



Department of Business and Management

Master's Degree in Corporate Finance

Chair of Corporate Governance

BOARD STRUCTURE AND FINANCIAL
PERFORMANCE: A COMPARATIVE ANALYSIS
BETWEEN FAMILY AND NON-FAMILY FIRMS

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ABSTRACT

With a comparative focus on family and non-family businesses, this thesis investigates the connection between board composition and financial success. Understanding how governance mechanisms affect performance across various ownership arrangements has become more and more important given the significant role that family firms play in the Italian and worldwide economies. The study investigates whether and how organizational outcomes in companies with different levels of family engagement are impacted by the independence, makeup, and role of boards of directors. The study emphasizes the intricate relationship between ownership type and governance efficacy by drawing on theoretical frameworks like agency theory, stewardship theory, and the resource-based view. Family businesses may have particular governance issues with regard to succession, professionalization, and intra-family disputes, notwithstanding their propensity for long-term planning and concentrated ownership. Non-family businesses, on the other hand, are usually more subject to institutional monitoring and market-based constraints, which have an impact on how governance systems function and performance. A panel dataset of Italian listed companies from 2016 to 2024 serves as the basis for the empirical research, which includes both market-based and accounting-based performance metrics, such as ESG scores, Tobin's Q, Return on Equity (ROE), and Return on Assets (ROA). The study evaluates two main hypotheses using econometric models appropriate for panel data: that board structure has a major impact on business performance and that this link varies depending on whether a firm is family-owned. The analysis's conclusions are intended to offer theoretical understandings as well as useful suggestions for enhancing governance in various organizational contexts. The thesis provides a sophisticated knowledge of how corporate governance should be adjusted to match ownership characteristics and strategic aims by pinpointing the precise ways that board arrangements help—or hinder—performance in family versus non-family enterprises.

INTRODUCTION

The governance structure of companies has become a crucial factor in determining the performance of organizations in the quickly changing business world. The efficiency of corporate governance systems, in particular the function of boards of directors, has become a focus for both practitioners and academics as businesses deal with mounting demands from shareholders, regulators, and society at large. Family businesses stand out among the many different kinds of businesses that make up the global business ecosystem because of their distinct structure, values, and long-term focus. These companies make up a sizable percentage of corporations globally, which makes them an essential topic for research in the domains of finance, strategy, and governance.

Family businesses nevertheless present serious concerns about governance, sustainability, and performance despite their widespread use. They differ fundamentally from non-family businesses due to their dual character as both emotional and economic entities. Family businesses are influenced by the personal and frequently multigenerational engagement of founders and their descendants, as opposed to companies with distributed ownership or those under the direction of institutional investors. This engagement affects governance frameworks, strategic perspectives, and operational choices. The board of directors serves a variety of roles in this situation, including serving as a liaison between management and ownership, a steward of the family's history, and a strategic consultant in a setting that is becoming more regulated and competitive.

The impact of family participation in governance on business performance has been the subject of an expanding corpus of research. The empirical data is still conflicting, though. According to some research, family control results in better performance because of shared interests, long-term planning, and reduced agency expenses. Others warn that too much family influence might limit openness, encourage nepotism over professionalism, and impede strategic flexibility. These conflicting results have sparked continuous discussion and highlighted how crucial board composition, structure, and conduct are in mitigating the impact of family control on business results. Furthermore, board governance strategies are frequently different for family businesses and non-family businesses. While non-family businesses may be more focused on professional knowledge, regulatory compliance, and market-driven responsibility, family-controlled businesses may place a higher priority on

trust, loyalty, and relational capital. These opposing viewpoints pose important queries: In both situations, does board governance have an equivalent impact on financial performance? Do board influence mechanisms like strategy, supervision, and resource provision work as well in family situations as they do outside of them? What effects do succession planning and ownership dynamics have on board effectiveness? In order to answer these concerns, this thesis compares family and non-family businesses in Italy, a nation known for its unique governance framework and large percentage of family-controlled businesses. The study intends to further a more sophisticated understanding of governance-performance dynamics by examining the effects of board structure on financial performance across these two categories of businesses.

The corporate climate in Italy provides an especially rich environment for this kind of investigation. Almost two-thirds of all medium-to-large businesses are family businesses, which dominate the corporate landscape. Although the size, industry, and generational stage of these companies vary greatly, they nonetheless face similar issues with regard to professionalism, succession, and strategic renewal. At the same time, European Union regulations, capital market changes, and the increasing power of foreign investors have all had a major impact on the evolution of Italian corporate governance norms. Understanding the relative efficacy of board structures in family and non-family businesses is important from a theoretical and practical standpoint in this dynamic environment.

This thesis' theoretical underpinnings are based on a number of complementary theories. Agency theory provides a framework for analyzing owner-manager conflicts of interest, especially when ownership and control are distinct. This distinction is frequently blurred in family businesses, which lowers some agency costs while adding others, including disputes between minority investors and controlling family shareholders. A counterargument offered by stewardship theory is that family members might behave more like stewards than opportunistic agents, putting legacy and long-term worth ahead of immediate profits. By emphasizing the distinctive resources—such as continuity, shared identity, and trust—found in family businesses, the Resource-Based View (RBV) enhances the analysis even further. These resources can be sources of competitive advantage when properly utilized through governance structures. A more comprehensive examination of the board's influence on company success is made possible by this theoretical pluralism.

The board of directors is an active tool of corporate strategy, especially in companies where family involvement adds layers of emotional, relational, and historical complexity. It is not just a legal necessity or symbolic entity. Its independence, diversity, composition, and functionality have the power to either support or contradict the possible advantages of family control.

The study uses a strong empirical technique based on panel data analysis to operationalize this investigation. It looks at important performance metrics like Return on Equity (ROE), Return on Assets (ROA), Tobin's Q, and Environmental, Social, and Governance (ESG) scores using a sample of Italian listed companies across several years. These metrics enable for a thorough evaluation of board effectiveness by capturing both financial and non-financial performance characteristics. In order to directly compare different governance models, the study also uses a binary classification of firms—family vs. non-family—based on ownership and control characteristics.

The primary research question guiding this investigation is as follows:

- To what extent does board structure influence financial performance, and how does this relationship differ between family and non-family firms?

From this central question, two hypotheses are developed:

- There is a significant relationship between corporate board governance and financial performance.
- The impact of board governance on financial performance is significantly different in family-owned/controlled firms than in non-family-owned/controlled firms.

Regression models that take into consideration firm-specific and time-specific effects while adjusting for variables like firm size, industry, and market circumstances are used to evaluate these hypotheses. The goal of this meticulous analytical method is to separate the governance effect and investigate how it interacts with family engagement.

In addition to its scholarly contributions, this thesis provides investors, legislators, and business executives with useful information. The results can guide succession planning and board design for family businesses looking to professionalize governance while maintaining their unique identity. It offers best practices and benchmarks for non-family

businesses looking to improve performance through board reforms. The study emphasizes the contextual elements that influence governance results for regulators and market players, highlighting the necessity of customized regulations that take organizational diversity into account.

In summary, family and non-family businesses' governance is neither uniform nor static. Ownership structure, cultural values, strategic goals, and outside forces all have an impact on this dynamic process. This thesis clarifies the relationship between governance mechanisms and organizational success by contrasting the board structures and performance results of family and non-family businesses. It provides a framework for comprehending how boards might serve as both innovators and stewards of continuity, bridging the gap between theory and practice. Such ideas are pertinent and crucial in a time when business accountability and resilience are more important than ever.

CHAPTER 1 – FAMILY AND NON-FAMILY FIRMS

1.1. General Overview

Family businesses are the oldest and most common form of entrepreneurial organization. They constitute a dominant share of companies within emerging and developed economies globally (Zellweger, 2017). Research puts the figure of family-owned enterprises at between 65% and 90% of all enterprises in the world, while approximately 75% of all firms in the UK and over 95% in the Middle East, Latin America, and India fall under this category. Besides, family firms represent a large percentage of publicly listed companies, including those in the leading stock indices like the S&P 500 (Claessens, Djankov, & Lang, 2000). These companies have an attribute based on their focus on long-term continuity, long-standing values that are family-oriented, and high sustainability. In comparison to non-family business, family business is concerned with sustaining its legacy across several generations, which motivates their strategic agendas as well as governance structures. Nevertheless, balancing economic goals with non-economic goals, for instance, safeguarding the family power and socioemotional capital, is especially demanding. In addition, family business management is more complex than that of non-family firms, since the senior management will have to address technical management and complicated family relations, adding extra levels of decision-making and conflict situations (Cadbury, 2000). Acquiring these characteristics is crucial to appreciating the ubiquity of family firms and their role in the global economy.

1.2. Ownership, Influence and Long-Term vision

What do a simple neighborhood grocery shop, Walmart, and LVMH have in common? Even if they are different in size and industry, all of them are classified as family businesses. Walmart, specifically, which was founded in 1962 by Sam Walton, is still controlled by the Walton family, which jointly hold about 50% of the company's equity through Walton Enterprises. Despite it is the world's largest retailer by revenue, Walmart's strategic decisions, such as its persistent commitment to cost leadership, operational efficiency, and dominance in rural markets, continue to reflect the Walton family's long-term vision and values (Burkart, Panunzi, & Shleifer, 2003). The family's significant influence is seen through their presence on the board and shareholder arrangements, illustrating that even large publicly traded firms can maintain a family governance structure

for many years. Likewise, the Arnault family owns LVMH, holding 48% of the voting stocks, and can therefore dictate the strategic direction of the group, especially in maintaining the brand, luxury status, and heritage for generations to come (Amit & Villalonga, 2014).

The ongoing nature of control brings about the crucial question: what precisely constitutes a family business? Although the examples above may intuitively seem to be in the same category, an agreed-upon definition of family businesses is still lacking. Historically, the prevailing opinion was that only if both the ownership and management positions were held by members of the same family could a company be "family.". This perspective, rooted in the classical theories of organizations and supported by Alfred Chandler's historical analysis, tacitly labeled family firms as a middle stage, destined to evolve into professionally managed and widely held corporations. However, this explanation is contradicted by both empirical observation and theoretical logic. Just like a family-owned property remains defined as a family asset even when it is being managed by an external entity, in the same way, this identical rule is also applicable to firms: the characterization of a family firm is most clearly delineated by ownership first and foremost, rather than management involvement. As such, an increasing amount of scholarly literature has started to distinguish between involvement-based and essence-based definitions of family firms (Chrisman, Chua, & Sharma, 2005).

The approach labeled "involvement" pays special attention to objective criteria, i.e., family ownership stakes, governance involvement, and generational involvement. In contrast, the "essence" approach attempts to capture the profound influence of the family with an emphasis on strategic objectives related to intra-family succession, socioemotional wealth preservation, the family's distinctive and synergistic resources, and the firm's self-identity as a family business (Chrisman J. J., Chua, Pearson, & Barnett, 2012). These frameworks have assisted in explaining the parameters that define a family firm, making it essential to differentiate between theoretically grounded definitions and practically applicable definitions. Ongoing definitional ambiguity can be partially explained by the heterogeneity that prevails in the context of family businesses.

