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경영학석사 학위논문

Foreign Ownership and  
Managerial Short-termism:  
Cost-Stickiness Model Approach

외국인 지분이 단기성과주의에 미치는 영향:  
원가 하방경직성 모형 중심으로

2020년 2월

서울대학교 대학원

경영학과 회계학전공

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# Foreign Ownership and Managerial Short-termism: Cost-Stickiness Model Approach

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## Abstract

After the Asian financial crisis in 1997, there have been continuous increases in investments from foreign sources and capital inflows into the Korean economy. Although large capital injections from foreign investors provide additional sources to raise capital, there has been controversy mainly due to the short-term nature of some foreign investors seeking profits in short windows neglecting investments for sustainable growth. I investigate cost behaviors of Korean companies with foreign ownership utilizing the cost-stickiness model initially proposed by Anderson et al. (2003) to check whether foreign ownership causes short-termism in Korean companies.

The results of this investigation reveal that R&D expenditures and employee number variables are cost-sticky implying Korean companies with foreign ownership cut R&D and employees in less magnitude during revenue reductions than magnitude of increase in R&D and employees during sales revenue growths. In contrast, cost anti-stickiness is found for SG&A costs. In summary, it is hard to tell an increase of foreign ownership in Korean firms entails short-sighted decisions for short-term profits and sacrifices sustainable and long-term growth.

**Keywords:** foreign ownership, managerial short-termism, cost behavior, cost-stickiness

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# 1. Introduction

In recent decades, foreign investors have increased investment in Korean companies and often play a significant role in management decisions. Not only has there been an increase in foreign investments, but also foreign investors are increasingly playing an active role as shareholders or participants in the financial markets of Korea. For instance, U.S. hedge fund Elliott Management required Hyundai to return excess capital to shareholders, to review any and all non-core assets and governance improvements, and to add new independent directors to its board of directors. Elliott forced Hyundai to scrap its governance reform plan by opposing it on the grounds that it lacked measures to enhance shareholder interests.

Korean corporate governance has a unique structure. The largest shareholder has significant influence on management and the board of directors. This structure enables the largest shareholder to control its company directly or indirectly. When it comes to Korean corporate governance circumstances, the Korean ownership structure can be explained by the dominant influence of the largest shareholder who typically participates in the management of the firm and exhibits influences on most of management decisions. More than 90% of public companies in Korea are managed by controlling shareholders.

This unique ownership structure affects the transparency and the operating performance of a firm. The relationship between management by controlling shareholders and firm performance is positive, but the relationship between management by controlling shareholders and stock returns is negative (Shin & Park 2006). Under relatively higher influence of controlling shareholders, many Korean firms have high agency cost between controlling shareholders and external shareholders, and this agency cost arising from the ownership structure negatively affects firm value (Shin & Kim, 2011).

This unique structure led foreign investors to insist enhancements in the corporate governance structure of Korean companies. This circumstance invites a more thorough investigation into the effect of foreign investors on Korean firms. Furthermore, foreign investors have paid significant attention to corporate governance issues of Korean companies. Therefore, as foreign ownership increases, this unique Korean corporate governance structure has become the center of criticism by foreign investors hampering investments and raising risks surrounding ownership structure.

Disputes over effects of foreign investments and subsequent ownership have been intense not only in Korea but also in other countries as well. As investment inflows and outflows become



prevalent due to globalization in capital markets, investments from foreign source have increased and there has been controversy in academia and among practitioners in regards to these effects. Especially, short-term oriented behaviors of foreign investors including hedge funds and private equities have become the heart of this debate. In one high-profile case, Franz Muntefering, German Social Democratic Party chairman, compared foreign private equity and activist hedge fund investors targeting German companies to an invasion of “locusts” stripping companies bare. The “locust” label has since been used to refer to foreign investors more broadly (Benoit, 2007; The Economist, 2007). Below illustrate relevant statements to name a few.

*“We support those companies, who act in interest of their future and in interest of their employees against irresponsible locust swarms, who measure success in quarterly intervals, suck off substance and let companies die once they have eaten them away.”*  
(Franz, 2005)

*“The effects of the short-termist phenomenon are troubling... In the face of these pressures, more and more corporate leaders have responded with actions that can deliver immediate returns to shareholders, such as buybacks or dividend increases, while*

*underinvesting in innovation, skilled workforces or essential CAPEX necessary to sustain long-term growth.” (Laurence, 2015)*

Foreign investors are agents in this change, playing an increasingly prominent monitoring role and claiming their rights as shareholders worldwide. Foreign investors could urge board of directors and managers to focus on short-term interests at the expense of long-term growth and investments in future sustainable development. Moreover, these myopic investments could lead to unfriendly labor policies including reduced benefits and even layoffs. The stock market may pressure managers to select projects tailored to investors’ interests; managers forgo innovation and R&D for sustainable growth in favor of ready-made technologies, which are more transparent to investors (Ferreira et al, 2014). Moreover, foreign investors may be more strict to manager performance, which can place executives and managers at greater risk and vulnerable for career concerns.

Despite concerns regarding short-termism and side effects of increased foreign capital, there are views that posit foreign investors because they monitor executives and managers, thus preventing management empire-building and entrenchment. In this regard, foreign investors may be in a better position than domestic investors to monitor entrenchment and moral hazard due to the likelihood of

business relationships domestic investors may have with local firms. Specifically, domestic corporate insiders may have social ties with domestic investors such as closer relationships tied through graduating from the same school. Therefore, foreign investors may be in a better position to effectively monitor management. In alignment with this view, there is extant literature that supports shareholder activism. Under the circumstances of the Korean corporate governance structure, it is difficult to entirely rule out the influence of controlling shareholders. Therefore, in consideration of this unique Korean corporate governance structure, investors have become skeptical and questioned the effectiveness of monitoring role of internal auditors and board of directors. In this regard, there has been increasing demand to strengthen the monitoring mechanism over the controlling shareholders and corporate insiders. In response to such demand, Korean Commercial Law has continuously been amended to reflect such voices. For example, Korean Commercial Law mandated to establish audit committees for large companies listed on the stock market and required at least one financial expert to be included in their audit committees from 2003. These regulations were set in place to enhance the independence and expertise of the audit committee, to reduce corporate misconduct and fraud, and monitor corporate insiders' ability to extract private benefits.

There has been little research in accounting literature examining

the effect of foreign ownership on Korean firm' s long-term growth. I attempt to fill this void in this paper by using a cost accounting model. I examine whether foreign ownership encourages or discourages investments for a firm seeking sustainable growth. I focus on R&D expense and number of employees as R&D is key activity to maintain competitiveness for a product or service. Sustaining a technical advantage is crucial to continue earning revenue in a market and overcome severe competition from competitors. I focus on number of employees because the number reveals the effect of foreign ownership whether foreign investors urge management to lay employees off for increases in short-term profits. Although laying off employees may increase revenue in short-horizon, this will reduce remaining employees' loyalty and productivity. Lastly, I use selling, general and administrative expenses (SG&A) since sales volume drives many of the components of SG&A. Also, SG&A expenses are discretionary and provide a tight setting to assess whether foreign shareholders' monitoring role constrains managers to deliberately delay reductions in committed resources for their empire-building.

Based on these assumptions, I conduct an analysis on whether foreign ownership urges management to cut-down more R&D expenses and layoff more employees when sales revenue decreases compared to increasing R&D expenditures and employees during

sales revenue increases. During sales revenue decreases, foreign investors may pressure management to severely cut expenses that are crucial for long-term growth of a firm for the sake of their immediate interests such as dividend payments or stock repurchases boosting share prices. Following Anderson, Banker & Janakiraman' s proposed model, I regress the model with R&D expense, number of employee and SG&A expense to see the effect of foreign ownership on Korean firm management in short-termism perspective and monitoring role perspective. I focus on the estimated coefficient of the interaction terms between foreign ownership level and sales revenue decrease.

The results of this analysis are as follows. First, the result for R&D expense shows cost-stickiness implying Korean companies with foreign ownership cut R&D in less magnitude during revenue decreases than magnitude of R&D increase when sales revenue increases. My conjecture is that foreign investors are relatively supportive of investing into R&D activities thanks to competitive employees in the Korean labor market that meet high standards for R&D. Highly educated and skilled employees are crucial for the success of firms and attracts investors seeking growth potential. The number of employees also shows a similar behavior in this model. Employee loyalty is crucial for sustainable growth of a firm since retaining a skilled labor force is important in various industries. In

addition, it is costly to lay off employees and hire new labors in terms of education and training expenses. Not only is it costly in tangible cost terms, but also in intangible cost terms, reputations are at stake, which are important for retaining a loyal labor force. is crucial for intangible reputation perspective as well. In contrast to R&D expenditure and number of employees, SG&A expense shows cost anti-stickiness behavior. This implies foreign ownership is positively associated with the monitoring effect. Foreign investors constrain managers deliberately delaying reductions to committed resources for their empire-building. In brief, it is hard to tell whether increases in foreign ownership of Korean firms entail short-sighted decisions that maximize short-term profits by sacrificing sustainable and long-term growth. Rather, these results suggest that the effects of foreign ownership in Korean firms are positive both from the monitoring role perspective and cost-stickiness perspective for R&D and number of employees.

