




# “Do labor unions enhance corporate social performance? Evidence from Korean financial markets”

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# DO LABOR UNIONS ENHANCE CORPORATE SOCIAL PERFORMANCE? EVIDENCE FROM KOREAN FINANCIAL MARKETS

## Abstract

This study examines the impact of labor unionization on corporate social responsibility (CSR) in South Korean listed companies, particularly in the context of chaebol-affiliated firms. Using a dataset of 2,622 firm-year observations between 2005 and 2009, the study employs regression analyses to explore the relationship between unionization and CSR performance. Key findings indicate a significant negative correlation between labor unionization and CSR engagement, suggesting that unionized firms exhibit less involvement in CSR activities. This association, however, is not significant in chaebol-affiliated firms, where the unique corporate structure and shared resources appear to mitigate the influence of labor unions on CSR. Furthermore, the study reveals a positive link between CSR initiatives and labor productivity in unionized firms, indicating that CSR may enhance employee efficiency. The study highlights the intricate relationships between labor unionization, corporate governance, and CSR, particularly in the context of Korean business conglomerates. It emphasizes the importance of aligning labor interests with CSR commitments and underscores the role of effective corporate governance in promoting CSR activities. The positive impact of CSR on labor productivity underscores its potential in boosting employee performance.

## Keywords

labor unions, corporate social responsibility, chaebol, corporate governance, productivity, Korea

## JEL Classification

M10, M14, G30

## INTRODUCTION

The CSR refers to the responsibility companies have for their impacts on society<sup>1</sup>. Stakeholder theory (Freeman, 2010) suggests that managements should pursue activities that benefit both shareholders and stakeholders. CSR activities like donations, social programs, scholarships, and volunteering may enhance firm reputation and performance. Research shows that firms with active CSR have lower compliance and capital costs and are more attractive to consumers and investors (Lev et al., 2009; Dhaliwal et al., 2011).

Previous studies have analyzed the factors that influence management decisions to engage in CSR (Johnson & Greening, 1999; Barnea & Rubin, 2010; Oh et al., 2011). These studies have focused on managerial incentives and governance mechanisms like equity ownership, institutional ownership, foreign investor ownership, and board structure. The involvement of firms in CSR activities may also be influenced by other stakeholders, like customers and suppliers, based on their motivations and timeframes of their decisions.

<sup>1</sup> [https://ec.europa.eu/commission/presscorner/detail/en/MEMO\\_11\\_730](https://ec.europa.eu/commission/presscorner/detail/en/MEMO_11_730)

This study focuses on labor unions because employees are directly involved in CSR activities. By accessing inside information and decision-making processes, labor unions can effectively monitor the management to ensure that firm resources committed to CSR are not misused for the management's personal benefits. Moreover, because labor unions' decision horizon is likely to be longer than shareholders', they may advise the management to prioritize long-term sustainability over short-term profits. However, as employees' wages are closely tied to firm profits, unions may be more sensitive to expenditures for CSR activities. Therefore, if unions prioritize short-term profitability, they may pressure the management to decrease CSR engagement.

Such research question will have a practical implication since CSR has become an essential business strategy. Managers need to have a reconciliation plan if labor union is uncooperative about CSR activities. This is especially important as the workers are being organized around the world. In the U.S., the applications for union elections approached their highest level in a decade. For instance, workers seeking better working condition and higher pay have recently organized unions at Starbucks, Amazon, and Apple<sup>2</sup>. Emerging economies also face uncertainty in the labor market. Hence, firms need to align organized labor in a manner that employees are motivated to commit to long-term sustainability and growth.

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## 1. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

There exist two competing theories regarding the influence of labor unions on firm value. On the one hand, a labor union can serve as a monitoring scheme to reduce agency costs due to the separation between ownership and management (Jensen & Meckling, 1976). As insiders, union members have the access to corporate decisions and private information and participate in the corporate decision-making process and actual field work. Thus, labor unions can effectively monitor management on behalf of shareholders, if their interests are aligned with those of shareholders, so that managers do not extract firm resources for personal gains. For example, unionization is documented to have a negative association with the tax aggressiveness since labor unions limit the capacity of managers to engage in tax aggressiveness by enhancing oversight (Chyz et al., 2013). This way, organized labor could contribute to enhancing firm value by promoting management to engage in value-increasing corporate decisions.

