Department of: Business and Management

Chair of: Financial Statement Analysis

An empirical study of the relationship between sustainability and performance in the Italian Family Businesses

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Academic Year: 2020/2021

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Introduction to chapter 1

Family firms are commonly widespread in all the world and in several countries, these are the main kind of businesses which constitute the majority of entrepreneurial presence over the territory. Family firms are highly integrated in their countries and the personal involvement considering their emotional attachment leads to several differences concerning their characteristics from other forms of businesses.

For example, a family business possesses the availability resources that are known as patent capital and survivability capital. In fact, financial resources use to come in the form of aid from other family members that are not even involved in the business in a longer repayment term (patient capital) that differs from the usual loan by the bank. This is extended also to the situation in which family firms, that are in a distressed situation, receive capital from family members in order to avoid bankruptcy (survivability capital) (Sirmon & Hitt, 2003).

All firms are pushed towards the desire of maximizing their returns, however in family businesses there is also another component that sometimes is even higher than the profit maximization one, that is the so-called socioemotional wealth.

Sometimes family owners are devoted towards long-term and sustainable objectives in a way of preserving their business from risky outcomes and maintain the control of the firms inside the family for the future generations.

This is the physical exhibition of the overmentioned socioemotional wealth that family businesses emphasize through international expansionistic strategies and high investments in R&D that makes family firms also innovative but with a strong sense of perseverance.

As a result, in family businesses it is difficult to imagine a strong innovation of technologies that changes completely their production process.

If I have to imagine the majority of family businesses, what comes in my mind is the motto that can be summarized in the traditional manufacturing of their products, that nowadays introduced for sure new inventions, but is still made with the same old-fashioned process.

It is important thus, after the further increase in the last decade concerning family firms research, to analyze the characteristics of this particular model that despite its ancient background it is still widely adopted in all the world.

Chapter 1: Family Firms: Definitions, Characteristics and Sustainable involvement

In Italy, approximately 85% of the whole business is represented by family firms and in Europe, in particular in Germany, France and Italy, they constitute more than 60% (Credit Suisse Research, 2018).

Even if before 1975, there was poor evidence on family business the research is becoming nowadays more intensive and sophisticated. Family firms are still extremely important for both the economy and the society however the evidence from the research published by Credit Suisse suggests that around 30% of family business is currently at the fifth generation of family succession.

Defining family businesses presents still nowadays several difficulties given the multitude of interpretations concerning this specific topic. For example, Chua et al. (1999) define a family business as a system that may be owned but not directly managed by a family; on the other hand, Dreux (1990) describes family firms as entities owned by one or more families that may influence the governance of the firm and as a consequence the decision-making process. In 1996, Astrachan e Shanker relied on the so-called F-PEC index (Family-Power, Experience and Culture) in order to measure the extent of influence and involvement of the family. In particular, the tree characteristics may be defined as:

- Power: that is defined as the rate of involvement of family members in the governance of the firm
- Experience: the extent of contributions arising from future generations
- Culture: the degree of shared value between the firm and the family

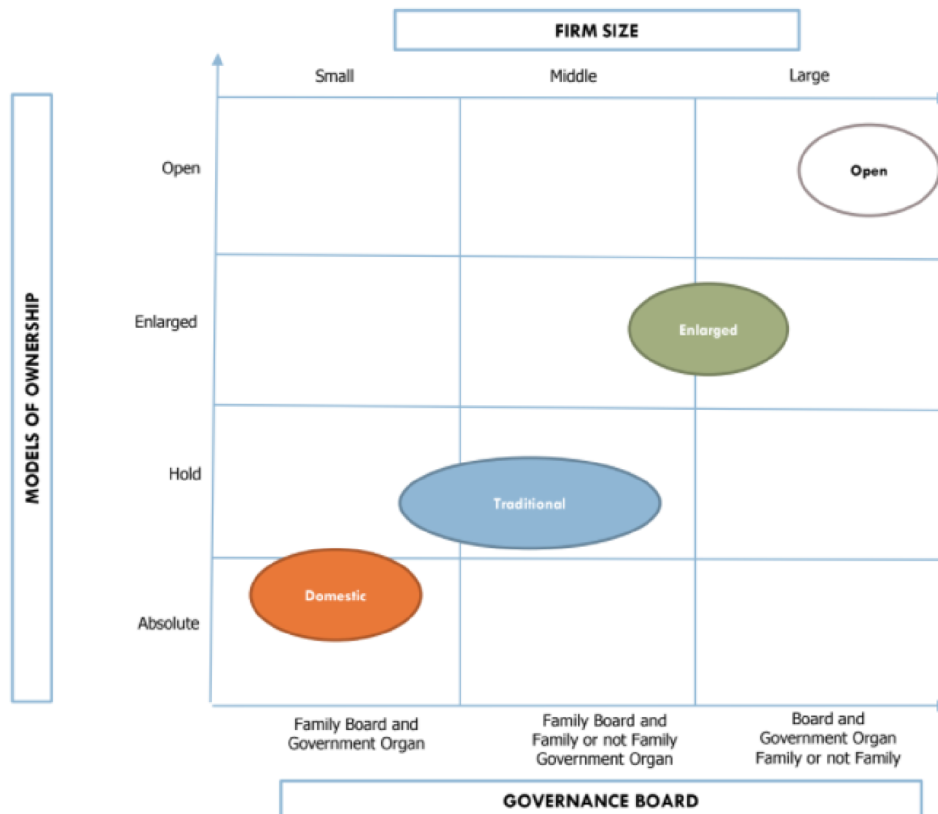
Among other definitions, it is particularly relevant the one given by the European Commission on Family Business that defines family firms relying on three main characteristics

- The person(s) that established the firm or a direct connection with him/her as a spouse, parents, children or children's direct heirs have the majority of decision-making rights

- At least one family member is directly or indirectly involved in the governance of the firm
- Family firms may be defined as follow if the owner of the business or one of his/her relatives hold at least 25% of the business decision-making defined by the company's guidelines

In corporate governance one of the main concepts is the separation between ownership and control, and this is absolutely present in family firms in the 4 main kinds of denominations presented below[1] that depend on the involvement and the size.

Table 1: Classification of Family Business



- Domestic firms are absolutely small, and the ownership is extremely concentrated in the hands of family members. The main purpose is to maintain the continuity through the generational succession, and it is mainly dislocated at local level

[1] Defining and Classifying Family Business- Salvatore Esposito De Falco

- The traditional family business has small-medium size, and the governing body is strictly composed by family members that are present in a higher number with respect to non-family ones. Traditional family businesses are usually present at national and international level with products that recall the territory of origin
- The enlarged family business has a size that is between the tradition and the open model, and both the management and board of directors are composed either by family/non-family members.
- In the open business model, there is a shift of the powers from family individuals to groups of non-family members that is common to all companies that are not denominated as follow. In fact, open family firms have external investors and as a consequence also the decision-making process is strongly influenced by this composition. Moreover, the recruitment policies are based on hiring not only family members and this is reflected on the board of directors that present a majority of non-family individuals.

1.1 Corporate Governance in Family Firms

The governance framework of family businesses is particularly complex and detailed up to the point that many scholars claim that corporate governance in family firms is ever more challenging than in other companies. At the beginning of their cycle family businesses present very few family governance issues as all the main decisions are taken by the founder and the presence of the family is still hidden. However, as the company gets through the first stages more family members join the business leading to different opinions and ideas. It is in this sense more complex for family business that require the establishment of governance guidelines in order to bring discipline among members, trying to avoid conflicts and maintain the continuity of the company. An efficient family business will aim at (IFC, 2018)

- Communicating the family values, mission, and long-term vision to all family members.
- Keeping family members (especially those who are not involved in the business) informed about major business accomplishments, challenges, and strategic directions.
- Communicating the rules and decisions that might affect family members' employment, dividends, and other benefits they usually get from the business.
- Establishing formal communication channels that allow family members to share ideas, aspirations and issues.
- Allowing the family to come together and make necessary any decisions.

In fact, corporate governance of family firms is composed either by regular institutional governing bodies but also by family constitutions along with family governing bodies.

The family constitution is a document that highlights the dedication of the family to the vision and the mission of the company as well as the definition of the principal roles that each family member holds regarding the functioning of the business. It doesn't only regulate the classical institutional bodies that are common to all the firms but also the behaviors of all the family members in the interaction with such bodies.

The family constitution is an everchanging document that is adjourned continuously in relation with the firm's lifecycle in order to maintain continuity in the interactions between family and non-family members. In addition, it also presents several differences between

family firms considering variations in the size, growth phase and family involvement. However, a typical family constitution covers the following areas (IFC, 2018):

- Family core values, mission statement and vision
- Family institutions, such as, family assembly, family council and education committee
- Board of directors
- Senior management
- Relationships between governing bodies and family members
- Polices regarding the employment of family members and CEO succession

Not all the family businesses have a formal written constitution, however as the size of the company becomes more relevant it is important for the business to develop a strong and reliable set of rules in order to ensure the correct well-functioning of the corporation.

1.1.1 The Board of Directors

The board of directors is the primary institutional body within each company including family ones. Its structure, size and role vary from one company to another and usually the main characteristics are set at the beginning of the company life.

Initially, family firms, decide to structure a preliminary board of directors, known as "paper board", just to be compliant with basic legal rules regarding for example dividends and the approval of financial statements. At the primary stage of its cycle, thus, this board is mainly represented by family individuals or trusted external people, that use to meet once or twice per year. For the majority of family-owned businesses, it is most likely to have at the beginning the same members serving both on the board but also on the senior management team. This phenomenon, apart from creating almost no value within the company, could lead also to conflict of interest given the lack of roles separation.

As the company becomes over the years more articulated, it is thus necessary to set up an organizational structure that better represents the interests of the business with an adequate separation of roles within the company.

At this stage of development, the board usually meets more often and is commissioned of managing company's strategy as well as monitoring management performance.

Before having the possibility to constitute a fully professional board of directors, many firms use to develop an advisory board with the function of filling the gap of qualifications of the board of directors. In this situation, the advisory board works directly with the board of directors and with the senior management with the aim of addressing any strategic business issue.

1.1.2 Senior Management within Family Businesses

Senior managers hold a relevant position within the family business and their activity can impact positively the performance and wealth of the firm.

Their main role is the implementation of the strategic plan set by the board of directors as well as the management of the daily operation within the company.

At the first stages of development, family firms are usually directed and managed by their founders and many close familiars with an informal structure that usually works properly at the beginning of the company's life cycle.

However, as the company strive to achieve more structured and complicated business goals it is necessary to set up a decentralized management system involved in the day-to-day activities. Some family firms, in fact, over the years, tend to preserve family members within managerial roles, ignoring the necessity of including professional individuals.

Even if, in most of the cases, many of these family members are experienced managers that contribute to value creation within the firm, they may be not enough in performing more complicated activities that becomes necessary in the following stages of the business.

For this reason, many family companies become conscious of the necessity of replacing many relatives with more skilled and experienced outside professionals in order to achieve higher standards.

Having an adequate managerial structure, is what companies must design at the beginning of their cycle and the process shall be organized on some of the following steps:

- Examine the structure of the company in order to identify the optimal roles and responsibilities
- Define on the basis of company's goals an optimal organizational structure
- Identify the skills and the competences of each individual on the basis of the new organizational structure

- Replace and/or hire new senior managers
- Decentralize the decision-making process held by senior management team
- Set a clear family employment policy whose content must be available to all family members
- Create training programs that allow qualified individuals to hold managerial positions in the future
- Define a clear remuneration policy with the aim of rewarding members on the basis of the contribution to the firm and not on family affinities.

The table below [2]summarizes the characteristics of how family businesses decide to face particular business-related issues on the basis of their involvement with the family or with the business:

Table 2: Decisions on the family business

Issue	Family Firs Companies	Business First Companies
Employment Policy	Open door policy for all family members. The family-owned company often becomes a safety net for those who can not succeed outside the business	Only qualified family members join the company. Conditions for family employment are clearly set and contain requirements concerning education and prior work experience outside of the family business.
Compensation	Equal pay for all. Everyone is paid the same, regardless of their experience and contribution to the business. Competent family members are expected to care for (via compensation, benefits, etc.) their less-than-competent siblings or cousins	Compensation is based on performance and responsibility. Compensation is based on market and industry measures, not on family needs. Accountabilities and reporting relationships are clearly communicated and understood. High performers are highly paid. Family members may be terminated for poor performance

[2] Source: IFC Family Business Governance Handbook

Leadership	Leadership is based on senority, rather than demonstrated competences or succes. Longevity in the family business may be more highly valued than working and succeeding outside the business	Making sure leadership is earned. The family mantra is to have "the best and the brightest" running the business: family or non-family. Non-family senior executives may be recruited from within the industry although some companies successfully grow their own top managers
Business Resources Allocation	Business resources are used for family members' personal needs (housing, cars, personal purchase, etc.)	Business resources are used strategically. There is a clear separation of business and family assets. Budgeting and planning are important; earnings are used for growth initiatives or paid out as dividends
Training	No formal training programs. Family members are expected to intuitivelly learn business practices	Need for formal training is timely recognized. Trainings are scheduled and delivered to teach family members necessary business policies

1.1.3 Family Member Employment Policies

One important aspect of the family constitution is the settlement of adequate policies regarding the employment of family members. The lack of adequate attention on this important aspect is detrimental for the company that will end up in having more employees than the company actually needs. Even worse, the firm will acquire and will expand its operations in such a way to involve more family members that are not in line with the main purpose and vision of the corporation.

For this reason, it is necessary for a family firm at the beginning of its lifecycle to define clear rules about the employment of additional family members that will be in line with its initial scope. This could be for example, the statement of precise characteristics of entry, such as minimum years of experience or level of education, alongside with compensation and exit policies in a way to clearly define a business at the beginning of its stage. Another important issue is the treatment of family employees in relation to non-family ones with the scope of avoiding a possible split of management of these two distinct categories that can threaten the balance of the company.