The results of my study contribute to the existing literature in a number of ways. First, I attempt to analyze cost behavior of Korean firms with foreign ownership mainly focusing on sales revenue decreases. To my best knowledge, this is the first paper investigating whether foreign investors seek short-term profits and neglect making investments for long-term growth by looking into sales revenue decreases. Especially during sales revenue decrease period,

foreign investors may likely to put pressure on management to cut down expenses to prevent cash outflows for the sake of their interests including dividend payments or stock repurchase to boost treasury stock price. Secondly, for additional analysis, I investigate cost behavior of Korean firms with foreign ownership based on industry level. I use subsamples partitioned into manufacturing and service industry and conduct the same analysis for each industry subgroup. Manufacturing and service industries have different characteristics. This difference may lead to different cost behaviors for each industry. There is little research that investigates cost behaviors of firms from different industries. By separately estimating the impact of foreign investors on Korean firms for each industry, my research contributes to the literature of cost behaviors of firms.

In alignment with the extant of previous literature, I try to test both the impact of foreign ownership on short-termism and monitoring role against manager entrenchment. Also, I mainly focus on periods of sales revenue decrease to see how firms behave when foreign ownership exists during the revenue decrease period. In addition, I use foreign ownership as an interaction term to investigate the foreign investors' impact.

The remainder of this paper is organized as follows. Section 2 summarizes the previous literatures and presents hypotheses development. Section 3 presents the data, sample selection,

descriptive statistics, and the main regression model used to test the hypotheses. Section 4 shows the results of empirical analyses. Section 5 reports the results of additional analyses. Lastly, Section 6 presents the conclusion of this paper.

## 2. Literature Review and Hypotheses Development

### 2.1. Foreign ownership and long-term growth of a firm

There has been longstanding dispute over the relationship between foreign ownership of local companies and its impact on long-term sustainable growth. Financial globalization has affected corporate governance and investment policy in many ways. Numerous companies have shifted away from the European continental model in which strong relationships with management, creditor, and labor are promoted (Tirole, 2001; Carlin and Mayer, 2003; Allen et al., 2015). Instead, many countries and companies are moving toward the Anglo-Saxon capitalism model where foreign investors and shareholders play a significant role in monitoring (Aggarwal et al., 2011). Traditionally, there have been two



mainstream empirical studies on the relationship with foreign ownership and its outcome on long-term growth of a firm. The first strand of literature confirms so called “short-termism” which seeks maximization of shareholders rights and dividends. Numerous articles criticize this phenomenon. Traditionally, there has been criticism on short-termism caused by foreign ownership and followed by reduction in research & development (R&D) expenses and employee layoffs. In one high-figure case, Franz Muntefering, German Social Democratic Party chairman compared foreign hedge funds and private equity to “locusts” to refer foreign capital stripping companies bare. Short-term oriented capital could force companies to sell out assets at the expense of long-term sustainable growth capabilities and for the sake of short-term oriented revenue. Foreign investors may pressure firm managers to prioritize short-term profits at the cost of long-term growth. Increased foreign ownership may be less tolerant of failure, which can place executives and managers at greater risk increasing career concerns (Bena et al., 2017). Foreign institutional investors may create market pressure forcing managers to seek short-termism decisions by prioritizing short-term earnings at the expense of ignoring developing potential for long-term growth. Also, the stock market pressures managers to focus on projects that could be easily communicated and supported to investors (Ferreira et al., 2014).

On the other hand, there have been different strands of literature on the relationship between foreign ownership and long-term growth. This other perspective is that foreign ownership promotes long-term investment in human capital, innovation and fixed capital through shareholder monitoring. Also, increased foreign investor ownership and efficient monitoring prevent empire-building by managers. This positive impact results from the presence of foreign institutional investors who may warn internal empire-building attempts and persuade managers to promote innovations and investments by actively voting their shares.

There have been numerous accounting and finance literature challenging the short-termism perspective of foreign investors leading firms to adopt a short-term oriented projects rather than an investment for long-term growth. Bena et al. (2017) insist on the greater foreign institutional ownership fosters investment in long-term horizon on tangible, intangible, and human capital. In addition, foreign institutional ownership also leads to significant increases in innovation output. In addition, it is crucial to consider different formats of foreign investors. Some foreign investors seek long-term and sustainable investments whereas the others pursue achieving quick return on investments. Institutional ownership and investors, a significant part of foreign investments, are not all the same. They make investments in various forms and with diverse characteristics.

Borochin & Yang (2017) argue firm misvaluation varies depending on different types of institutional investors. Dedicated institutional investors decrease future firm misvaluation whereas transient institutional investors have the opposite effect. Specifically, firms with more transient (dedicated) institutional investors experience more (less) positive firm-specific deviation from fundamental values in the following quarter, consistent with overvaluation. In addition, using the U.S. Securities and Exchange Commission (SEC) Regulation FD as an exogenous shock to information dissemination, empirical evidence shows dedicated institutions have an information advantage and better future governance characteristics whereas transient investors do not. Bushee (1998) finds evidence that firms with predominantly dedicated (transient) institutional owners invest more (less) in research and development (R&D). The literature suggests that foreign institutional ownership and some institutional investors do promote long-term growth and refutes that foreign investors provoke managers to select short-horizon projects that can bring short-term profits to investors quickly.

## **2.2. Asymmetric cost behaviors and cost-stickiness**

In a traditional and conventional model of cost behavior in mainstream accounting literature, costs are described as fixed with

respect to changes in activity volume. According to this model, variable costs change proportionately with changes in the activity driver (Noreen, 1991). This implies that the magnitude of a change in costs depends solely on the extent of a change in the level of activity, not on the direction of the change. However, some allege costs rise more with increases in activity volume than costs fall with decrease in activity volume (Cooper and Kaplan, 1998; Noreen and Soderstrom, 1994). This cost behavior is labeled as “sticky” . Specifically, costs are sticky if the magnitude of the increase in costs associated with an increase in volume is greater than the magnitude of the decrease in costs associated with an equivalent decrease in volume (Anderson et al, 2003).

With regards to different interpretation of cost behaviors, a good example is selling, general and administrative cost (SG&A). In traditional analysis, it is conventional to interpret an increase in the ratio of SG&A costs to sales (the SG&A cost ratio) between the periods as a negative signal for future earnings. This interpretation implies increase in SG&A ratio delivers a signal of management inefficiency in controlling costs. However, Anderson et al. (2007) argue it may not be always the case in which cost being sticky leads to operating inefficiency of a firm. Rather, sticky costs may be a result of managers’ discretionary decisions expecting revenue increases in the future and thus, deliberately retaining SG&A

resources for the future. Also, Anderson et al. (2007) find that abnormal positive returns may be earned on portfolios consisted of long on firms with high increases in the SG&A cost ratio and short on firms with low increases in the SG&A cost ratio. In aligning with this argument, further research supports asymmetric cost behavior literature by demonstrating asymmetric cost behavior is a pervasive global phenomenon. With regards to asymmetric cost behavior, one reason may be entailed cost to change cost trend in short-run. It incurs resource adjustment costs including severance payments to dismissed workers, training costs for new employees when business returns to a period of sales revenue increases or economic boom where much labor force is required. In addition, it is hard to overlook installation and disposal costs for capital equipment (Banker and Byzalov, 2014). Not only does the firm incur expenses related to equipment or employment, but also intangible reputation which hinders managers from cutting down the labor force. Laying off employees will lead to turmoil in employee loyalty and dissatisfied employees will likely deteriorate labor productivity. Employee satisfaction is considered to be one of the most important drivers of quality, customer satisfaction and productivity. Interpersonal trust (trust in management and peers) strongly influences employee satisfaction and employee loyalty (Matzler and Renzl, 2006). As such, according to prior literature, asymmetric cost behavior is inevitable.