Family firms are extremely diverse: they vary in terms of ownership concentration, governance structures, generation stage, as well as their orientation to continuity. Another

vital aspect of this diversity is temporality: more than many other forms of companies, family firms are influenced by a persistent intertwining of past context, current situations, and future visions. They engage in what Suddaby and Jaskiewicz call “Temporal work”: the reinterpretation of traditions and legacies to guide present decisions and future strategies (Suddaby & Jaskiewicz, 2020). Intergenerational tensions, such as innovation versus preservation, expansion versus consolidation, are not anomalies, but intrinsic dynamics of family business governance. Additionally, structural considerations play a central role in determining whether a firm qualifies as “family-owned” (Villalonga & Amit, 2009). A company may still be considered a family business even when the family no longer holds the majority of shares, provided it retains decisive control through specific legal and organizational mechanisms. Dual-class shares, shareholder agreements, pyramid ownership structures, and foundations are all tools used by entrepreneurial families to extend their influence beyond their direct equity stake. Low shareholder participation in public markets can further amplify the voting power of family blocks: in many cases, a 30% stake is sufficient to exercise effective control, especially when combined with board presence and symbolic capital. Some families go further by institutionalizing their legacy through foundation structures that preserve the integrity of the business across generations. These foundations, even when they become the formal owners of the company, often operate under governance rules that ensure continued family influence over strategic decisions.

It is not a question of the legal ownership of the shares, but who controls the direction of the strategy of the firm. This mechanism protects the business from dispersal, aligns decision-making with long-term goals, and lowers the risk of short-term sale by individual heirs. As a result, continuity of ownership, either direct or indirect, is required to ensure the status of a family business. Meanwhile, the very meaning of “family” is dramatically changing. Traditional definitions premised on legal or biological connections are giving way to more inclusive and expansive definitions in response to shifting societal realities. Live-in partners, gay couples, stepfamilies, and blended family units are being increasingly acknowledged as legitimate entrepreneurial families. This new reality creates novel challenges for succession planning, governance, and identity formation. In contemporary business worlds, family identity frequently emerges not just based on ancestral lineage, but

also through common dedication to collective control and a future orientation. In still other instances, ownership and control may be shared by multiple unrelated families, leading to the emergence of multi-family firms. Though such firms continue to exhibit numerous characteristics common to family firms, including a focus on long-term outcomes and socioemotional wealth, they necessitate unique governance arrangements to oversee their diverse patterns of ownership efficiently. The presence of several entrepreneurial families also creates possibilities for strategic alliances as well as integration challenges of varying goals across generations.

The discriminating characteristic which differentiates family businesses is the need to ensure intergenerational continuity. The specific intention to hand over the business to the next generations is what differentiates them from other business models. Entrepreneurs like Bill Gates, who never intended to pass Microsoft to his descendants, remain influential figures but are not considered family entrepreneurs. In contrast, founders who plan for familial succession, even if initially unaware of their future path, initiate a transition toward family firm status. From the second generation onward, the idea of continuity becomes embedded in the firm's identity, though it remains subject to periodic re-evaluation. Families may, at times, decide to exit business ownership, voluntarily or by necessity. When the intention and capacity for intergenerational transfer disappears, so too does the firm's identity as a family business. Ultimately, a family business is one where a family holds dominant ownership and envisions the business as an intergenerational asset, regardless of whether that influence is exercised directly or through institutionalized structures. This definition requires looking beyond financial data or governance charts. To thoroughly grasp the inherent nature of family firms, there is a need to study both the organization and the entrepreneurial family that powers its activities. The entrepreneurial family acts as a distinct economic and social organization, merging capital, identity, memory, and vision in order to shape a specific paradigm of corporate governance. These families are strategic agents whose influence shapes not only their companies' structures, but also their long-term trajectories (May & Ingelfinger, 2015).

1.3. The F-PEC Scale

Following the definitional challenges outlined in the previous section, researchers have increasingly emphasized the need to refine the distinction between family and non-

family businesses by examining the depth and form of family influence within the firm (Astrachan, Klein, & Smyrnios, 2002). Traditional binary classifications fail to capture the complexity of family involvement, which often exists along a continuum. To illustrate this, Shanker and Astrachan (1996) proposed the “family universe bull’s-eye,” a model that places firms on a spectrum of family participation. However, this framework tends to blur important distinctions between ownership, management, and generational involvement (Shanker & Astrachan, 1996). To address these limitations, more nuanced tools have been introduced—most notably the F-PEC scale, which assesses family influence based on Power, Experience, and Culture. This model allows for a multidimensional analysis that includes both measurable aspects (such as voting control and generational succession) and intangible ones (like shared values and cultural legacy). Its strength lies in its flexibility: the F-PEC can be used as a dependent, independent, or moderating variable in empirical research, and contributes to the standardization of family business studies. Nevertheless, while the F-PEC represents a valuable framework for measuring how much a family influences a business, it does not provide a clear-cut criterion for determining whether a company is a family firm. In the context of this study, where a binary classification is necessary, the F-PEC serves more as an analytical lens than as a tool for categorical distinction.

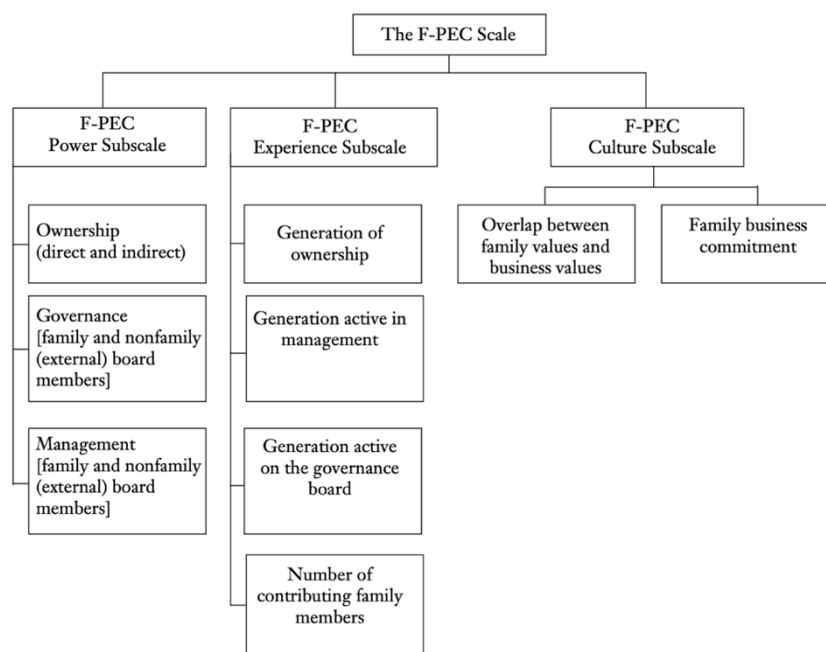


Figure 1.1. Dimensions of the F-PEC Power Subscale. Source: Astrachan et al. “The F-PEC Scale of Family Influence: A Proposal for Solving the Family Business Definition Problem”. (2002).

1.4. Corporate Governance in Family Firms

Corporate governance is one of the primary mechanisms in delineating the interface among the family groups and the company, serving as a link between organizational strategy and personal interests. In family firms, governance structures must extend beyond the traditional function of oversight of managerial behavior; they must also continue to shape the company's mission and strategic objectives, and more clearly define rules of engagement between family and business, and channels of communication through which family members can share opinions, discuss issues, and make decisions on shared goals. Besides, sound corporate governance must ensure transparency in the form of regular disclosure about accomplishments, strategic objectives, and the overall direction of the organization.

As family firms possess a heterogeneous and intricate nature, a single set of governance mechanism is inadequate to address various organizational settings. Family relationships impact the ownership and control mechanisms of these companies significantly, and thus they form a range of governance arrangements.

One way of dealing with this complexity is the “Three Circle Model of the Family Business System”, developed by Tagiuri and Davis in 1982, which represents the peculiar relationship between enterprises and families that characterizes various enterprises. Within this graph is illustrated the intersection between the three main pillars of the family business: family, ownership and business. The model consists of three overlapping circles and identifies seven distinct groups: in the upper area sits the ownership, in the left one the family members and in the right one the non-family employees. In the overlapping areas there are roles such as family members who work in the business but do not own shares (intersection below), family members who are owners but not involved in the company (intersection on the left), non-family employees who also hold ownership stakes (intersection on the right), and finally, family members, owners, and actively involved in the business (central intersection). The model identifies where key people are located in the system and clarifies the different roles that family members can hold. Each of the seven interest groups identified by the model has its own views, objectives, concerns and dynamics. The model reminds that the opinions of each sector are legitimate and deserve to be respected. No single perspective holds greater legitimacy than the others; instead,

long-term success depends on integrating these diverse voices to guide the direction of the family business. The long-term success of family business systems depends on the functioning and mutual support of each of these groups (Davis, 2018).

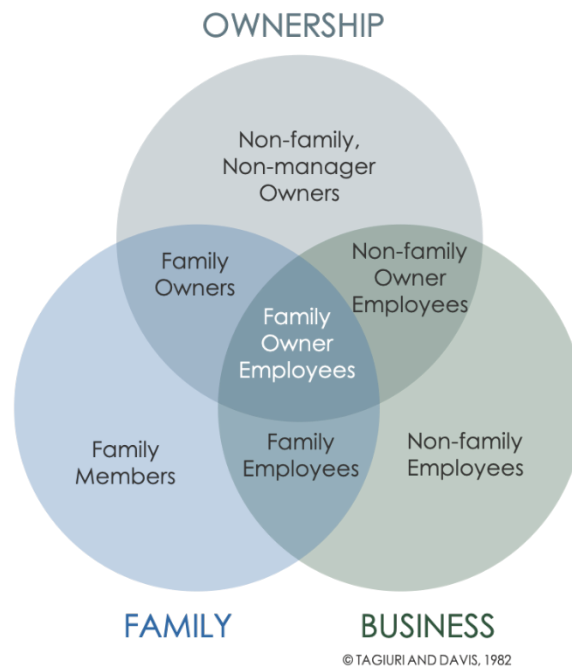


Figure 1.2. The “Three Circle Model of the Family Business System” by Tagiuri and Davis, 1982. Source: familybusinessmagazine.com

One model that tries to capture the variety of organizational realities is the family-centered model, where the family maintains full ownership and exercises dominant control over both management and operations. This tight integration strengthens the identity between the family and the business but can also create constraints, particularly if family interests hinder growth-oriented or professional management practices (D'Allura & Faraci, 2018).

On the other hand of the spectrum are market-oriented models, in which the family retains ownership but delegates managerial responsibilities to external professionals. This model is often used to introduce specialized expertise while preserving long-term family oversight. In more complex cases, investor-centered models emerge, where ownership is shared between family members and external investors. Here, governance tends to become more formalized, and family goals often take a back seat to broader stakeholder interests.

In such cases, the family plays more of a mediating role, balancing its own legacy with external expectations and accountability standards (Aguilera & Crespi-Cladera, 2012).

Despite these variations, one element remains constant across most family firms worldwide: a high concentration of ownership. Families generally attempt to hold on to and maintain control of their businesses, usually through large shareholdings or voting rights that enable them to make strategic decisions over several generations. This organizational characteristic provides family owners with a great deal of discretionary power, frequently muddling the distinction between ownership and management. As a result, many family firms diverge from standard corporate governance codes, opting instead for practices tailored to their specific internal dynamics (Kabbach & Crespi-Cladera, 2012).