On the other hand, labor unions may seek to extract rents but not to maximize firm value. Traditionally, labor unions have been document-

ed to have a conflicting relationship with corporations. Labor unions leverage their negotiating power to enhance working conditions and increase salaries, while managers aim to secure firm resources and maximize profits by cutting employment or employees' wages. Prior research thus has shown that labor unions are negatively related to firm performance. Unionized firms tend to invest less intensively in R&D and have lower returns to long-lived investments (Hirsch, 1992; Connolly et al., 1986; Bradley et al., 2017). These studies provide evidence consistent with union's rent seeking behavior. In line with negative consequences of unionization, Chen et al. (2010) showed that unionized firms face higher cost of equity capital due to their reduced operating flexibility. Hence, this strand of literature suggests that unionization may deteriorate firm value due to rent seeking of unions.

Companies can positively affect the society through products/services, job offerings, working conditions, human rights, and environment. Prior research examined the relationship between CSR and firm value/financial performance. Earlier studies (e.g., Pava & Krausz, 1996) argued that CSR activities incur costs that competitors would avoid and thus negatively affect the firm's financial performance. However, more recently, most studies documented positive aspects of CSR in

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2 <https://www.nytimes.com/2022/07/17/briefing/union-drives-college-graduates.html?smid=url-share>

terms of firm reputation and cost of capital. For instance, socially responsible customers prefer firms engaging in active CSR, leading to greater sales and financial performance (Lev et al., 2009). Also, Dhaliwal et al. (2011) showed that firms actively engaging in CSR could lower the compliance costs, and socially responsible investors are prepared to pay a premium for such stocks, thereby lowering the cost of equity capital. The studies based on Korean setting (Chon & Kim, 2011; Chon & Yoo, 2013) also provided the consistent results.

Recently, CSR is perceived as an essential business strategy that could enhance firm reputation and eventually financial performance. Companies can achieve social responsibility by incorporating concerns related to social, environmental, ethical, consumer, and human rights into their business strategies and operational activities<sup>3</sup>. This means firms can achieve a strategic advantage by making strategic investments into CSR activities so that both firms and society can receive benefits. Such CSR activities that can enhance the firm's competitive edge and contribute to the society at the same time are defined as strategic CSR (Carroll, 2000; Porter & Kramer, 2006).

Thus, CSR can be considered a firm's strategic investments into long-term sustainability and firm value. Various groups of stakeholders could have different incentives towards firms' investments in CSR activities. Among many, this study examines how employees influence the firm's engagement in CSR. From the agency perspectives, labor unions can effectively monitor management by using their information advantage and access to corporate decision-making as insiders. In this case, organized labor will advise management to undertake active CSR activities that could enhance long-term firm value rather than to secure short-term profits.

However, labor union rent seeking incentives predict the opposite direction on how unionization is related to CSR. As documented by prior research (Hirsch, 1992; Connolly et al., 1986; Bradley et al., 2017), labor unions are inclined to use their negotiating power to improve working condition and raise wages rather than to promote long-term R&D investments and firm

innovations. Since short-term profits may be negatively affected by investments in CSR activities, organized labor would react the same way. Hence, the impact of unionization on CSR activities remains a topic for empirical research exploration.

Furthermore, the impact of unionization on CSR may differ by a firm's affiliation with large business groups. Korea, as an emerging market, is characterized by the dominant presence of large business conglomerates known as chaebols. A chaebol is composed of public and private companies operating in various industries and affiliated firms have close business ties with each other (Chang, 2003). Firms affiliated with chaebol groups gain advantages from their association with the group, including through internal business transactions and group-wide resource sharing (Chang & Hong, 2000; Khanna & Tice, 2001). These internal capital markets can enhance the value in areas like production, marketing, and labor for affiliated firms. Similarly, since all firms within the same business group benefit from the enhanced reputation brought by CSR activities, those affiliated with a group are more motivated to participate in CSR compared to non-affiliated firms (Choi et al., 2018). Moreover, as the resources for CSR can be generated in internal capital markets, group-affiliated firms have greater financial and operational flexibility to deal with direct and indirect costs of CSR (Choi et al., 2018). This implies that CSR engagement may not necessarily decrease the wages for employees of group-affiliated firms. Then, business group affiliation can alter the relationship between unionization and CSR, as the unions' rent seeking incentives may not be strong for affiliated firms compared to stand-alone firms.

