

Korean Executive Trust, Social Responsibility, and Financial Performance: A Moderated Mediation Model*

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Abstract

Purpose - The purpose of this study is to explore the impacts of Korean executives' trust on a firm's corporate social responsibility (CSR) activities and corporate financial performance (CFP), which depends on their individual social responsibility (ISR).

Design/methodology/approach - A survey was conducted, and 273 Korean executives were recruited. I used SPSS version 25.0, AMOS version 26.0, SmartPLS version 3.2., and PROCESS Macro 3.4. to analyze the moderated mediation model. And, the Structural Equation Modelling (SEM) was employed to confirm the proposed relationships in the model.

Findings - The results show that Korean executives' trust is positively related to CSR. I also found that Korean executives' trust is positively related to CFP. Moreover, I found that there is a mediating effect of a firm's CSR activities on the trust-CFP relationship. However, I didn't find conditional indirect and direct effects on the relationships among the proposed constructs. The findings overall suggest that Korean executives' trust is such an important mechanism that will affect firm-level CSR and CFP.

Research implications or Originality - Although prior studies reveal that executives' trust in their subordinates positively influences cooperation, creativity, and innovation among subordinates in a team, it is still unclear whether executives' trust in their employees or strangers impacts firm-level CSR and CFP. Moreover, not many studies examined the mediating effect of CSR on executives' trust and CFP especially in the Korean context. Therefore, this study intends to fill the knowledge gap by focusing on South Korea. This study also contributes to extant CSR and trust literature, and practically contributes to executives, policy makers, and practitioners in South Korea.

Keywords: Financial Performance, Korean Executive Trust, Moderated Mediation, Social Responsibility

JEL Classifications: G41, M14, M40

I. Introduction

This study is motivated by the recent research exploring the possibility whether managerial rhetoric tells a firm's culture, strategies, or policies (Audi, Loughran and McDonald, 2016). There is a vast amount of accounting and finance literature that analyzes how managerial tone would affect investor behavior or firm performance (Price et al., 2012). However, there still is no clear explanation about how their tone or rhetoric would be reflected in their firm's corporate social responsibility (CSR) policies or strategies, which would result in a different level of corporate financial performance (CFP).

* This paper is based on the part of the Ph.D. thesis, being written by the author. All errors are on my own.

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While there are various types of trust that can be explained with different logics, some studies have shown that social or societal trust enhances CFP by having lower levels of corporate misconduct (Wang, Cao and Ye 2018) or higher levels of earnings quality (Pevzner, Xie and Xin, 2015). Other studies have shown that trust in exchange relationships reduces transaction costs, improves information sharing, and creates economic value (Dyer and Chu, 2003; Um and Oh, 2020). And, an impressive body of knowledge investigated the implications of the level of trust in consumers or employees to CSR (Archimi et al., 2018).

Moreover, when considering trust as personalized trust, a relational exchange is involved since personalized trust is developed based on fairness and reciprocity (Nee, Holm and Opper, 2018). And, personalized trust is similar to relational trust or mutual trust since all arise from repeated interactions with one another (Poppo, Zhou and Li, 2016; Thomas, 1998). Generalized trust is trust in strangers, in other words, an individual's belief that others will not behave against their interests (Wang et al., 2016). When there is a high level of generalized trust in the trade context, there is a low level of transaction costs, resulting in faster economic growth (Alon and Hageman, 2013).

While studies produced a variety of insights into the construct of trust, an appropriate attention has not been given to the importance of executives' extent of trust in its relationship with CSR and CFP. For this reason, the aim of this paper is to investigate the relationship between the extent of Korean executives' trust, a firm's CSR activities, and CFP. Executives with a high level of trust propensity might tend to regard motives of a firm's CSR activities as more just and sincere, and they could make them more attune to a firm's CSR initiatives (Hansen et al., 2011). Trust propensity refers to an individual's dispositional tendency to be vulnerable to other people's behavior (Alarcon et al., 2018). And, in this paper, trust is defined as the extent to which an individual is vulnerable or confident in others' words or actions (Mayer, Davis and Schoorman, 1995). And, based on the perspective of generalized trust, Korean executives' level of trust in their employees and strangers are examined in this study.

To achieve the aim of this study, a survey strategy was used. And, 273 Korean executives were surveyed. The main finding of this study is that firstly, Korean executives' trust is positively related to a firm's CSR activities. Secondly, Korean executives' trust is positively related to CFP. Thirdly, it is found that there is a mediating effect of a firm's CSR activities on the relationship between Korean executives' trust and CFP. However, there was no moderated mediation effects of Korean executives' trust on CFP through CSR when having individual social responsibility (ISR) as a moderator.

As the construct of trust has been widely examined in the behavioral economic literature using the models that incorporate social preferences for fairness and trust reciprocity (Maas, van Rinsum and Towry, 2012), the primary contribution of this research to both trust and CSR literatures is an increased understanding of how executives' trust associates with their ISR, and influences firm-level CSR activities and CFP (Chen and Wan, 2019; Xu, Fernando and Tam, 2019).

Seeing managers as benevolent agents who invest their time and make efforts in making a better society from the moral legitimacy perspective will provide an opportunity to explore other types of personal values in investigating its relationship with CSR and CFP. Therefore, this study will greatly contribute to linking aspects of CSR and trust literatures. Moreover, this study will also practically contribute to managers and practitioners in South Korea. In summary,

this research highlights the role of executives' trust particularly in Korean firms, and examine the intertwining relationships of Korean executives' trust, their ISR, a firm's CSR activities and CFP.

The rest of this paper is structured as follows. Firstly, the literature review and hypotheses development section is shown in section II. Next, the method section is introduced in section III. Then, the empirical results are discussed in section IV. Lastly, conclusion is shown in section V.