In volatile or uncertain environments, concentrated family control can enhance resilience and strategic agility, offering a long-term orientation that market-driven firms may lack. Still, the implications of family control are highly context-dependent, varying significantly across institutional environments. In regions with weaker institutional frameworks, such as certain emerging markets, the risks of rent-seeking behavior and political entrenchment are more pronounced (Khanna & Yafeh, 2007). In these settings, the negative effects of external systemic weaknesses may outweigh any internal inefficiencies caused by family dominance. Conversely, in more stable governance environments, the presence of a committed family owner can be a valuable asset, providing stability, cultural continuity, and patient capital.

Family firms, therefore, exhibit a distinctive governance logic. Their value creation process is deeply tied to intangible assets such as trust, shared identity, and commitment to continuity. As noted by Gedajlovic and Carney (2010), these firms derive competitive advantage not only from financial capital but also from cultural and relational resources embedded in the family itself (Gedajlovic & Carney, 2010). The pursuit of socioemotional wealth, non-financial goals related to family legacy, identity, and reputation, further differentiates their behavior from non-family enterprises (Gomez-Mejia & al., 2011). These priorities often justify the presence of governance arrangements that may appear unorthodox through the lens of standard corporate theory but are nonetheless effective in preserving both family and firm longevity.

1.5. The Agency Theory

Agency theory examines the dynamics of the relationship, referred to as the agency relationship, that emerges between the owner (principal) and a separate entity appointed by the latter to run the company on their behalf (agent). It examines situations in which a person or organization (the agent) has the authority to make decisions and/or act for another person or organization (the principal), and the two (principal and agent) have different interests and asymmetric information (the agent having more information than the principal). The agent can pursue personal interests, which will be termed as secondary interests, which may not align with the interests of the principal (Jensen & Meckling, 2019). In family businesses, various forms of this problem have been recognized:

- Agency Problem I: This agency problem arises due to the separation of ownership and control, as noted by Berle and Means in 1932. Where a corporation is controlled by someone who does not own it—such as an outside manager—it is possible that the manager will act in their own interest, potentially causing a divergence with the interests of the shareholders of the firm (Demsetz & Lehn, 1985). Yet, under centralized ownership, such as in family firms, owners are likely to possess both the incentive and power to monitor managerial behavior and thereby guarantee that management decisions are in the interest of the principal. Hence, ownership concentration serves as an agency problem solution (McConaughy, Walker, Henderson, & Mishra, 1998).

However, the findings of empirical studies exhibit significant variation, which depends on four main influences: the family firm conceptualization used, the geographical area studied, the industry involved, and the prevailing economic conditions during the period. Empirical evidence indicates that firms controlled by families—especially those controlled by founding individuals—tend to provide higher firm value (measured through Tobin's Q) compared to non-family firms. This advantage usually dissolves when the company is controlled by successors rather than the initial founders. For family businesses, the classic conflict between ownership and control is often alleviated, in that the managerial people tend to be part of the owning family. This alignment of interests can generate additional value. However, when family managers are appointed on the basis of kinship rather than merit, managerial quality may suffer, leading to negative consequences for firm

performance. Evidence shows that companies led by founder-CEOs are generally rewarded by the market, whereas those headed by heirs—particularly from the second generation—tend to underperform. In any case, the negative effects of descendant-led management are not universally observed. For example, such effects are absent in Western Europe and Colombia, whereas in Japan, certain cultural practices have been shown to improve performance outcomes.

- Agency Problem II: This problem arises in firms with highly concentrated ownership, such as family-owned businesses (Shleifer & Vishny, 1986). While ownership concentration can help reduce conflicts between owners and managers, it can simultaneously give rise to a different kind of conflict: the misalignment between controlling shareholders and minority shareholders. To this end, the controlling shareholder—typically the family—can use its voting power to reap private benefits of control (Grossman & Hart, 1980) that are not shared with the other shareholders but even at their expense. Unlike institutional investors or state-controlled entities that typically have more diffused and weakened internal structures, family owners are provided with both the means and incentives to engage in activities that prefer their own interests. These activities can be reflected through structures that disproportionately increase their control without a corresponding economic commitment, such as but not limited to dual-class share structures, pyramid ownership, or shareholder agreements that concentrate voting power. The gap between control rights and cash-flow rights often serves as an indicator of this imbalance and has been widely studied as a proxy for the potential expropriation of minority investors. Further evidence of this agency issue is found in control premiums, that is, the additional value paid for voting rights or for acquiring controlling blocks of shares. These premiums are frequently interpreted as the market's estimation of the value of control—both in terms of private benefits for the controlling owner and public benefits resulting from active governance (Dyck & Zingales, 2004). Empirical studies consistently show that family firms tend to exhibit higher control premiums than non-family firms, suggesting a greater likelihood of private benefit extraction in the former. A more severe form of the Agency Problem II involves practices such as tunneling, where assets or

profits are transferred out of firms for the benefit of those in control. Research using advanced empirical methods has documented these practices in various jurisdictions, highlighting that families may engage in both tunneling and its opposite—propping—depending on economic conditions and firm performance. Interestingly, the degree of expropriation or support provided by family owners also appears to vary depending on whether the family is the founding one or a later-generation owner. In some cases, the implications of this agency problem extend beyond the firm level, affecting broader economic systems. The concentration of economic power in the hands of a few families who control a large percentage of the corporate sector of a nation can stifle innovation, misdirect the flow of resources, and affect the quality of institutions. Research indicates that nations with high family ownership of large firms tend to have poorer enforcers of the law, less transparency in markets, and higher levels of corruption and higher regulatory obstacles. In extreme cases, this phenomenon has been referred to as economic entrenchment, where dominant business families not only shape corporate governance but also influence political and institutional outcomes to preserve their interests (Morck, Wolfenzon, & Yeung, 2005).

- Agency Problem III: From an agency theory perspective, the use of debt in corporate finance involves both benefits and costs. Though debt can also be used as a control mechanism to alleviate manager-owner conflicts, it also gives rise to a special form of agency conflict between creditors and shareholders. Such a conflict would normally occur when shareholders, especially the controlling ones, implement policies that heighten risk or restrict investment, thus jeopardizing the creditors' interests. Anticipating such behavior, lenders may raise interest rates or restrict access to credit, increasing the firm's cost of debt. In family businesses, this issue tends to be less pronounced than in non-family firms. Family owners often prioritize long-term stability, preservation of reputation, and intergenerational continuity, aligning their interests more closely with those of creditors (Anderson, Mansi, & Reeb, 2003). As a result, family firms frequently enjoy better borrowing conditions and lower debt costs (D'Aurizio, Oliviero, & Romano, 2015). However, this advantage tends to weaken when the company is managed by descendants rather than founders. Evidence on whether family firms

are more or less leveraged compared to other firms is mixed. Some studies suggest that families avoid excessive debt to retain control and limit external influence, while others argue that the desire to avoid equity dilution might lead to higher reliance on debt. Observations from various countries reflect this duality, showing both conservative and aggressive use of leverage depending on the context. Overall, family-controlled firms appear to be less exposed to the Third Agency Problem due to their distinctive governance goals and long-term orientation. Their behavior differs substantially from that of other shareholders, reinforcing the idea that families constitute a unique category within corporate ownership.

- Agency Problem IV: This conflict is unique to the structure of family firms. It arises between the broader family group—conceptualized as a superprincipal—and the family shareholders, who act as intermediaries or agents on its behalf (Villalonga & Amit, 2010). In this dynamic, family shareholders are entrusted with safeguarding the family legacy and ensuring that the family firm, often viewed as a core expression of that legacy, is managed in line with the collective values and long-term goals of the family. This situation reflects a multi-tier agency structure, which is not exclusive to family businesses. Similar layered relationships can be found in other organizations with concentrated ownership. For instance, in state-owned enterprises, the government acts as principal to the company's managers but also serves as an agent for the public. Likewise, in bank-, corporate-, or institutional investor-owned companies, typically there is a chain of accountabilities on through to the final investors or stakeholders, who are the ultimate principals. For family businesses, typically the extended family group asserts its ultimate decision rights over which family members are shareholders, often through mechanisms such as inheritance, gifts, or contractual arrangements such as family constitutions or wills. Such transfers create a formal or informal contractual or fiduciary relationship between the recipient of the shares and the family collective. This relationship becomes especially visible in second- or later-generation firms, where shareholding is deliberately assigned to individuals believed to represent the family's interests effectively. However, as in any agency relationship, the goals of the principal and the agent may diverge. The family as a whole may prioritize a broad set of non-financial objectives such as preserving its

legacy and name, maintaining unity and harmony, sustaining the founder's values, protecting corporate culture, and even pursuing community or environmental initiatives. In contrast, individual family shareholders—despite being part of the same unit—may prioritize personal financial goals, which can be increasing dividends, seeking liquidity, or exiting the firm (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007). These personal interests can at times undermine long-term continuity, restrict reinvestment, or even threaten the family's control over the business. Thus, this agency problem highlights a distinct internal governance challenge within family firms: ensuring that individual family shareholders, while acting as stewards of the collective legacy, do not allow their own preferences to compromise the broader interests of the family group (Villalonga B. , Amit, Trujillo, & Alexander, 2015).

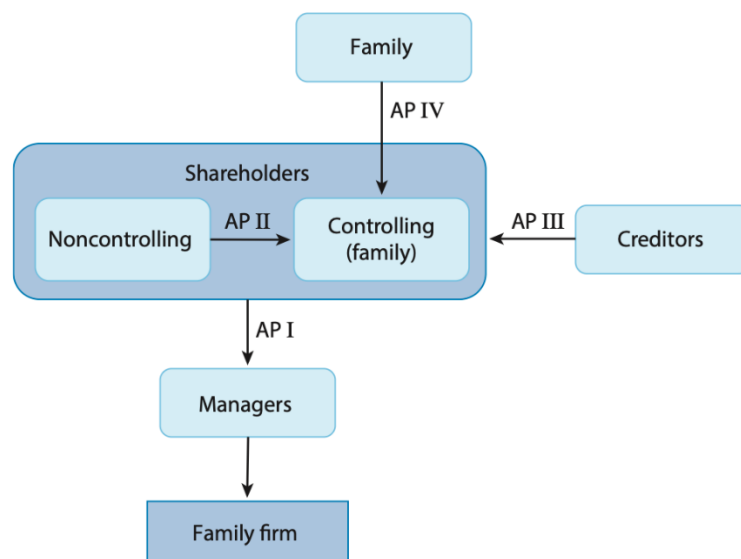


Figure 1.3. Agency problems (APs) in family firms. Source: Villalonga, B. et al. "Governance of family firms." *Annual Review of Financial Economics* 7.1 (2015)

1.6. The Stewardship Theory

Stewardship theory has only recently achieved greater salience in family business studies as a complementary view to the conventional agency theory. Whilst agency theory sustains that people in general will act in their own self-interest and require monitoring, stewardship theory argues that, particularly in family businesses, owners and managers can be driven by objectives in support of the entity's prosperity. This is especially potent when there are high degrees of emotional involvement with the business, along with strong identification with its future and past trajectory (Corbetta & Salvato, 2004). In family firms, the coincidence of ownership and management positions will more likely lead individuals to assume steward roles; that is, individuals who care more about the welfare and survival of the firm rather than their own. Therefore, stewardship theory accounts for the rationale of the favorable effect of family involvement on organizational performance and long-term survival (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007).