Collectively, research hypotheses are formulated in their null form as follows:

- H1: *There is no significant association between the firms' unionization and CSR activities.*
- H2: *The relationship between unionization and CSR is not affected by a firm's business group affiliation.*

3 [https://single-market-economy.ec.europa.eu/industry/sustainability/corporate-sustainability-and-responsibility\\_en](https://single-market-economy.ec.europa.eu/industry/sustainability/corporate-sustainability-and-responsibility_en)

## 2. METHODS

This study examines 2,622 firm-year instances of companies listed on the KOSPI from 2005 to 2009<sup>4</sup>. This analysis incorporates company-specific labor union information sourced from electronic records filed with the Financial Supervisory Service, alongside financial data obtained from the TS2000 database. To maintain uniformity and comparability in the sample, firms in the finance sector that do not align with the December fiscal year-end as well as delisted companies and those with impaired capital are deleted from the sample.

The regression model outlined below is estimated to investigate the link between unionization and CSR.

$$\begin{aligned} CSR_{i,t} = & \alpha_0 + \beta_1 Union_{i,t-1} + \beta_2 Size_{i,t-1} \\ & + \beta_3 ROA_{i,t-1} + \beta_4 Lev_{i,t-1} + \beta_5 Herf_{i,t-1} \\ & + \beta_6 Age_{i,t-1} + \sum Industry + \sum Year + \varepsilon_{i,t}, \end{aligned} \quad (1)$$

where  $CSR = 1$  for a firm in the top 200 of the KEJI index list, 0 otherwise,  $Union = 1$  for a unionized firm, 0 otherwise,  $Size = \ln(\text{total assets})$ ,  $ROA = \text{return-to-assets ratio (income before extraordinary items divided by beginning total assets)}$ ,  $Lev = \text{leverage ratio (sum of long- and short-term debts divided by total assets)}$ ,  $Herf = \text{Herfindahl index of the three-digit SIC industry of a firm as at the fiscal year end}$ ,  $Age = \ln(1 + \text{firm's age})$ ,  $Industry = \text{Industry dummies}$ ,  $Year = \text{Year dummies}$ .

The dependent variable,  $CSR$ , is quantified using the KEJI index, which is calculated by the Korean Economic Justice Institute. The index is calculated for KOSPI-listed firms and has seven categories<sup>5</sup>. It is published annually for firms listed on the top 200 KEJI index and indicates that they are more likely to undertake CSR activities (Bae & Lim, 2013). Therefore, being included in the KEJI index list indicates a firm's CSR performance is better than others (Yang et al., 2014). Following previous research, firms' CSR performance is measured based on their inclusion in the KEJI Index list.

The primary test variable is  $Union$ , which denotes whether a firm has a unionized workforce. The regression coefficient  $\beta_1$  captures the CSR–unionization association. If  $\beta_1 > 0$ ,  $i,t$  implies that labor unions promote an active CSR engagement. By contrast,  $\beta_1 < 0$ , implies that unionization misaligns employee incentives, decreasing their CSR activities.

The regression model also includes several control variables for known or expected factors that may affect CSR activities. The size of the firm ( $Size$ ), the natural logarithm of total assets, is included because larger firms typically possess more slack resources available for CSR investments and tend to be more actively involved in CSR (Barnea & Rubin, 2010). Firm profitability ( $ROA$ ) is also controlled because more profitable firms may have a greater financial slack for CSR activities (Kim, 2009). Firms with a higher leverage may face higher financial costs, which may decrease their CSR investments; therefore, the leverage ratio ( $Lev$ ) is included in the model (Barnea & Rubin, 2010). Moreover, because firms in more competitive industries are likely to more actively engage in strategic CSR to maintain their competitive advantage (Yeo et al., 2015), the Herfindahl index ( $Herf$ ) is included as a measure of industry competitiveness. Finally, the regression model incorporates dummy variables for both industry and year fixed effects and standard errors are adjusted to account for clustering at the firm level.

Furthermore, corporate governance could influence the connection between unionization and CSR. Corporate governance is a monitoring mechanism to align management incentives with those of shareholders (Bushman & Smith, 2001). Independent outside directors monitor managers for fraudulent accounting and other opportunistic behaviors (Dechow et al., 1996). Audit committees and outside directors on them negatively relate to earnings management and internal control weaknesses (Klein, 2002; Krishnan, 2005). Hence, the regression model includes three corporate governance variables to control for their effects:  $BOD$  is

4 The sample covers the 2005–2009 period during which the KEJI index was made public. All Korean-listed companies were required to report union presence and membership ratios until 2008.

5 The categories contain five to eleven factors each and are as follows: soundness (25 points), fairness (15 points), social contribution (10 points), customer satisfaction (10 points), environmental protection (15 points), employee satisfaction (15 points), and contribution to economic development (10 points).



the ratio of outside directors to the total count of directors, *AC* equals 1 if a firm has an audit committee, and 0 otherwise, and *ACI* is set to 1 if all the firm's audit committee members are outside directors, and 0 otherwise.