II. Literature Review and Hypotheses Development

1. Theoretical framework

Based on the upper echelons theory (UET), upper echelons' background characteristics such as their experiences, cognitive styles, personality, or personal values influence their strategic decision-making within the bounded rationality (Ellahie, Tahoun and Tuna, 2017). Upper echelons are powerful stakeholders such as CEOs or top management individuals, and they often encounter uncertain situations that they cannot easily find out solutions (Yang, 2012). So, their personal experience, psychological or observable characteristics tend to impact their strategic choices, and resultant corporate decisions such as a firm's strategy, their financing policy, payout policies, investment decisions, or firm performance (Ellahie, Tahoun and Tuna 2017).

Studies that investigated various managerial styles examined the relationship between managers' particular characteristics and a firm's strategic policy choices (Bushman et al., 2018). And, in this line of research, studies often investigated CEO's dark-side traits such as overconfidence, hubris, narcissism, or dominance since their dark-side traits are known to be associated with strategic decision-making (Petit and Bollaert, 2012). CEOs with those dark-side traits tend to choose bold actions that have a huge risk resulting in either a huge gain or a huge loss in CFP (Nadkarni and Hermann, 2010). Moreover, narcissistic CEOs might also manipulate the accounting numbers in the financial statements to improve their reputation (Amernic and Craig, 2010), and they are likely to inflate firm performance arbitrarily to gain a positive social outcome taking a huge risk of losing everything when revealed (Rijssenbilt and Commandeur, 2013). Overall, it can be seen that their psychological characteristics can influence their strategic choices (Hambrick & Mason, 1984), and shape a firm's CSR activities (Maak, Pless and Voegtlin, 2016), and influence firm financial performance (Waldman, Javidan and Varella, 2004). Therefore, there is a need to investigate Korean executives' level of trust, and its influences to CSR and CFP since the importance of investigating executives' trust as their psychological characteristics and its influences to CSR and CFP in the Korean context is ignored.

2. Executives' trust and a Firm's CSR activities

Executives' trust in their subordinates naturally builds trust among subordinates emphasizing cooperation among the team members (Long, 2018). This helps to improve the effectiveness and the efficiency of the team (Cheng, Fu and Druckenmiller, 2016). Moreover, executives' trust in their subordinates plays a key role for the long-term stability of their company (Hu

and Wang, 2014). And, the corporate culture that emphasizes trust among internal stakeholders also helps to build corporate reputation since customers expect those firms to be socially responsible (Decker and Sale, 2009).

A firm's CSR activities usually result in stakeholder trust (Pivato, Misani and Tencati, 2008). Since the greatest battle of corporate executives these days is to win the trust of various stakeholders (Beslin and Reddin, 2004), a firm's CSR activities might be an important tool for them. Specifically, a firm's CSR activities can be seen as a corporate executive's tool to win the hearts of their employees (Hansen et al. 2011). Hence, CSR is a strategy for executives to attract potential employees, and keep them engaged once they are hired (Brammer, Millinton and Rayton, 2007).

Moreover, executives as organizational leaders often test their employees with various work assignments, and employees' compliance with executives' demands results in an increase of executives' trust in their employees (Graen and Cashman, 1975). And, executives' trust in their employees leads to employees' immersion in their work, which results in an improvement of their job performance (Han and Park, 2015). Trust among internal stakeholders has a positive influence on the level of cooperation among them, and organizational performance (Coletti, Sedatole and Towry, 2005). And, cooperation among internal stakeholders plays a key role in implementing CSR practices (Pearce and Ensley, 2004). Therefore, the link between executives' trust in their employees and a firm's CSR activities can also be established.

However, while prior research focused on investigating the relationship between executives' trust in their subordinates and subordinates' team-level performance (Archimi et al., 2018), or the relationships among ethical leadership behavior, organizational citizenship behavior, and CSR emphasizing the role of trust as a mediator, moderator or an outcome of the relationships among them (Tourigny et al., 2019), an analysis of the relationship between executives' trust in their subordinates and firm-level CSR activities is scarce. Therefore, it's important to investigate how executives' trust in their employees operates as a mechanism that influences a firm's CSR activities.

In South Korea, the level of trust between individuals and firms is important in business because of *yongo* (Horak, 2018). *Yongo* is similar to *guanxi* in China, the informal social networks of people (Horak and Taube, 2016). Although South Korea is economically stable with strong formal institutions, *yongo* still influences the everyday life of people (Horak and Klein, 2016). In this country where the informal network is strong, the level of trust among people is also strong because they cooperate based on their high-trust relationships contributing to group harmony (Horak, 2014b). People who don't have any *yongo* or *yonjul*, they might have hard time finding a job or getting a promotion in their workplace (Horak, 2014a). South Korea is also culturally similar to Japan, and has similar management practices with the United States (Dyer and Chu, 2000). While other countries have been enormously investigated in its management practices and unique cultures, South Korea has been somewhat ignored in its inquiry into peculiar management practices. Therefore, it's important to investigate the level of Korean executives' trust that could significantly influences a firm's CSR activities. In this sense, the following hypothesis is proposed.

H1: Korean executives' trust is positively related to a firm's CSR activities.

3. Executives' trust and Corporate Financial Performance

While most prior studies investigated the relationship between managerial opportunism and financial reporting, there are few studies that investigated the relationship between managers' ethical concerns and financial reporting (Kim, Park and Wier, 2012). Studies that emphasize the agency theory perspective are focused on explaining self-serving managers' behavior in disguising earnings management obstructing investors' monitoring activities (Pevzner, Xie and Xin, 2015). These studies argue that executives manipulate revenues and expenses to conceal their firm's true financial performance so that they can pursue their own self-interest such as maximizing their bonus potential (Beaudoin, Cianci and Tsakumis, 2015).

Moreover, when managers exploit the trust between the agent and the principal, it could harm CFP (Lado, Dant and Tekleab, 2008). And, when there is a lack of monitoring mechanism, trust is also known to provide opportunities for managers to exploit trust (Bostrom, 2015; Hirsch, Nitzl and Schoen, 2018). Because of managers' opportunistic behavior, investors want additional information such as a firm's CSR activities (Wang and Tuttle, 2014).