In general, there is not a detailed guideline to follow in the draft of family employment policies and as a result they differ from one business to another. As a result, many families completely forbid the admission of family members within their company and others use to follow strict recruitment processes on the basis of the characteristics mentioned above.
Once it is established, the document must be presented to all family members that should agree on the policies and the standards reported, in order that all of them have a right expectation on the employment within the company.
This is an important area to cover for all family businesses, as the employment policies will result in a guidance for all the employees within the company, creating the right atmosphere and orientation.

1.1.4 Family Member Shareholding Policies

One of the main aspects that must be defined in the family constitution is the issue that regulates shareholding policies among family members. This is a crucial element especially at the beginning of a company lifecycle as it defines the expectations of family members to hold shares of the company. In addition, must be straightforward under which circumstance it is possible for these members to sell their shares in order to obtain cash.
In the situation in which a family firm holds many members holding shares inside the company, which are both family relatives and non-family ones, will lead to a percentage decrease in the value of each share held and subsequently in the dividend it can yield.
This can generate a sense of frustration among minority shareholders that will bring conflicts inside the firm that could be detrimental for the survival of the company.
In some family businesses in order to avoid this phenomenon it is established a Shares Redemption Fund, that is fostered through a small percentage of profit that the company generates each year, that substantially is designated to buy back any share that each family member wants to sell in order to obtain liquidity.

1.2 Institutional Bodies in Family Firms

Family firms are characterized by additional institutions alongside with classical ones that help to build stronger relationships and create harmony inside the company.

The classical institutional bodies that are common to all the firms are for example the board of directors, the shareholders' meeting, the board of auditors and the committees.

On the other hand, as mentioned above, family firms are characterized also by additional authorities such as, the family assembly, the family council and the education committee.

Family institutions increase communication between family members by debating not only on issues regarding the business but also on those regarding directly the family.

Moreover, family individuals must be well informed about each established family governance institution and its main purposes in order to be able to distinguish them from any other classical one mentioned above.

Setting family institutions is not mandatory for family companies and actually it depends on several factors that rely for example on the size, the stage of development and the number of family members connected with the business of firm.

1.2.1 Family Assembly

In family firms, the family assembly is the formal body that discusses both family and business-related issues. At the beginning of the company life cycle the family assembly is recognized as an informal family meeting that allow to the owner of the company to transmit and inform all family members about the mission and the values of the firms as well as educate next generations entering members. As the firm proceeds towards a more complicated framework and includes also a structured strategy regarding its business, it is however, more appropriated to set up a formal family assembly.

Family assembly has as main objective the conciliation of business-related issues with family-related topics in order for family members to be always informed about both dimensions. In addition, within this forum, family members have the possibility to communicate directly their ideas, and this positively influences the mitigation of conflict of interests among relatives. Generally, the meetings are hold one or two times during the year and are mainly focused on the following themes

- Decisions and approval of any change in the family vision

- Educate all family members about their duties and responsibilities
- Discussion of family members' compensation
- Election of family council members (if family council exists)
- Election of other members that must represent committees within the firm
- Other relevant family issues

Usually, family assemblies are open to all family members however at the beginning of the company's life cycle can happen that several families put some restrictions about the admission on these formal institutions such as minimum required age.

The composition of family assemblies is generally planned by the family owner of the company, however in larger firms the task is assigned to the family council.

1.2.2 Family Council

The family council also denoted as "Family Supervisory Board" is a governing body elected by the Family Assembly that has as main duty the debate of family business issues. The family council becomes necessary in family firms that are at a higher stage of development, usually when the company reaches more than 30 members. At this stage, in fact, it is more difficult for the family assembly to coordinate both family and business-related issues, and thus, it is necessary to have an additional institutional body that act as a bridge with the company in order to preserve family interests.

The structure and the tasks of the council usually differ from one company to another however some of the main aspects regard:

- Being the primary link between the family, the board and senior management
- Suggesting and discussing names of candidates for board membership
- Drafting and revising family position papers on its vision, mission and values
- Drafting and revising family policies such as family employment, compensation, and family shareholding policies
- Dealing with other important matters to the family

Just like traditional committees within each company, also the family council must have a minimum of members, that usually varies between 5 to 9 individuals.

In addition, each family sets some age and experience qualifications on the members that can serve on the council that are similar to the ones seen for the family assembly. Moreover, it is generally prohibited for members within the family council to serve also on the board of directors and hold relevant positions within the company's senior management.

Generally, the family council must have also a chairman, elected by the family assembly, who is commissioned both of creating a direct contact with the family and to oversee the work of the council. Sometimes apart from the chairman it is elected also a secretary with the scope of creating relations and resumes on the meeting hold within the council that usually happen 2 to 6 times per year depending on the relevance of the issues.

In the page below, it is reported a table that outlines the differences between the family meeting, family assembly and family council[3]:

Table 3: Characteristics of different family institutions

	Family Meeting	**Family Assembly**	**Family Council**
Stage	Founder(s)	Sibling Partnership/ Cousin Confederation	Sibling Partnership/ Cousin Confederation
Status	Usualy Informal	Formal	Formal
Membership	Usually open to all family members. Additional membership criteria might be set by the founder(s)	Usually open to all family members. Additional membership criteria might be set by the family	Family members elected by the family assembly. Selection criteria defined by the family
Size	Small size since family still at founder(s) stage. Usually 6-12 family members	Depends on the size of the family and membership criteria	Depends on criteria set up for the membership. Ideally 5-9 members

[3] Source: IFC Family Business Governance Handbook

Number of Meetings	Depens on the stage of the business devel-opment. When the business is growing fast, can be as fre-quent as once a week	1-2 times a year	2-6 times a yeas
Main Activities	1) Communication of family values and vision 2) Discussion and generation of new business ideas 3) Preparation of the next business leader(s)	1) Discussion and communication of ideas, disagreements, and vision 2) Approval of major family related policies and procedures 3) Education of family memberson business issue 4) Election of family council and other committees' members	1) Conflict resolution 2) Developement of the major family related policies and procedures. 3) Planning 4) Education 5) Coordination of the work with the management and the board and balancing the business and the family

1.2.3 Family Office and other Family Institutions

Family offices are usually present within larger and wealthier family businesses and are mainly involved with administrative and investment related issues. Usually, it is appointed by the family council with the aim of debating on investment and estate planning, tax and insurances issues, along with other topics that represent the interest of the family members.
This governing body, although connected with the business, it is quite external from the company and it is principally represented by managers and experts that regulate the affairs of the company.
In addition, family firms can also create other institutional bodies commissioned of overseeing other relevant business-related issues. Some of the principal supplementary authorities within the family industry can be:
Education Committee: The education committee is commissioned of consolidating the company's human capital and its interaction with the business and governance. In addition,

it must anticipate company needs in order to develop efficient strategies as well as organizing company's educational events in order to keep members adjourned on the relevant topics. This can be done for example by organizing accounting seminaries that can boost family members' competences in reading financial statements.

Shares Redemption Committee: This committee, that is managed by the family council, oversees an established fund for the shareholders who want to sell their shares at a fair price receiving in return cash that can be invested in other activities. This fund is usually alimented through a small percentage of company's income allocated each year for this specific issue.

Career Planning Committee: This committee oversees the policies and the rules for the family members that want to join the company with the aim of monitoring and advising them on the career journey. In addition, for family members who are not interested in joining the company they are also useful in suggesting alternatives and guidance in order to achieve positions in other external firms.

Family Reunion and Recreational Committee: This committee is responsible in the creation of events that bring together all family members in recreational activities with the aim of implementing relationships between relatives that can be beneficial for the interests of the company

1.3 The principle of Socio-emotional Wealth in Family Firms

Which are the main goals that drive the strategy of a family-owned businesses? Of course, we all agree on financial goals, that are common to all companies whose intention is to maximize their profit. However, especially in family firms there is the propensity towards non-financial achievements, that is strongly linked to the concept of socio-emotional wealth. Socio-emotional wealth (SEW) is defined as the total stock of affect that the family has invested into the firm, that can be summarized with the idea of family's emotional attachment to the firm.

SEW has been widely adopted in order to explain the drivers of the different strategies being pursued within the family business environment in relation with non-family-owned companies, however, the lack of significant studies have made it difficult to measure directly the impact of SEW on family's strategic choices. The rationale around SEW suggest that many family firms are intentioned in preserving the SEW paradigm in their strategic decisions intended as the affective intensity that family individuals have in conducting their business (Berrone, Cruz and Gomez-Mejia, 2012). As mentioned above, many scholars adopted the principle in explaining the differences in how family firms approached for example risk taking choices, stakeholder engagement and environmental protection with respect to non-family firms.

The SEW model is an extension of behavioral agency theory, under which, firms are usually involved in taking choices based on the reference point set by the principal (Berrone et al.; 2012). This is reflected also in family firms, in which the preservation of SEW extremely at the center of the decision-making process, to the point that these companies are prepared to incur economic losses in order to maintain the SEW principle.

Indeed, SEW is strictly connected with Hegel's theory of recognition under which owners of family businesses are highly involved with family recognition and are ready to find a comprise in their economic goals in order to maintain the family's inclination for recognition. In describing the differences between family and non-family companies with the aim of the SEW principle, many scholars put the attention on the homogeneity of family-owned businesses and just few of them focused on family firms' heterogeneity.

The main idea under the concept of heterogeneity is based on the existence of different dimensions of SEW that actually drive distinct choices and strategies (Berrone et al., 2012; De Tienne and Chirico, 2013).

Substantially, Berrone proposes five different dimensions of SEW pointing out that there are, in addition, different weights that each dimension has, based on family preferences.

The five dimensions defined by Berrone et al (2012) which are recognized with the acronym FIBER are: 1) family control and influence, 2) identification of family member with the firm, 3) binding social ties, 4) emotional attachment, and 5) renewal of family bonds to the firm through dynastic successions.

1.3.1 Family Control and Influence

Inside family businesses, the control of the family is a characteristic highly desired among family members and it is executed directly by controlling for instance strategic decisions, or by appointing as CEO or chairman close relatives.

In fact, compared to non-family companies, the importance of perpetuating family control and ownership assumes a stronger position than the relevance of pursuing financial achievements. Barone et al. (2012) defines family control and influence as one of the main dimensions of SEW, however Zellweger et al (2011) stress that family influence can actually vary over companies with the same structure and characteristics. Many scholars argue that the extent to which a family actually holds the control and actively influences the management of the company it is directly measured through the number of family members both within the board of directors and in the management team.

However, Barrone et al. (2012) proposed a more detailed list of elements that actually measure the degree of Family Control and Influence (FCI):

- The majority of the shares of the company are held by the family
- The degree of control and influence of the family over strategic decisions
- The numbers of executive positions occupied by family members
- All other non-family managers within the company are elected by family members
- How many family members sit on the board of directors?
- The preservation of the family control is more important than financial achievements

1.3.2 Identification of Family Members with the Firm

The family identity is usually connected to the family firm that actually carries the family name and this causes the stakeholders to perceive the family firm as an extension of the family itself. In order to achieve an amplified degree of identification through family reputation, family members are prepared to intensify the influence and the control over the company (Deephouse and Jaskiewicz, 2012). Nonetheless, Craig, Dibrell and Davis (2008) stress that the performance of the business it is not directly influenced through family identity and reputation, but instead, with the consequences that family identity has for example on customer-centric orientation.

Berrone et al (2012) proposed a list of six items that help defining the dimension of Identification of Family Members with the Firm:

- Family members possess a stronger feeling of belonging to the family business
- The company success is perceived as the family member own success
- The family business has a strong significance for the family members
- The presence of family members within the company helps in defining who we are
- Family members are proud to tell others they are part of the family business
- Customers associate the products of the company with the family name

1.3.3 Binding Social Ties

Individuals in a closed environment foster collective social capital that actually encourage shared norms and cooperation among members in the network, and as a consequence produce positive effects over firm performance (Cruz, Justo and De Castro, 2012).

The studies on family firms demonstrated that the reciprocal interactions are not limited to family members but instead are extended also to outsiders, for example, suppliers, employees, with the tendency of a constituting an enlarged family (Berrone et al., 2012).

Binding Social Ties give the possibility for the business to create healthy and everlasting relationships which constitute an important value added for the performance of the firm.

Berrone et al. (2012) listed five characteristics to better describe the dimension of Binding Social Ties, that are:

- The family business actively proposes social activities at community level
- The family business incentives relationships that are mainly based on mutual trust and reciprocity
- Non-family employees are considered as part of the family
- Structuring relationships with external stakeholders (suppliers, customers) is an important issue for the business
- Contractual agreements with suppliers are based on long term relationships

1.3.4 Emotional Attachment

There are contrasting perspectives over emotion with regard to family businesses. Many scholars support that emotional attachment in family contexts becomes more intensive in the

case of both ownership and control possessed by the family, and this substantially influences all the decision-making process. Berrone et al. (2012) hold that family's emotional attachment can have a positive effect on the business as it enhances the long-term perspective of the business. However, in some cases the persistence of emotional attachment could lead to a negative influence over performance due to an extreme pression put by the family (Cruz et al., 2012). Berrone et al. (2012) characterizes the Emotional Attachment dimension with six items listed below:

- Feelings often affect the decision-making process in the family business
- Preserve the wellbeing of the family members is more relevant than personal contributions to the company
- Within the family business the emotional attachment between family members is very strong
- Emotional issues are important as economic ones within the family business
- Sentimental and emotional attachment are fundamental to maintain the personality of the business
- Within family business, relatives feel intimacy and mutual trust between each other

1.3.5 Renewal of Family Bonds to the Firm trough Dynastic Succession

Family business is seen by the owners and family members as a heritage that must be maintained and handed down through future generations. For this reason, one of the main goals in family businesses is the preservation of the company for future members by fostering long term goals and orientations.