To test the chaebol hypothesis, Equation (1) is estimated for chaebol and non-chaebol subsamples using the Korean Fair Trade Commission's definition of chaebols as groups of companies with over 30% shares owned by controlling shareholders and affiliated companies.

### 3. RESULTS

Table 1, Panel A, displays the descriptive statistics for the variables under investigation. The mean value for *Union* indicates that 62% of sample firms are unionized. The mean value and standard deviation of *CSR* imply that about half of the sample firms perform CSR better than others do.

Panel B of Table 1 shows variable statistics for two subsamples: firms in the KEJI index list (*CSR*=1) and others (*CSR*=0). Except for *ACI*, mean values of all test variables differ significantly between the two subsamples, indicating that firms with a better CSR performance share distinct characteristics to be controlled in the regression analyses.

Moreover, the Pearson correlation coefficients between variables are reported in the Appendix. Unionization is negatively correlated with *CSR* at 1% significance level (-0.13). Also, *Union* is positively correlated with firm size, leverage ratio, product market competition, age, chaebol affiliation, and outside director ratio. *CSR* is positively associated with size, ROA, age, chaebol affiliation, and outside director ratio, while it is negatively correlated with leverage and product market competition. As some coefficients are not in line with predictions based on prior research, it is crucial to account for these characteristics of the firm in exploring the relationship between unionization and *CSR*.

Table 2 shows the results for the first hypothesis on the link between a firm's unionization and its *CSR* activities. These findings stem from the ordinary least squares (OLS) regression analysis of Equation (1), applied to the full sample. The *Union* coefficient is negatively significant ( $-0.4821$ ,  $p < 0.01$ ), suggesting that unionized firms have a lower performance in *CSR*. This implies that labor unions are likely to influence management towards decreasing their engagement in *CSR* initiatives, with a greater focus on achieving short-term profits related to wages. Additionally, *CSR* is negatively associated with firm size, ROA, and age, whereas firms with higher leverage ratios and more competitive product markets exhibit a

**Table 1.** Descriptive statistics

Variable	Panel A: Full sample					Panel B: Mean difference t-test for subsamples		
	Mean	Std Dev	Median	25%	75%	CSR = 1	CSR = 0	p-value
CSR	0.5332	0.4990	1.0000	0.0000	1.0000			
Union	0.6243	0.4844	1.0000	0.0000	1.0000	0.6845	0.5556	<.0001
Size	26.3694	1.4731	26.0517	25.3110	27.2063	26.5007	26.2195	<.0001
ROA	0.0390	0.0896	0.0439	0.0107	0.0830	0.0631	0.0116	<.0001
Lev	0.4460	0.1938	0.4513	0.2990	0.5875	0.4145	0.4820	<.0001
Herf	0.1451	0.1435	0.0893	0.0433	0.2116	0.1366	0.1547	0.0014
Age	3.4116	0.6695	3.5694	3.2958	3.8286	3.4814	3.3318	<.0001
Chaebol	0.2288	0.4202	0.0000	0.0000	0.0000	0.2446	0.2108	0.0389
BOD	0.2605	0.1534	0.2308	0.2000	0.3333	0.2680	0.2520	0.0081
AC	0.1995	0.3997	0.0000	0.0000	0.0000	0.2160	0.1806	0.0228
ACI	0.1659	0.3721	0.0000	0.0000	0.0000	0.1710	0.1601	0.4573
No. Obs			2,622			1,398	1,224	

*Note:* Variable definitions: *CSR* = 1 if a firm is included in top 200 of the KEJI Index list, 0 otherwise; *Union* = 1 if a firm is unionized, 0 otherwise; *Size* =  $\ln(\text{total assets})$ ; *ROA* = return-to-assets ratio (income before extraordinary items divided by the beginning total assets); *Lev* = leverage ratio (the sum of long- and short-term debts divided by total assets); *Herf* = Herfindahl index of three-digit SIC industry to which a firm belongs as of the end of fiscal year; *Age* =  $\ln(1 + \text{firm's age})$ ; *Chaebol* = 1 if a firm is affiliated with chaebol business groups defined by KFTC; *BOD* = the ratio of the number of outside directors to the total number of directors; *AC* = a dummy variable for the presence of audit committee; and *ACI* = 1 if all the audit committee members are outside directors. All *p*-values are based on two-tailed t-tests.