However, executives might have an incentive to be ethical in influencing financial reporting behavior thereby increasing financial reporting transparency (Arel, Beaudoin and Cianci, 2012). Based on the excellence-based virtues, accountants as public servants will try to sustain the trust-based financial reporting system rather than seeking benefits acting as corporate agents (Lail et al., 2017). In a similar sense, based on the leader-member exchange theory, trust plays a fundamental role in effective workplace relationships between leaders and followers (Farr-Wharton, Brunetto and Shacklock, 2011). The mutual trust and support between leaders and followers lead to management effectiveness, enhanced sales performance, and better overall firm financial performance (Jing, Avery and Bergsteiner, 2014). Therefore, there is a need to investigate management as public servants, and enhanced firm financial performance as a positive outcome of their trust. Based on this argumentation, hypothesis 2 is proposed as below.

H2: Korean executives' trust is positively related to firm financial performance.

4. A firm's CSR activities as a Mediator

A firm's CSR activities can be defined as a firm's social responsibility that meets the economic, legal, ethical, and discretionary expectations of society leading to a development of four dimensions of economic, legal, ethical, and discretionary citizenship of CSR (Carroll, 1979). And, executives' trust in their employees or strangers might be an important element that might enhance CSR, which could result in enhancing CFP; hence, a firm's CSR activities is considered the outcomes of Korean executives' trust as well as a mediating factor for CFP in this research.

The previous literature shows that CSR plays an important role in enhancing trust among internal stakeholders in an organization, customers or the general public (Barney and Hansen, 1994; Potepkin and Firsanova, 2017; Hung-Baesecke, Chen and Boyd, 2016). Several studies have also documented the vital role of CSR in enhancing CFP or vice versa (Beck, Frost and Jones 2018; Franco et al., 2020; Su, Liu and Teng 2020; Hou, 2019). However, not many studies investigated the effects of trust on CSR, which could further influence CFP especially in the Korean context. Therefore, the present research aims to observe the associations among Korean executives' trust in their employees or strangers, CSR, and CFP.

Studies investigated the mediating role of a firm's CSR activities on the relationship between leadership and employees' job performance (Manzoor et al., 2019), the mediating effect of CSR ratings on the relationship among the diversity of board resources, gender composition, and corporate reputation (Bear, Rahman and Post, 2010), the mediation of CSR commitment in the link between CSR orientation, CSR competencies, and CSR participation (Yasir et al., 2021), the mediating effect of CSR to customer orientation, customer interaction, and CFP (Kiessling, Isaksson and Yasar, 2016).

However, not many studies investigated the mediating effect of CSR on the relationship between executives' psychological characteristics such as their level of generalized trust and CFP. Hence, this study investigates the mediating role of CSR on the relationship between executives' trust in their employees and subordinates and CFP. And, the following hypothesis is proposed:

H3: Korean firms' CSR activities will positively mediate the effects of Korean executives' trust on CFP.

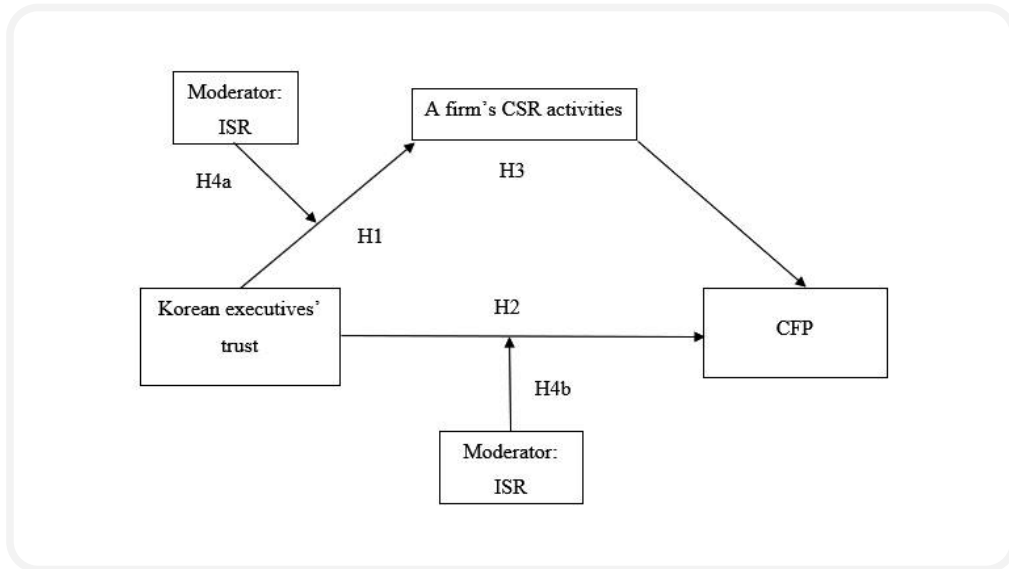
5. The Conditional Direct and Indirect Effects of Individual Social Responsibility

Ethical leadership theory has been applied to explain the role of individual social responsibility (ISR) in explaining its' effect to a firm's CSR practices (Tourigny et al., 2019). This theory suggests that the extent to which an individual is regarded as an ethical leader should tell people if that person exemplifies a moral person's or a moral manager's characteristics (Marquardt, Brown and Casper, 2018). Ethical leaders act in accordance with "high ethical principles such as honesty, fairness, and trustworthiness" (Zhu, Sun and Leung, 2014, p. 940). Moreover, executives' ethical leadership positively affects the overall culture of a firm influencing a firm's CSR practices (Wu et al., 2015). In other words, executives' degree of ISR based on their high ethical principles such as their high level of trustworthiness will positively influence a firm's CSR activities as executives who are more ethical would be more motivated to improve their firm's CSR performance (Zhu, Sun and Leung 2014).