Berrone et al. (2012) describes this last dimension with four main items, that are:

- Maintaining the business for the future generations is relevant issue for the family firm
- The owners of the company are mostly inclined to see the business on a long-term basis
- The sale of the family business is almost improbable
- Handing down the business to next generations is a primary goal for the family firm

1.4 SEW and Sustainability within Family Firms

Sustainability practices ae relatively new and for this reason there are still not enough studies supporting this relevant issue. However, there is a clear definition of sustainable actions inside the business, intended as the propensity in engaging on long term operations and enduring relationships with the external environment and stakeholders.

The overmentioned dimensions regarding SEW, play a substantial role in definition of how sustainability is approached and affected by family governance, considering the importance in the preservation of socioemotional values for family businesses. In particular, as stated early, family businesses have the tendency of committing to strategies that protect the socioemotional values over those that actually lead to the achievement of economic rewards. For example, family ownership, that has been identified as one of the main issues regarding SEW dimensions, in many family firms it is expressed as the control over both the company and the management, and this actually harms sustainability practices for several reasons.

One of these, it is expressed by Carney (2005) with the concept of "particularism" under which many family businesses are going to maintain a status quo condition with the intention of avoiding large distortions. Another important aspect for family firms, that has its better manifestation it the preservation of traditions, may refrain the propensity of engaging in risky activities related to sustainability that are for example large investments in research and development (R&D). Under specific situations, family firms may deviate from the SEW principles, however family owners are particularly characterized to be risk-averse and thus the main intention is to maintain quite equilibrated strategies.

In addition, in most of the cases, sustainability practices may involve the change of resources employed by the business with the necessity of acquiring new ones, however also in this case the emotional attachment of the owner, indicates a small propensity in changing completely the inputs employed in the operations as well as a deviation in the visions of the business.

This can be also extended to the need of involving external non-family related employees, as a driver for sustainable practices, in order to apport new skills and technologies that are against the intentions of preserving a complete family-members driven business.

Even if the first introduction seems to indicate a propensity of family businesses to deviate and reject the concept of sustainability, there is also another side of the coin that suggests that not all the family companies behave in the same way.

One important aspect that differentiate many family businesses by each other is the inclination towards long-term horizons with the inclusion of non-economic goals that are relevant for the continuity of the business.

Indeed, sustainable operations are seen as an approach suitable not only for fulfilling economic performance but also to include all the stakeholders in the business that can be beneficial for the long-term perspective of the company. In this sense, certain companies, may transfer their environmental commitment in the design of their products in order to build strong customer loyalty as well as a perspective of efficiency and quality.

For this reason, the intention to approach long-term goals, as sustainable related ones, has the power to transmit customers the idea of long-term persistence, that will result for example in less time spent by the clients looking for different products that are tied to the company with enduring relationships.

The expectation of adopting sustainable commitments is also related to relationships between family and non-family employees that will probably feel more confident in the externalization of their own feelings and issues without the fear of creating a conflict of interest. Thus, approaching sustainable related issues is notably relevant for the family business reputation and all the aspects mentioned above (continuity and stakeholders' relationship) are strongly dependent between each other. Having a continuity in the business, is in fact, based upon both healthy relations with stakeholders and to a strong brand reputation.

Introduction to Chapter 2

The rationale behind corporate social responsibility (CSR) has been subject of several debates throughout the years. The first associations with CSR dealt with corporate philanthropy and business ethics but still nowadays there are different and skeptical views around this specific topic. At the base of these ever-changing opinions there is of course the increased awareness of firms shifting their corporate perspective from shareholders to stakeholders' view. Starting from 1870 up to 1930, companies had as main objective the creation of value just for owners' purpose, that was basically the maximization of the profit. It was only starting from 1930 that CSR matters begun to find a dimension in the corporate sphere at the beginning of this process that followed for several years. At the beginning of 1950, the largest US firms underwent several changes in their corporate structure shifting from individuals or families to many shareholders. As a matter of fact, this created a split in the idea of how these companies ought to be managed. Debaters commented on whether companies had to fulfill shareholders' interests or actually started thinking out of the box by also including the ones of a wider community.

During that period found a place the first movements that were struggling for consumers rights, civil rights and women rights and simultaneously an increasing number of individuals started to affiliate to environmental trends. At the same time, following the path of social movements, started to increase the focus on philanthropic actions and charitable donations that enlarged the obligation of firms toward the whole society.

Originally, boards of directors just adopted ethics principles as a tool to incorporate social matters into their business operations. However, as CSR started to gain more and more relevance, at institutional level were established the first committees that incorporated the notions of corporate social responsibility and sustainability in order to both maximize value and to create solid relations with all the stakeholders. It was by the end of the 20th century that firms started to produce the first Codes of Ethics that used to encapsulate not only societal environment such as employees' issues, but also health and public safety among with corporate citizenship and community aspects. But still, sustainability and CSR are differently interpreted among countries that adopt common law or civil law and the following chapter

will explain the main differences between the two law systems and how they approach these specific issues.

Chapter 2: Corporate Sustainability: The new standards in relation with Board of Directors and Corporate Governance

The board of directors is the body that principally manages the company after being appointed by the shareholders. This governing body has mainly two specific functions: an advisory and an oversight function. They first contribute to the strategic planning of the firm by advising top managers and secondly, they have to monitor managers by ensuring that they will behave in the best interest of both the firm and the shareholders by increasing value. Thus, in the end even if the board do not perform each task directly, under the doctrine of collective responsibility, it is strictly considered liable for each consequence at institutional level. In order to be more efficient, the board of directors can also appoint several small committees that inside the firm execute different issues, this can result on more time spent effectively but also on different capabilities allocated in the right way. The establishment of multiple committees is usually not mandatory by the law, but the Organization for Economic Co-operation and Development (OECD) along with the Principles of Corporate Governance and the national corporate governance codes of different countries, suggest that all the firms and mainly the ones that are listed, must have at least an audit committee (OECD 2015)[4]. Moreover, in large firms it is also recommended to have in addition other committees, like the compensation committee (sets the compensation of the CEO and other executives), the nomination committee (identifies and selects new candidates to serve in the board), and during last years it is becoming more and more widespread the ethic and the risk committees (Hayes et al 2004)[5].

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[4] OECD. (2015). *G20/OECD principles of corporate governance: OECD report to G20 Finance Ministers and Central Bank Governors September 2015*

[5] Hayes, R., Mehran, H., & Schaefer, S. (2004). *Board committee structures, ownership, and firm performance*.

In the last decades, after the financial scandals that involved many firms, found a place in addition, several committees dealing with environmental and social matters, principally inducted by the introduction of new standards addressed towards sustainability related issues that made the whole board of directors more involved.
Even if on one hand, the introduction of new regulations leaded the majority of the companies to behave equally, it is important to define that the configuration of these ones it is strictly different due to the dichotomy between common law (UK, USA, Canada), that adopt a shareholder-oriented corporate governance model, and civil law (mainly European) countries, that are more oriented towards a stakeholder corporate governance model. In this sense it is important now to introduce the concept of how the approach to corporate governance, that is recognized as the mix of rules, mechanism and procedures made in order to prevent self-interested actions that can negatively impact the welfare of shareholders or stakeholders, varies among countries that adopt different legal standards.

2.1 Common Law and Civil Law countries

The discrepancies in the legal systems of different countries are mainly due to the principal dichotomy between common law and civil law. The principles at the base of these divergencies must be taken from the ancient foundation of the different states that adopts these legal systems. Common law is usually adopted nowadays by all the states that were English colonies during the Middle Ages (Anglo-Saxon countries) that used during that period to apply the same judicial system among all the countries, and these were: The United Kingdom, most of the Americas, but also other countries such as India, Australia and New Zeeland. Common Law countries are especially classified for having no codified law but case law, which is a legal mindset that utilizes previous similar cases in order to solve judicial controversies. For this reason, during last decades a lot of companies are using to incorporate themselves in the state of Delaware giving its strong legal background. On the other hand, civil law countries set their base from ancient Roman traditional law and was expanded to all the European imperial colonies such as Spain and Portugal. However, during the years was also embraced by other countries that used to adopt different legal traditions (e.g., Russia and Japan; Kraakman et al. 2009).

The main characteristic of civil law, apart from the codification of rules that yet is a huge difference with the common law, is that it relies on codes that are always updated and in addition are differently adopted in relation with the specific circumstances (penal, civil and commercial) that thus require diverse approaches to distinctive cases.

2.2 The Corporate Governance approach under Common and Civil Law countries

Regarding corporate governance in common and civil law countries, both legal systems agree on the specific roles of the board of directs that we mentioned so far, that are, advisory and oversight functions. In addition, regarding corporate disclosure both jurisdictions require that shareholders are appropriately informed about corporate matters such as executives' compensation and board structure. However, what changes between these two legal systems is substantially the structure and the composition of the board of directors.

In the Anglo-Saxon countries is mostly adopted a one-tier or monistic model, in which there is just one body appointed by the shareholders that is the board of directors, which embodies both oversight and advisory functions. This leads us to reflect on the consequences that can arise from the board exercising both powers inside the company. As a result of the countless scandals that happened as an implication of this specific issue (e.g Enron case), for example in the USA the NYSE requires that all listed companies must have a majority of independent directors. Independence is defined as the degree by which a director is free from conflict of interests either with the company itself or with other directors, that may compromise his/her ability to act solely

in the interest of the firm. Following the standards of the NYSE, a director cannot be defined independent if he/she:[6]

1. Has been employed as an executive officer within the past three years
2. Has earned direct compensation higher than 120.000$ from the company within the past three years
3. Has been employed as an internal or external auditor within the company in the past three years
4. Is an executive officer in another company where the listed company's actual executive has served on the compensation committee within the past three years
5. In case an executive officer of another company whose business with the listed company has been greater than 2% of revenues or 1$ million within the past 3 years

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[6] NYSE company guide rule 803

On the other hand, in the civil law countries there is not a unique perspective, considering for example Japan and Italy that adopt also a monistic model, however the majority of the countries that follow this jurisdiction utilize a two-tier or dualistic model. Differently from the monistic model, the two-tier board structure is divided between the Management and the Supervisory board. The first one is made of three to five executives that are responsible for the decisions concerning the day-to-day activity of the firm, while the second has an oversight function on the management board by appointing members and approving financial statements. In order to create a separation of power, no manager can sit in the Supervisory Board. One particular example that represents an important aspect in the German model is the requirement by the law to have a strong employee representation. In Germany, depending on the size of the company, at least a certain percentage of the Supervisory Board must be represented by laborers. This is an example of how this state places a huge emphasis on the preservation of the workplace, and this particular balance between employee and shareholders' interests is often called codetermination.

Italy, which is the principal point of this thesis, has adopted during the years, apart from the two traditional models, the so-called Italian model that is similar to the two-tier one but with some different aspects.

In the Italian model, The General Shareholders Meeting (GSM) appoints both the Board of Directors and the Board of Statutory Auditors (Collegio Sindacale) that can control the board thanks to the powers granted by the GSM.

Directors' independence tends to be less regulated in civil law countries considering the propensity of using a dualistic model but also for the lack of the specific concept in the codified rules. In all the states that follow the civil law legislation the presence of independent executives in the board changes in relation with the corporate model adopted. In Italy for example, for those companies that embrace the monistic model only two members must be independent only if the board is composed by more than seven directors. On the other hand, for those companies that follow the dualistic model in Italy the independence must be fulfilled only if the Management Board consists of more than four directors. This difference regarding independence between common law and civil law countries can be of course

detrimental for corporate governance issues. Having fewer independent directors in the board of directors can lead to a misjudgment of managers operations that can seriously harm the welfare of the company

Figure 4[7]: Common Law and Civil Law Countries

[7] Source: https://pmworldjournal.com/article/on-the-subject-of-contracts-and-legal-systems

2.3 Sustainable Corporate Governance under Common and Civil Law

From the previous paragraphs it is possible to understand that corporate governance is strongly affected by the legal system adopted by the country. The previous sections dealt with the different models that are at the base of common and civil law countries and now we shift towards the analysis of how sustainability is perceived under the two different approaches. The idea that we defined so far, about common law countries being more shareholders oriented and civil law countries being on the other hand stakeholders oriented, is reflected in the main conception of sustainability. In fact, Anglo-Saxon countries are more devoted towards the protection of the investors and differently countries like Germany (previously expressed with the concept of codetermination) and Italy account for a wider range of stakeholders that include for example employees, citizens and local communities, thus strongly enhancing the concept of sustainability. Recent studies revealed that legislation on social and environmental matters is more detailed in civil law countries than in common law ones (Collison et al. 2012), and this is also associated with a higher social and environmental performance (Kock and Min 2016; Kim et al 2017). However, it is still difficult to define how the legal system actually shapes the corporate governance mechanism in the following countries and actually how they differently encourage sustainable and environmental policies. For this reason, we will now examine the case of the UK and Italy in order to have a better understanding of how sustainability is practically included under these two different legislations.

2.3.1 Corporate Governance and Sustainability: The UK System

For more than 30 years in the UK it is widespread a set of principles and requirements that the top listed firms must follow under the rule "comply or explain" that basically claims that all the companies either comply or explain the reason for which they do not follow the established requirements (Van Veen and Elbertsen 2008). The "comply or explain" principle was founded in 1991 after that the London Stock Exchange and the Financial Reporting Council (FRC) had to respond to several scandals concerning social issues (Stiles and Tylor 1993). The necessity was to create a task force that was involved in the drafting of a set of requirements concerning good corporate governance. In 1992, the first set regarding the "comply or explain" rules were published under the name of Cadbury Code and was completely included as a part of the London Stock Exchange's Listing Rules (Boyd 1996). The Cadbury Code was seen as a first step which dealt with themes such as CEO/chairman separation, board independence and audit committees, for the introduction of new governance codes regarding different issues like remuneration of directors (in 1995), internal control (in 1999) and non-executive directors (in 2003).