Analysts interpret a disproportionate increase in selling expenses as a negative signal. Analysts are skeptical about management operating efficiency (Bernstein and Wild, 1998; Mintz, 1999). This analysis may be misleading since selling expenses during sales increases and sales decreases do not move symmetrically. Similarly, auditors implicitly assume that costs should move symmetrically with sales when conducting analytical review procedures (Messier, 2000). Therefore, further research is needed to understand cost behaviors more accurately.

### **2.3. The “Short-termism” effect**

Short-termism refers to when a company suffers from excessive focus on short-term results at the expense of a company's long-term interests. It is often used for a company seeking themselves better off in the short-run but worse off in the end. Criticism of short-termism were made during the stock market bubble burst and the collapse of Enron. Despite continuous criticism and movements to alleviate short-termism, investors had become obsessed with short-term profits, forcing companies to increase dividends, purchase treasury stocks, and often ignored monitoring role to encourage companies' long-term investments and performances. This short-term pressure by investors influences

company executives, management and managers, forcing them to make business profits and accounting profits look as good as possible during their tenure, often at the cost of long-term growth and health.

The pressure put on executives and management to deliver short-horizon results has been increasing ever before. A 2014 global survey of more than 600 C-suite executives and directors, conducted by the non-profit Focusing Capital for the Long Term (FCLT), cited in the Harvard Business Review (Carey et al., 2018), reported that two-thirds of those surveyed said pressure for short-term results had increased over the previous five years

There are several examples of placing short-term profits over long-term growth. One well-known example is when Mark Zuckerberg testified before Congress in April about Facebook's customer data leaks and answered questions about controversy over the trade-off between short-term profits and protection of customers' personal information. Wells Fargo is under scrutiny of regulators for creating false client accounts to boost short-term profits (Carey et al., 2018).

However, according to the aforementioned FCLT study, nearly two-thirds of those CEOs said focusing on short-term profits is due to internal boards and executives. This implies short-termism may arise from internal sources rather than external stakeholders that include shareholders or other investors. According to Mckinsey's

estimates (Darr and Koller, 2017), 75% of the U.S. market is held by buy-and-hold investors who may actually be interested in the long-term growth of a company in which they have invested. In addition, there are several examples where executives focus on long-term growth and creation of long-term bond with customers, creditors and shareholders. One example is CVS Health CEO Larry Merlo, who decided to become the first major pharmacy retailer to stop selling cigarettes. The decision led to significant drops in revenues and stock price, but to significant gains in credibility and loyalty from customers (CVS Health, 2015). Today, Merlo's health business is growing rapidly, and his company has become financially strong enough to acquire the giant health insurer Aetna. DowDuPont CEO Ed Breen emphasizes, "Focus on long-term value instead of fixating on short-term performance and share price. Make bets that are right for the institution - they should last longer than any CEO."

With this point of view, I look for relevant research results about the effect of "short-termism". Interestingly, results of the research about the effect of "short-termism" are quite controversial.

Bolton et al. (2006) show that optimal compensation contracts may emphasize short-term stock performance, at the expense of long-run fundamental value, as an incentive to induce managers to pursue actions which increase the speculative component in a stock



price.

On the other hand, there are prior literatures and findings suggesting that short-termism can be mitigated. Laverty (2004) finds that firms are less likely to undervalue the long term when they are able to manage tradeoffs between short-term and long-term results and create a climate of trust that allows individuals to weather the short-term setbacks necessary to achieve long term results. Also, there is a view suggesting staggered boards could potentially contribute to firm value. A staggered board could help mitigate managers' incentives to overly focusing on short-term projects (Stein, 1988, 1989). Furthermore, Cremers et al. (2017) find staggered boards promote value creation for some firms by committing the firm to undertaking long-term projects and bonding it to the relationship-specific investments of its shareholders. Debate on short-termism is still on-going and needs more study to better understand investor, both shareholder and creditor, and manager.

## **2.4. Korean research about the effects of foreign ownership on Korean firms**

Since barriers to make an investment into Korean capital markets were alleviated, massive inflow from foreign investments has

continued with continued growth in foreign ownership level. In prior literature, controversy over the impacts of foreign investment into Korean firms has been ongoing without reaching a clear conclusion. Yang (2012) finds the stickiness of committed costs items has weakened as the shares of foreign investors have increased. On the contrary, the stickiness of dividend items has strengthened as the shares of foreign investors have increased. This implies foreign investors require management to cut down the committed costs and paradoxically to increase or maintain dividends when unfavorable business performance is expected. This could be an empirical evidence suggesting foreign investors might impair firms' long-term growth potential by sustaining or even increasing dividends.

In contrast, Kang and Min (2010) shows foreign ownership and foreign block ownership increased value. Also, the results show firm value was increased where foreign ownership was below the level of 50%. When foreign ownership exceeds 50%, firm value was positive from 2001 to 2004 during which foreign share-holding had increased, but it was negative from 2005 to 2008 during which foreign shareholding ratio had decreased. In brief, these results indicate that foreign ownership and firm value impacts positively with each other but cautious approach is required to analyze the relationship between foreign ownership and firm value for example, the different impacts based on time-frame. In alignment with this study which shows a

positive relationship between foreign ownership and firm value, Park (2011) investigates how the foreign ownership might affect the financial performance and firm value measured by operating return on asset (OROA) and Tobin' s Q. According to the analysis, it shows that foreign investors have a positive effect on financial performance and firm' s value. From this empirical evidence, it might be interpreted that foreign investors have a positive effect as they carry out their role as monitor of firms. Yim (2011) finds corporate social responsibility (CSR), financial performance is positively associated with foreign investment in Korean firms listed in the Korea Stock Exchange. Aligning with these strands of literature, Park and Yoon (2017) find empirical results that foreign investors increase the investment ratios of conglomerate business groups and have a positive effect on firm values. These studies show foreign investors tend to have the long-term investments and hence, influence firm values of business groups positively. To better understand the impact of foreign investors in Korean firms, more research needs to be conducted.

## **2.5. Hypotheses development**

Foreign investment into Korean firms has increased rapidly over the past 20 years. To investigate whether an increase in foreign

ownership have an impact on Korean firms, I examine the relationship between foreign ownership level and variables that are proxies for long-term growth and employee loyalty

Considering the importance of foreign ownership increase in Korean firms and their long-term growth, I propose the following hypothesis. I use research and development expenditure as a proxy for long-term investment. Expenditure on research and development (R&D) is a key indicator of company's efforts to obtain competitive advantage. R&D activities create an environment favorable to questioning products, encouraging flexibility and integrate new concepts and processes (Freel, 2000). A company generally incurs R&D expenses in the process of finding and creating new products or services. When a company conducts its own R&D, it often results in the creation of intellectual property such as patents or copyrights. R&D expenditures requires a lot of inputs including cash in retained earnings at the expense of dividend increases or treasury stock purchases which are favorable policies to some shareholders seeking profit maximization in a short window. In this regard, R&D expenditure is a good proxy for investment and focus on long-term sustainability of a firm.

In response to a criticism on short-termism trends of foreign capital, I would like to investigate the relationship between foreign ownership and R&D expenditure trends. If foreign investors are

ignorant of long-term growth of a firm, then they are likely to be more focused on cutting R&D expenditures during sales decreases rather than actively increasing R&D expenditure when the business is doing well. In contrast, foreign investors pursuing long-term growth of a firm will urge managers to retain R&D activities. Thus, I propose the following hypothesis in null format.

*Hypothesis 1: The degree of Research and Development (R&D) cost-stickiness is not associated with foreign ownership*

There has been controversy over effects of foreign ownership on employments of Korean firms. Foreign ownership has often been criticized by its short-term profit seeking nature and subsequent employee layoff during recession. Brannlund et al. (2016) argue there is no significant impact of foreign ownership on employment or wages in Sweden. Traditionally, Sweden has a strong union and has collective bargaining between unions and employers. The Swedish labor market provides an interesting case study and have similarities with the Korean labor market in terms of strong labor union power against employers. The Swedish labor market also faces rapid increases of foreign-owned firms due to globalization which is another similarity with the Korean labor market. Increases in foreign ownership of local firms caused fear and has been an important topic

of the domestic policy debate. Considering the global trend of deregulation in capital markets and subsequent foreign capital flows, a better understanding of its impact on local labor markets is crucial. Foreign investors may focus on maintaining employees considering the importance of human capital accumulation and retaining skilled labor. However, maintaining labors requires relevant costs including salary and benefits which can be more burdensome when revenues decrease. Therefore, I propose the second hypothesis in null format to empirically test the relationship between foreign ownership and employment in Korean firms.