Moreover, executives' ethical leadership aligned with their high degree of ISR tend to positively affect a firm's CSR practices since it affects the ethical climate of a firm, and it might lead to enhanced CFP (Shin et al., 2015). Among many ethical principles, there is a need to investigate how Korean executives' degree of trust affects CSR and CFP as it has been known that trust could be the mechanism through which executives' leadership leads to a higher level of a firm's CSR activities and better financial outcome (Chun et al., 2013). Therefore, I propose the following hypotheses which show that the effectiveness of Korean executives' trust to a firm's CSR activities and/or CFP will vary depending on the degree of Korean executives' ISR,

H4a: The indirect positive effects of Korean executives' trust on CFP through a firm's CSR activities will be moderated by the degrees of their ISR - increasing as ISR increases.

H4b: The positive impact of Korean executives' trust on CFP will be moderated by their levels of ISR - increasing as ISR increases.

Fig 1. Research Framework

III. Method

1. Sample selection

This study conducted a survey by hiring the reputable surveying company, Macromill Embrain. The survey was conducted in South Korea. The survey questionnaire was firstly prepared in English, and was then translated in Korean by a translator from National Accreditation Authority for Translators and Interpreters (NAATI) so that an accuracy in translating can be ensured.

The survey questionnaire in Korean was distributed to potential survey participants in Korean firms in various industries. Based on the population, 2297 Korean firms in the Data Analysis, Retrieval and Transfer (DART) System, a sample population of 421 Korean firms were selected using simple random sampling technique. Since processing the entire dataset of the population is not necessary and too expensive (Olken and Rotem, 1986), only the selected Korean firms were examined to achieve the aim of this study. The distribution of participants' companies among Korean Standard Industrial Classification (KSIC) codes is shown in <Table 1> below.

Table 1. Percentage of Firms by Korean Standard Industrial Classification (KSIC) Code

KSIC	Industry	Percent
A0	Agriculture, forestry, and fishing	0.4%
B0	Mining and quarrying	0%
C0	Manufacturing	23.8%
D0	Electricity, gas, steam, and water supply	1.1%
E0	Sewerage, waste management, materials recovery, and remediation activities	0.7%
F0	Construction	8.1%
G0	Wholesale and retail trade	12.5%
H0	Transportation	0.7%
I0	Accommodation and food service activities	1.8%
J0	Information and communications	7.3%
K0	Financial and insurance activities	4.0%
L0	Real estate activities and renting and leasing	4.8%
M0	Professional, scientific, and technical activities	8.4%
N0	Business facilities management and business support services	2.9%
O0	Public administration and defense; compulsory social security	1.5%
P0	Education	6.6%
Q0	Human health and social work activities	6.2%
R0	Arts, sports, and recreation related services	1.5%
S0	Membership organizations, repair, and other	2.9%
T0	Activities of households as employers; undifferentiated goods	0%
U0	Activities of extraterritorial organizations and bodies	0%
N/A	Others	4.8%

After collecting responses, responses from the non-executive level employees were excluded since examining them does not match with the aim of this study. Only executives were selected as the target sample to represent their firms. As summarized in (Table 2), the sample selection process leaves a final sample of 273 observations.

Table 2. Sample Selection

Sample Selection Process	Number of observations
Total Sample	421
Less sample from respondents that were not at the managerial position	148
Final sample for data analysis	273

The demographic information of the participants are reported in (Table 3).

Table 3. Demographic Characteristics of Participants

Gender	Frequency	Percent
Male	181	43%
Female	240	57%
Age		
<19	0	0%
20-29	86	20.4%
30-39	173	41.1%
40-49	123	29.2%
50-59	33	7.8%
>60	6	1.4%
Education		
Below junior high & junior high graduates	0	0%
High school graduate	47	11.2%
College graduate	316	75.1%
Master	42	10%
Doctorate	16	3.8%
Years Spent in the Company		
<1year	51	12.1%
1year to 5 years	170	40.4%
5 years to 10years	97	23%
10 years to 20 years	81	19.2%
>20years	22	5.2%
Years Spent in Current Position		
<1year	52	12.4%
1year to 5 years	242	57.5%
5 years to 10years	84	20%
10 years to 20 years	35	8.3%
>20years	8	1.9%
Participants' Position		
Chief Executive Officer (CEO)	21	5.0%
Chief Financial Officer (CFO)	3	0.7%
Chief Strategy Officer (CSO)	2	0.5%
Executives, Board members	16	3.8%
Chief or head of department	38	9.0%
Deputy head of department	36	8.6%
Section chief or head	66	15.7%
Deputy section chief or head	91	21.6%
Member of the staff	144	34.2%
Others	4	1.0%

2. Survey instruments

This study used 10 measures of trust consisting of asking questions such as executives' level of trust in employees (Lins, Servaes and Tamayo, 2017), employees' competency at their jobs (Hansen et al., 2016), employees' reliability (Frazier et al., 2015), employees' honesty (Kiffin-Petersen and Cordery, 2003), and employees' willingness to tell the truth about the limits of their knowledge (Alarcon et al., 2018), executives' willingness to leave their door unlocked at their office (Glaeser et al., 2000), employees' willingness to keep executives informed about their concerns at work (De Jong and Elfring, 2010), executives' confidence in technicians (Banai et al., 2014), executives' wariness (Touré-Tillery and McGill, 2015), executives' cautiousness towards strangers (Roussin and Webber, 2012).

In measuring their ISR, this study used 10 measures comprised of first 5 questions asking their CSR attitude such as the extent that they think it's important for a firm to enhance a firm's image (Ramasamy, Yeung and Chen, 2013), the extent that they think whether they are willing to put an effort beyond the usual expectation of the society (Haski-Leventhal, Roza and Meijs, 2017), the extent that they think their personal value is similar to their firm's values (Gehman, Trevino and Garud, 2013), the extent that they think if it is important for a firm to improve the community's quality of life (Zu and Song, 2009), and the extent that they think a firm's profitability is important (Tahir, Ahmad and Manaf, 2015).