The Cadbury Code was later renamed in 2010 with the name of UK Corporate Governance Code, and inserted through the years new principles about diversity, disclosure and risk management and the last version of it in 2018 introduced more requirements dealing with stakeholders' representation and culture (Okaily et al. 2019).

Beside the UK Corporate Governance Code, all the listed firms must follow also other set of norms deriving from the Companies Act (2006), The London Stock Exchange's Listing Rules and Listing Authority Disclosure Guidance and Transparency Rule, as well as the UK Stewardship Code (Veldman and Willmott 2016). All these sources of law provide directives both for the Board of Directors but also for internal committees. Regarding the board, it is generally followed that half of directors must be independent but also must be avoided the so-called CEO duality, that is, the CEO being also the chairmen of the board. In addition, it is recommended to have a lead independent director which represents all the independent directors in the conversation both with the CEO and with the shareholders. Regarding board committees, it is strongly recommended by the UK regulatory

framework to have three main committees inside the board of directors that are: an audit, a remuneration and a nomination committee.

In particular having an audit committee in listed companies is imposed by the Disclosure Guidance and Transparency Rules under the duty set by the European Union's Statutory Audit Directive. The remuneration committee is commissioned of establishing the salaries of all the directors including also the CEO following a precise scheme that must be published at the end of the year justifying the pay differences between the executives and the other directors. In the end, the role of the nomination committee is to select and follow the recruitment process of new directors including specific standards in the selection reflecting board diversity based upon gender, culture and ethnicity.

Regarding sustainability, in the UK there is not a specific rule or requirement concerning sustainable issues but only the awareness that firms must have in considering that their operations don't harm the environment. However, with the UK corporate governance code, starting from 2018, listed firms are required to display how they address and take into consideration stakeholder interests during their activities (Yeoh 2019).

Despite the lack of an environmental and social base in the legislation, during last years, a strong number of firms in the UK adopted the EU Non-Financial Reporting Directives that require company to disclose how they include these particular issues in their daily operative challenges.

2.3.2 Corporate Governance and Sustainability: The Italian System

In addition to the Italian Civil Code all listed firms must follow even other sources of law like the Consolidated Law on Finance, the rulings issued by the Italian Stock Exchange (Borsa Italiana S.p.A) and by the National Commission for Companies and the Stock Exchange (Commisione Nazionale per le Società e la Borsa-CONSOB), that is the body which regulates and supervise the Italian security market.

Following the Consolidated Law on Finance, in 1999 the Italian Stock Exchange founded the "Committee for Corporate Governance", on the basis of the codes of best practices already issued in EU and in the USA (Melis 2006).

The first version of the Code of Corporate Governance, published in 1999, was addressed to all Italian listed companies with the aim of setting the main principles on board composition

and structure. During the following years from the first edition, all the subsequent versions that came in 2006 and in 2011 provided additional information on board remuneration, rules regarding independent directors (not lower than one-third of the total) and board committees. In 2014 was introduced in Italy the "comply or explain rule" but the most important implementation has been done in 2015 with the aim of recommending board committees devoted to the enforcement of sustainable issues. The latest version of the code came into 2018 with issues addressing board diversity including gender minimum quotas requirements (Drago et al. 2015).

The Italian Corporate Governance code specifies the different tasks and duties concerning the board of directors that strongly depend on the structure that companies decide to follow. Under the Italian Civil Code there are mainly three structures that the board can adopt: the traditional one (with the board of directors and statutory auditors), the monistic structure (one-tier model with an internal controlling body) and dualistic (two-tier structure with separated supervisory and management board). Inside the board of directors is recommended, as for the UK, to have board committees that mainly deal with remuneration of directors, nomination of new candidates and internal controlling. Moreover, under the Code, there are additional rules concerning internal committees regarding both independence and minimum size.

However, starting from 2015 the new version of the Coode of Corporate Governance included new issues and guidelines concerning sustainability and corporate social responsibility that emerged in the international and European context. The Directive 2014/95/EU of the European Union introduced the necessity to large firms to publish adequate information regarding transparency on environmental and social issues.

Thus, starting from 2015, in the new version of the code was included the section regarding the need for the board of directors to publish an end-year assessment with regard to the relationship between the company's operations and the impact on sustainability on a medium/long term basis. The suggestion for the firms belonging to the FTSE MIB index, even if not mandatory, was to create new committees devoted to the implementation of sustainable activities and stakeholder's-oriented interactions by the end of 2016.

This particular implementation of the code had a strong impact regarding subsequent modifications on other several topics. The Legislative Decree 231/01 introduced the legal responsibility for negligible acts committed by the company regarding social and environmental matters. Furthermore, by the end of 2016 was also introduced by the Italian Government the Legislative Decree 254/2016 requiring firms to present non-financial reports at the end of each year. Starting from 2017, was in fact required for all listed firms to publish a non-financial statement concerning the impact of operations on social related issues such as human rights, environment, corruption and bribery.

This introduction in the Italian legislative system of these new requirements concerning sustainability set the base for a new perspective which is gradually changing the mindset of Italian corporations making both the management and the board legally responsible but also more involved in social and ecological affairs that are now representing the milestone of the society.

2.4 A Literature Review on Corporate Governance and Sustainability

During the last decades, the relationship between corporate governance and sustainability has been at the center of the most discussed debates, concerning how different corporate governance structures can effectively foster sustainability inclusion.

The two main relevant studies that actually explored the relationship between corporate governance and sustainability are based on agency theory (Jensen and Meckling 1976) and stakeholder theory (Freeman 1984).

Former studies demonstrated that an effective corporate governance structure can substantially decrease agency problems making managers more involved in committing for a wider range of stakeholders (Kolk, 2008). In addition, the stakeholder theory, argues that corporate governance can improve long term interests' alignments between the firm and the stakeholders, thus fostering solid relationships (Michelon and Parbonetti 2012).

From this introduction follows that it is difficult to relate sustainability to a single theory because they both complement each other (Spitzeck 2009).

Moreover, recent studies defined the board of directors as the top-level placement of a business hierarchical structure that must encourage the inclusion of stakeholders' interests in firm's operations. It is thus important in the following paragraph to further analyze which are the main attributes through which the board can implement sustainable policies inside the firm.

2.4.1 Board of Directors engagement towards sustainability

As previously stated, the board of directors is the principal actor in the role of fostering the inclusion of sustainability in firm's operations. Several studies evidenced that in recent years an increasing number of directors are becoming more involved and accountable in the integration of sustainability (Ricart et al. 2005).

The existing research highlighted that a there is a strong correlation between the inclusion of sustainability and several board attributes (Rao and Tilt 2016).

In particular these are connected with board composition, which is one of the most valuable attributes through which the board of directors can actually prompt sustainability and environmental issues, but also with board tenure, size of the board and number of independent directors (Jizi 2017). Board tenure, that is defined as the number of years during which the same member has been in the board, is seen as having both a positive and a negative effect. On one hand having always the same directors in the board is seen as an increase in the effectiveness while on the other this can harm diversity given that new directors use to bring new perspectives coming from different fields or companies.

Recently, seem to be more efficient in terms of prompting sustainable and social issues inside the firm to include directors having different gender, ethnicity and culture (Brown and Caylor 2006), in order to enlarge board perspectives towards a wide range of topics (Cucari et al 2018, Rao and Tilt 2016).

Lastly, another important aspect that has been highly explored regarding the relationship between the role of the board of directors toward sustainable matters, concerns board's organizations. The presence of committees dealing with social and environmental topics has been recognized as the most valuable and crucial driver that can actually indicate an accountable involvement of the board to this particular issue (Ricart et al. 2005).

2.4.2 The roles of board committees in the inclusion of sustainability

The composition of the board of directors is an important factor in the evaluation of the company, because it actually defines how the company is organized and in addition how the tasks are allocated between directors, managers and committees.

The creation inside the company of several committees that deal with different issues has been recognized by previous studies as one of the best decisions in order to improve

managerial performance (Spira and Bender 2004). Having small committees inside the firm can in fact prompt particular strategies that are analyzed by small groups of experienced directors in that field. Dealing with the theme of sustainability and social issues, firms can actually commission the inclusion of these topics to small executives by creating an ad hoc committee in charge of managing and supervising either socio-environmental issues but also stakeholders' integration.

However, there is not enough theory yet that carefully analyzed the relationship between board committees and sustainability effects and all previous studies investigated the presence of these specific committees in accordance with three main theories, that are: agency theory, legitimacy theory and resource-based theory.

Under agency theory these committees are particularly effective in order to increase corporate performance under a socio-environmental point of view (Walls et al. 2012; Mallin et al. 2013; Eberhard-Toth 2017). Legitimacy theory, instead, stresses that the presence of these committees is mostly efficient considering stakeholders' inclusion. In fact, dealing with sustainable issues can make more stakeholders feeling embedded in the life of the firm through an inclusion of common interests (Michelon and Parbonetti 2012; Amran et al. 2014; Helfaya and Moussa 2017). Stakeholders will perceive this as a strong commitment by the firm feeling more confident in knowing to have inside the firm's committees dealing with sustainability-related issues as these groups will foster stakeholders' engagement by prompting equality among them but also through sustainable reporting policies.

Another important aspect that has been considered apart from the connection between sustainability and stakeholders, has been the one of the relationships between sustainability and performance both financial and socio environmental.

However, even if has been proved that financial performance has a positive relationship with other committees such as audit, nomination and remuneration it is has not yet been proved the positive effect that sustainability has on performance that instead it has on sustainable practices (Spitzeck 2009), environmental reporting (Arena et al. 2015) and on disclosure (Amran et al. 2014; Liao et al. 2015).

One important side that has been evaluated in a recent study (Hussain et al. 2018) is that not all corporate governance practices increase triple-bottom-line performance and in addition

having committees that deal with socio environmental issues can improve only specific edges thus not resulting in an improvement of the performance as a whole.

2.5 The evolution and the influence of legislation in Italy and in the UK

Following 2013, the non-financial decree published by the European Union in 2014 raised the awareness to include more transparency regarding socio-environmental issues in the reports published by the companies. In particular in Italy, with the revision of the Code of Corporate Governance in 2015 was introduced the need for the firms to operate adopting environmental standards in medium-long term. In addition, the new article of the code suggested the inclusion by year-end of 2016 of ad hoc committees dealing with both sustainable and stakeholders' relations topics for all the firms belonging to the FTSE MIB index. From 2013 to 2018, has been investigated the increase in committees dealing with sustainable issues both in Italy and in the UK by comparing the 40 firms from the Italian index FTSE MIB and the 100 English firms from the FTSE 100.

The table below[8] shows the different classification of sustainable integration within the firm considering ad hoc sustainability committees as the best option while management committees at the same level of firms which didn't provide sustainable reporting considering the lack of board involvement.

Table 5: Classification of sustainable integration within family businesses

Structure	Description
(Undisclosed)	There is no formal allocation of responsibility related to sustainability
1. Management committee	A committee formed only by managers is responsible for sustainability issues.
2. Supervision	A single director and/or the entire board of directors supervise sustainability issues, but without formal responsibilities or procedures.
3. Two-tier committee	A committee formed by both managers and directors is responsible for sustainability issues.
4. Delegate board committee	A board committee with other functions (e.g. risk, audit…) is also formally responsible for sustainability issues, but without specific procedures.
5. Sustainability board committee	A board committee is fully responsible for sustainability issues, also in association with other functions. Specific procedures are present to deal with social and environmental issues.

[8] Source: Corporate Governance and Sustainability: The role of the Board of Directors (M.Minciullo 2019)

From 2013 up to 2018 the research suggests that the number of firms that still do not provide any form of disclosure regarding sustainability had substantially decreased, either for Italy and for the UK, and an increasing number of companies did over the year progressive changes in their corporate governance system passing actually from "undisclosed" forms to "two-tier committee".

The last research conducted in 2017 evidenced 13 firms that modified they governance system connected to sustainable issues. More than two thirds (69%) did incremental changes thus shifting from "undisclosed" to "management committee", or in general one class above, and 31% of the remaining 13 did actually radical changes in their structure thus revolutionizing completely their system from "management committee" to "delegated board committee" or "sustainability board committee".

The supervision model that was mostly adopted until 2013, decreased through the years, as many firms shifted to the delegated board committee.

Table 6[9]: The evolution of sustainability integration between 2013-2017 (Italy & UK)

	FTSE-MIB			FTSE 100		
	2013 (%)	2016 (%)	2017 (%)	2013 (%)	2016 (%)	2017 (%)
(Undisclosed)	7.5	*5*	*2.5*	2	*0*	*0*
1. Management committee	5	*5*	*5*	6	*8*	*17*
2. Supervision	57.5	*15*	*10*	40	*30*	*24*
3. Two-tier committee	5	*5*	*2.5*	16	*19*	*12*
4. Delegate board committee	12.5	*27.5*	*22.5*	3	*4*	*4*
5. Sustainability board committee	12.5	*42.5*	*57.5*	33	*39*	*43*

[9] Source: Corporate Governance and Sustainability: The role of the Board of Directors (M. Minciullo 2019)

From 2016 also this last governance model started to become obsolete given that the majority of firms shifted to the last and most important representation, that was the one through ad hoc sustainability board committee.

On the other hand, in the UK the path was slightly different considering the changing in governance model for the inclusion of sustainable issues. From 2013 the English companies that assigned to the board the duty to monitor and include sustainable topics slightly decreased, shifting from 40% to 24%. This trend from the UK, in comparison to the Italian one, must be considered as the preference of English firms to adopt since 2013 directly committees devoted in including sustainable issues in the performance of the firm.

The main reason can be understood by the pattern below regarding the differences in the evolution of corporate governance mechanism in Italy and in the UK.

In Italy the typical pattern of the firms that revolutionized their governance system was first the passage to the supervision model. In fact, companies that wanted to introduce sustainable topics within their corporate principles, decided that they had to be managed directly by the board of directors, that was actually the body with most experience within the firm.