***Hypothesis 2: The degree of number of employee stickiness is not associated with foreign ownership***

Lastly, I focus on Selling, General and Administrative Expenses (SG&A). SG&A Expenses include all non-production expenses incurred by a company in any given period. This includes expenses such as rent, advertising, marketing, litigation, travel expenses, sales commission, promotional materials, and compensation of the company's officers. The behavior of SG&A costs can be meaningfully studied in relation to revenue activity since sales volume drives many of the components of SG&A (Cooper and Kaplan, 1998). In business practice, CFO Magazine performs extensive analyses of SG&A costs in relation to sales revenue for its annual SG&A survey (Mintz, 1999).

Hence, we can notice understanding SG&A cost behavior is important not only for research purposes, but also to business practitioners as well. Managers expecting higher future earnings may retain SG&A costs during sales revenue period. However, this may cause agency costs incurred by the firm because managers make decisions that maximize their personal utility but are not optimal to the firm's shareholders (Jensen and Meckling, 1976). Therefore, I propose the last hypothesis in null format to empirically test the relationship between foreign ownership and SG&A cost behavior in Korean firms.

*Hypothesis 3: The degree of Selling, General & Administrative (SG&A) Cost–Stickiness is not associated with foreign ownership*

### 3. Sample and Descriptive Statistics

#### 3.1. Sample and data

The primary variables used in analysis are R&D costs, number of employees and SG&A costs. I obtain data used in my investigation from DataGuide database provided by FnGuide which is the largest financial data provider in Korea. The data consists of Korean companies listed on KOSPI in Korea during 2000 to 2017. I select

this period since there was a dramatic change in Korean capital markets after the Asian financial crisis in 1997. After the crisis, the Korean government opened the Korean capital market and alleviated barriers that forbade massive liquidity inflows from foreign investors. Hence, it is reasonable to choose the aforementioned analysis period to investigate the effects of foreign ownership in Korean firms. Compared to KOSDAQ, foreign investors take a large portion of stakes in firms listed on KOSPI and thus the market is appropriate for analysis on the impact of foreign investors on Korean firms. I delete observations in the financial service industry (Standard Industrial Classification [SIC] codes from 64 to 66 because of differences in interpreting financial reports between these industries and other industries (Subramanyam, 1996). I winsorize the value of any variable at the top or bottom 1 percent to eliminate extreme observations.

<Insert Figure 1 here>

### **3.2. Empirical model**

To investigate the impact of foreign ownership on cost behavior of Korean firms, I follow the approach of the cost–stickiness model proposed by Anderson et al (2003).



$$\log (Cost_{i,t}/Cost_{i,t-1}) = \beta_0 + \beta_1 \log (Sales_{i,t}/Sales_{i,t-1}) + \beta_2 Dec_{i,t} * \log (Sales_{i,t}/Sales_{i,t-1}) + \epsilon_{i,t}$$

$Cost_{i,t}$  : Cost of i company in year t

$Sales_{i,t}$  : Sales revenue of i company in year t

$Dec_{i,t}$  : Takes the value of 1 when sales revenue of i company decreases between periods t-1 and t, and 0 otherwise

As Anderson et al (2003) states, this empirical model enables measurement of the cost variables changes or responses to contemporaneous changes in sales revenue and separates between periods when revenue increases and revenue decreases is presented.

Hence, the cost-stickiness model provides a tight setting to understand the cost variables responses to changes in sales revenue especially both revenue increases and decreases. Also, this model enables further analysis by including interaction terms. By adding the interaction terms, it is possible to analyze a certain impact to cost behaviors during both sales revenue increases and decreases.

The ratio form and log specification of the model improves the comparability of the variables across firms and alleviates potential heteroskedasticity. The log specification also accommodates economic interpretation of the estimated coefficients. The coefficient

$\beta_1$  measures the percentage change in cost variables for a 1% increase in sales revenue given the value of *Decrease\_Dummy* is 0 when revenue increases. Also, considering the fact that the value of *Decrease\_Dummy* is 1 when revenue decreases, the sum of coefficients,  $\beta_1 + \beta_2$  measures the percentage increase in cost variables when sales revenue decreases 1%. If costs are sticky, meaning cost increase with a sales revenue is greater than cost decrease with a sales revenue decrease, the empirical hypothesis for stickiness is  $\beta_2 < 0$ , conditional on  $\beta_1 > 0$  (Anderson et al., 2003). Therefore, conditional on  $\beta_1 > 0$ , if  $\beta_2$  shows significantly negative, decrease of cost variables with sales revenue decrease should be smaller than increase of cost variables for sales revenue increase. In this case, cost is sticky.

For control variables, following Anderson et al. (2003), I include asset intensity, employee intensity, macroeconomic growth (gdp) and revenue decline in the preceding period. Managers are likely to consider a revenue decline to be more continuous trend when revenue loss occurs in second consecutive periods. Increased likelihood of a continuous decline trend may induce managers to cut down resources, resulting in less stickiness. Macroeconomic growth would attenuate managers willingness to cut down committed resources. Also, disposing of assets is costly since the company must bear disposal costs and may lose investment opportunities. Hence,

higher asset intensity would lead to cost–stickiness. Similarly, laying off employees is costly due to severance costs and training costs when demand rises up again.

<Insert Figure 2 here>

Figure 2 illustrates symmetric and asymmetric cost behaviors. Variations level of cost variables are identical to variation levels of sales revenue for symmetric cost behavior. For asymmetric cost behaviors, there are cost–stickiness and anti–stickiness. Variations level of cost variables for sales revenue decrease is smaller for cost–stickiness and variations level of cost variables for sales revenue decrease is greater for anti–stickiness cost behaviors.

To test my hypotheses, I include an additional interaction term in the model. I extend the cost–stickiness model proposed by Anderson et al (2003) by including a foreign ownership variable as follows.

$$\begin{aligned}
 \log (Cost_{i,t}/Cost_{i,t-1}) = & \beta_0 + \beta_1 \log (Sales_{i,t}/Sales_{i,t-1}) + \beta_2 Dec_{i,t} * \log (Sales_{i,t}/Sales_{i,t-1}) \\
 & + \beta_3 Dec_{i,t} * \log (Sales_{i,t}/Sales_{i,t-1}) * For + \beta_4 \log (Sales_{i,t}/Sales_{i,t-1}) * For \\
 & + \beta_n Dec_{i,t} * \log (Sales_{i,t}/Sales_{i,t-1}) * Controls + Industry FE + Year FE \\
 & + \epsilon_{i,t}
 \end{aligned}$$

To test my hypotheses, I used R&D cost, number of employees and SG&A cost as cost variables. Then, I ran a regression model with

the full sample. In this extended model,  $\beta_3$  shows cost-stickiness of a firm with foreign ownership. If foreign ownership affects cost-stickiness positively, then  $\beta_3$  should be (significantly) lower than zero. If foreign ownership impacts cost behavior to be anti-sticky, then  $\beta_3$  should be (significantly) higher than zero. As aforementioned, I control for several factors that are likely to influence managers making decision on cost behaviors. Including control variables would enable to better understand the impacts of foreign ownerships on cost behaviors.

### 3.3. Descriptive statistics

Table 1 presents descriptive statistics for the key variables. Our main independent variable of interest, denoted as “For”, has a mean of 0.096. This implies, on average, the level of foreign ownership is around 9.6 percent of our sample firms during year 2000 to 2017. This is relatively lower than I originally expected possibly because of numerous small and medium-sized enterprises (SMEs) with less foreign ownership and this may lower mean value of foreign ownership of the entire sample that includes both SMEs and large conglomerates. However, in accordance with the Capital Market Act, possessing more than 5% of voting rights shares of listed firms should be reported to Financial Services Commission and Korea

Exchange (KRX) within 5 days. This is to enhance transparency and impartiality of corporate governance. Hence, it is worthwhile to analyze the aforementioned hypotheses with this sample of average 9.6% foreign ownership. From the Descriptive Statistics, it can be noticed, on average, 0.025 and 0.192 increase in R&D and SG&A respectively, for a 1 unit increase of sale.

<Insert Table 1 here>

### **3.4. Correlation matrix**

Table 2 presents Pearson correlations across the main and control variables in the aforementioned sample. The change in dependent variables compared to the last period and foreign ownership level is positively associated. This shows foreign ownership level is positively related with the change in dependent variables (measured through logarithm format representing change level of dependent variables compared to the last period).

<Insert Table 2 here>

## 4. Empirical Results

### 4.1. The effect of foreign ownership on R&D expenditure of Korean firms

I begin my empirical analysis by examining the impact of foreign ownership on research and development (R&D) expenditures of Korean firms with the aforementioned sample.