Relative to the more negative views inherent in agency theory, stewardship presents a more favorable image of managerial action. Empirical studies indicate that family firms that are able to create a culture in which there is trust, accountability, and shared objectives—particularly through such principles as mutual support and selflessness—can achieve a significant competitive edge (Eddleston, Kellermanns, & Zellweger, 2012). In these environments, family members exhibit not only commitment to the firm but also a proclivity for cooperation and increasing its long-term stakes. A model frequently utilized to explain such mechanisms is reciprocal altruism, or an earnest desire to serve other family members and the firm, without anticipation of immediate personal benefits. This behavior promotes cooperation, reinforces in-group solidarity, and develops a collective sense of responsibility. Possessing such an attitude tends to make family members prioritize the needs of the firm over their own, thus generating greater commitment and improved performance (Corbetta & Salvato, 2004).

Yet, not every family firm manages to establish such a culture. In certain instances, simmering conflicts or absence of family cohesion can jeopardize the firm's survival. Conversely, when the firm fosters reciprocal loyalty and shared responsibility, it is possible for it to transform these relationships into a strategic asset that provides value to the firm.

Looked at in this manner, human capital—particularly the commitment and initiative exhibited by family members—is a vital resource for family firms. Family firm owners frequently view their businesses as something other than mere profit; instead, they view them as products of collective effort, manifestations of family identity, and legacies to be perpetuated for generations to come. This affective connection often manifests itself as increased engagement, as seen through a greater commitment to people, innovation, and stakeholder relationships. Scholars refer to this phenomenon as a stewardship-based advantage, since it stems from personal commitment rather than contractual obligation.

Nevertheless, some authors highlight the risks of misapplying this model. Excessive altruism or favoritism—such as assigning roles based solely on family ties rather than merit—can undermine the firm’s effectiveness and damage internal credibility (Gomez-Mejia, Cruz, Berrone, & De Castro, 2011). When stewardship is directed more toward protecting family interests than advancing the business, the result may be a loss of performance and governance quality. Despite these potential downsides, research also shows that a strong culture of stewardship and family dedication can improve the firm’s ability to respond to change. Studies on strategic flexibility suggest that when family members lead by example and transmit their commitment to non-family employees, they help create a more agile, united, and resilient organization (Zahra, Hayton, & Salvato, 2004). In such settings, family firms are often better equipped to adapt to market shifts and face long-term challenges effectively.

1.7. The Resource-Based View Theory

In the attempt to answer to one of the most basic questions in the determinants of why some companies consistently outclass their competitors, theorists have proposed various theoretical frameworks. Over the last decade, the Resource-Based View (RBV) has been one of the dominant approaches to evaluating organizational performance. According to this perspective, a firm's competitive advantage is highly reliant on the resources it possesses. These resources are of greater value if they are rare, hard to imitate, and not substitutable (Barney, 1991).

RBV research has consistently demonstrated strong relationships between internal capabilities and firm performance. For example, human capital has been shown to have both direct and indirect effects on business outcomes, while company-specific resources

and industry-relevant capabilities help firms protect and sustain competitive advantages. However, the presence of such resources alone is not sufficient. Firms must also integrate and deploy them effectively, aligning them with strategic objectives to unlock their full potential and ensure long-term value creation (Sirmon & Hitt, 2003). This effective use of resources makes imitation or substitution by competitors significantly more difficult.

In family firms, the RBV helps explain why such firms typically perform better (Habbershon & Williams, 1999). Family businesses, according to scholars, benefit from unique resources depending on their longevity and structure. These include intensive relations, cumulative expertise, family loyalty, and common values. Effective management ensures that such qualities can be powerful drivers of competitiveness. Research indicates that family firms are more successful due to the fact that they possess unique strengths, which are hard to replicate, coupled with their inclination towards long-term investment orientation. Their blend of emotional attachment, trust, and continuity in their business model sets them apart from their non-family rivals. Above all, family firms tend to build intricate social and cultural resources, which are made up of implicit knowledge, organization-specific routines, shared identity, and internal cohesion. These resources are not transferable or replicable with ease, thus constituting natural barriers to imitation.

The dynamics among family, business, and its stakeholders play a central role in the creation of unique capabilities that shape organizational performance (Chua, Chrisman, & Sharma, 1999). Such capabilities may be profound human, social, and financial capital that, when integrated within the familial-business sphere, may turn into strategic assets (Zahra, Hayton, & Salvato, 2004). Thus, the unique dynamics of family firms can enable or undermine competitive advantage based on how such interactions are managed. The RBV also highlights the importance of resource complementarity: competitive advantage does not stem from individual resources, but from how effectively they complement and are utilized in conjunction with one another. The criterion for differentiation in this case is not only the resources that a firm possesses, but how it utilizes and integrates its assets to establish a position within its strategic environment to gain sustained benefits. It applies both to tangible resources such as technology, funds, and equipment, and to intangible resources such as leadership, organizational culture, brand equity, and stakeholder trust. The other important implication of RBV is that resources must be matched with strategic

actions in order to create value for sustainable competitive advantage. In the context of family businesses, this would involve, for instance, recognizing and developing the strengths according to their unique identity, e.g., dense relational capital or continuity commitment, and using them to compete in dynamic environments.

Empirical studies have further indicated that organizations adopting RBV principles can take different strategic paths such as cost leadership, differentiation, or focusing on a niche, depending upon the fit of their internal competencies with industry requirements. Those strategies are more effective when established on hard-to-imitate abilities and also when they match customer requirements explicitly, creating greater satisfaction and allegiance.

1.8. Boards of Directors

Family firm governance theories including agency, stewardship and resource-based view stay abstract when not connected to the organizational structures that actually pursue them. The board of directors stands as the key organizational structure for family enterprises because they establish connections between familial values with corporate strategies while maintaining accountability standards and managing leadership transitions. Research on board structure and operational methods in family companies enables better comprehension of practical applications for theoretical concepts.

In family businesses the board of directors establishes itself within the demographic subsection where ownership meets professional management together with familial relations. Family executives together with owners often have strong control of director appointments because their roles frequently blend with each other. Because of existing social links outside directors may face influences that potentially diminish their independence when conducting board oversight functions. Outside directors boost board effectiveness by making executives more careful about their actions and increasing performance standards and minimizing conflicting social ties through increased responsibility and effort standards (Anderson & Reeb, 2004). The social connections between outside directors appointed by insiders lead to dependency situations that create complexities during their governance responsibilities. The drive to preserve their reputation combined with wanting to bring value to the board leads them to become active members of board discussions. Members inside and outside collaborate to prove the board's value thus creating an active board culture. Family board directors become more inclined

to manage tensions between family members for good reputation when outside directors participate in management (Judge Jr & Zeithaml, 1992). The extent of directors maintaining mutual dedication and active participation defines their board cohesion which qualifies as a crucial factor (Cruz, Justo, & De Castro, 2012). The level of cohesion between team members should remain moderate to high because it improves group decisions yet too much cohesion may lead to groupthink scenarios. Family firms can benefit when they incorporate diverse perspectives from external sources because this practice produces creative thinking along with deep consideration of issues while breaking down family unit assumptions that typically remain unchanged.

Investigations show that strategic value lies in how organizations use their available knowledge base. Effective boards reach better decision-making results when they use their combined member skills and expertise to solve complex problems. Board excellence improves when a group contains diverse members because their unified strength results in extensive dialogue and avoids fragmented information pathways. The board members outside of the organization help direct both new specialized abilities as well as motivate internal directors to analyze business matters more deeply. The composition of boards along with their operational role shifts in parallel with the firm development stages. Family businesses at different stages of growth experience increasing complexity that necessitates standard governance systems alongside diverse professional expertise in their management. Board management teams with active outside directors assume an enhanced strategic position to help CEOs handle organizational complexity in complex business environments. The effectiveness of family firm boards relies on combining family members with external directors together with strong cohesion and an environment which promotes open knowledge exchange (Bettinelli, 2011).

1.9. Family CEOs vs Non-Family CEOs

Within the corporate governance field of family firms, recent academic literature has progressively recognized the crucial contribution made not just by the board's structural and behavioral dynamics but also by the characteristics and identity of the Chief Executive Officer (CEO). More specifically, scholars have started to investigate the influence of the family/non-family divide on board process efficiency and, subsequently, the strategic direction and performance of family-firm controlled businesses. This shifting focus stems

from the broader upper echelons theory perspective that top executives' personal background, experience, and affiliation influence their view of strategic problems and subsequent decisions (Hambrick, 2007). In family firms, characterized by affective ties, long-term survival orientations, and a commitment to continuity that frequently intersects with existing governance regimes, the CEO's identity, whether a family member or an external professional, may be anticipated to influence the functioning and interaction dynamics of the boards.

Most notably, the personality of the Chief Executive Officer is singled out as a primary influence in the behavioral dynamics underlying boardroom interactions. For example, family Chief Executive Officers are likely to come with a bundle of values and motives characteristic of family tradition, emotional attachment, and risk conservatism (Zattoni, Gnan, & Huse, 2015). This leadership style, although possibly useful in terms of legacy preservation and inter-generational consistency, can also promote a more inward-looking decision culture, where external views are not easily assimilated. Under these circumstances, the evolution of cognitive conflict—open and constructive board member disagreement—is a necessary mechanism for questioning underlying assumptions and facilitating strategic change. Cognitive conflict in family-controlled businesses is particularly important to reduce the chances of strategic inertia typically associated with long-tenured or emotionally committed leaders.

On the other hand, non-family member CEOs come into the business with an explicit mandate for change, growth, or professionalization. They bring in a broad set of managerial capabilities, industry expertise, and external contacts. Being outsiders, their role makes the board more receptive to alternative views and better able to utilize its collective expertise and knowledge in the best possible manner. Through their leadership, board practices—such as the leveraging of knowledge and experience—are more effective and participative, and decision-making outcomes are innovative and informed. In this case, non-family CEOs are agents of strategic rejuvenation by building a governance environment that is deliberative and inclusive.

In both models of leadership, nonetheless, particular norms of behavior—those relating to expectations of effort such as preparation, attendance, and active contribution—nonetheless have considerable importance. Empirical evidence shows these participation

norms to be of paramount significance in enhancing board performance irrespective of whether or not the CEO is a family member. This suggests that although some elements of board performance are of universal application, others—particularly those pertaining to how strategic issues and decision-making are addressed—are more dependent on who the CEO is (Zona, 2016).

The incorporation of CEO identity into the study of board conduct in family businesses significantly enriches our grasp of the complex dynamics that influence governance efficacy in these businesses. To be specific, it is understood that the CEO is not merely a strategic head but also a key mediator of how governance processes develop and are interpreted. In family businesses, where the confluence of family, ownership, and management brings a distinct environment, board practice alignment with the leadership context is essential to facilitate long-term success, flexibility, and innovation. Therefore, future research and applications should take into account the complex manner in which family versus non-family CEOs impact the dynamics of board functioning, especially in the areas of knowledge integration, conflict resolution, and performance-based collaboration.