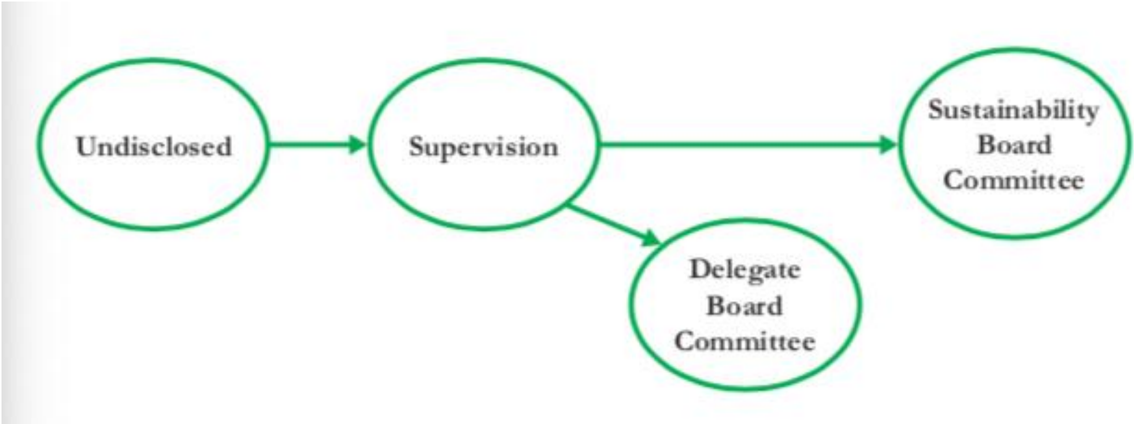
Subsequently all listed firms from FTSE MIB did two separate choices: the first one was to adopt directly sustainability board committees, while the second was to delegate to an existing committee.

The first choice has been done considering the pressure of new policies (Code of Corporate Governance) concerning the introduction of sustainability issues within the firms, that route the firms directly towards the creation of ad hoc committees. However, several firms, due to the lack of directors with experience in the field, were obliged to fill the gap in a relative short time by delegating the topic to other committees that were already present inside the firm. For many firms, the proxy of an existing committee was considered as an intermediate step before passing to sustainability committees, that were usually integrated in 2-3 years.

However, the pattern for the UK was slightly different, considering that they started directly with a supervision model. In fact, sustainable concepts, unlike Italy, were already present in the board of directors even starting from 2013.

The decision that followed in the UK during subsequent years is somewhat interesting, considering their decision to change in some cases to a management committee. In fact, the passage of responsibility only to managers without any director may seem illogical. However, several firms decided to manage sustainable matters according to a decentralized approach. The research (Pirson and Turnbull 2018), in fact, argues that decentralized forms can handle complicated issues arising from sustainability in a better way than centralized ones and in addition it is more adequate related to those firms that wanted to integrate sustainability at operational level without any strategical purpose. From this scenario, it is possible to distinguish between three main patterns, two of which preceded the creation of subsequent sustainable committees. As stated above, considering that sustainability was already present in English companies, the choice was not radical as for Italy to create directly ad hoc sustainability committees, but rather to delegate to existing committees or two-tier committees as an intermediate step. On the other hand, several companies adopted as a third scenario the introduction a management committee that was particularly efficient for their corporate strategy.

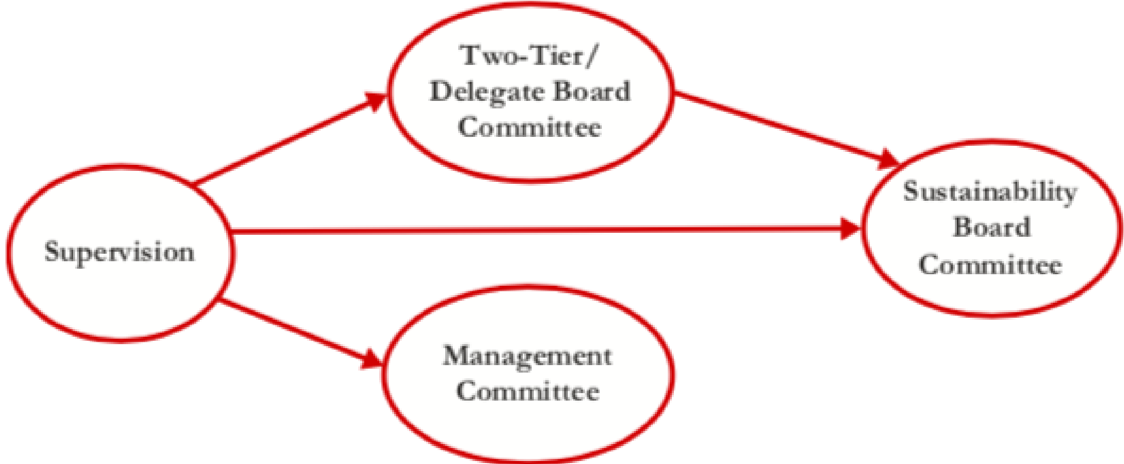
Figure 7[10]: Patterns of evolution of the governance of sustainability in Italy



[10] Source: Corporate Governance and Sustainability: The role of the Board of Directors (M. Minciullo 2019)

This particular topic highlighted both in Italy and in the UK how sustainability had a strong impact on the corporate governance of these two countries. However, the introduction of new legislation starting from 2015, both with the new articles of the Code of Corporate Governance and with the introduction of the regulations regarding non-financial disclosure, made Italy more focused towards sustainability, suggesting the strong pression of external factors related to this specific issue.

Figure 8[11]: Patterns of evolution of the governance of sustainability in the UK



[11] Source: Corporate Governance and Sustainability: The role of the Board of Directors (M. Minciullo 2019)

Introduction to Chapter 3

The introduction of Environmental, Social and Governance (ESG) issues as a part of corporate decision making can be described as a cultural process that motivated the majority of the companies to review their internal policies in order to either modify them or to implement new ones. The rules concerning non-financial reporting arose with the enforcement of the Directive 2014/95/UE, that was lately transposed in Italy with the Legislative Decree number 254/2016.

Starting from this point, the intention of the study was to analyze the family businesses that over the years decided to incorporate sustainable related policies within their corporate scopes and the subsequent effect on companies' performances. The research has been carried out by first selecting the sample that consists of 300 Italian family companies listed on the market from 2005 to 2018 with the aim of including firms coming from different sectors and with different stages of evolution in order to have an analysis that would not have brought biased outcomes. This study is divided mainly into two parts that may be summarized with a first theoretical data collection and a subsequent calculation of the principal financials.

In the end with the aim of Excel functions, has been analyzed the change during the years, of firms committing to sustainability either through non-financial disclosures or with dedicated sections in their websites (sustainability culture).

The data collection regarding financials has been particularly important concerning the last part of the chapter in which has been compared Market to Book ratio, Return on Equity and Return on Investment, of the industries in order to better identify the differences in these metrics between companies committing to sustainable issue with respect to those wo does not. In addition, in the end has been performed also a regression analysis with the aim of having a better understanding of the statistical significance of the variable representing sustainability reporting in a model that has as dependent variable Return on Equity.

Chapter 3: An Empirical Research on the Sustainable Commitment in the Italian family industry

The basis of the model is built upon a set of dummy variables (variables that can take either the value of 0 or 1 under specific constraints) that play a substantial role in the first part of the study, as they indicate the sustainability involvement within the whole company structure. In particular the variables involved in the model are the following listed below:

- **Ceo_background**: The variable indicates the main area of functional experience: marketing, finance, HR, legal, etc.
- **Ceo_sustainability_expert**: The variable indicates whether the CEO has experience in the field of sustainability (takes value 1 if he is an expert, 0 if he is not, blank if there are not information available) e.g., if he has participated or started sustainable initiatives in the company or outside
- **Sustainability reporting**: The variable indicates whether the company draws up and publishes documents on sustainability or non-financial related contents (takes value 1 if it draws up / publishes them, 0 if it does not draw up / publish them, blank if there are not information available)
- **Sustainability_info**: The variable indicates whether the company discloses information about future sustainability strategies. (takes value 1 if publishes info, 0 if not and blank if there are not available information)
- **Sustainability_culture**: The variable indicates whether the company discloses any kind of information regarding sustainability. This does not necessarily indicate the publication of a sustainability report but rather even if there are also small sections related to the topic on the company website (takes value 1 if there are relevant information, 0 if not and blank space if there are not info available)

Most of the information needed in order to complete the first stage of this model were present on the company website, in particular on the section regarding company's disclosure. In addition, concerning CEOs experiences and culture in was particularly helpful also the information found on the web as for example LinkedIn website and individual CVs.

The second part of the model has been structured with the aid of the financial platform Datastream-EIKON Thompson Reuters that was particularly relevant for the download of both the financial statements and the financial metrics of the companies.

The main variables adopted that significant in order to measure the performance of the companies are the following listed below:

- **EBIT:** Earnings before interest and taxes (EBIT) is a metric that calculates the profit a business makes from its activities and is also referred to as operating profit. EBIT focuses primarily on a company's ability to produce profits from sales, ignoring factors such as tax burden and capital structure, by ignoring taxation and interest expense. EBIT is a particularly useful metric for determining a company's ability to produce sufficient profits to be sustainable, pay down debt, and finance ongoing operations.
- **Enterprise Value:** The enterprise value (EV) represents the overall value of a business. It involves a company's market capitalization, cash on the balance sheet, and both short-term and long-term debt.
- **Market Value:** The value of a company also known as market capitalization of a publicly traded company is determined by multiplying the amount of outstanding shares by the current share price.
- **Market to Book Value:** The Market to Book ratio (also known as the Price to Book ratio) is a financial valuation statistic that compares a company's market value to its book value. The formula employed in order to calculate this metric is M/B=Market Capitalization/Total Book Value where the market capitalization is equal to the number of shares multiplied by the current share price and the book value is a financial measure that comes from the balance sheet that represents the net value of company’s assets.
- **EPS:** In the model has been used the diluted EPS metric since it better represents corporate performance and is recognized as the profit earned on each share of a public corporation, measured assuming that all convertible securities have been fully exercised. Instead of considering only current common stock, Diluted Earnings Per Share suggests that all securities that can be converted to common stock, such as

convertible bonds, convertible preferred shares, stock options, warrants, and other instruments, are actually converted.

- **CAPEX:** CAPEX known as Capital Expenditure has been used as a proxy in order to describe Total Capital. A company's capital expenses (CAPEX) are funds used to purchase, repair, and retain physical assets such as land, plants, structures, technology, or machinery. CAPEX is often used by businesses to fund new ventures or acquisitions.
- **Net Income After Tax:** The metric "Net Income After Tax" (NIAT) refers to company's profit after all taxes have been charged. Net Income is a financial expression to indicate earnings after that the company deducted all the expenses from sales
- **Total Shareholders' Equity:** Shareholders' equity is expressed by the difference between total assets and total liabilities and represents the sum that indicates how the business has been funded with the aid of common and preferred stock.
- **ROI:** Return on investment (ROI) is a performance metric used to assess an investment's efficiency or profitability, as well as to compare the efficiency of several investments. In the model has been calculated as EBIT/CAPEX
- **ROE:** The return on equity (ROE) is a financial performance indicator that is determined by dividing net profits by shareholders' equity. The return on equity (ROE) is an indicator of a company's profitability in relation to its stockholders' equity.
- **Tobin's q:** The Q ratio, also known as Tobin's Q, determines whether a company or a market as a whole is overvalued or undervalued. A low Q ratio (between 0 and 1) indicates that the cost of replacing a company's assets exceeds the value of its stock. This suggests that the stock is currently undervalued. A high Q (greater than 1), on the other hand, indicates that a company's stock is more costly than the replacement cost of its assets, implying that the stock is overvalued. In the research, Tobin's q has been measured as Enterprise Value/Market Value.

3.1 Research Evidence

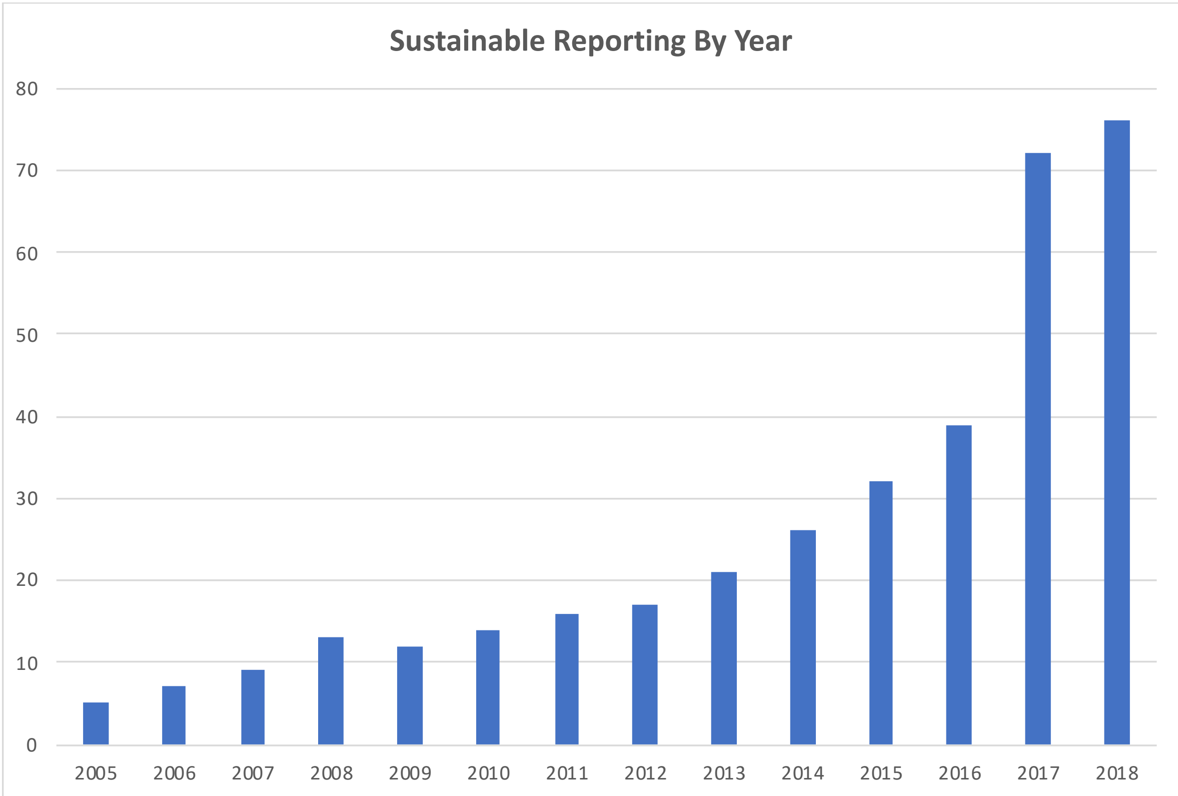
The first aim of the research was to understand how many companies included non-financial reporting within their businesses during the years. With the original dataset has been created the representative table of this phenomenon with the use of the Excel function SUMIF that was able to capture the constraint of the indicated year with the number of the firms that were actually publishing sustainable reports.