To test Hypothesis 1, I conduct a regression analysis as described in previous section. If the degree of R&D cost–stickiness is positively associated with foreign ownership, the coefficient of the interaction term ( $\beta_3$ ) will be negative given the coefficient ( $\beta_1$ ) is positive. Table 3 presents the estimation results for the regression. The coefficient of  $\beta_1$  is positive and the t–value of  $\beta_3$  is  $-2.16$  suggesting that R&D expenditures are cost–sticky during sales decrease period when foreign ownership exists. This result implies that unlike widespread concerns on short–termism of foreign capital, foreign ownership does not, at least, strengthen short–termism since empirical result shows the relative magnitude of an increase in R&D expenditures for an increase in sales revenue is greater than the relative magnitude of a decrease in R&D expenditures for a decrease in sales revenue when foreign ownership exists. Rather, this empirical result implies foreign investors do have intentions to

pursue long-term investment into Korean firms as outcomes of R&D expenditures require patience and take relatively longer period of time for profits to be realized by investors. This aligns with Monte and Papagni (2003) insisting that firms with a strong commitment to R&D have a higher rate of growth. It is likely that R&D expenditure will cut down more when sales revenue decreases if foreign investors only have a short-term perspective seeking immediate profits at the expense of long-term growth. Short-term profit seeking foreign investors will likely pressure managers to focus on projects that can generate immediate revenue rather than to concentrate on R&D activities.

<Insert Table 3 here>

## **4.2. The effect of foreign ownership on employment of Korean firms**

A number of previous studies argue that foreign investors seek short-term profits at the cost of reducing expenditures including laying off employees when sales revenue decreases. I try to investigate the impact of foreign ownership on employment of Korean firms. The regression model to conduct empirical test is identical to the equation used to test hypothesis 1. Table 3 presents the

estimation results for the regression. The coefficient of  $\beta_1$  is positive and the t-value of  $\beta_3$  is  $-1.83$  suggesting that number of employees is sticky during sales revenue decrease period when foreign ownership exists. Unlike a number of previous studies, this result shows that the existence of foreign ownership does not necessarily lead to massive labor cutoffs during sales revenue decreases. Rather, during sales revenue increases, magnitude of increase in number of employees are greater than magnitude of decrease during sales revenue decrease. This result suggests, during sales revenue decreases and with the existence of foreign ownership, firms are willing to layoff employees in smaller magnitude during sales revenue decreases relative to hiring more employees when sales revenue increases. As well noted, employees are key to long-term growth of a firm. A skilled workforce is crucial in most industries. If there are massive layoffs during recessionary periods, it may be more costly to recruit new employees due to huge training expenses if more labor force is needed when business rebounds to a period of sales revenue increases. Rather, it would be better to retain employees to prepare for a period when the business cycle revives and sales revenue increases or for economic booms. This empirical result implies that foreign investors do consider firms' long-term growth and the importance of retaining a skilled labor force. Therefore, firms with foreign ownership may cut salaries instead of



laying off employees during economic recessions or when sales revenue decreases. Also, it is crucial for a firm to retain skilled and loyal employees for continuous growth. Frequent layoffs will lead to mistrust of a firm, deterioration of productivity and diminished satisfaction of employees. This will cause customer satisfaction to drop and recouping the firm's loss in reputation would cost even more.

In brief, this empirical result implies that unlike widespread concerns about short-termism of foreign capital, foreign ownership does not, at least, strengthen short-termism since the result shows the relative magnitude of an increase in R&D expenditures and number of employees for an increase in sales revenue is greater than the relative magnitude of a decrease in R&D expenditures and number of employees for a decrease in sales revenue when foreign ownership exists.

<Insert Table 3 here>

### **4.3. The effect of foreign ownership on selling, general and administrative costs of Korean firms**

As a number of previous literatures argue, the behavior of selling, general and administrative (SG&A) expenditures can be usefully

studied in relation to revenue activity considering the fact that sales volume drives many of the components of SG&A expenditures (Anderson et al., 2003). In contrast to R&D expenditures and number of employees which are fundamental to a long-term growth, I try to use SG&A expenditures which are closely related to revenue activities to analyze the impact of foreign ownership on Korean firms. The behavior of SG&A costs can be meaningfully studied in relation to revenue activity since sales volume drives many of the components of SG&A (Cooper and Kaplan, 1998). In addition, SG&A consists of several types of expenses and some of them are discretionary by nature. For instance, advertisement expense is relatively discretionary as increasing or decreasing its amount is flexible and mostly subject to managers' decision. To test Hypothesis 3, I conduct a regression analysis as described in the previous section. If the degree of SG&A cost-stickiness is positively associated with foreign ownership, the coefficient of the interaction term ( $\beta_3$ ) will be negative given the coefficient ( $\beta_1$ ) is positive. Table 3 presents the estimation results for the regression. The coefficient of  $\beta_1$  is positive and the t-value of  $\beta_3$  is, interestingly enough, 1.71 suggesting that SG&A expenditures are cost anti-sticky during sales decrease period when foreign ownership exists. This result shows that unlike previous dependent variables of R&D costs and number of employees, SG&A costs decrease more during

sales revenue decline compared to SG&A costs increase during sales revenue increase period. This implies foreign investors actually do play a monitoring role. During sales revenue decrease period, foreign investors induces managers to cut down SG&A costs and retain profits or earnings. This result shows foreign investors constrain managers deliberately delaying reducing SG&A costs. In contrast, cutting down more SG&A costs to retain profits may imply foreign investors somehow seek short-termism. In brief, results can be interpreted in various ways and are questionable to clearly interpret and conclude results. Therefore, further additional test is needed to draw precise conclusion. For the additional test, I conduct industry-specific analysis and results are shown in following section. To summarize, empirical results show Korean firms with foreign ownership relatively reduce R&D cost, number of employees less and cut down SG&A cost more during sales decreases. This implies foreign ownership does not necessarily cause short-termism as we can see from empirical results using dependent variables of R&D and number of employees. Rather, foreign investors may be more efficient in a sense that they monitor Korean firms as well as seek long-term growth potential by trying to retain employees and continuing on investing on R&D activities.

<Insert Table 3 here>

## 5. Additional Analyses

### 5.1. Differential effects between Industry Type

Section IV illustrates empirical results of cost behavior of Korean firms with foreign ownership. Previous literatures have mainly conducted empirical test based on industry data sample as a whole. However, this may overlook the different characteristics between various industries. It is worth noting that there are various industries in Korea and each industry has different characteristics. Such differences lead to different cost behaviors for each industry and thus, it is noteworthy to analyze the aforementioned model used in section IV based on different industries. I try to take into account these different characteristic and nature based on each industry. Hence, I conduct additional analyses to investigate cost–stickiness in various industries. Specifically, I dichotomize samples into manufacturing and service industries and I partition the samples into subsamples based on these industries for the analysis. In general, a major portion of revenues in the manufacturing industry comes from selling manufactured goods whereas advertising and marketing play significant roles in generating revenues in the service industry. With subsamples, I run the regression model with identical variables; R&D cost, number of employees, and SG&A costs. Table 4 shows the

regression result that explains the relation between cost behavior and foreign ownership using a subsample of firms in the manufacturing industry. The coefficient of  $\beta_1$  is positive and the t-value of  $\beta_3$  is  $-2.44$  meaning R&D costs of Korean firms with foreign ownership shows sticky behavior during sales decreases. This implies, unlike criticism towards foreign investors alleged to be short-term profit maximizers, foreign ownership actually reduces the scale of R&D costs cut during hard times. Korean manufacturing industries are mostly comprised of automobile, semiconductor, electronics and chemicals. Continuous investment in R&D is crucial in these industries to develop high-tech and quality products. It can be inferred from the empirical result that foreign investors are aware of the importance of R&D in the manufacturing industry and this results in R&D cost-sticky behavior for Korean firms in manufacturing industry with foreign ownership. Table 5 shows result of identical analysis with subsample of service industry. For dependent variable, R&D, the coefficient of  $\beta_1$  is positive and the t-value of  $\beta_3$  is  $-3.32$ . R&D costs shows sticky behavior similar to those of the manufacturing industry. For example, R&D is crucial for sustainable development in the Information Technology (IT) service industry, which is a part of the service industry. R&D activity is getting more important nowadays as new industrial revolution prevails. Constructing a data platform, and network and building

artificial intelligence (AI) infrastructure require great R&D costs. For the dependent variable, number of employees, the coefficient of  $\beta_1$  is positive and the t-value of  $\beta_3$  is  $-2.40$ . In brief, Korean firms with foreign ownership, the empirical results show R&D cost and number of employees decrease less during sales revenue decreases and increase more during sales revenue increases. This implies, unlike criticism of short-termism causing reduction in R&D investment and laying off of employees, foreign investors, at least do not provoke or force managers to seek short-term interests at the expense of long-term growth of a firm. For the last dependent variable, I use selling, general and administrative (SG&A) expenditure as a cost variable and run a regression model with a sample composed of firms in the service industry to investigate the relationship between foreign ownership and cost-stickiness of SG&A expenditure.