1.10. Succession Planning

The succession process is a complex and very challenging process in family businesses. It is defined as the transfer of leadership and ownership from one generation to the next one in the business. Succession has been considered a key turning point in the development trajectory of a family company for a long time, with its implications stretching far and wide for both business survival and family legacy continuation. Consistently, family firms usually experience hard challenges in management succession to the next generation, with a large number of such firms not being able to manage to last beyond the third-generation transfer. (De Massis, Sieger, Chua, & Vismara, 2016).

Theoretically, successful succession is not a transactional process, but a long-term strategic process influenced by a number of interdependent factors. One of the significant factors is the outgoing leader's proactive behavior, typically the founder or a senior family member. Predecessors will be more successful in succession planning if they are forward-thinking and open to initiating the process early, even on an informal level. This prospective conduct allows for a more orderly, planned, and less tumultuous handover of responsibilities. Yet,

empirical studies stress that the affective attachment to the company—defined in academic literature as "psychological ownership"—can impede this handover. Specifically, founders are prone to considering the business as an extension of their own personal identity, which can generate psychological barriers to letting go (Astrachan & Zellweger, 2008).

The successor's role is also equally critical since whether or not he/she is able to take on leadership responsibilities depends on human and social capital. In this case, human capital means formal education, work experience, and technical expertise, whereas social capital implies the quality of relationships with family members, non-family employees, and external stakeholders. The interaction between these two capitals defines the legitimacy and effectiveness of the successor in the transition process.

Moreover, the level of family participation in corporate governance significantly influences succession results. The key determinant factors in this context are the alignment of control and ownership within the family, the existence or lack of formal governance mechanisms like boards of directors, and the quality of interpersonal relationships. A cohesive family culture, where mutual respect and trust prevail, would increase coordination and lower the chances of dispute in the course of succession. Organizational elements also play significant roles. Family firms tend to function based on informal organizational structures and basic communication systems, which, though sometimes efficient, may not have the strategic precision that formal planning and review processes provide. As such, the adoption of systematic governance practices, such as strategic planning, professional human resource management, and formalized succession processes—can substantially enhance this process. Specifically, family governance practices (FGP) such as family councils and family charters have been effective in promoting communication, setting expectations, and minimizing internal conflicts.

These practices allow for the articulation of a shared family vision and align it with the enterprise's strategic objectives. Importantly, the presence and functioning of a formal board of directors further impact the succession planning process. Boards that are actively involved in succession activities can shape the readiness of the organization and guarantee that objective, expert counsel is brought to a process that could otherwise be characterized by emotionality (Schepker, Nyberg, Ulrich, & Wright, 2018). But the success of board involvement also depends on the emotional readiness of the departing CEO. Incumbents

most frequently are confronted with difficulties in "letting go," which are themselves fueled by anxieties about mortality, loss of identity, or diminished family status. This affective resistance can derail the succession planning process, even in a highly developed governance system. This psychological element presents a big variable, so that succession planning is not merely a procedural, but also a psychological and relational problem. In fact, family firms where the CEO has a high degree of "goal disengagement"—i.e., the psychological ability to disengage from a long-term leadership role—are more likely to have more successful implementation of succession plans. When CEOs are emotionally attached, however, the positive effect of board governance and FGPs on succession planning is much less pronounced. As a result, the emotional state of the family CEO acts as a moderating variable, affecting the degree to which governance structural mechanisms can bring about their intended results. Succession may proceed through various models: it can be a planned and systematic transition, a dynamic two-leadership phase during which the successor assumes power incrementally, or an abrupt change due to unforeseen circumstances. Non-linear models—where authority alternates temporarily between predecessor and successor—are also not uncommon. In each scenario, the ultimate measure of success remains the company's continued financial health and the satisfaction of major stakeholders with new leadership (Xu, Wang, & Han, 2023).

1.11. Family Firms in Italy

Family businesses are a fundamental component of the Italian economic tissue. The sixth edition of the AUB Observatory¹ included all firms with revenues over €20 million as of December 31, 2022, in comparison with the previous year analysis. The new list of Italian firms under analysis by the AUB Observatory is made up of 23,578 companies, 15,836 of which are family-owned and thus representing 67.2% of the total. Briefly, Italian family businesses have been found to record stable growth despite current geopolitical tensions. More specifically, Italy is the world's fourth and Europe's third—following the United States, Germany, and France—by the number of family companies featured in the Global

¹The AUB Observatory is a research project that monitors and analyzes medium and large Italian family businesses. It is promoted by AIDAF, Bocconi University, UniCredit, and Cordusio SIM. Its goal is to study governance, leadership, generational transitions, performance, and internationalization trends in family firms.

500 Family Business Index, as found in a study carried out by EY together with the University of St. Gallen.

In spite of the difficulties encountered in recent years, such as the application of tariffs that generated even more uncertainty, Italian businesses showed an unprecedented capacity for external environmental adaptation and continued growth. Flexibility can be explained above all by management practices oriented toward investments in innovation, research, and technology. Flexibility and decisiveness, essential in the era of the COVID-19 pandemic, are valuable today as well in the present economic scenario. Moreover, in competitive industries such as Consumer Products and Advanced Manufacturing, traditionally Italian family business-dominated industries, the focus on high product quality is a characteristic that can still favor companies during periods of turbulence (EY, 2025).

In 2025, the Index includes 22 Italian companies, or 4.4% of the total global, an increase from 20 companies in 2023. Total revenues from Italian firms have increased from \$160 billion in 2023 to \$179 billion in 2025, a 12% growth rate. Moreover, 36% of the firms in the Global 500 Family Business Index have a history of over 100 years, showing the long history that characterizes Italy's entrepreneurial tradition. At the regional level, Lombardy remains the most represented region with regard to indexed family businesses, with eight companies listed. As for revenue, the Piedmont and Lombardy regions together account for 58% of the nation's revenue. Conversely, contribution from Central and Southern Italian businesses remains modest, with only 27% of Italian businesses in the Index coming from these regions and contributing merely 23% of total revenues, thus indicating enormous growth prospects for the southern industrial sector.

The dominant industrial sectors covered in Italian family businesses are eleven groups, with Consumer Products accounting for approximately 23% of family businesses, followed by Advanced Manufacturing and Retail Products, both at 14%. Further, the Index also discloses that merely 31.8% of Italian family businesses are quoted on public stock markets, a percentage well below the 38.4% European average and the 51.8% world average. This observation underscores the continued hesitation on the part of Italian companies to open their capital to public market investment.

Family influence remains salient in both the ownership structures and the senior management. In fact, in approximately 45% of the firms in the sample, the CEO is a family member, showing the predominant influence of the family in determining organizational growth. In terms of governance development, there has been a gradual shift from sole directorship to the establishment of formal Boards of Directors (BoDs) since 2019. At the close of 2023, a full 70% of large family firms had fully family-controlled leadership structures, a figure that increases to 81% at smaller firms.

Since the pre-pandemic era until now, the share of large family-controlled firms run exclusively by family members has declined by approximately four percentage points, whereas small firms have experienced a decline of over five percentage points. Although leadership by non-family members has become more popular, during the pandemic, family-controlled firms registered more growth and profitability compared to those run by outside managers. At the same time, the tradition of having outside board members is still going strong, especially with bigger firms. In 2023, up to 56.1% of family firms have an "open" BoD in the sense that at least one of the board members is a non-family member. Among the larger firms, this proportion was greater, increasing from 54.9% in 2013 to 67.9% in 2023. The small firms, however, were struck with delayed introduction of outside directors only after 2020, with an increase of 40.9% to 47.4% during 2019-2023.

Demographic and gender diversity in leadership remains limited. Since 2020, the rise in the number of leaders over 70 years old has nearly halted, though they still constitute one in four executives. Conversely, the proportion of leaders under 50 also declines, now less than two in every ten. The female presence is still weak, with only 23% of family firms having a woman holding at least a leadership position, a slight increase from 20% in 2013. This is largely due to collegial models of leadership where men and women share top-level co-leadership.

Board diversity indicators show that:

- Only 27.4% of companies have at least one board member under 40 years old;
- Only 38.6% have at least 33% women among board members;
- 94.6% of companies have no more than one board member over 75 years old;

- Only 5.7% of companies meet all four diversity criteria (youth, gender balance, external directors, no over-75s).

Previous editions of the AUB Observatory have highlighted that leadership turnover, when managed effectively, represents an opportunity for family business growth. The most recent edition places specific emphasis on generational transitions, portraying them as both a challenge and an opportunity to strategically innovate the enterprise. Notwithstanding the initial fear and intergenerational tension, well-managed generational transition can improve corporate governance and fuel growth in companies.

Leadership turnover sped up during the COVID-19 pandemic: from 4% annually prior to 2019 to 7.7% over 2020–2022. Generational transitions also accelerated, from 127 to 181 family businesses each year. Those companies that had achieved a leadership transition showed improvement on several indicators, such as revenue growth, investment levels, return on equity (ROE), return on assets (ROA), productivity, and financial soundness. Analysis of NextGen successor profiles reveals that approximately 70% hold at least a bachelor's degree, with women tending to have slightly higher education levels than men. However, only a few successors gained significant external or international work experience before entering the family firm—a domain where external managers show a clear advantage. Importantly, the Observatory indicates that generational transitions are even more successful when successors have external, particularly international, professional experience and advanced educational qualifications, especially in economics. These factors significantly increase the likelihood of successful succession and improved company performance. Finally, globalization has increasingly pushed even smaller businesses to engage in direct foreign investments (DFI) to support long-term growth strategies. From 2019 to 2023, DFIs by firms monitored by the AUB Observatory grew by 27% in number and 14.6% in value. About three-quarters of these investments were made by family firms, especially the larger ones. Geographically, family businesses invest more in Eastern Europe and Asia than in America. Since 2003, DFIs in Western Europe have halved, while investments in Asia and North America have increased. As of early 2024, 26.5% of the monitored companies had made at least one DFI. However, the share of family firms involved in DFI activities slightly declined, from 29.2% to 27.1%, mainly due to the growing number of smaller firms in the sample. Firm size remains a crucial

determinant: only 18.8% of smaller firms are internationalized compared to 65.3% of larger firms. Moreover, family firms with open boards of directors and more collegial leadership structures show greater propensity for internationalization, benefitting from the contribution of non-family professionals (AIDAF-EY, 2025).

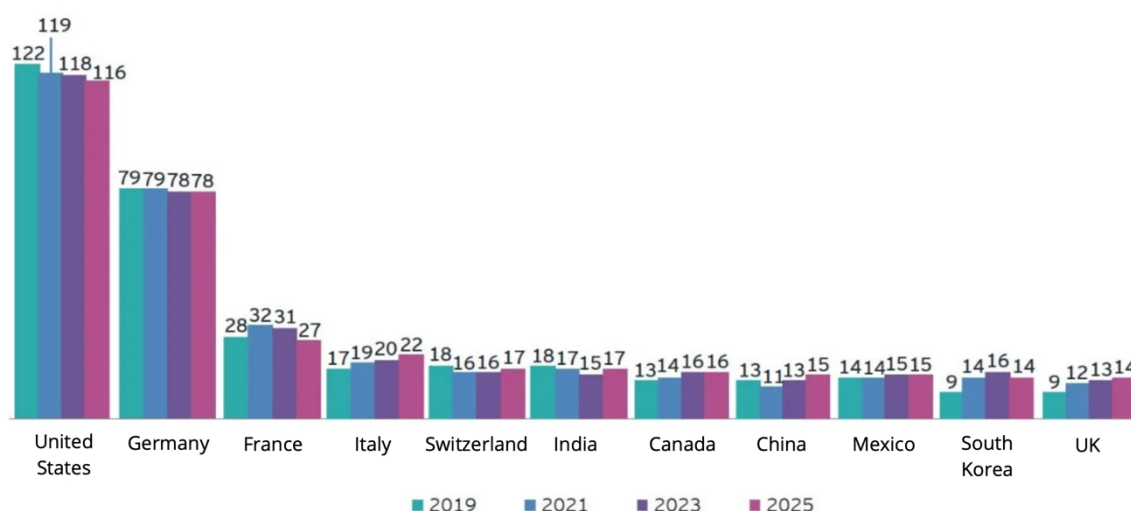


Figure 1.4. Number of Family Businesses by Country. Source: 2025 EY and University of St. Gallen Global 500 Family Business Index Focus Italy.