Table 9: Sustainable Reporting by Year

YEAR	SUSTAINABLE REPORTING
2005	5
2006	7
2007	9
2008	13
2009	12
2010	14
2011	16
2012	17
2013	21
2014	26
2015	32
2016	39
2017	72
2018	76

What can be noticed by the table is that, following the introduction of the legislative decree in Europe starting from 2014 and in Italy from 2017, an increasing number of Italian firms started to introduce non-financial disclosures within their operations and in addition they begun to widely consider sustainable matters.

Graph 10: Sustainable Reporting by Year



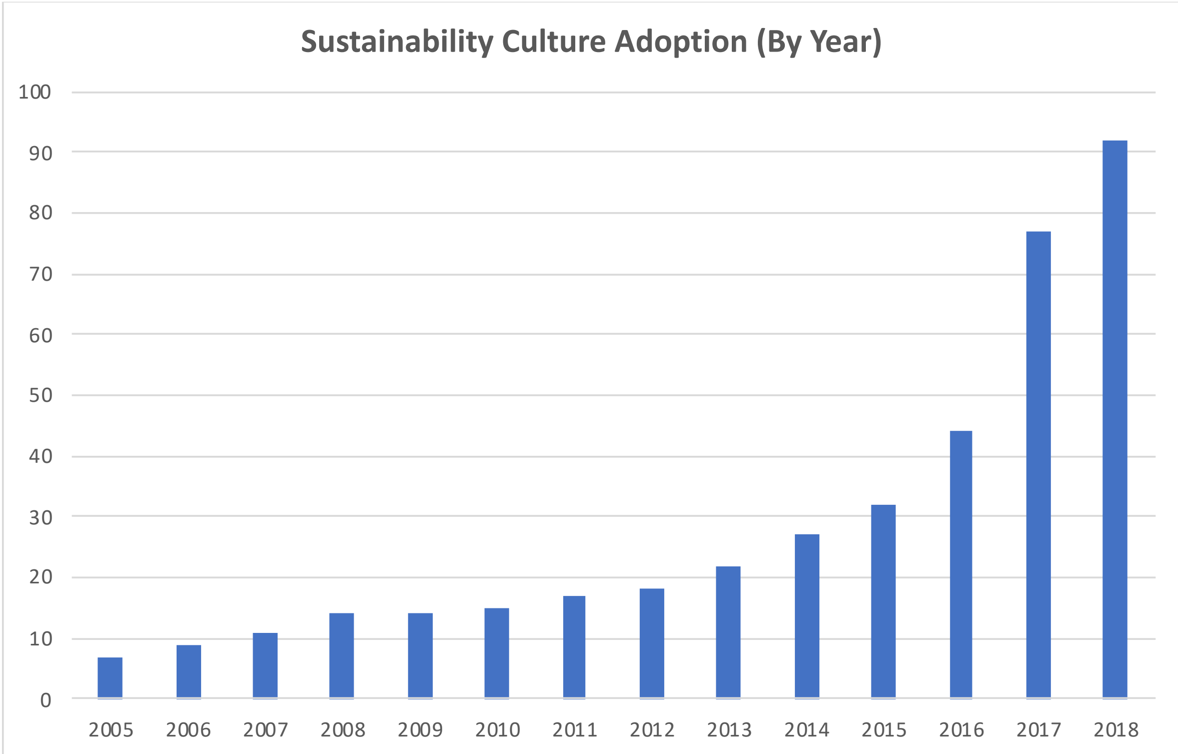
If we remember the variables adopted in the model, it has been also considered the one regarding sustainability culture within the firms. In fact, not all the companies provide a sustainable reporting section as well as non-financial disclosures but actually this doesn't imply that the firm is not embracing sustainable policies.

Data analysis concerning sustainability culture suggests that the topics has been considered by an additional number of companies with respect to the ones publishing sustainability reports. In fact, from the table below, if we analyze the difference in the numbers, year by year we can observe that actually more companies embrace sustainable related issues without publishing directly sustainable reports. This happens for example with dedicated sections on the company's website or press releases where the issue is broadly debated.

Table 11: Sustainability Culture Adoption by Year

YEAR	SUSTAINABLE REPORTING
2005	7
2006	9
2007	11
2008	14
2009	14
2010	15
2011	17
2012	18
2013	22
2014	27
2015	32
2016	44
2017	77
2018	92

Graph 12: Sustainability Culture Adoption by year

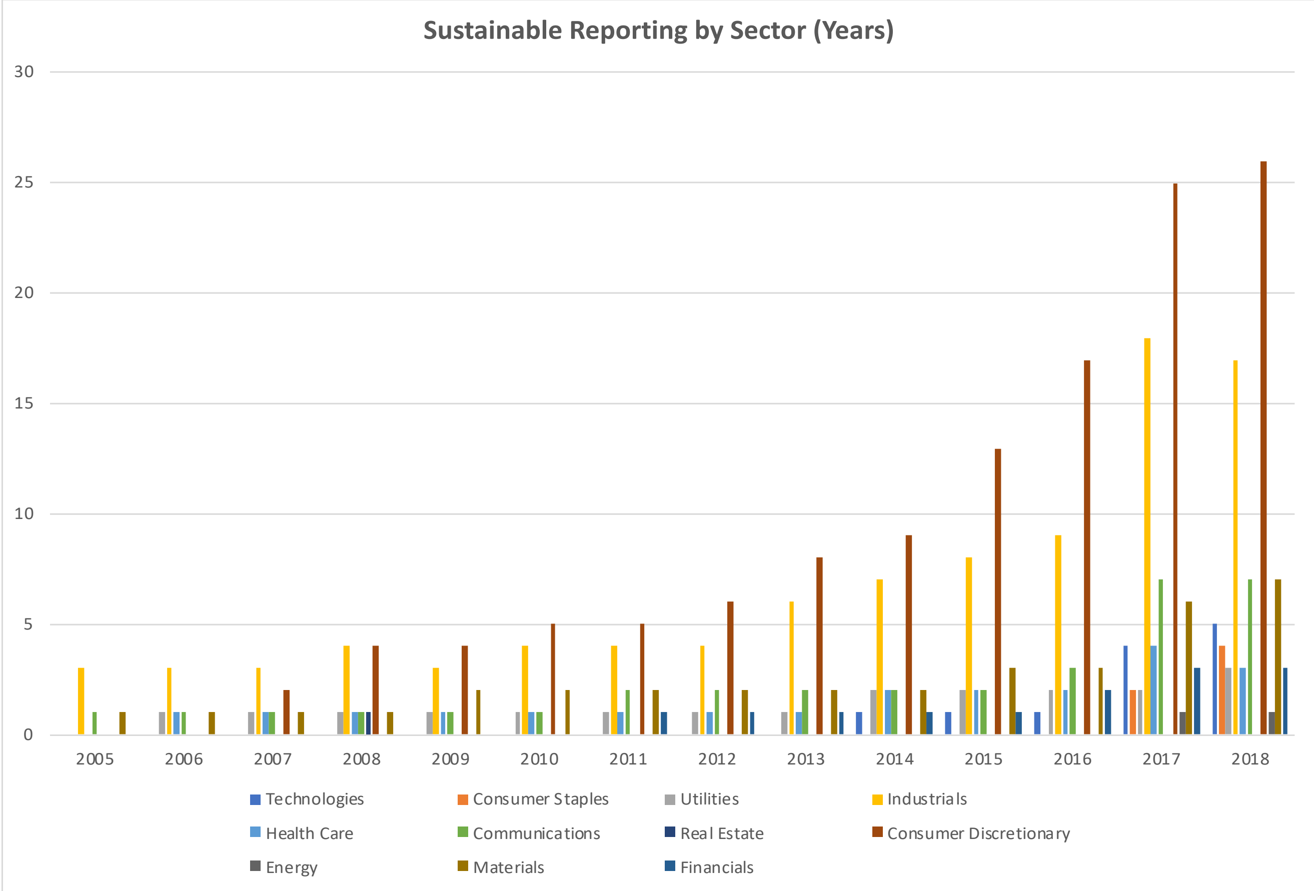


Now, that we have analyzed so far the increase in the number of companies including sustainable related policies, let's have a look at the industries in which sustainability has been embraced the most. This has been done with the same excel function adopted for the analysis above with the inclusion of one additional constraint that is present in the dataset under the name "Sectors". The possibility to categorize the sectors of each company is given by Bloomberg platform that offers an exhaustive description for each firm.

Table 13: Sustainable Reporting by Year

SECTORS	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
TECHNOLOGIES	0	0	0	0	0	0	0	0	0	1	1	1	4	5
CONSUMER STAPLES	0	0	0	0	0	0	0	0	0	0	0	0	2	4
UTILITIES	0	1	1	1	1	1	1	1	1	2	2	2	2	3
INDUSTRIALS	3	3	3	4	3	4	4	4	6	7	8	9	18	17
HEALTH CARE	0	1	1	1	1	1	1	1	1	2	2	2	4	3
COMMUNICATIONS	1	1	1	1	1	1	2	2	2	2	2	3	7	7
REAL ESTATE	0	0	0	1	0	0	0	0	0	0	0	0	0	0
CONSUMER DISCRETIONARY	0	0	2	4	4	5	5	6	8	9	13	17	25	26
ENERGY	0	0	0	0	0	0	0	0	0	0	0	0	1	1
MATERIALS	1	1	1	1	2	2	2	2	2	2	3	3	6	7
FINANCIALS	0	0	0	0	0	0	1	1	1	1	1	2	3	3

Graph 14: Sustainable Reporting by Sector



What sticks out from the analysis is the strong representation of the "Consumer Discretionary" sector throughout the years with respect to other industries.

However, during the research has been observed that the majority of companies that were present in the dataset actually belonged to the overmentioned sector, leading to a an excessively generic outcome that could describe the dataset.

For this reason, with the aim of Bloomberg platform it was possible to further categorize each company by its sub-industry in order to produce a more specific and detailed result.

Table 15: Sustainable Reporting by Sub-Industry

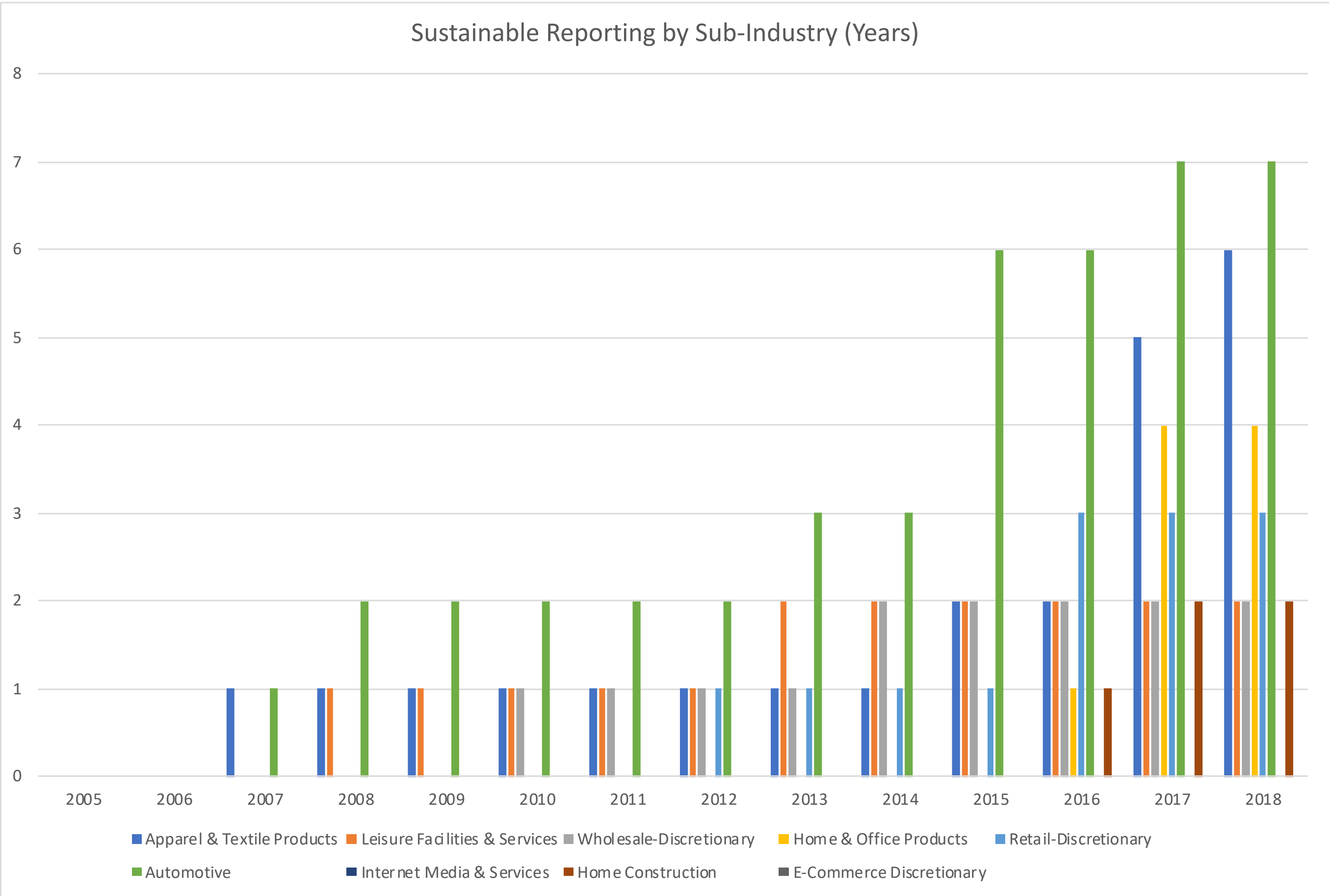
SUB-INDUSTRY	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
APPAREL & TEXTILE PRODUCTS	0	0	1	1	1	1	1	1	1	1	2	2	5	6
LEISURE FACILITIES & SERVICES	0	0	0	1	1	1	1	1	2	2	2	2	2	2
WHOLESALE-DISCRETIONARY	0	0	0	0	0	1	1	1	1	2	2	2	2	2
HOME & OFFICE PRODUCTS	0	0	0	0	0	0	0	0	0	0	0	1	4	4
RETAIL DISCRETIONARY	0	0	0	0	0	0	0	1	1	1	1	3	3	3
AUTOMOTIVE	0	0	1	2	2	2	2	2	3	3	6	6	7	7
INTERNET MEDIA & SERVICES	0	0	0	0	0	0	0	0	0	0	0	0	0	0
HOME CONSTRUCTION	0	0	0	0	0	0	0	0	0	0	0	1	2	2
E-COMMERCE DISCRETIONARY	0	0	0	0	0	0	0	0	0	0	0	0	0	0

