (10.858)	20.370* (11.602)	32.738** (14.427)
SALE_G	-0.238 (0.150)	-0.320* (0.168)	-0.224 (0.150)	-0.242* (0.145)
COVID19	-5.476*** (1.348)	-5.715*** (1.468)	-4.584*** (1.145)	-3.582*** (1.253)
ENVIRON * COVID19	0.115*** (0.028)	0.123*** (0.032)	0.092*** (0.025)	0.070*** (0.025)
Constant	-109.713 (69.192)	-146.867* (83.754)	-153.351* (89.533)	-249.889** (111.508)
Observations	543	397	275	186
R2	-2.158	-2.139	-1.255	-1.081
Adjusted R2	-2.2	-2.195	-1.314	-1.163
Residual Std. Error	.653 (df = 535)	.673 (df = 389)	.329 (df = 267)	.291 (df = 178)

- A higher environmental score significantly negatively affects financial performance.
- However, a higher environmental score resulted in higher performance during the COVID-19 pandemic than in other periods.

Dependent variable:

	TobinQ (t+0) (1)	TobinQ (t+1) (2)	TobinQ (t+2) (3)	TobinQ (t+3) (4)
SOCIAL	-0.163*** (0.046)	-0.157*** (0.050)	-0.094*** (0.034)	-0.048** (0.023)
LEVER	-0.311*** (0.101)	-0.407*** (0.138)	-0.331*** (0.124)	-0.215* (0.111)
SIZE	0.480** (0.206)	0.369 (0.229)	0.006 (0.185)	-0.158 (0.176)
AGE	3.928 (8.997)	5.565 (9.844)	7.311 (9.140)	15.396 (9.718)
SALE_G	-0.295* (0.162)	-0.286* (0.166)	-0.13 (0.127)	-0.099 (0.103)
COVID19	-8.531*** (2.495)	-8.185*** (2.641)	-5.339*** (1.783)	-3.306** (1.457)
SOCIAL * COVID19	0.139*** (0.041)	0.135*** (0.045)	0.082*** (0.030)	0.046* (0.024)
Constant	-29.347 (68.368)	-39.345 (74.977)	-47.262 (69.826)	-107.389 (74.272)
Observations	543	397	275	186
R2	-2.223	-1.792	-0.53	-0.063
Adjusted R2	-2.265	-1.842	-0.57	-0.105
Residual Std. Error	.680 (df = 535)	.521 (df = 389)	.918 (df = 267)	.638 (df = 178)

- **A higher social responsibility score significantly negatively affects financial performance.**
- **However, a higher social responsibility score resulted in higher performance during the COVID-19 pandemic than in other periods.**

Dependent variable:

	TobinQ (t+0) (1)	TobinQ (t+1) (2)	TobinQ (t+2) (3)	TobinQ (t+3) (4)
GOVERN	-0.080*** (0.018)	-0.062*** (0.015)	-0.031*** (0.012)	-0.025** (0.010)
LEVER	-0.252*** (0.068)	-0.307*** (0.080)	-0.214*** (0.080)	-0.171** (0.086)
SIZE	-0.148*** (0.057)	-0.274*** (0.058)	-0.431*** (0.068)	-0.481*** (0.087)
AGE	1.163 (6.524)	0.653 (6.377)	2.873 (6.849)	10.285 (8.629)
SALE_G	-0.086 (0.102)	-0.05 (0.088)	0.021 (0.080)	-0.031 (0.081)
COVID19	-4.049*** (1.013)	-3.372*** (0.888)	-1.918*** (0.730)	-2.122** (0.932)
GOVERN * COVID19	0.077*** (0.019)	0.060*** (0.017)	0.025* (0.013)	0.027* (0.016)
Constant	1.397 (49.848)	7.709 (48.821)	-6.713 (52.479)	-62.056 (66.064)
Observations	543	397	275	186
R2	-0.64	-0.105	0.19	0.206
Adjusted R2	-0.661	-0.124	0.169	0.175
Residual Std. Error	..912 (df = 535)	..586 (df = 389)	..395 (df = 267)	..415 (df = 178)

- A higher social responsibility score significantly negatively affects financial performance.
- However, a higher governance score resulted in higher performance during the COVID-19 pandemic than in other periods.