SG&A expenses include all non-production expenses incurred by a company in any given period. This includes expenses such as rent, advertising, marketing, litigation, travel expenses, sales commission, promotional materials, and compensation of the company's officers.

Empirical results show, surprisingly, the t-value of  $\beta_1$  is positive and the t-value of  $\beta_3$  is  $-2.05$  suggesting that anti-stickiness of SG&A expenditures turns into cost-stickiness. This result does imply that firms with foreign ownership increase SG&A

expenditures in more magnitude during sales revenue increases compared to magnitude of decreasing SG&A cost when sales revenue decreases. Cost behavior is sticky when the cost is related to the main activity (Balakrishnan and Gruca, 2008). Considering the importance of SG&A in service industry for long-term oriented growth, it is difficult to argue that foreign investors overlook SG&A. Rather, cost-stickiness of SG&A in the service industry suggests that foreign investors do consider long-term oriented growth for service industry firms.

Especially, SG&A costs have important meaning in the sense that service industry firms entail a huge portion of advertising and marketing expenses due to a higher dependency on marketing. Unlike the manufacturing industry in which merchandise and products are crucial to sales revenue increase, marketing and brand image is relatively more important for the service industry. In brief, SG&A is more crucial for service industry in terms of sales revenue growth compared to the manufacturing industry. The empirical results show that the degree of anti-sticky is alleviated which implies foreign investors still consider long-term growth in service industry firms by focusing on SG&A which includes advertisement, marketing and brand management. Therefore, considering the importance of SG&A in the service industry for long-term oriented growth, it is difficult to argue that foreign investors overlook SG&A. Rather, foreign

investors tend to be considering continuous growth of firms in the service industry as we can see in the analysis of cost–stickiness of SG&A.

<Insert Table 4 here>

<Insert Table 5 here>

## 5.2. Pre and Post Financial Crisis Period

Financial Crisis has main facets comprising structural break of economy, turmoil in global financial industry and massive capital outflow from developing countries. Managers of firms facing significant economic changes conduct more thorough analysis (Brown and Tucker, 2011). Managers tend to make more prudent decisions regarding management policy including investments, recruitment and business strategy. The global financial crisis in 2007 and its aftermath caused severe hardships for business entities (Harrington, 2009; Campello et al., 2010). Hence, the crisis can affect management decision. Also, given the financial crisis causes disturbance in the financial system, the crisis may cause liquidity risk, credit risk and economic uncertainty. Thus, managers may conservatively operate the business and this can affect various decisions including investment and recruitment policies.



I partition samples into pre-crisis period and post-crisis period to see whether global financial crisis affected business policy. Samples before year 2008 constitutes pre-crisis period. Year 2008 and after is subsample for post crisis period. Table 7 shows empirical results for pre-crisis period. R&D cost shows sticky behavior, noticed from positive coefficient of  $\beta_1$  and the significantly negative t-value of  $\beta_3$ , which is  $-2.23$ . This implies managers did take care of R&D activity in Korea until the financial crisis. Table 8 shows empirical results for post-crisis period. Employment shows sticky movement in post-crisis period. This can be noticed from the positive coefficient of  $\beta_1$  and the significantly negative t-value of  $\beta_3$ , which is  $-2.89$ . My conjecture is that strong local regulations in favor of employees may prevent laying off of employees in Korea. Also, after the crisis, number of employment stickiness implies that companies with foreign ownership may have responded to decreases in revenue by increasing more temporary employees. Therefore, it may seem that the number of employees decreased less. On the contrary to R&D and employment, SG&A cost shows anti-sticky behavior after the post-crisis period. This can be noted from the fact of the positive coefficient of  $\beta_1$  and the significantly negative t-value of  $\beta_3$ , which is  $1.89$ . This suggests managers cut down significantly more SG&A expenses after the crisis period to minimize cost spending. In brief, Korean companies with foreign ownerships

showed a tendency to react to financial crisis by cutting down SG&A costs and seemingly increasing temporarily employees. This result aligns with concerns recently expressed by some regulators and policy makers that the rising importance of foreign investors is leading firms toward short-termist decisions (OECD, 2015).

<Insert Table 6 here>

<Insert Table 7 here>

<Insert Table 8 here>

## 6. Conclusion

I examine whether foreign ownerships cause short-termism in Korean companies. There has been continuous controversy over the relationship between foreign ownership of local companies and its impact on sustainable growth. To investigate the impact of foreign ownership on Korean companies, I followed the cost-stickiness model proposed by Anderson, Banker and Janakiraman. Results show that R&D and number of employees show sticky behaviors whereas SG&A reports anti-sticky behavior. This suggests that foreign investors do take care of R&D activities and retaining employees which refute criticism of short-termism. I further investigated such cost-stickiness behavior based on industry and analyzed the impact

of the global financial crisis in 2007. These additional studies also coincide with the main result suggesting that foreign ownership does not incur short-termism decisions at the expense of long-term growth of a firm. Instead, Korean firms with foreign ownership show cost-sticky behaviors in terms of R&D and number of employees implying that a relative magnitude of an increase in R&D and number of employees for an increase in sales revenue is greater than the relative magnitude of a decrease in R&D and number of employees for a decrease in sales revenue. SG&A shows anti-sticky behavior. This suggests Korean firms with foreign ownership consider R&D and employees crucial for continuous business operations. They react to sales revenue decreases by cutting down SG&A expenses which can be relatively easily recovered if sales revenue rebounds. Overall, these results show it is hard to assert that foreign investors seek short-term profits and force managers to make favorable decisions for foreign shareholders at the expense of deteriorating potentials for a long-term and sustainable growth of firms. My study contributes to the literature surrounding the analysis of the effects of foreign capital and investments into local firms and understanding cost behavior of firms with foreign ownership.

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## Appendix A. Variable Definitions

Variable	Definition
<b>Dependent variables</b>	
<i>R&amp;D</i>	Indicates research & development expenditures
<i>Emp</i>	Indicates number of employees
<i>SG&amp;A</i>	Indicates selling, general & administrative costs
<b>Variables used in Model</b>	
<i>For</i>	Variable indicating foreign ownership level
<i>Sales<sub>i,t</sub></i>	Sales revenue for a company i at time t
<i>Sales<sub>i,t-1</sub></i>	Sales revenue for a company i at time t-1
<i>Dec<sub>i,t</sub></i>	Dummy variable which takes the value of 1 when sales revenue decreases between t-1 and t, and 0 otherwise
<i>Industry FE</i>	Industry Fixed Effect
<i>Year FE</i>	Year Fixed Effect
<b>Control variables</b>	
<i>Asset</i>	Control variable representing the asset intensity
<i>Emp</i>	Control variable representing the employee intensity
<i>GDP</i>	GDP growth rate representing macroeconomic growth
<i>Sdec</i>	Represents sales revenue also declined in the preceding period