1.12. Family Firms in the World

Empirically, family firms are now ubiquitous worldwide and exist in almost all major economies. A breakdown of the top 20 family businesses by revenue in 2025 reveals that the leading positions are occupied by American businesses (first, fourth and fifth ranks) and certain German businesses (second and third ranks). Walmart Inc. (USA) remains the world's largest family business, followed by Volkswagen Group (Germany) and Schwarz Group (Germany), reflecting the US and German dominance in this sector.

Their contribution to the home economies is significant. In China, 85.4% of private businesses are family-owned with strong evidence of generational succession because younger generations are keen to keep family ownership and leadership lines. In Europe, family firms generate around 1 trillion euros in turnover, employing 60% of all European companies and comprising approximately 9% of the European Union's GDP. Additionally, family businesses have the responsibility of having created over 5 million jobs on the continent. In the United Kingdom, specifically, family businesses contribute to over 25%

of the national GDP. However, it is quite usual that succession planning faces many challenges because of intergenerational conflicts, thus making leadership transition less clear compared to other regions globally. In India, family businesses play an even more dominant role, with nearly two-thirds of India's GDP and 90% of its gross industrial output, the highest proportion in the world, generated by them. Indian family businesses also generate 79% of private sector employment. Nevertheless, sustainability remains a problem as only 13% of Indian family businesses survive into the third generation, and merely 4% into the fourth. The Middle East demonstrates a comparable high percentage, wherein family enterprises are involved in more than 80% of businesses, influencing considerably the region's culture, political environment, and economic stability. In the United States, as recent Harvard Business School studies reveal, family enterprises still account for at least half of all U.S. businesses, and just over 50% of all public corporations are family-controlled or owned. The 2025 figures keep on verifying this pattern, with U.S.-based family businesses like Walmart Inc., Cargill Inc., Ford Motor Company, and Koch Industries placing themselves firmly at the top of the list of the world's leading family businesses.

A review of the geographical distribution of family-owned foreign direct investments (FDIs) shows that family firms are expanding their investments to new markets beyond traditional Western markets. The share of investments located in Western Europe has fallen by almost half since 2003, whereas those in Asia and North America have increased significantly. Family firms have invested extensively in emerging Eastern European and Asian markets in search of growth and diversification opportunities. Family firms are also witnessing profound transformations in their governance. Larger family-controlled firms are progressively embracing open boards of directors, including non-family professionals, thereby fostering international growth and strategic flexibility. Companies with more collaborative leadership frameworks and non-family-focused governance that is not solely familial in interest have a greater propensity to invest overseas and deal with complicated international operations. In conclusion, the recent research confirms that family businesses demonstrate significant resilience and are a core driver of global economic development. Their ability to adapt governance models, resource allocation to new markets, and manage

intergenerational change continues to affect their competitive advantage and sustainability in an increasingly integrated and challenging global context.

Rank	Company	Jurisdiction	Revenue (US\$ b)	Founding Year	Industry	Type	Employees	Family	Voting control (%)
1	Walmart Inc.	United St...	648.13	1962	Retail	Public	2,149,000	Walton	≥32
2	Volkswagen Group	Germany	356.71	1937	Mobility	Public	684,000	Porsche / Pië...	≥50
3	Schwarz Group	Germany	179.09	1930	Retail	Private	575,000	Schwarz	≥75
4	Cargill, Inc.	United St...	177.00	1865	Consumer Pro...	Private	160,000	Cargill-Mac...	≥75
5	Ford Motor Comp...	United St...	176.19	1903	Mobility	Public	177,000	Ford	≥32
6	Bayerische Motor...	Germany	168.12	1916	Mobility	Public	155,000	Quandt	≥32
7	Tata Sons Ltd.	India	165.00	1917	Advanced Ma...	Private	1,028,000	Tata	≥75
8	Koch Industries, I...	United St...	125.00	1940	Oil & Gas	Private	120,000	Koch	≥75
9	Comcast Corpora...	United St...	121.57	1963	Telecommunic...	Public	186,000	Roberts	≥32
10	Reliance Industrie...	India	109.90	1966	Oil & Gas	Public	389,000	Ambani	≥32
11	SK Inc.	South Ko...	101.38	1953	Technology	Public	118,000	Chey	≥32
12	Robert Bosch Gm...	Germany	99.99	1886	Advanced Ma...	Private	429,000	Bosch	≥75
13	LVMH Moët Henn...	France	93.14	1987	Retail	Public	213,000	Arnault	≥50
14	MSC Group	Switzerl...	92.60	1970	Mobility	Private	213,000	Aponte	≥75
15	ALDI SÜD Group	Germany	91.76	1913	Retail	Private	50,000	Albrecht	≥75
16	JBS S.A.	Brazil	72.92	1953	Consumer Pro...	Public	270,000	Batista	≥32
17	Idemitsu Kosan C...	Japan	69.88	1911	Oil & Gas	Public	14,000	Idemitsu	≥32
18	ArcelorMittal S.A.	Luxembo...	68.28	1976	Mining & Metals	Public	127,000	Mittal	≥32
19	Koç Holding	Türkiye	67.79	1926	Oil & Gas	Public	119,000	Koç	≥50
20	Roche Holding Ltd.	Switzerl...	67.23	1896	Life Sciences	Public	104,000	Hoffmann / ...	≥50

Figure 1.5. A ranking of the largest 20 family businesses by revenue, 2025. Source: familybusinessindex.com

1.13. The Effect of Family Firms on Performance

Recent literature highlights that family involvement in business operations may affect organizational performance to a great degree as a result of the unique assets, objectives, and relational structures family members bring to their business operations (Dyer Jr, 2003). Performance, broadly framed as efficient use of resources and achievement of organizational objectives, can be influenced positively by so-called "family effect." In this specific context, the theoretical explanations given by the agency theory and the resource-based view provide strong arguments for the better performance of family firms compared to their non-family counterparts (Chrisman, Chua, & Sharma, 2005).

The agency theory explains that family businesses have lower agency costs due to the overlap between owners and managers performing the same functions (Fama & Jensen, 1983). The alignment within eliminates the need for costly monitoring mechanisms typically required in order to oversee outside managers, making the organization more efficient. Furthermore, the characteristics of family relationships within the firm can act to impart such advantages: with family owners appointing relatives to managerial positions, pre-existing trust and shared values eliminate the need for formal control mechanisms. Such internal solidity gives rise to a governance context wherein normative control is more pervasive, with shared values and goals being accorded primacy over purely financial interests. These theoretical rationales are empirically substantiated. Empirical studies show the manner in which family monitoring enhances firm performance, and how family CEOs, in contrast to non-family CEOs, require less monetary compensation because they are internally aligned with firm objectives (McConaughy D. L., 2000).

But organizational performance and family involvement will not always covary linearly. It has been argued by many that excessive family control, especially where the governance framework is weak, will encourage entrenchment, resistance to change, and family-oriented decision making rather than the overall organizational objectives. Such dynamics will ultimately destroy firm value. Previous studies targeted only publicly traded family firms and used static family ownership measures in explaining financial performance; recent studies, however, have encouraged a more advanced methodology. To this end, Bammens et al. (2011) appeal to the imperative of studying intermediate governance mechanisms—such as board quality of decision-making and leadership behavior—to

better understand how family participation translates into financial performance (Bammens, Voordeckers, & Van Gils, 2011). One of the early attempts at conceptualizing this complex phenomenon is that of Dyer (2006), who came up with a general theoretical model that accounts for the mechanisms of the family effect. Family involvement does not directly affect firm performance, according to Dyer. Instead, family impact is considered to influence various elements of the organization—governance institutions, firm characteristics, managerial practices (and especially the founder's involvement), as well as industry-specific strategic decisions—that, consequently, shape performance results. Particularly, family may influence the level of quality governance (e.g., transparency, succession planning), internal firm characteristics (e.g., flexibility, organizational culture), as well as management practices that together shape the failure or success of the business. Thus, in Dyer's model, the study of the "family effect" is the investigation of how family-oriented characteristics permeate various aspects of the firm before affecting performance (Gibb Dyer Jr, 2006).

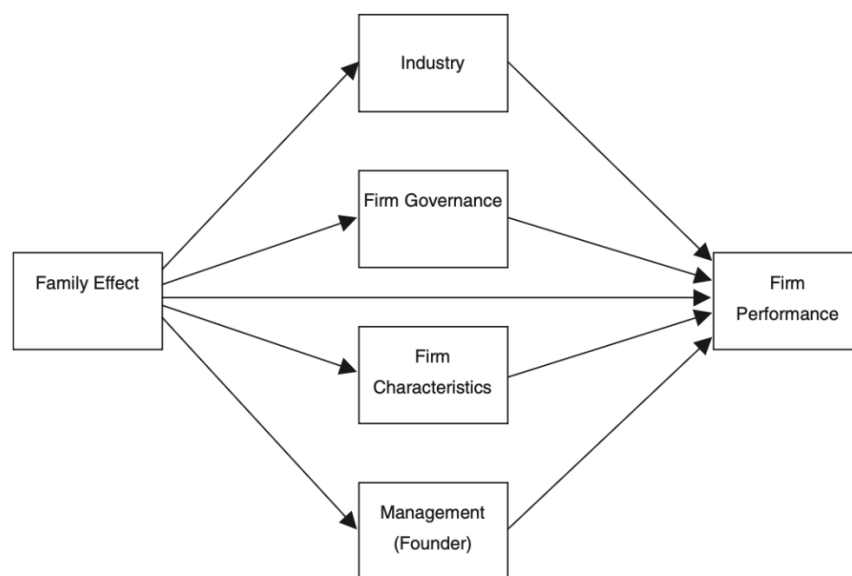


Figure 1.6. The Family Effect on Firm Performance. Source: Gibb Dyer Jr, W. Examining the "family effect" on firm performance. (2006).

Accordingly, the role of governance structures, and more particularly the board of directors, has emerged as a critical determinant of family firm performance. Boards drive outcomes through two fundamental roles: monitoring management actions to protect the interests of shareholders and stakeholders and improving strategic decision-making by offering advice and specialized expertise. Despite the concentrated ownership that

characterizes family firms, interest conflicts with external counterparts—banks, suppliers, or minority shareholders, for instance—still exist and underline the necessity of effective control mechanisms for the board. Moreover, the advisory function of the boards is particularly important in family SMEs, when external knowledge and managerial experience are likely to be more limited. High-performing boards not only help in enhancing decision-making excellence but also aid in revealing new strategic opportunities and strengthening the management team's capability.