The second set of 5 questions about their CSR behavior is asking them the extent to which they think they abide by a firm's safety and health policy (Parboteeah and Kapp, 2008), the extent to which they think they are held accountable to show respect to stakeholders (Bhattacharyya, 2016), the extent to which they think they offer equal opportunities to existing and potential employees including women, immigrants, or disabled people (Graafland, Eijffinger and Johan, 2004), the extent to which they are implementing a firm's environmental policies to reduce greenhouse gases (Fukukawa, Shafer and Lee, 2007), and the extent to which they think they support to direct part of the budget to donation for the disadvantaged (Mazereeuw-van der Duijn Schouten, Graafland and Kaptein, 2014).

In measuring a firm's CSR activities, this study used 16 questions such as asking the respondents the extent to which they think their firm is successful in maximizing profits (Carroll, 1979), executives seek to comply with the law (Giovanna and Lucio, 2012), their firm strives to lower operating costs, their firm closely monitors employees' productivity, their executives establish long-term strategies for their firm, their firm seeks to comply with all laws regulating hiring employees, their firm has programs that encourage the diversity of workforce, they think internal policies prevent discrimination in employees' compensation and promotion (Maignan and Ferrell, 2000), they think fairness towards co-workers and business partners is an integral part of the employee evaluation process, they think flexible company policies enable employees to better coordinate work and personal life (Evans, Davis and Frink, 2011), they think their firm has a comprehensive code of conduct, they think their firm is recognized as a trustworthy firm, their employees are required to provide full and accurate information to all customers, their firm gives adequate contributions to charities, they think there are programs to reduce the amount of energy and materials wasted in their firm, which they think their firm encourages partnerships with local businesses and schools (Galbreath, 2010).

In measuring CFP, this study used 12 questions. The first set of 6 questions ask the re-

spondents about their firm's overall ROA, ROE, ROS (Venkatraman and Ramanujam, 1986), average annual market share growth, average annual sales growth (Gupta and Govindarajan, 1986), and an ability to fund growth from profits (Zacca and Dayan, 2018). The second set of 6 questions ask the respondents about their firm's performance in comparison with their industry competitors (Delaney and Huselid 1996).

Respondents were also asked about their firm characteristics such as firm age, legal status, the number of employees in their firm, annual sales revenue, annual research and development (R&D) expenditure, or industry type (Galbreath, 2010).

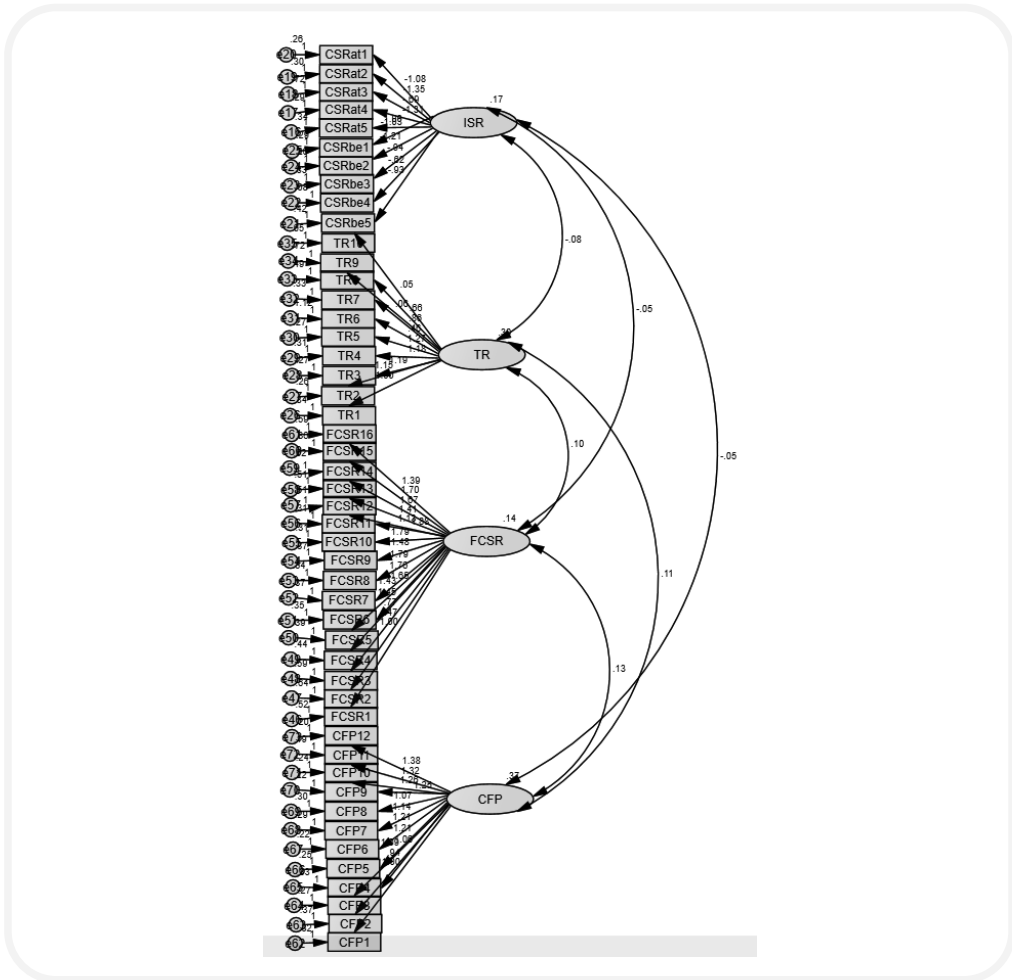
To deal with a self-selection bias, survey questionnaires were distributed to both religious people and non-religious people as people who are more religious than others might be more interested in participating in the survey (Yadav and Pathakk, 2017). To deal with common method bias (CMB), participants were informed that the survey was completely anonymous (Fuller et al., 2016). The Harman's single factor test also says that the total percentage of variance is 27.174%, which is far less than 50%; thus, there is no evidence of CMB (Podsakoff et al., 2003).