**Table 2.** Labor union and CSR

Variable	Dependent variable = $CSR_{it}$			
	Panel A: Main results		Panel B: Results after controlling for corporate governance	
	Coefficient	p-value	Coefficient	p-value
Intercept	3.3702	<0.01	3.2824	<0.01
<b>Union</b> <sub><i>it-1</i></sub>	-0.4821	<0.01	-0.4864	<b>&lt;0.01</b>
Size <sub><i>it-1</i></sub>	-0.0681	0.0516	-0.0603	0.2018
ROA <sub><i>it-1</i></sub>	-8.0740	<0.01	-8.1076	<0.01
Lev <sub><i>it-1</i></sub>	1.6641	<0.01	1.6666	<0.01
Herf <sub><i>it-1</i></sub>	1.2488	<0.01	1.1966	<0.01
LNAGE <sub><i>it-1</i></sub>	-0.4097	<0.01	-0.3934	<0.01
Chaebol <sub><i>it-1</i></sub>			-0.0608	0.6505
BOD <sub><i>it-1</i></sub>			-0.7807	0.0500
AC <sub><i>it-1</i></sub>			-0.4886	0.0825
ACI <sub><i>it-1</i></sub>			0.7825	0.0102
Industry fixed effect	YES		YES	
Year fixed effect	YES		YES	
Likelihood Ratio X <sup>2</sup>	510.6241		519.996	
Percent Concordant	74.2		74.4	
N	2,622		2,622	

Note: All variables are defined in Table 1. All *p*-values are based on two-tailed tests.

stronger CSR performance. The regression results including corporate governance variables are presented in Panel B, and the coefficients of the test variables align with those presented in Panel A. Taken together, these findings suggest that firms' CSR performance is negatively associated with labor unionization.

A firm's unionization is not exogenous and may be correlated with certain firm characteristics. Hence, a two-stage method is employed to potentially lessen the issue of misspecification due to unionization within firms. Table 3 displays the results of the two-stage least squares (2SLS) regression analysis (Heckman, 1979). In the first stage of the regression, the proportion of female employees in the total workforce (*Female\_Ratio*) is used as an instrumental variable that could predict a firm's tendency towards unionization. This variable selection is based on previous studies indicating that firms with higher percentage of female employees are less inclined to unionize (Chen et al., 2010). The negative and statistically significant coefficient of *Female\_Ratio* (-0.4896, *p* < 0.01) is consistent with previous research. The coefficients of the control variables indicate a higher likelihood of unionization in larger, more leveraged, and older firms. In the second-stage regression, *Union\_Hat* shows a negative and statistically sig-

nificant coefficient (-0.7251, *p* < 0.01). Moreover, the coefficients for the control variables are in line with those shown in Table 2. These results reinforce the reliability of the main test results derived from OLS regression in the context of endogeneity issues. In other words, after controlling for endogeneity of a firm's unionization, firms' unionization is negatively related to CSR.

Moreover, for robustness checks, labor union is measured by two alternative metrics, as suggested by previous studies (Jung et al., 2019): (1) the level of union membership within a firm, determined by the proportion of unionized employees to the total workforce, and (2) the affiliation of a firm's union with a trade union federation. Unreported test results of these alternative proxies indicate a negative relationship between CSR performance and labor union power. These results suggest that a management faces a greater pressure from an organized labor to reduce CSR engagement. Therefore, these robustness checks results suggest that strong labor unions negatively impact firms' CSR performance.

Next, Table 4 presents the results for the relationship between labor unions and CSR for chaebol-affiliated firms versus unaffiliated firms (*Hypothesis 2*). The coefficient of *Union* variable is insignificant

**Table 3.** 2SLS regressions

Variable	Panel A: First Stage Dependent variable = $Union_{it-1}$		Panel B: Second Stage Dependent variable = $CSR_{it}$	
	Coefficient	p-value	Coefficient	p-value
Intercept	-2.1984	<0.01	3.5382	<0.01
Female_Ratio <sub>it-1</sub>	-0.4896	<b>&lt;0.01</b>		
Union_Hat <sub>it-1</sub>			-0.7251	<b>&lt;0.01</b>
Size <sub>it-1</sub>	0.0695	<0.01	-0.0703	0.0534
ROA <sub>it-1</sub>	0.0258	0.7822	-7.8895	<0.01
Lev <sub>it-1</sub>	0.1369	<0.01	1.6089	<0.01
Herf <sub>it-1</sub>	-0.0921	0.0855	1.3668	<0.01
LNAGE <sub>it-1</sub>	0.1013	<0.01	-0.3911	<0.01
Firm Clustering	YES		YES	
Industry fixed effect	YES		YES	
Year fixed effect	YES		YES	
Adj. R <sup>2</sup>	0.3306			
Likelihood Ratio X <sup>2</sup>			497.4671	
Percent Concordant			74	
N	2,622		2,622	