The graph below offers a more detailed perspective on the fragmentation of the inclusion of sustainable reporting by years throughout the Consumer-Discretionary Sector.
This suggests that the inclusion of sustainable related issues with the publishment of sustainability reports is widespread mainly through the "Automotive" and the "Apparel & Textile Products" sub-industry. In fact, can be highly noticed, that starting from 2007 for the Automotive industry and 2012 for the Apparel & Textile the "sustainable cause" has

been exponentially embraced by the companies belonging to these industries. One of the main reasons could be attributed to the primary inputs involved in the production cycle. In fact, companies belonging to E-Commerce or Internet Media & Services industries are less attracted to the issue but also could find it difficult to encapsulate sustainable contents in their businesses.

At this point of the analysis having each company's financials has been particularly relevant in order to conduct a deeper research on the correlation between sustainability and firm's performance. In the paragraph below, in fact, have been collected and analyzed the financials of the two main sub-industries making a comparison between them in order to evaluate by year a possible correlation between sustainable related policies and corporate performance.

Graph 16: Sustainable Reporting by Sub-Industry



3.2 Analysis of the correlation between Corporate Financials and Sustainability

Concerning the analysis of the relationship between corporate financials and sustainability this has been done with excel using the AVERAGEIFS formula. In fact, this equation gives the possibility to compute the average of the metrics under certain constraints. In this case the dataset has been divided between the sub-industries by also giving them an additional feature based on the publishment of sustainable reports.

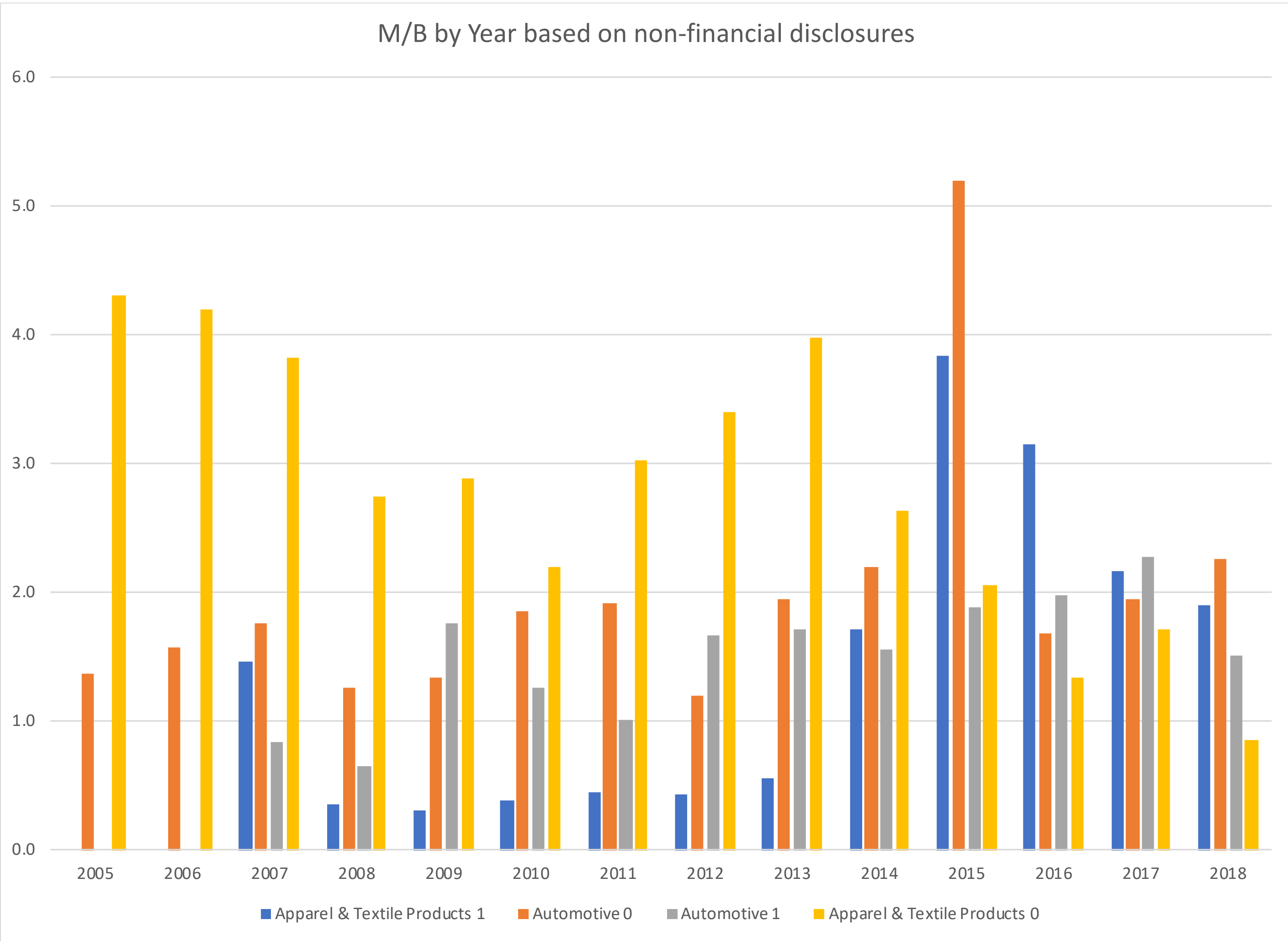
Table 17: M/B Apparel & Textile/Automotive by Year

Sub-Industry	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*
Apparel & Textile 1			1.5	0.4	0.3	0.4	0.4	0.4	0.6	1.7	3.8	3.1	2.2	1.9
Automotive 0	1.4	1.6	1.8	1.3	1.3	1.8	1.9	1.2	1.9	2.2	5.2	1.7	1.9	2.3
Automotive 1			0.8	0.7	1.8	1.3	1.0	1.7	1.7	1.6	1.9	2.0	2.3	1.5
Apparel & Textile 0	4.3	4.2	3.8	2.7	2.9	2.2	3.0	3.4	4.0	2.6	2.1	1.3	1.7	0.8

The table above, displays the average of the market to book ratio based on the industries characterized by either publishing or not non-financial disclosures.

Having a high market to book ratio is usually interpreted well by investors and what can be noticed in the graph below is that after 2014, that is the year of the introduction of the legislative decree, the sub-industries involved in the publishment of sustainable contents did particularly better with respect to those that were not still publishing them.

Graph 18: M/B Apparel & Textile/ Automotive by Year



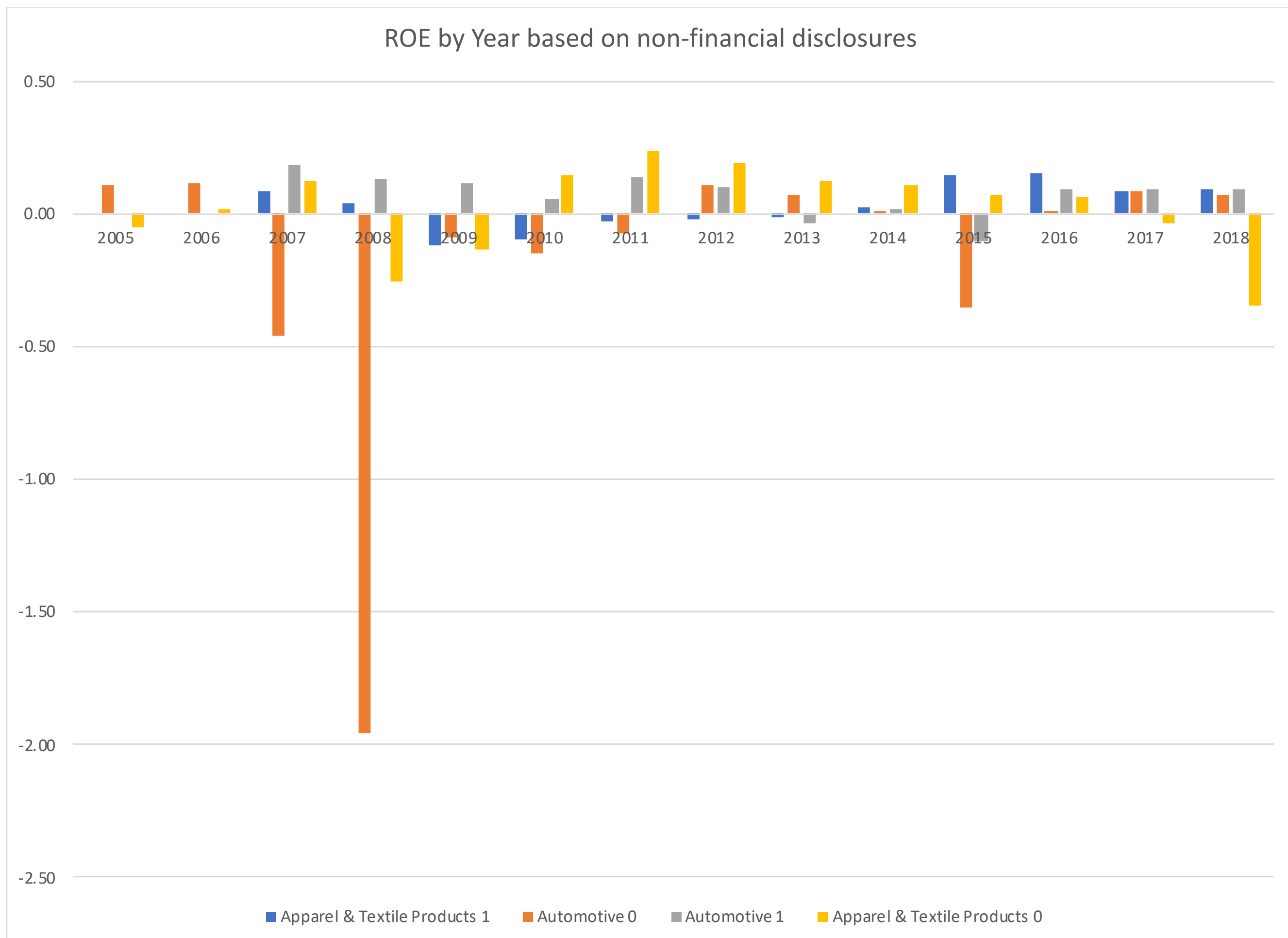
Another analysis can be done for example by comparing Returns on Equity (ROE) of each industry. ROE is in fact, considered as an indicator of a company's profitability in relation to its stockholders' equity. A higher return on equity is typically preferable, while a declining ROE may imply inefficient use of equity capital.

Also, in this case, it can be noticed that in correspondence with the implementation of the policies in 2014, the industries involved in publishing sustainable reports presented a higher ROE compared to those that were not following the norms in the legislative decree.