IV. Empirical Results

1. Model and analysis

I used SPSS version 25.0, AMOS version 26.0, SmartPLS version 3.2, and PROCESS Macro 3.4 to analyze the moderated mediation model. The data collected were firstly tested for reliability and validity by conducting Confirmatory Factor Analysis (CFA) as shown in (Fig 2). The initial CFA model test revealed a moderate model fit: χ^2/df (2,688), the Root Mean Square Error of Approximation (RMSEA) (0.079), Normed Fit Index (NFI) (0.675), Relative Fit Index (RFI) (0.658), Incremental Fit Index (IFI) (0.768), Tucker-Lewis Index (TLI) (0.754), Comparative Fit Index (CFI) (0.766), the values of Adjusted Goodness of Fit Index (AGFI) (0.643). Then, the Structural Equation Modelling (SEM) was employed to confirm the proposed relationships in the model. Values for reverse coded items were changed from 5 to 1, 4 to 2, 2 to 4, and 1 to 5 for consistency in data. The correlation matrix is shown in the appendix.

Fig 2. Confirmatory Factor Analysis



The descriptive statistics are shown below in (Table 4).

Table 4. Descriptive Statistics

	Mean	Standard Deviation
TR1	3.03	0.802
TR2	3.14	0.813
TR3	3.19	0.830
TR4	2.92	0.856
TR5	3.05	0.871
TR6	3.05	1.088
TR7	3.12	0.748
TR8	2.82	0.791

TR9	2.59	0.854
TR10	2.45	0.808
CSRat1	3.73	0.680
CSRat2	3.70	0.788
CSRat3	3.01	0.899
CSRat4	3.59	0.768
CSRat5	2.42	0.714
CSRbe1	3.59	0.692
CSRbe2	3.50	0.718
CSRbe3	3.33	0.692
CSRbe4	3.06	0.864
CSRbe5	3.36	0.759
FCSR1	3.06	0.813
FCSR2	3.49	0.823
FCSR3	3.18	0.824
FCSR4	3.25	0.859
FCSR5	3.42	0.828
FCSR6	3.25	0.860
FCSR7	2.85	0.901
FCSR8	2.94	0.893
FCSR9	3.27	0.826
FCSR10	3.31	0.876
FCSR11	3.03	0.903
FCSR12	3.47	0.831
FCSR13	3.33	0.891
FCSR14	2.90	0.957
FCSR15	2.75	0.876
FCSR16	2.85	0.933
CFP1	3.24	0.830
CFP2	3.00	0.838
CFP3	3.22	0.843
CFP4	3.16	0.867
CFP5	3.16	0.890
CFP6	3.08	0.871
CFP7	3.15	0.876
CFP8	3.02	0.855
CFP9	3.12	0.892
CFP10	3.10	0.911
CFP11	3.08	0.918
CFP12	3.00	0.951

2. Test of the measurement model

I evaluated the reliability and validity of measures of the constructs. Factor loadings that were less than 0.50 (T6, T9, T10, RELin5, RELco3, RELbe5, CSRat5) were deleted (Nunally and Bernstein, 1978). The convergent validity was assessed using the average variance extracted (AVE) and it is found that the construct accounts for more than half of the indicators' variance as the figure showed the acceptable values of 0.5 or higher except for CSRbe which showed 0.47, but it is still close to 0.5 (Fornell and Larcker, 1981). Composite reliability was tested using Cronbach's alpha, and all of the values were above 0.60 indicating the establishment of composite reliability (Shukla and Purani, 2012) (see <Table 5>).

Table 5. Measurement Model – Convergent Validity

Constructs	Code	Outer loadings	α	AVE
TRUST	TR1	0.75	0.87	0.57
	TR2	0.81		
	TR3	0.80		
	TR4	0.79		
	TR5	0.82		
	TR7	0.71		
	TR8	0.55		
	CSRat	CSRat1		
CSRat2		0.81		
CSRat3		0.35		
CSRat4		0.81		
CSRbe	CSRbe1	0.69	0.71	0.47
	CSRbe2	0.79		
	CSRbe3	0.75		
	CSRbe4	0.52		
	CSRbe5	0.64		
CSReco	FCSR1	0.73	0.69	0.51
	FCSR2	0.53		
	FCSR3	0.74		
	FCSR4	0.82		
CSRleg	FCSR5	0.78	0.84	0.68
	FCSR6	0.84		
	FCSR7	0.83		
	FCSR8	0.84		
CSReth	FCSR9	0.79	0.79	0.62
	FCSR10	0.85		
	FCSR11	0.84		
	FCSR12	0.65		
CSRdis	FCSR13	0.67	0.78	0.61
	FCSR14	0.83		

	FCSR15	0.84		
	FCSR16	0.76		
CFPown	CFP1	0.82	0.92	0.71
	CFP2	0.79		
	CFP3	0.88		
	CFP4	0.82		
	CFP5	0.87		
	CFP6	0.87		
CFPcom	CFP7	0.84	0.94	0.77
	CFP8	0.81		
	CFP9	0.90		
	CFP10	0.88		
	CFP11	0.91		
	CFP12	0.91		

Note: Trust = Korean executives' degree of trust; CSRat = CSR attitude; CSRbe = CSR behavior; FCSR = a firm's CSR activities; CFP = a firm's financial performance; CSRdis = a firm's discretionary corporate social responsibility activities; CSReco = a firm's corporate social responsibility activities from the economic dimension; CSReth = a firm's corporate social responsibility activities from the ethical dimension; CSRleg = a firm's corporate social responsibility activities from the legal dimension; CFPcom = a firm's financial performance in a comparison to their industry competitors; CFPown = a firm's financial performance; α = Cronbach's alpha; AVE = Average variance extracted (percentage of item variance explained by the latent variable)

The discriminant validity was also tested using the Fornell-Larcker criterion (Fornell and Larcker, 1981). The square root of the AVE value is larger than its highest correlation with other constructs satisfying the Fornell-Larcker criterion indicating the establishment of discriminant validity. I also used Heterotrait-Monotrait (HTMT) criterion. All of the values were below 0.90 except for the value between CSRat and CSRbe in the HTMT criterion (see <Table 6>).