Figure 1: Foreign Ownership Trend

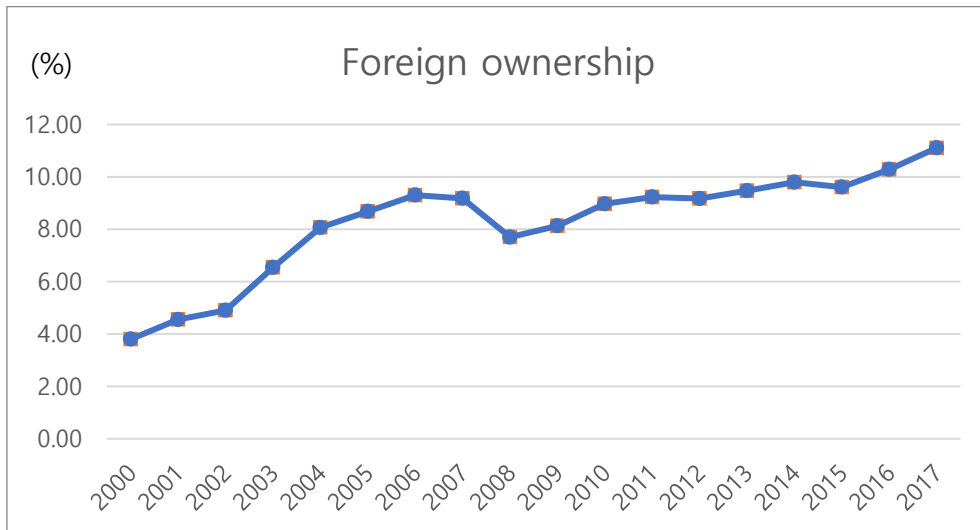


Figure 2 Cost Asymmetry

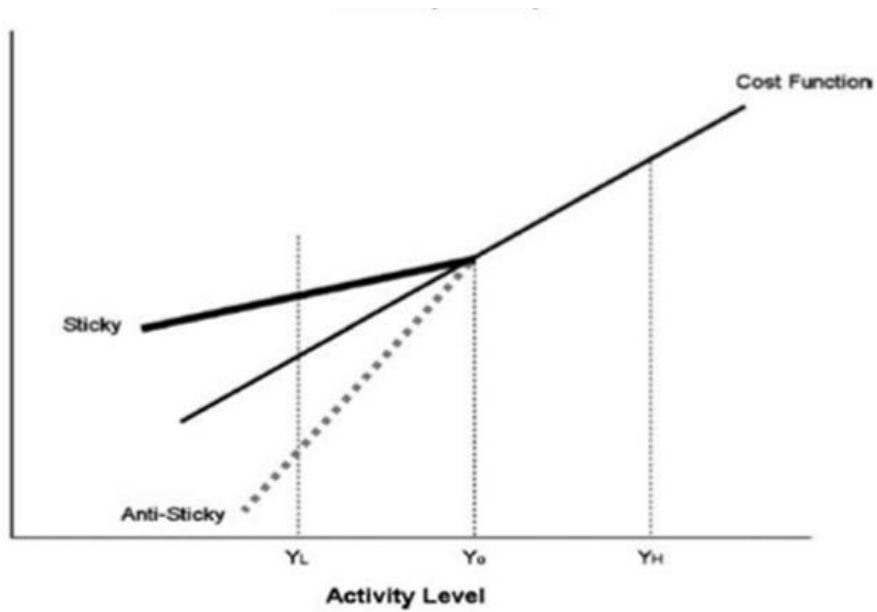


Table 1

## Descriptive Statistics

(Currency: Korean Won)

Variable	N	Mean	Std Dev	Q1	Median	Q3
R&D (in Million)	6737	61318	544894	628	2078	9735
Emp	10750	1585	5397	192	389	928
SG&A (in Million)	10892	276613	1741531	11244	29487	99991
R&D/Sale	6737	0.025	0.415	0.003	0.008	0.023
Sale/Emp (in Million)	10750	4615	37542	343	623	1262
SG&A/Sale	10892	0.192	1.144	0.065	0.108	0.199
$\log [R\&D_{i,t}/R\&D_{i,t-1}]$	6737	0.072	0.654	-0.112	0.066	0.260
$\log [Emp_{i,t}/Emp_{i,t-1}]$	10750	-0.015	0.211	-0.049	0.000	0.054
$\log [SG\&A_{i,t}/SG\&A_{i,t-1}]$	10892	0.065	0.281	-0.031	0.059	0.158
$\log [Sale_{i,t}/Sale_{i,t-1}]$	10892	0.054	0.271	-0.042	0.052	0.151
For	10892	0.096	0.138	0.004	0.031	0.134
Dec	10892	0.345	0.475	0.000	0.000	1.000
Asset_Intensity	10892	0.168	0.564	-0.181	0.121	0.455
Emp_Intensity	10892	-6.596	1.182	-7.139	-6.434	-5.838
GDP	10892	4.026	1.890	2.900	3.300	5.200
Sdec	10892	0.153	0.360	0.000	0.000	0.000

The sample size of R&D is 6737 consisting of KOSPI listed firms in 2000-2017. The sample size of number of employee is 10750 with equivalent time period of KOSPI listed firms. The sample size of SG&A is 10892 with identical time horizon with KOSPI listed firms during the period.

Table 2  
Correlation Matrix

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) Y	1.00									
(2) Y2	<b>0.14</b>	1.00								
(3) Y3	<b>0.26</b>	<b>0.14</b>	1.00							
(4) X1	<b>0.56</b>	<b>0.13</b>	<b>0.33</b>	1.00						
(5) For1	<b>0.04</b>	<b>0.03</b>	<b>0.07</b>	<b>0.06</b>	1.00					
(6) Dec	<b>-0.33</b>	<b>-0.09</b>	<b>-0.23</b>	<b>-0.62</b>	<b>-0.10</b>	1.00				
(7) Asset Intensity	<b>-0.12</b>	<b>-0.04</b>	<b>-0.07</b>	<b>-0.20</b>	<b>-0.03</b>	<b>0.15</b>	1.00			
(8) Emp Intensity	<b>-0.09</b>	<b>0.02</b>	<b>0.06</b>	<b>-0.13</b>	<b>-0.13</b>	<b>0.04</b>	<b>0.20</b>	1.00		
(9) GDP	<b>0.12</b>	0.01	-0.01	<b>0.14</b>	<b>-0.04</b>	<b>-0.11</b>	<b>-0.04</b>	<b>0.18</b>	1.00	
(10) Sdec	<b>-0.24</b>	<b>-0.10</b>	<b>-0.18</b>	<b>-0.39</b>	<b>-0.09</b>	<b>0.59</b>	<b>0.15</b>	<b>0.03</b>	<b>-0.04</b>	1.00

This table presents the Pearson correlation coefficient among the variables used in the analyses.

Bold coefficients indicate the significance at the 5 percent level.

Y1 represents  $\log[SG\&A_{i,t}/SG\&A_{i,t-1}]$ , Y2 represents  $\log[R\&D_{i,t}/R\&D_{i,t-1}]$

Y3 represents  $\log[Emp_{i,t}/Emp_{i,t-1}]$ , X1 represents  $\log[Sale_{i,t}/Sale_{i,t-1}]$

**Table 3**  
**Main Regression Analysis**

Dep. Variable	R&D (1)	Employee (2)	SG&A (3)
Intercept	-0.1319* (-1.86)	-0.0122 (-0.54)	-0.0002 (-0.01)
X1	0.1394** (2.00)	0.1547*** (6.89)	0.5830*** (21.95)
X1_dec	-0.3840 (-0.64)	-0.5388*** (-3.23)	-0.4981*** (-3.16)
X1_dec_for	-0.9796** (-2.16)	-0.3868* (-1.83)	0.3875* (1.71)
X1_inc_for	0.6599*** (2.63)	0.1852** (2.36)	0.3022* (1.82)
Z1_dec_asset	-0.0669 (-0.58)	-0.0305 (-0.91)	0.0880*** (2.71)
Z1_dec_emp	-0.0623 (-0.77)	-0.0965*** (-3.96)	-0.0365* (-1.84)
Z1_dec_gdp	0.0609 (1.56)	0.0471*** (3.50)	0.0003 (0.02)
Z1_dec_sdec	0.4642*** (2.90)	0.0276 (0.58)	0.0789 (1.49)
Year FixedEffect	Included	Included	Included
IndustryFixedEffect	Included	Included	Included
Adjusted R <sup>2</sup>	0.02	0.13	0.31
Observations	6737	10750	10892

\*, \*\*, \*\*\* indicate the significance respectively at the 10%, 5%, and 1% levels in two-sided tests. Numbers in parentheses are t-statistics that are based on standard errors

**Table 4**  
**Manufacturing Industry**

Dep. Variable	R&D (1)	Employee (2)	SG&A (3)
Intercept	-0.0691 (-0.58)	-0.0804*** (-4.21)	0.0220 (1.02)
X1	0.1999** (2.48)	0.1812*** (7.09)	0.5855*** (18.63)
X1_dec	-0.3856 (-0.42)	-0.1700 (-0.73)	-0.6383** (-1.98)
X1_dec_for	-1.3787** (-2.44)	0.0173 (0.07)	0.2307 (0.81)
X1_inc_for	0.4709* (1.88)	0.0237 (0.29)	0.0497 (0.23)
Z1_dec_asset	-0.0613 (-0.39)	-0.0096 (-0.20)	0.0355 (0.59)
Z1_dec_emp	-0.0555 (-0.43)	-0.0376 (-1.09)	-0.0550 (-1.06)
Z1_dec_gdp	0.0623 (1.34)	0.0208 (1.36)	-0.0075 (-0.37)
Z1_dec_sdec	0.3862** (2.28)	0.1724*** (3.71)	0.2511*** (3.42)
Year FixedEffect	Included	Included	Included
IndustryFixedEffect	Included	Included	Included
Adjusted R <sup>2</sup>	0.02	0.18	0.27
Observations	3821	5650	5713