Two-Stage least squares (2SLS) regression



Dependent variable:

	TobinQ (t+0) (1)	TobinQ (t+1) (2)	TobinQ (t+2) (3)	TobinQ (t+3) (4)
ESG	-0.188*** (0.045)	-0.157*** (0.037)	-0.101*** (0.027)	-0.082*** (0.023)
FAM	-5.629*** (1.759)	-3.731*** (1.310)	-2.688** (1.091)	-3.348*** (1.277)
LEVER	-0.316*** (0.088)	-0.393*** (0.101)	-0.318*** (0.093)	-0.223** (0.094)
SIZE	0.247** (0.119)	0.105 (0.113)	-0.174* (0.103)	-0.230** (0.116)
AGE	11.544 (8.247)	10.927 (8.116)	12.54 (8.079)	22.159** (9.700)
SALE_G	-0.131 (0.130)	-0.15 (0.117)	-0.06 (0.097)	-0.053 (0.093)
COVID19	-6.400*** (1.525)	-6.039*** (1.388)	-4.339*** (1.061)	-3.696*** (1.240)
ESG * COVID19	0.118*** (0.029)	0.109*** (0.026)	0.070*** (0.019)	0.055** (0.021)
ESG * FAM	0.108*** (0.032)	0.075*** (0.024)	0.056*** (0.020)	0.066*** (0.022)
Constant	-81.061 (62.766)	-74.404 (61.843)	-82.586 (61.637)	-155.304** (74.079)
Observations	543	397	275	186
R2	-1.637	-0.837	-0.129	0.02
Adjusted R2	-1.681	-0.88	-0.168	-0.03
Residual Std. Error	.429 (df = 533)	.050 (df = 387)	.654 (df = 265)	.581 (df = 176)

Family companies with higher ESG scores result in higher significant firm performance than other companies.



Two-Stage least squares (2SLS) regression



	Dependent variable:			
	TobinQ (t+0) (1)	TobinQ (t+1) (2)	TobinQ (t+2) (3)	TobinQ (t+3) (4)
ENVIRON	-0.125*** (0.027)	-0.130*** (0.029)	-0.099*** (0.024)	-0.088*** (0.021)
FAM	-3.155*** (0.945)	-2.819*** (0.933)	-2.629*** (0.873)	-3.385*** (1.069)
LEVER	-0.188*** (0.069)	-0.249*** (0.093)	-0.235** (0.101)	-0.165 (0.112)
SIZE	0.296** (0.117)	0.271* (0.146)	0.017 (0.147)	0.013 (0.166)
AGE	18.483** (8.038)	20.946** (9.463)	22.103** (10.153)	30.673** (12.349)
SALE_G	-0.124 (0.122)	-0.184 (0.131)	-0.098 (0.119)	-0.095 (0.116)
COVID19	-3.724*** (0.799)	-4.133*** (0.932)	-3.477*** (0.803)	-3.044*** (1.036)
ENVIRON * COVID19	0.078*** (0.017)	0.086*** (0.020)	0.064*** (0.017)	0.051*** (0.019)
ENVIRON * FAM	0.069*** (0.019)	0.062*** (0.018)	0.057*** (0.016)	0.069*** (0.020)
Constant	-139.303** (61.493)	-157.056** (72.544)	-160.745** (77.909)	-226.216** (94.754)
Observations	543	397	275	186
R2	-1.324	-1.289	-0.671	-0.534
Adjusted R2	-1.363	-1.342	-0.728	-0.613
Residual Std. Error	.280 (df = 533)	.289 (df = 387)	.012 (df = 265)	.978 (df = 176)

Family companies with higher environmental scores result in higher significant firm performance than other companies.