In this case, Zattoni et al. (2015) present a more evolved view by setting out a precise theoretical model specifically aimed at the internal dynamics of boards in family firms. The model predicts that family influence impacts three basic internal board processes: effort norms (shared expectations of directors' commitment), knowledge and ability utilization (the effectiveness with which board knowledge is applied), and cognitive conflicts (disagreements related to tasks that can enhance decision-making processes). The procedures undertaken by the board significantly influence its effectiveness in both control and strategic functions. Ultimately, it is primarily the strategic functions—specifically those associated with advising and directing the firm's trajectory—that exert a considerable positive influence on financial performance, while control functions seem to have a comparatively lesser effect. This framework underscores that the involvement of family members contributes to improved organizational outcomes not merely through direct ownership but by enhancing the quality of governance processes occurring within the boardroom.

Effort norms, refer to the degree to which board members prepare diligently for meetings, participate actively in debates, and contribute meaningfully to strategic decision-making processes (Forbes & Milliken, 1999). In family businesses, the emotional attachment to the business often leads to a heightened sense of responsibility among directors, thus encouraging more involvement and governance efforts. Concurrently, the utilization of knowledge and skills indicates how well the board harnesses the experience of its members. Family involvement generally creates a governance setting in which directors' competencies are valued and utilized to the fullest, contributing to the quality of strategic decision-making (Zattoni, Gnan, & Huse, Does family involvement influence firm performance? Exploring the mediating effects of board processes and tasks, 2015).

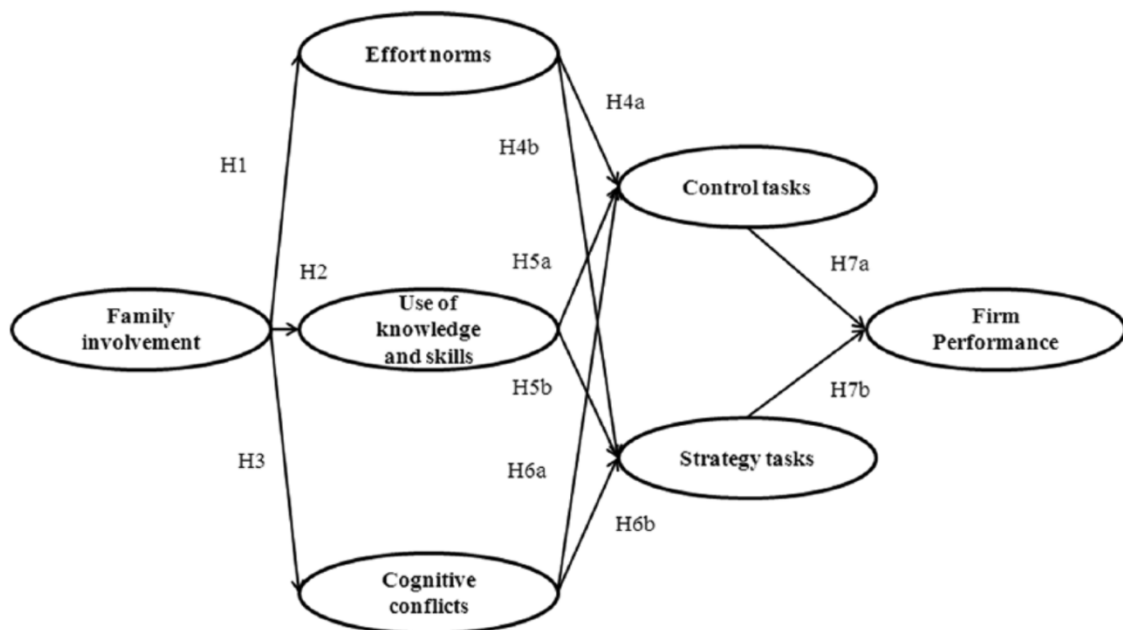


Figure 1.7. Impact of Family Involvement on Board Processes and Firm Performance: A Theoretical Model.
Source: Zattoni, A., Gnan, L., & Huse, M. Does family involvement influence firm performance? Exploring the mediating effects of board processes and tasks. (2015).

The Zattoni et al. (2015) survey on Norwegian SMEs illustrated that family involvement has a positive effect on effort norms and utilization of knowledge and skills, and a negative effect on cognitive conflicts. Further, though board processes tend to improve board task performance, only strategic task performance—and not control tasks—had a significant positive impact on firm financial performance. These observations highlight the central role of boards as strategic assets that can add value to decision processes and shape firm directions.

It is essential to consider the potential downsides of family governance. The inclination to preserve family cohesiveness can unintentionally suppress intellectual conflict in the boardroom. While social unity is extremely significant, intellectual conflict, that is, debate focused on tasks and constructive disagreement, is important for developing innovation, challenging old assumptions, and enabling strategic renewal (Amason, 1996). Lack of open communication jeopardizes falling back into outdated plans and hinders the ability of the organization to adapt along evolving market trends.

Family firms thus have a delicate task of trading off a number of aspects: they must leverage the inherent advantages that derive from family participation, such as commitment and effective use of knowledge, and, simultaneously, mitigate the dangers associated with excessive homogeneity and strategic inertia. Promoting a model of governance where respectful yet critical debate is fostered is central to securing dynamism and sustained competitiveness in the long run.

To conclude, the impact of family involvement on organizational performance is mediated by sophisticated governance systems. Whether a family exists in a company or not does not necessarily mean that the company will have better results; but what matters is the manner in which family involvement affects the behavior, interaction, and strategic capability of the board (Zattoni, Gnan, & Huse, 2015). Both acknowledging and taking into consideration the strengths as well as weaknesses of family governance are crucial to understanding the long-term potential of family firms.

1.14. Hypothesis Development

Research on corporate governance shows that how a board is governed affects a company's financial performance. As discussed in prior literature, a successful board of directors plays an important role in preventing conflicts between managers and shareholders which benefits the company financially (Fama & Jensen, 1983). If a board has the right structure which includes being independent, diverse and separated by roles, it is likely to hold itself and others accountable, keep managers honest and choose decisions that support shareholders (Hillman & Dalziel, 2003). Many studies have demonstrated that firms with better governance perform better. According to Bhagat and Bolton (2008), firms with improved governance achieved better ROA and investment performance over time (Bhagat & Bolton, 2008). Klapper and Love found that strong corporate governance affects a firm's share value and profit levels, especially in areas with less protection for investors (Klapper & Love, 2004). Having good governance often helps a company to improve its internal controls, access financing and improve its image (Brown & Caylor, 2006). So, the current research demonstrates that a board governance is likely to improve the financial performance of a company. Therefore, the following hypothesis is proposed:

H1: There is a significant relationship between corporate board governance and the financial performance.

When family members hold the majority of the company's shares, the link between board governance and the firm's success can become stronger or weaker. Possibly, because family-owned businesses focus on different goals, they may adopt special ways of running their companies from non-family firms (Berrone, Cruz, & Gomez-Mejia, 2012). Moreover, Anderson and Reeb demonstrated that family businesses can perform better than non-family ones if their governance is run by experts (Anderson & Reeb, 2003). Because of this, if the family has too much influence on governance, it may make the board less independent and reduce transparency, making its governance efforts less effective (Carney, 2005). It is also noted in studies that strengthening a company's governance can have a stronger impact in firms where ownership is more widespread and rules are firmly established which is usual in non-family firms (Villalonga & Amit, 2006). In this case, corporate governance changes are likely to have less impact on financial performance in family firms than in outside-owned firms (Gomez-Mejia, Nunez-Nickel, & Gutierrez, 2001). Accordingly, how a firm is controlled and the extent to which governance impacts its financial performance are affected by how the firm is governed, so it is necessary to include a comparison of firm types. Thus, the following hypothesis is developed:

H2: The impact of board governance on financial performance is significantly different in family-owned/controlled than in non-family-owned/controlled firms.

CHAPTER 2 – METHODOLOGY

2.1. Research Design

This chapter describes the approach taken to study the association between the features of corporate governance and the performance of family and non-family firms in Italy. It elaborates on the features of the research design, data collection steps, the processes of measuring the variables, econometric models used, and the techniques of analyzing the data. The framework of this study is based on a quantitative deductive research approach. This preference fits best with examining the hypothesized associations arising from certain features of corporate governance and the overall performance of the firm. The research, therefore, begins with more general theories, such as those about corporate governance and firm behavior, and moves towards more specific ones, which are empirically tested using data collected from various firms. This approach permits the assessment of whether the data patterns defy or confirm expectations derived from theory, thus validating or refining accepted knowledge within a discipline. The scope of this investigation is so broad that the precise measurement of the variables under consideration will enable their rigorous statistical evaluation across various types of firms.

Central to this investigation is the adoption of a comparative study design, focusing specifically on the distinctions between family and non-family firms. The core research objective is to understand not only the general impact of corporate governance mechanisms on performance but, critically, how these relationships might vary depending on the ownership and control structure of the firm. A comparative design is essential for isolating and evaluating these differential effects. By analyzing two distinct groups of firms that differ primarily in their family involvement, the study can shed light on whether the unique governance dynamics inherent in family firms (such as potential agency conflicts between family and non-family shareholders, or the influence of long-term stewardship motives) lead to different performance outcomes compared to their non-family counterparts. This comparative lens provides a richer and more nuanced understanding than would be possible by examining either group in isolation. The research setting is specifically defined by a balanced sample of Italian family and non-family firms operating within the same sector and exhibiting similar dimensions. This approach to sampling serves an important purpose in methodology. Focusing on firms within one industry automatically eliminates

many governance-performance relationships interindustry factors that could bias the study. Different industries have different market and regulatory conditions, as well as competition, all of which affect firm performance and governance decisions. Likewise, the firm's size also a sample scale constraining factor helps control for size-related differences. The Italian context is also important to focus on because of the high concentration of family-owned firms in Italy and the country's laws and practices that regulate corporate and business entities. It offers a useful context for comparative analysis while improving internal validity of the results by mitigating heterogeneity due to differing national or industry contexts. Also, the study utilizes longitudinal or hybrid panel time an approach that incorporates time in reasoning and criteria for stratification unlike a static cross-sectional approach. The analysis is based on data collected over multiple time periods for each firm in the sample. Such an approach has distinct benefits compared to purely cross-sectional analysis, which captures a single point.

Panel data allows for the examination of changes in corporate governance and performance over the selected period, providing insights into the dynamic nature of their relationship. More importantly, it enables the application of econometric techniques specifically designed for panel data, such as fixed or random effects models. These models can account for unobserved firm-specific heterogeneity that remains constant over time, thereby providing more robust estimates of the true impact of corporate governance variables on performance, free from the influence of time-invariant firm characteristics not explicitly included in the model. The specific time period covered by the data will be detailed in the subsequent section on data collection. All statistical analyses, including descriptive statistics, correlation analysis, normality tests, and panel data regressions, were performed using Stata Statistical Software.