\*, \*\*, \*\*\* indicate the significance respectively at the 10%, 5%, and 1% levels in two-sided tests. Numbers in parentheses are t-statistics that are based on standard errors

**Table 5**  
**Service Industry**

Dep. Variable	R&D (1)	Employee (2)	SG&A (3)
Intercept	-0.5606 (-1.18)	0.0642 (0.93)	0.1918*** (2.76)
X1	0.7144** (2.09)	0.1320*** (3.10)	0.2628** (2.48)
X1_dec	4.2943 (0.43)	0.6145 (0.96)	1.6638*** (4.53)
X1_dec_for	-14.4912*** (-3.32)	-1.6089** (-2.40)	-1.5994** (-2.05)
X1_inc_for	-0.0780 (-0.04)	0.7596*** (4.79)	1.1929** (2.13)
Z1_dec_asset	0.5918 (0.32)	-0.2629*** (-2.58)	-0.2738*** (-3.80)
Z1_dec_emp	-0.8298 (-0.49)	0.0860 (1.06)	0.2189*** (4.26)
Z1_dec_gdp	-2.0395*** (-2.73)	0.0080 (0.18)	0.0100 (0.56)
Z1_dec_sdec	-8.4873*** (-3.75)	0.3846* (1.77)	0.1410 (0.75)
Year FixedEffect	Included	Included	Included
IndustryFixedEffect	Included	Included	Included
Adjusted R <sup>2</sup>	0.00	0.10	0.32
Observations	130	282	292

\*, \*\*, \*\*\* indicate the significance respectively at the 10%, 5%, and 1% levels in two-sided tests. Numbers in parentheses are t-statistics that are based on standard errors



**Table 6**  
**Pre–Financial Crisis vs Post–Financial Crisis**

Dep. Variable	R&D (Pre)	R&D (Post)	Employee (Pre)	Employee (Post)	SG&A (Pre)	SG&A (Post)
Intercept	-0.0976 (-0.82)	-0.2820 (-1.16)	-0.0441 (-1.63)	-0.0041 (-0.19)	0.0146 (0.58)	-0.0051 (-0.33)
X1	0.0551 (0.43)	0.1586* (1.88)	0.2237*** (5.59)	0.1152*** (4.68)	0.4345*** (10.24)	0.6511*** (18.62)
X1_dec	-0.2383 (-0.20)	-0.3665 (-0.57)	-1.1542*** (-4.42)	-0.1795 (-0.88)	-0.7198*** (-2.92)	-0.4105** (-2.01)
X1_dec_for	-1.8657** (-2.23)	-0.3621 (-0.63)	-0.3681 (-1.13)	-0.7556*** (-2.89)	-0.1625 (-0.56)	0.7118* (1.89)
X1_inc_for	1.0969*** (2.61)	0.3240 (1.07)	0.4353*** (3.22)	0.0653 (0.71)	0.4761*** (2.68)	0.1536 (0.58)
Z1_dec_asset	-0.0123 (-0.07)	-0.1143 (-0.65)	0.0311 (0.72)	-0.0540 (-1.26)	0.0726 (1.40)	0.0845** (2.22)
Z1_dec_emp	-0.0413 (-0.24)	-0.0520 (-0.59)	-0.2003*** (-5.76)	-0.0487* (-1.66)	-0.0587 (-1.57)	-0.0134 (-0.54)
Z1_dec_gdp	0.0936 (1.19)	0.0431 (0.79)	0.0276 (1.07)	0.0580** (2.28)	0.0324 (1.19)	0.0219 (0.67)
Z1_dec_sdec	0.2556 (1.12)	0.7212*** (3.46)	0.0029 (0.04)	0.0217 (0.36)	0.2375*** (3.03)	-0.0189 (-0.26)
Year FixedEffect	Included	Included	Included	Included	Included	Included
IndustryFixedEffect	Included	Included	Included	Included	Included	Included
Adjusted R <sup>2</sup>	0.02	0.02	0.19	0.09	0.19	0.41
Observations	3385	3352	4394	6356	4446	6446

\*, \*\*, \*\*\* indicate the significance respectively at the 10%, 5%, and 1% levels in two-sided tests.  
Numbers in parentheses are t-statistics that are based on standard errors

Table 7 (Separation of Table 6, Pre–Financial Crisis part)  
Pre–Financial Crisis

Dep. Variable	R&D (1)	Employee (2)	SG&A (3)
Intercept	-0.0976 (-0.82)	-0.0441 (-1.63)	0.0146 (0.58)
X1	0.0551 (0.43)	0.2237*** (5.59)	0.4345*** (10.24)
X1_dec	-0.2383 (-0.20)	-1.1542*** (-4.42)	-0.7198*** (-2.92)
X1_dec_for1	-1.8657** (-2.23)	-0.3681 (-1.13)	-0.1625 (-0.56)
X1_inc_for1	1.0969*** (2.61)	0.4353*** (3.22)	0.4761*** (2.68)
Z1_dec_asset	-0.0123 (-0.07)	0.0311 (0.72)	0.0726 (1.40)
Z1_dec_emp	-0.0413 (-0.24)	-0.2003*** (-5.76)	-0.0587 (-1.57)
Z1_dec_gdp	0.0936 (1.19)	0.0276 (1.07)	0.0324 (1.19)
Z1_dec_sdec	0.2556 (1.12)	0.0029 (0.04)	0.2375*** (3.03)
Year FixedEffect	Included	Included	Included
IndustryFixedEffect	Included	Included	Included
Adjusted R <sup>2</sup>	0.02	0.19	0.19
Observations	3385	4394	4446

\*, \*\*, \*\*\* indicate the significance respectively at the 10%, 5%, and 1% levels in two-sided tests.  
Numbers in parentheses are t-statistics that are based on standard errors

Table 8 (Separation of Table 6, Post–Financial Crisis part)  
Post–Financial Crisis

Dep. Variable	R&D (1)	Employee (2)	SG&A (3)
Intercept	-0.2820 (-1.16)	-0.0041 (-0.19)	-0.0051 (-0.33)
X1	0.1586* (1.88)	0.1152*** (4.68)	0.6511*** (18.62)
X1_dec	-0.3665 (-0.57)	-0.1795 (-0.88)	-0.4105** (-2.01)
X1_dec_for1	-0.3621 (-0.63)	-0.7556*** (-2.89)	0.7118* (1.89)
X1_inc_for1	0.3240 (1.07)	0.0653 (0.71)	0.1536 (0.58)
Z1_dec_asset	-0.1143 (-0.65)	-0.0540 (-1.26)	0.0845** (2.22)
Z1_dec_emp	-0.0520 (-0.59)	-0.0487* (-1.66)	-0.0134 (-0.54)
Z1_dec_gdp	0.0431 (0.79)	0.0580** (2.28)	0.0219 (0.67)
Z1_dec_sdec	0.7212*** (3.46)	0.0217 (0.36)	-0.0189 (-0.26)
Year FixedEffect	Included	Included	Included
IndustryFixedEffect	Included	Included	Included
Adjusted R <sup>2</sup>	0.02	0.09	0.41
Observations	3352	6356	6446

\*, \*\*, \*\*\* indicate the significance respectively at the 10%, 5%, and 1% levels in two-sided tests.  
Numbers in parentheses are t-statistics that are based on standard errors

국문초록  
외국인 지분이 단기성과주의에 미치는 영향:  
Cost-Stickiness 모형 중심으로

김 민 석

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외환위기 이후 국내 자본시장이 개방됨에 따라, 국내 자본시장에서 외국인 지분이 차지하는 비중이 꾸준히 증가하여 왔다. 외국인 지분 증가는 해외에서도 자본 조달이 가능해진 측면에서 긍정적으로 볼 수 있다. 하지만, 일부 외국인 투자자들은 기업의 지속 가능한 성장을 위한 투자 보다는 단기 성과에 초점을 많이 두는 경향을 보여와 논란이 되었다. 이에 따라 본 논문에서는, 외국인 지분에 따른 기업의 원가 행태를 살펴보고자 한다. 원가 경직성 모형을 활용하여 분석한 결과, 연구개발비 및 근로자 수는 매출 수익 감소 기간에 하방경직적 행태를 보였다. 판매관리비의 경우, 매출 수익 감소 시, 하방탄력적 행태를 보였다. 종합적으로, 외국인 투자자들이 단기 성과주의에 집착하여 국내 회사를 어려움에 처하게 한다고 볼 수 없으며, 오히려 대리인 비용 감소 및 모니터링 역할 강화와 같은 긍정적인 기능을 수행하고 있음을 시사한다.

주요어: 외국인지분, 단기성과주의, 원가행태, 원가 하방경직성

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