Note: *Female\_Ratio* = the ratio of number of female employees to the total number of employees. All other variables are defined in Table 1. All *p*-values are based on two-tailed tests.

for chaebol-affiliated firms ( $-0.6219$ ,  $p = 0.1756$ ), whereas for unaffiliated firms, it is negative and statistically significant at the 1% level ( $-1.0837$ ,  $p < 0.01$ ). This finding suggests that labor unions in chaebol-affiliated firms might not significantly impact the firm's involvement in CSR activities. This could be because their rent-seeking motivations are balanced out by the financial and operational leeway granted through the internal capital market. In such a market, firms within the same business group share resources via internal business transactions (Shin & Park, 2022).

Also, previous studies (e.g., Shin & Lee, 2023) suggest that controlling shareholders in Korean chaebols directly monitor managers through cross-shareholdings among affiliated firms, alleviating opportunistic managerial behavior. This implies that controlling shareholders could lessen the adverse effects of labor unions on CSR performance. Consistent with such prediction, Table 5 reveals that for firms with a high level of wedge (i.e., a gap between ownership and control), the negative correlation between *CSR* and *Union* disappears. However, for firms with lower wedge level, the *Union* coeffi-

**Table 4.** Unionization and CSR for chaebol versus non-chaebol firms

Variable	Dependent variable = $CSR_{it}$			
	Panel A: Chaebol affiliation		Panel B: Non-chaebol affiliation	
	Coefficient	p-value	Coefficient	p-value
Intercept	1.7694	0.3891	1.2241	0.2730
<b><i>Union</i><sub>it-1</sub></b>	-0.6219	<b>0.1756</b>	-1.0837	<b>&lt;0.01</b>
Size <sub>it-1</sub>	0.0059	0.9386	-0.0077	0.8631
ROA <sub>it-1</sub>	-11.0843	<0.01	-8.5153	<0.01
Lev <sub>it-1</sub>	0.6277	0.2668	0.9860	<0.01
Herf <sub>it-1</sub>	0.4500	0.4736	1.3040	<0.01
Age <sub>it-1</sub>	-0.2888	0.0336	-0.3607	<0.01
Industry fixed effect	YES		YES	
Year fixed effect	YES		YES	
Likelihood Ratio X <sup>2</sup>	94.5463		310.9413	
Percent Concordant	71.5		80.5	
N	600		2,022	

Note: All variables are defined in Table 1. All *p*-values are based on two-tailed tests.



**Table 5.** Entrenchment effect in chaebol firms

Variable	Dependent variable = $CSR_{it}$			
	Panel A: Wedge $\geq$ Median		Panel B: Wedge $<$ Median	
	Coefficient	p-value	Coefficient	p-value
Intercept	1.7985	0.5024	-2.6968	0.3038
Union_Hat $_{it-1}$ [Predicted]	0.6792	<b>0.4705</b>	-1.8779	<b>&lt;0.01</b>
Size $_{it-1}$	0.0500	0.7132	0.1530	0.1183
ROA $_{it-1}$	-15.8535	<0.01	-8.0291	<0.01
Lev $_{it-1}$	0.0910	0.9268	1.1225	0.1586
Herf $_{it-1}$	2.1507	0.0210	-2.0862	0.0459
LNAGE $_{it-1}$	-0.7098	<0.01	0.0237	0.8934
Industry fixed effect	YES		YES	
Year fixed effect	YES		YES	
Likelihood Ratio X <sup>2</sup>	93.871		53.6015	
Percent Concordant	81.3		70.6	
N	300		300	

Note: Wedge = the disparity between the largest shareholders' ownership and control. All other variables are defined in Table 1. All p-values are based on two-tailed tests.

cient continues to be significantly negative (-1.8779,  $p < 0.01$ ). This suggests that controlling shareholders can effectively monitor labor unions and the management with respect to CSR engagement.