Table 19: ROE Apparel & Textile/ Automotive by Year

Sub-Industry	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*
Apparel & Textile 1			0.08	0.04	-0.12	-0.09	-0.03	-0.02	-0.01	0.03	0.15	0.15	0.08	0.09
Automotive 0	0.11	0.11	-0.46	-1.95	-0.09	-0.15	-0.07	0.11	-0.07	0.01	-0.35	0.00	0.08	0.07
Automotive 1			0.18	0.13	0.11	0.06	0.14	0.1	-0.04	0.02	-0.1	0.1	0.09	0.09
Apparel & Textile 0	-0.05	0.02	0.12	-0.26	-0.13	0.14	0.24	0.19	0.12	0.11	0.07	0.06	-0.4	-0.35

Graph 20: ROE Apparel & Textile/ Automotive by Year



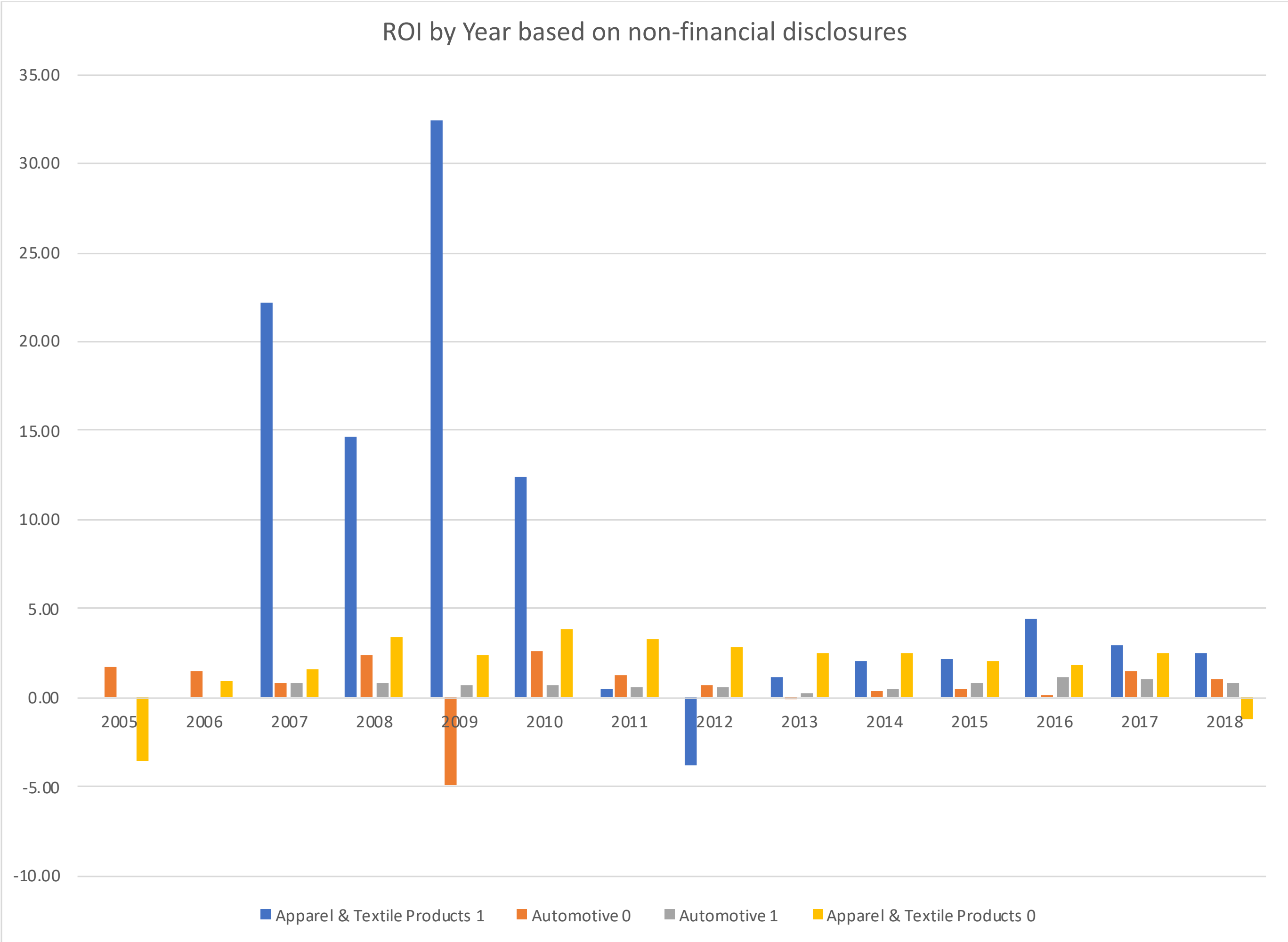
An uncertain feedback seems to be present in the analysis concerning Return on Investment (ROI). As for previous cases, it has been analyzed the dataset by differentiating those companies committing to sustainable related issues and those who were not; and actually, if results appear to be consistent with the previous analysis for companies belonging to the Apparel & Textile industry, for the ones in the Automotive industry this is completely clear. In fact, if results for the automotive sector indicate a higher ROI in 2015 for companies involved in sustainable contents, data present a small difference in favor of firms not involved in the issue for the following years.

Table 20: ROI Apparel & Textile/ Automotive by Year

Sub-Industry	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*
Apparel & Textile 1			22.21	14.62	32.36	12.40	0.47	-3.76	1.12	2.09	2.21	0.15	0.08	0.09
Automotive 0	1.69	1.56	0.88	2.37	-4.9	2.59	1.23	0.73	-0.03	0.41	0.51	0.00	0.08	0.07
Automotive 1			0.82	0.81	0.71	0.77	0.64	0.59	0.24	0.47	0.87	0.1	0.09	0.09
Apparel & Textile 0	-3.53	1.00	1.67	3.39	2.44	3.85	3.32	2.84	2.49	2.57	2.07	0.06	-0.4	-0.35

On the other hand, the graph below suggests a small difference in ROI concerning the Apparel & Textile sector in 2014 in favor of those companies not involved in sustainable policies, however starting from 2015 return on investment appear to be grater in those companies promoting the issue with respect to those who didn't.

Graph 21: ROI Apparel & Textile/ Automotive by Year



3.3 Regression Analysis

The previous paragraphs analyzed so far how M/B, ROE and ROI were consistently higher during last years (2015-2018) in the overmentioned industries that following the introduction of the legislative decree implemented sustainable reporting.

For this reason, the intention was now to statistically demonstrate the significance of the variables concerning sustainable commitments inside the companies. The analysis of the regression is however particularly concentrated on the ROE metric considering that several researches hold that this is the best variable in order to analyze a profitable family-led firm

The original dataset has been shaped and imported in STATA with all the variables from 2005 to 2018, in order to execute the regressions in a way of representing the industries analyzed in the previous paragraph.

In order to better analyze the dataset and the significance of the control variables has been chosen the panel data regression model, which specifically observes variables over time. The regression model it is actually represented by the dummy variables contained in the dataset and in particular it analyzes the cluster Industry_ID (which takes variable 1 if the company is in the Apparel & Textile industry or 2 if it is in the Automotive one).

Graph 22: Regression Analysis using all the variables

```
. xtreg ROE ceo_sustainability_expert Sustainabilityreporting Sustainability_info Sustainability_culture i.year, fe cluster (Industry_ID)

Fixed-effects (within) regression               Number of obs     =        245
Group variable: Industry_ID                     Number of groups  =          2

R-sq:                                           Obs per group:
     within  = 0.0602                                         min =         93
     between = 1.0000                                         avg =      122.5
     overall = 0.0605                                         max =        152

                                                F(1,1)            =          .
corr(u_i, Xb)  = 0.0186                         Prob > F          =          .

                             (Std. Err. adjusted for 2 clusters in Industry_ID)
```

ROE	Coef.	Robust Std. Err.	t	P>|t|	[95% Conf.	Interval]
ceo_sustainability_expert	.1303402	.1192639	1.09	0.472	-1.385052	1.645732
Sustainabilityreporting	.1397055	.0159814	8.74	0.073	-.0633581	.342769
Sustainability_info	.1947645	.0310417	6.27	0.101	-.1996576	.5891867
Sustainability_culture	-.1845558	.07812	-2.36	0.255	-1.177165	.8080535
year						
2006	.0443338	.0361628	1.23	0.436	-.4151584	.5038259
2007	-.2945303	.3093711	-0.95	0.516	-4.225462	3.636402
2008	-1.177568	.7237611	-1.63	0.351	-10.37382	8.01869
2009	-.1801096	.042262	-4.26	0.147	-.7170988	.3568796
2010	-.128547	.1604196	-0.80	0.570	-2.166871	1.909777
2011	-.0452201	.1799409	-0.25	0.843	-2.331586	2.241146
2012	.0303657	.1068809	0.28	0.824	-1.327685	1.388416
2013	-.0441332	.1210831	-0.36	0.777	-1.58264	1.494373
2014	-.0637822	.1230886	-0.52	0.696	-1.627771	1.500206
2015	-.2408146	.2564195	-0.94	0.520	-3.498933	3.017304
2016	-.0758869	.1386933	-0.55	0.681	-1.838152	1.686378
2017	-.1068248	.074046	-1.44	0.386	-1.047668	.8340183
2018	-.1502615	.0339003	-4.43	0.141	-.5810055	.2804824
_cons	.0205254	.1996946	0.10	0.935	-2.516835	2.557886
sigma_u	.12005078					
sigma_e	1.2673111					
rho	.00889373	(fraction of variance due to u_i)				

With the variable i.year inserted in the model it is possible to have an overlook of the years of the increase in ROE, however it possible to notice that each year in the model lack of statistical significance and it can be thus removed from the regression. This specific methodology is called backward analysis through which it is possible to delete superfluous variables from the model in order to create a simpler one.

By removing the variable i.year, it is possible to observe the significance of the variables and in particular, the coefficient representing sustainability reporting demonstrates a positive correlation with ROE and in addition the p-value prove a significance of the variable in the model.

Graph 23: Regression Analysis without the variable i.year

```
. xtreg ROE ceo_sustainability_expert Sustainabilityreporting Sustainability_info Sustainability_culture, fe cluster (Industry_ID)

Fixed-effects (within) regression               Number of obs     =        245
Group variable: Industry_ID                     Number of groups  =          2

R-sq:                                           Obs per group:
     within  = 0.0074                                         min =         93
     between = 1.0000                                         avg =      122.5
     overall = 0.0075                                         max =        152

                                                F(1,1)            =          .
corr(u_i, Xb)  = 0.0126                         Prob > F          =          .

                                (Std. Err. adjusted for 2 clusters in Industry_ID)
------------------------------------------------------------------------------------
                          |               Robust
                      ROE |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
--------------------------+---------------------------------------------------------
ceo_sustainability_expert |   .1347574   .1036039     1.30   0.417    -1.181655     1.45117
  Sustainabilityreporting |     .14351   .0151353     9.48   0.067     -.048802     .335822
      Sustainability_info |   .2464471   .0121956    20.21   0.031      .091487    .4014072
   Sustainability_culture |  -.2254878   .0890743    -2.53   0.240    -1.357285     .906309
                    _cons |  -.1588027   .0173248    -9.17   0.069    -.3789349    .0613294
--------------------------+---------------------------------------------------------
                  sigma_u |  .12642847
                  sigma_e |  1.2665129
                      rho |  .00986653   (fraction of variance due to u_i)
------------------------------------------------------------------------------------
```

In the end the model can be also deprived of those variables that are not statistically necessary in the model in order to obtain a final and an additionally simplified model. In this sense, the variable ceo_sustainability_expert is recognized as a control variable that is added in the model in order to better fit the regression however the removal of this variable leaves the other significant leading to a definitive and simpler model.

Graph 24: Final Regression Model

```
. xtreg ROE Sustainabilityreporting Sustainability_info Sustainability_culture, fe cluster (Industry_ID)

Fixed-effects (within) regression               Number of obs     =        245
Group variable: Industry_ID                     Number of groups  =          2

R-sq:                                           Obs per group:
     within  = 0.0052                                         min =         93
     between = 1.0000                                         avg =      122.5
     overall = 0.0037                                         max =        152

                                                F(1,1)            =          .
corr(u_i, Xb)  = -0.1472                        Prob > F          =          .

                            (Std. Err. adjusted for 2 clusters in Industry_ID)
```

ROE	Coef.	Robust Std. Err.	t	P>|t|	[95% Conf.	Interval]
Sustainabilityreporting	.1499013	.0231408	6.48	0.098	-.1441299	.4439324
Sustainability_info	.2309194	.0480657	4.80	0.131	-.3798134	.8416522
Sustainability_culture	-.1576579	.0067299	-23.43	0.027	-.2431692	-.0721465
_cons	-.1172773	.0182206	-6.44	0.098	-.3487919	.1142374
sigma_u	.14809589					
sigma_e	1.2652338					
rho	.01351558	(fraction of variance due to u_i)				

As a conclusion it is possible to stress that sustainable reporting has been noticed as being consistently positively related with Return on Equity and also statistically significant in the model. The significance of the years that has not been fulfilled in the model must not be surprising considering that usually the positive effect can be seen immediately after a company announcement and the improvements must be observed over a higher lifespan with respect to our 10-years dataset.

What is interesting in the end could be to reperform the model by using as dependent variable the part of R&D that is usually connected with the achievement of sustainable goals in order to see the significance of the variables over the periods.

Chapter 4: Conclusions

This thesis practically followed an inverted path with respect to the order of the chapters as what has been discussed in the last chapter above constituted actually the basis of the whole research. During the years, following the implementation in Italy of the Legislative Decree 254/2016 an increasing number of businesses included sustainable practices within their core operations. Our main scope was to analyze the environment of the Italian family-led listed companies and in particular how actually the concept of sustainability is perceived within the family business in relation with the concept of SEW.

In the specific, there is a dualistic perspective on the inclusion of sustainability within businesses as it often requires huge and risky investment in R&D. On the other hand, family businesses are characterized by their common long-term horizon mindset that is favorable for the inclusion of sustainable issues in order to maintain the continuity of the business and to build strong relationships with the stakeholders.

During the years has been observed that an increasing number of family firms implemented sustainable policies in their core business by publishing directly sustainability reports or also by developing a sustainability culture.

In general, a substantial increase has been observed to occur in the Consumer Discretionary field and in particular in two main sub-industries that are the Apparel & Textile industry and the Automotive one. In fact, during the year following the introduction of the legislative decree both industries presented an increase in their core metrics (M/B, ROE and ROI). For this reason, the intention was to evaluate the statistical significance of the dummy variable regarding sustainability reporting with respect to the dependent variable, Return on Equity, chosen as explicative variable for the mode after several research stressed that ROE is usually employed in order to state the profitability of family-led businesses. In order to run the regression, considering that the variables have been observed in a lifespan of 13 years, has been chosen the panel data, that best fit the characteristics of our dataset. In the final form of the regression model, it can be observed that the variable concerning sustainability reporting is significant in the model but also it has a positive correlation with the dependent variable, thus, highlighting that when the variable takes value 1 it is possible to observe an increase in the dependent variable.

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