Two-Stage least squares (2SLS) regression



	Dependent variable:			
	TobinQ (t+0) (1)	TobinQ (t+1) (2)	TobinQ (t+2) (3)	TobinQ (t+3) (4)
SOCIAL	-0.309** (0.125)	-0.282** (0.122)	-0.156** (0.062)	-0.104** (0.049)
FAM	-12.035** (5.408)	-9.786** (4.767)	-5.807** (2.685)	-5.385* (2.796)
LEVER	-0.374** (0.156)	-0.501** (0.209)	-0.357*** (0.137)	-0.210* (0.112)
SIZE	0.537* (0.295)	0.429 (0.314)	0.004 (0.195)	-0.156 (0.179)
AGE	17.469 (13.398)	19.522 (14.405)	19.194* (11.345)	27.653** (11.818)
SALE_G	-0.175 (0.207)	-0.181 (0.200)	-0.061 (0.130)	-0.034 (0.105)
COVID19	-10.667** (4.272)	-10.653** (4.511)	-6.377*** (2.323)	-5.081** (2.256)
SOCIAL * COVID19	0.176** (0.071)	0.176** (0.076)	0.098** (0.039)	0.072** (0.036)
SOCIAL * FAM	0.205** (0.090)	0.171** (0.080)	0.104** (0.044)	0.093** (0.044)
Constant	-124.592 (101.637)	-139.103 (109.511)	-133.653 (86.557)	-197.076** (90.257)
Observations	543	397	275	186
R2	-5.37	-4.111	-0.987	-0.288
Adjusted R2	-5.478	-4.23	-1.054	-0.353
Residual Std. Error	.775 (df = 533)	.421 (df = 387)	.194 (df = 265)	.812 (df = 176)

Family companies with higher social responsibility scores result in higher significant firm performance than other companies.



Two-Stage least squares (2SLS) regression



Dependent variable:

	TobinQ (t+0) (1)	TobinQ (t+1) (2)	TobinQ (t+2) (3)	TobinQ (t+3) (4)
GOVERN	-0.172*** (0.054)	-0.098*** (0.028)	-0.043** (0.018)	-0.042** (0.016)
FAM	-6.261*** (2.261)	-2.287** (1.025)	-0.457 (0.732)	-1.122 (0.858)
LEVER	-0.406*** (0.124)	-0.387*** (0.099)	-0.264*** (0.082)	-0.219** (0.088)
SIZE	-0.134* (0.080)	-0.261*** (0.066)	-0.413*** (0.069)	-0.468*** (0.088)
AGE	-1.616 (9.365)	1.269 (7.169)	5.404 (6.835)	15.240* (8.649)
SALE_G	0.014 (0.141)	-0.019 (0.098)	0.016 (0.080)	-0.025 (0.082)
COVID19	-5.002*** (1.604)	-3.749*** (1.009)	-2.148*** (0.733)	-2.376** (0.961)
GOVERN * COVID19	0.097*** (0.031)	0.068*** (0.019)	0.030** (0.014)	0.034* (0.017)
GOVERN * FAM	0.127*** (0.043)	0.054*** (0.020)	0.018 (0.014)	0.031* (0.016)
Constant	26.982 (72.262)	4.492 (55.140)	-25.887 (52.432)	-99.218 (66.240)
Observations	543	397	275	186
R2	-2.133	-0.354	0.196	0.22
Adjusted R2	-2.186	-0.385	0.168	0.18
Residual Std. Error	.647 (df = 533)	.760 (df = 387)	.396 (df = 265)	.411 (df = 176)

Family companies with higher governance scores result in higher significant firm performance than other companies.



Conclusions



- **Family Firms' Better Financial Performance:** Family-owned businesses, which are considered proxies for long-term sustainable-oriented businesses, demonstrate better financial performance compared to non-family businesses.
- **Lower ESG Scores for Family Firms:** Despite their better financial performance, family firms tend to have lower ESG scores when compared to non-family firms. This suggests that family firms may prioritize financial performance over ESG factors.
- **High ESG Compliance for Large Firms:** Larger companies are found to have high ESG compliance, indicating that they are more likely to engage in sustainable business practices.
- **Low ESG Compliance for High-Leverage Firms:** Firms with high levels of leverage (debt) are found to have lower ESG compliance. This implies that financial constraints may hinder ESG efforts in certain companies.



Conclusions



- **ESG Implementation and Financial Performance:** The study suggests that firms implementing ESG practices tend to have lower financial performance. This could be due to the higher financial costs associated with ESG implementation, which may temporarily affect profitability.
- **Outperformance of Family-Owned ESG-Compliant Firms:** Despite having lower ESG scores, family-owned firms that prioritize and implement ESG practices outperform family firms with low ESG scores in the long run. This underscores the value of ESG practices for companies with strong sustainability goals.
- **Mitigation of Financial Crises:** The research also indicates that firms following ESG principles are better equipped to mitigate the impact of financial crises. This suggests that sustainable practices may enhance a company's resilience during economic downturns.



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