Table 6. Measurement Model – Discriminant Validity

Fornell-Larcker Criterion

	CFPcomp	CFPown	CSRat	CSRbe	CSRdis	CSReco	CSReth	CSRleg	Trust
CFPcomp	0.876								
CFPown	0.835	0.842							
CSRat	0.188	0.235	0.729						
CSRbe	0.174	0.213	0.658	0.685					
CSRdis	0.403	0.431	0.205	0.340	0.780				
CSReco	0.543	0.555	0.239	0.249	0.468	0.714			
CSReth	0.512	0.554	0.331	0.342	0.700	0.554	0.788		
CSRleg	0.380	0.393	0.238	0.260	0.696	0.501	0.743	0.822	
Trust	0.310	0.302	0.262	0.360	0.399	0.280	0.467	0.396	0.752

Heterotrait-Monotrait Ratio (HTMT)

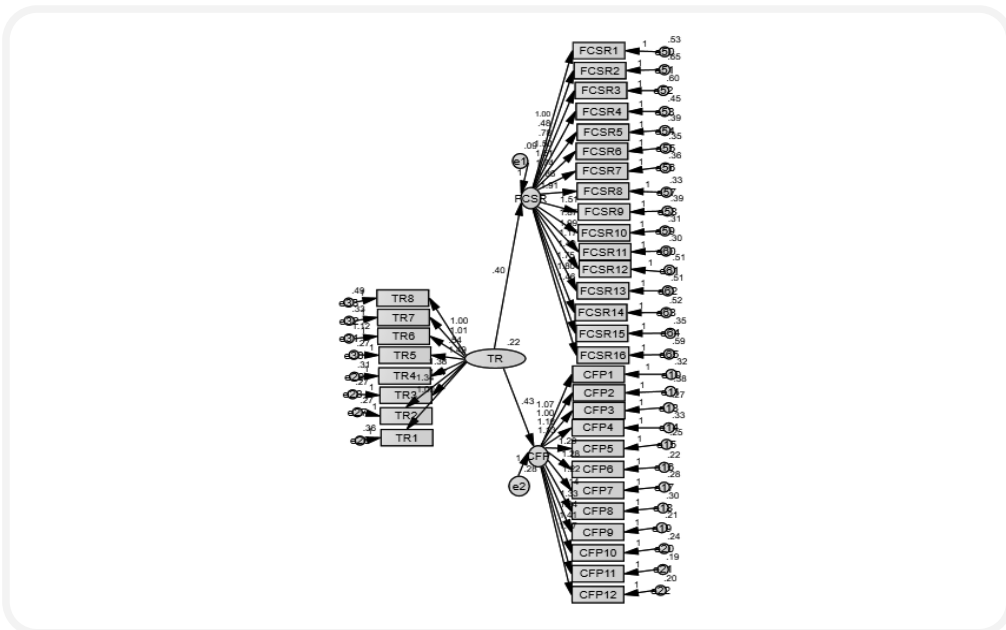
	CFPcomp	CFPown	CSRat	CSRbe	CSRdis	CSReco	CSReth	CSRleg	Trust
CFPcomp									
CFPown	0.898								
CSRat	0.263	0.321							
CSRbe	0.213	0.278	0.922						
CSRdis	0.471	0.506	0.375	0.490					
CSReco	0.626	0.656	0.387	0.339	0.570				
CSReth	0.595	0.652	0.532	0.468	0.876	0.701			
CSRleg	0.427	0.447	0.389	0.345	0.852	0.588	0.899		
Trust	0.340	0.336	0.424	0.459	0.485	0.338	0.550	0.461	

Note: Trust = Korean executives' degree of trust; CSRat = CSR attitude; CSRbe = CSR behavior; CSRdis = a firm's discretionary corporate social responsibility activities; CSReco = a firm's corporate social responsibility activities from the economic dimension; CSReth = a firm's corporate social responsibility activities from the ethical dimension; CSRleg = a firm's corporate social responsibility activities from the legal dimension; CFPcom = a firm's financial performance in a comparison to their industry competitors; CFPown = a firm's financial performance; FCSR = a firm's CSR activities; CFP = a firm's financial performance; diagonal and bold elements are the square roots of AVE.

3. Structural model

Illustrated in Fig 2, H1 is represented by the path from Korean executives' trust to CSR. The results of the analysis indicated that the relationship was significantly positive ($\beta = 0.399$, $p < 0.001$). H2, or the relationship between Korean executives' trust and firm financial performance was also found to be significant and positive ($\beta = 0.435$, $p < 0.001$) as can be seen in (Fig 3).

Fig 3. The Relationship between Korean Executives' Trust, a firm's CSR activities, and CFP



The mediation analysis result showed support for the mediating effect of Korean firm's CSR activities (FCSR). Specifically, FCSR mediates the relationship between Korean executives' trust (TRUST) and firm financial performance (CFP) supporting H3. Moreover, the bias-corrected confidence intervals do not straddle the value of zero supporting the existence of mediation effects ($\beta = 0.2676$, $SE = 0.441$, CIs [0.1849, 0.3555]) (Preacher and Hayes, 2008).

To assess the significance of the conditional direct and indirect effects, I used the latent variable scores generated in SmartPLS, and use those scores as an input in PROCESS macro (Hayes, 2013). <Table 7> shows that there was no conditional indirect and direct effect of ISR, and 0 did not fall outside confidence intervals (CI) in the index of moderated mediation indicating no significance. Consequently, the positive effect of TRUST on CFP through CSR did not differ according to ISR levels not supporting Hypothesis 4a. And, the positive effect of TRUST on CFP also did not differ according to ISR levels ($\beta = 0.0562$, $SE = 0.0573$, $p = 0.3272$), and All CIs contained 0 not supporting Hypothesis 4b (see <Table 7>).