Additional analyses explore how unionization affects the relationship between CSR activities

and labor productivity. Labor productivity is an essential metric for measuring a firm's current performance as it is closely linked to its financial performance (Edmans, 2011, 2012). Previous research demonstrates that firms with greater CSR performance tend to have higher labor productivity because of their ability to attract and

**Table 6.** CSR and labor productivity in unionized versus non-unionized firms

Variable	Dependent variable = Labor Productivity			
	Panel A: Unionized Firms		Panel B: Non-Unionized Firms	
	Coefficient	p-value	Coefficient	p-value
Intercept	6.8842	<0.01	5.1655	<0.01
CSR $_{it-1}$	0.1746	<b>&lt;0.01</b>	-0.0909	<b>0.3323</b>
Size $_{it-1}$	0.2164	0.0454	0.3087	<0.01
ROA $_{it-1}$	1.6516	<0.01	0.3751	0.5107
Lev $_{it-1}$	0.6607	<0.01	0.3074	0.3016
Herf $_{it-1}$	0.2824	<0.01	-0.3781	0.3222
Age $_{it-1}$	0.0111	<0.01	-0.0190	0.8396
SGROW $_{it-1}$	0.4897	0.7305	0.0455	0.3604
Negative $_{it-1}$	0.0352	<0.01	-0.0085	0.9374
Chaebol $_{it-1}$	0.0490	<0.01	0.1882	0.2689
BOD $_{it-1}$	0.2949	0.1484	0.7359	0.1147
AC $_{it-1}$	0.3485	<0.01	-0.2262	0.3503
ACI $_{it-1}$	-0.5774	<0.01	-0.1495	0.6244
Firm Clustering	YES		YES	
Industry fixed effect	YES		YES	
Year fixed effect	YES		YES	
Adj. R <sup>2</sup>	0.3033		0.2137	
N	1,893		729	

Note: Labor productivity = ratio of sales to the number of employees, SGROW = sales growth rate, Negative = 1 if net income is below zero, and 0 otherwise. All other variables are defined in Table 1. All p-values are based on two-tailed tests.

retain highly skilled employees and motivate their workforce to be more productive (Delmas & Pekovic, 2012; Lannelongue et al., 2017).

For unionized firms, the welfare of union members and improvement in working conditions are of utmost importance. In this context, CSR activities are crucial in boosting job satisfaction, which in turn can lead to increased labor productivity. The findings displayed in Table 6 support this connection. Labor productivity is calculated as the sales to total employee ratio (Jung et al., 2019), and it is observed that labor productivity is significantly higher in unionized firms with superior CSR performance (coef. = 0.1746,  $p < 0.01$ ). However, this observation does not hold for non-unionized firms as the labor productivity is not significantly associated with CSR for non-unionized firms (coef. = -0.0909,  $p = 0.3323$ ).

## 4. DISCUSSION

This study investigates a relationship between labor unionization and CSR performance in South Korean firms. The primary finding indicates a negative impact of labor unionization on CSR, suggesting that unionized firms tend to prioritize immediate financial benefits, such as wages and working conditions, possibly at the expense of long-term CSR investments. This finding aligns with the traditional perspective of labor unions focusing on immediate employee benefits. However, it contrasts with the notion that unions, as internal stakeholders, might encourage long-term firm sustainability. Interestingly, chaebol affiliation seems to mitigate this negative association. Firms within these conglomerates might benefit from shared resources and a collective reputation, enabling them to invest in CSR without compromising on immediate financial returns to union members.

These findings contribute to the nuanced understanding of labor unions' role in corporate governance. Previous research predominantly focuses on the direct financial implications of labor unions (Hirsch, 1992; Bradley et al., 2017). Contrasting with studies suggesting a positive or neutral impact of labor unions on CSR

(Johnson & Greening, 1999; Oh et al., 2011), this paper highlights a scenario where labor unions might pose challenges to CSR activities.

Moreover, the moderating role of chaebol affiliation offers a new perspective. While earlier studies (Chang & Hong, 2000; Choi et al., 2018) have recognized the influence of chaebols in shaping corporate practices, this study extends this understanding to the realm of CSR, particularly in the context of labor unionization. Chaebol-affiliated firms enjoy a buffer through shared resources and intra-group support, which might ease the financial burden of CSR investments. The internal capital markets of chaebols could provide the necessary flexibility for these firms to engage in CSR without significantly impacting the immediate financial interests of union members.

Future research in the field of labor unions and corporate social responsibility (CSR) presents a range of promising directions. Expanding the temporal scope of studies on labor unions and CSR can offer deep insights into their evolving dynamics in response to global economic and social changes. Broadening the research to include various industries will also reveal unique sector-specific interplays between unions and CSR, as each industry has its own operational and ethical contexts. Geographic diversification is also vital, allowing for a comparative understanding of how different cultural, economic, and regulatory environments influence union-CSR dynamics globally. Additionally, integrating qualitative methods like interviews with union leaders and CSR managers will provide a richer, more nuanced understanding of their relationship, complementing quantitative data and highlighting motivations and perceptions that drive this relationship.