Table 7. Index of Moderated Mediation and Conditional Indirect and Direct Effect of Korean Executives' Trust on CFP through CSR at Values of ISR as Moderator

Antecedent	Interaction effects on mediators (conditional indirect effect)			Interaction effects on DV (conditional direct effect)		
	CSR			CFP		
	Coeff.	t	P	Coeff.	T	p
TRUST X ISR	-0.0090	-0.1954	0.8452	-0.0330	-0.7531	0.4520
Moderator = ISR	Index	SE (Boot)	Bias-corrected bootstrap 95% CI			
			Lower	Upper		
TRUST → CSR → CFP	-0.0051	0.0346	-0.0720	0.0663		
ISR	Conditional Direct Effect	SE (Boot)	Lower	Upper		
	- .9808	0.0886	0.0735	-0.0561	0.2333	
	.0770	0.0537	0.0572	-0.0590	0.1664	
	.8704	0.0275	0.0671	-0.1045	0.1596	

V. Conclusion

The findings suggest that Korean executives' trust is positively related to both a firm's CSR activities and CFP. This is consistent with prior studies that have claimed that there would be a positive relationship between them (Lins, Servaes and Tamayo, 2017). I also find that there is a mediating effect of a firm's CSR activities on the relationship between Korean executives' trust and CFP. This proves the importance of a firm's CSR activities as a mechanism that connects Korean executives' trust with firm financial outcome. In other words, the result suggests that Korean executives' trust with an influence of a firm's CSR activities might affect a firm's financial performance emphasizing the importance of an individual executive's level of trust in Korean firms. However, I did not find the moderated mediation effects of Korean executives' trust on CFP through CSR while ISR is a moderator. This suggests that the intertwining effects of Korean executives' trust, CSR, and CFP might not be consistent with Korean executives' ISR.

Overall, this study is useful for both practitioners and academicians. The practical implications based on the results of this study is to understand the importance of executives'

level of trust in a firm that might have an impact on a firm's strategic decision-making in CSR activities, which could further link to CFP. While an individual's influence in a firm and firm performance is ignored in many studies, this study emphasized the link between an individual's particular personal traits and a firm's activities and performance. Therefore, practitioners can be more aware of the importance of executives' personal level of trust and its impact to a firm-level performance. This can further be extended to an examination of the relationships between the employees' level of trust, CSR, and CFP.

This study also contributes to the body of knowledge domain about trust and CSR using the moderated mediation model. This study has identified the black box using the executives' level of trust to understand the relationships with their ISR and CFP. While a firm's CSR activities have not been empirically proved as a mediator between an individual's level of trust and CFP, this study found that there is a mediating effect of CSR on the relationship between the level of executives' trust and CFP. Earlier research has evaluated only the firm-level constructs in examining the relationship between CSR and CFP ignoring the importance of examining an individual's influence onto the CSR-CFP relationship. This study has evaluated the link among executives' trust, a firm's CSR activities, and CFP, which has not been evaluated previously. Besides this, this study also assessed the conditional direct and indirect effects of ISR on the proposed relationships. This was also unexplored in the previous studies. Thus, this study significantly contributed to the literature by identifying a potential empirical mechanism that could causally connect CSR with CFP.

This study also contributes to Korean society. While many studies investigated the western cultures or investigated China, which has a unique characteristic of the communist government, an investigation of Korean firms, especially the link between the specific personal characteristics of Korean people such as their level of trust, a firm's CSR activities, and CFP is unexplored. By examining Korean executives' level of trust and its relationships with CSR and CFP, this study contributes to Korean society that has only been focused on examining the firm-level relationship between CSR and CFP.

While this study suggested the importance of managers' level of trust at the executive-level and its impact to a firm-level CSR and CFP, future research can further examine this in other country contexts. Moreover, since this study employed a survey only to examine the relationships among the constructs, future research could use other methods such as experiments or interviews to better detect relationships among those or to understand the interactions among those. Furthermore, future research could further examine different types of trust in examining the relationships among them.

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Appendix

Correlation Matrix

	Trust	ISR	CSR	CFP	Age	Gender	Education	Occupation	Year	YearPo	Position
Trust	1	.310**	.433**	.291**	.192**	-0.112	-0.018	0.072	.166**	.152*	-.174**
ISR	.310**	1	.418**	.259**	.156*	-0.051	.124*	0.062	0.109	0.106	-.175**
CSR	.433**	.418**	1	.574**	0.118	-.156**	0.093	.129*	.219**	.139*	-.200**
CFP	.291**	.259**	.574**	1	-0.033	-0.099	0.102	-0.077	.120*	0.045	0.060
Age	.192**	.156*	0.118	-0.033	1	-.355**	.137*	.199**	.434**	.433**	-.502**
Gender	-0.112	-0.051	-.156**	-0.099	-.355**	1	-.248**	-0.090	-.193**	-.192**	.348**
Education	-0.018	.124*	0.093	0.102	.137*	-.248**	1	-0.038	.130*	.172**	-.211**
Occupation	0.072	0.062	.129*	-0.077	.199**	-0.090	-0.038	1	0.005	.191**	-.704**
Year	.166**	0.109	.219**	.120*	.434**	-.193**	.130*	0.005	1	.599**	-.223**
YearPo	.152*	0.106	.139*	0.045	.433**	-.192**	.172**	.191**	.599**	1	-.370**
Position	-.174**	-.175**	-.200**	0.060	-.502**	.348**	-.211**	-.704**	-.223**	-.370**	1

Notes: 1. **. Correlation is significant at the 0.01 level (2-tailed).

2. *. Correlation is significant at the 0.05 level (2-tailed).