In conclusion, this study sheds light on the intricate relationship between labor unionization and CSR in South Korean firms, revealing the potential trade-offs involved and the moderating role of chaebol affiliation. This study not only contributes to academic discourse but also offers practical insights for managers and policymakers aiming to balance labor interests with long-term CSR commitment.

## CONCLUSION

This study delves into the relationship between organized labor and CSR in listed Korean companies. The primary objective was to explore the impact of labor unions on CSR engagement, utilizing unique company-specific labor union information.

Empirical test results reveal a significant negative relationship between labor unionization and CSR engagement, indicating that firms with labor unions tend to exhibit a decrease in their CSR activities. This negative association becomes insignificant for chaebol-affiliated firms, particularly those with a substantial wedge between ownership and control among controlling shareholders. This finding suggests that labor unions, driven by rent-seeking incentives, may negatively influence CSR engagement, yet this effect is mitigated within the context of chaebol structures.

Furthermore, this study reveals a positive correlation between CSR initiatives and labor productivity, pointing to an increase in employee involvement as a potential contributing factor. This underscores the pivotal role of CSR in fostering employee motivation and overall efficiency within firms.

In conclusion, this paper provides valuable insights into the dynamics between organized labor, corporate governance structures, CSR engagement, and labor productivity in the context of Korean listed companies. The findings emphasize the need for a nuanced understanding of these relationships, acknowledging the moderating effects of chaebol affiliation and the controlling shareholders' wedge. As companies strive to find a balance between the needs of their employees and their commitment to social responsibility, this study emphasizes how crucial good corporate governance is for safeguarding CSR efforts. In the end, the positive connection between CSR and labor productivity shows that focusing on social responsibility not only encourages ethical business practices but also boosts employee performance.

## AUTHOR CONTRIBUTIONS

Conceptualization: Ilhang Shin, Sorah Park.  
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Formal analysis: Ilhang Shin.  
Investigation: Ilhang Shin.  
Methodology: Ilhang Shin.  
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Supervision: Ilhang Shin, Sorah Park.  
Validation: Ilhang Shin, Sorah Park.  
Visualization: Ilhang Shin, Sorah Park.  
Writing – original draft: Sorah Park.

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## APPENDIX A

**Table A1.** Correlation matrix

	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	$ACI_{it-1}$ (12)
$CSR_{it}$ (1)	0.1329 <.0001	0.0952 <.0001	0.2868 <.0001	-0.1737 <.0001	-0.0628 0.0013	0.1115 <.0001	0.0837 <.0001	0.0402 0.0396	0.0521 0.0076	0.0443 0.0234	0.0145 0.4573
$Union_{it-1}$ (2)		0.2941 <.0001	0.0146 0.4541	0.1185 <.0001	0.0370 0.0584	0.1839 <.0001	0.7782 <.0001	0.1151 <.0001	0.1030 <.0001	0.1152 <.0001	0.1152 <.0001
$Size_{it-1}$ (3)			0.2295 <.0001	0.1670 <.0001	0.2495 <.0001	0.0162 0.4059	0.2413 <.0001	0.6029 <.0001	0.4839 <.0001	0.6072 <.0001	0.6186 <.0001
$ROA_{it-1}$ (4)				-0.3003 <.0001	-0.0065 0.7394	-0.1229 <.0001	-0.0031 0.8761	0.1142 <.0001	0.0619 0.0015	0.1139 <.0001	0.1031 <.0001
$Lev_{it-1}$ (5)					0.0797 <.0001	-0.0021 0.9132	0.1011 <.0001	0.1225 <.0001	0.0598 0.0022	0.1158 <.0001	0.1086 <.0001
$Herf_{it-1}$ (6)						-0.0023 0.9064	0.1026 <.0001	0.1971 <.0001	0.1613 <.0001	0.1661 <.0001	0.1900 <.0001
$AGE_{it-1}$ (7)							0.1186 <.0001	-0.0454 0.0201	0.0195 0.3190	-0.0149 0.4464	-0.0431 0.0274
$Union\_MEM_{it-1}$ (8)								0.0649 0.0009	0.0782 <.0001	0.0694 0.0004	0.0706 0.0003
$Chaebol_{it-1}$ (9)									0.3925 <.0001	0.4779 <.0001	0.4966 <.0001
$BOD_{it-1}$ (10)										0.6676 <.0001	0.6754 <.0001
$AC_{it-1}$ (11)											0.8935 <.0001

Note: All variables are defined in Table 1. All  $p$ -values are based on two-tailed tests.