2.2. Data Collection and Sample

The empirical foundation of this study rests upon financial and corporate governance data systematically collected from established commercial databases and financial data providers. Refinitiv Eikon, a well-known financial source, was used to gather the company data. Family-controlled and owned firms are distinguished by ownership structure, presence of the founding family in key roles, and other governance features, following the research (Villalonga & Amit, 2006). The specific databases utilized were selected based

on their extensive coverage of Italian listed companies, providing the necessary granularity on both financial performance indicators and detailed corporate governance structures. The sample selection criteria were meticulously defined to construct a dataset suitable for a robust comparative analysis between family and non-family firms. The primary objective was to assemble a balanced representation of Italian family and non-family firms to allow for meaningful comparisons of the corporate governance-performance relationship between these two distinct groups. Also, the selection criteria were limited to companies within the same particular industry. This limitation is an intentional methodological decision made in order to control for possible impacts specific to the industry that could add noise and confound the relationship between the study's focus and the corporate governance mechanisms employed in the firms. Concentrating on one industry enhances internal validity since all the firms encounter similar market conditions, competition, and regulations. Most importantly, participants were chosen based on their similarity on a number of characteristics. While complete similarity is not attainable in an empirical study, the design also focused on firm size to reduce the impact of scale on governance and financial results to be more valid and reliable.

This approach helps to ensure that observed differences are more likely attributable to variations in corporate governance and family involvement rather than disparate operational scales. The critical distinction between the two groups in this study hinges upon the definition and identification of family firms within the sample. For the purpose of this research, firms were classified as "family-controlled/owned" based on a specific criterion operationalized through the available data. This classification relies on a binary variable, denoted as Family controlled/owned, which is coded as 1 if the firm is identified as family-controlled or owned according to the data source's definition, and 0 otherwise. While the precise thresholds or criteria employed by the data provider for this classification are assumed to align with common academic definitions (often based on significant ownership stakes by a founding family, family members holding key management or board positions, or the stated intention to pass control to future generations), the operationalization in this study is directly derived from this existing categorical variable within the dataset. This clear distinction allows for the empirical testing of hypotheses

concerning the differential impact of governance in firms where family interests are prominent.

Beyond the initial selection criteria, matching or additional control procedures were integrated into the sample design to further enhance comparability. As noted, the focus on firms within the same sector and with similar dimensions serves as an inherent form of control embedded within the sample selection process itself. This targeted sampling strategy helps to create subsamples of family and non-family firms that are more alike on these fundamental characteristics than a randomly selected broader sample would be. While formal statistical matching techniques were not applied post-collection, the upfront sample design based on sector and dimension similarity provides a foundational level of comparability, allowing the subsequent econometric analysis to focus more effectively on the variations in governance and performance related to family involvement.

The process of data extraction and preparation involved retrieving the relevant variables for the selected firms over the defined time horizon from the identified databases. The raw data, encompassing financial metrics and corporate governance indicators, were then consolidated into a single dataset. A key aspect of this stage was structuring the data into a panel dataset format, where observations are available for multiple entities (firms) across multiple time periods (years). This structure is essential for applying panel data regression techniques. While the intention was to work with a balanced panel where each firm has data for every year in the period, preliminary examination of the data indicated some variation in the number of observations per firm, particularly for certain variables like Tobin's Q. Any instances of missing values were noted, and the analysis proceeded with the available data, implicitly handling missing observations through the chosen panel estimation methods, which can accommodate slightly unbalanced panels. Variables were checked for consistency and formatted appropriately for statistical analysis.

Following the data preparation phase, the final sample description can be provided. The dataset comprises a total of 480 observations across all variables where data were available. These observations pertain to a set of distinct Italian firms. The time period covered by the dataset ranges from 2016 to 2024, providing a multi-year window for observing changes and relationships. While the exact number of unique firms is identifiable from the provided data, the core analysis utilizes the panel structure with 480 observations. The sample

includes a balanced representation of firms classified as Family controlled/owned (coded as 1) and those not classified as such (coded as 0), reflecting the comparative design objective. The distribution of observations across family and non-family firms, and the precise number of unique entities, will be further detailed in the descriptive statistics section.

2.3. Measurement of Variables

Precise and consistent measurement of variables is paramount for the validity and reliability of quantitative research. This section delineates the operational definitions and measurement protocols employed for the dependent, independent, control, and moderating variables included in the empirical models. The variables were constructed or directly obtained from the collected panel dataset, ensuring comparability across firms and over the observation period.

2.3.1. Dependent Variables

The study employs four distinct measures of firm performance to capture different facets of a company's success: two accounting-based measures (ROA and ROE), one market-based measure (Tobin's Q), and one non-financial measure (ESG Score).

- Return on Assets (ROA): ROA is a widely used accounting-based profitability ratio that assesses how efficiently a company uses its assets to generate earnings. ROA shows the ratio of net income to total assets. It demonstrates the impact of using assets efficiently on the company's profits (Penman, 2012). It is conceptually defined as the ratio of net income to total assets.

This metric reflects the operating performance of the firm, independent of its financing structure. Given the observed non-normality in the distribution of the raw ROA variable (as indicated by the descriptive statistics and normality tests), a logarithmic transformation ($\log_ROA$) was applied to normalize the distribution and satisfy the assumptions of the regression models. The natural logarithm of ROA was used in the main analysis.

- Return on Equity (ROE): ROE is another key accounting-based profitability ratio that measures the amount of money earned for every dollar invested by shareholders (Damodaran, 2010). It indicates how effectively a company uses

shareholders' funds to generate profits. Conceptually, it is calculated as net income divided by shareholders' equity.

ROE is particularly relevant from a shareholder's perspective. Similar to ROA, the raw ROE variable exhibited characteristics necessitating transformation. Consequently, the natural logarithm of ROE ($\log_ROE$) was utilized in the regression analysis to address issues of non-normality and reduce the influence of outliers.

- Tobin's Q: Tobin's Q is a market-based performance measure that reflects the market value of a firm relative to the replacement cost of its assets. It is often used as a proxy for future growth opportunities and intangible assets not captured by book values (Chung & Pruitt, 1994). A Q ratio greater than 1 suggests that the market values the firm's assets more than their book value, indicating positive future growth prospects. While various formulations exist, a common operationalization, and the one implicitly used in the provided data, approximates Tobin's Q as the ratio of the market value of the firm's equity and liabilities to the book value of its assets.

However, the dataset includes a pre-calculated variable Tobin's Q, which is assumed to represent this market-to-book ratio. Due to the highly skewed distribution of the raw Tobin's Q variable, as evidenced by the descriptive statistics and normality tests, the natural logarithm of Tobin's Q ($\log_Tobinsq$) was employed in the regression models to achieve a more symmetrical distribution and meet the parametric assumptions of the analysis. It is noted that the number of observations for Tobin's Q is slightly lower (472) than for most other variables, suggesting some data availability limitations for this specific metric across the full sample-year panel.

- ESG Score: The ESG Score is a composite measure reflecting a company's performance across Environmental, Social, and Governance dimensions. Unlike traditional financial metrics, it provides insights into a firm's sustainability practices, ethical conduct, and broader stakeholder engagement. The specific methodology and scope of the ESG score calculation are determined by the data provider but generally encompass criteria such as environmental impact, labour practices, human rights, supply chain standards, board structure, executive

compensation, and shareholder rights. Including the ESG Score as a performance variable allows the study to assess the impact of corporate governance beyond purely financial outcomes, acknowledging the increasing importance of non-financial performance in the contemporary business landscape. The ESG score includes information from more than 400 key indicators to evaluate a firm's performance regarding the environment, society, and governance. Out of 100, a higher number in ESG scores reflects a higher level of sustainability performance. Moreover, Refinitiv uses information from companies' reports and news sources, making their approach very transparent and comparable across different firms (Refinitiv, 2021). The score is applied as a continuous variable and does not need to be changed because it is close to a normal distribution.

2.3.2. Independent Variables (Corporate Governance Mechanisms)

The study focuses on four key corporate governance mechanisms as independent variables:

- **Board Size:** Board Size refers to the total number of directors serving on a company's board. It is measured as a simple count of the individuals on the board. The variable `BoardSize` directly represents this count in the dataset. The expected impact of board size on performance is theoretically ambiguous, with arguments for both positive effects (broader expertise, better monitoring) and negative effects (slower decision-making, free-rider problems) depending on the context. According to Dalton et al. (1999), larger boards should lead to superior choices due to a larger range of backgrounds, yet they may also encounter difficulties with coordination (Dalton, Daily, Johnson, & Ellstrand, 1999).
- **Board Gender Diversity:** Board Gender Diversity measures the representation of different genders on the board. In this study, it is operationalized as the percentage of female directors on the board, represented by the variable `"BoardGenderDiversityPercent"`. Evidence suggests that gender diversity helps to improve the effectiveness of boards, lead to new ideas, and increase awareness of ethics in businesses, all contributing to outcomes on ESG and firm performance (Post & Byron, 2015).

- **Independent Board Members:** This variable captures the proportion of independent directors on the board, reflecting the degree of external oversight. Independent directors are typically defined as those who do not have material relationships with the company, its executives, or its controlling shareholders, thus being better positioned to exercise objective judgment. It is measured as the percentage of independent board members, corresponding to the variable `IndependentBoardMembers` in the dataset. The presence of independent directors should help improve the monitoring process and minimizes agency problems (Fama & Jensen, 1983).
- **CEO Duality:** CEO Duality is a structural characteristic of the board where the same individual holds both the position of Chief Executive Officer (CEO) and Chairman of the Board. This variable is measured using a dummy variable, `CEODuality`, coded as 1 if the CEO is also the Chairman, and 0 otherwise. Theoretical perspectives offer contrasting views on CEO duality; agency theory suggests it can weaken board independence and monitoring, potentially harming performance, while stewardship theory posits it can enhance leadership unity and strategic focus, potentially benefiting performance depending on each particular situation (Brickley, Coles, & Jarrell, 1997).

2.3.3. Control Variables

To isolate the specific impact of corporate governance variables, the study includes control variables known to influence firm performance:

- **Leverage:** Leverage measures the extent to which a company uses debt financing. It is typically calculated as the ratio of total debt to total assets. The variable `Leverage` in the dataset is assumed to represent this ratio. Higher leverage can increase financial risk but may also provide tax benefits, leading to a complex expected relationship with performance that can vary depending on the firm's financial health and industry (Harris & Raviv, 1991).
- **Size:** Firm Size is included to control for scale effects, as larger firms may have different governance structures, market power, and access to resources compared to smaller firms. The variable `Size` in the dataset is a measure of firm size, likely operationalized as the natural logarithm of total assets or market capitalization,

which is a common practice to normalize the distribution of size and capture proportional changes. Larger firms may benefit from economies of scale but can also face increased complexity and bureaucratic inefficiencies, leading to a potentially non-linear relationship with performance (Chandler, 1990).

2.3.4. Moderating Variable

The core of the comparative analysis is facilitated by a moderating variable that distinguishes between the two groups of firms.

Family Ownership/Control: This is a dummy variable, coded as 1 for firms identified as family-controlled or owned and 0 for non-family firms. As detailed in the sample selection section, this classification is based on criteria provided by the data source. This variable serves as a moderator, allowing the study to examine whether the relationship between each corporate governance independent variable and the performance dependent variables differs significantly between family and non-family firms. The interaction terms in the regression models will capture this differential effect, providing insights into how family involvement influences the effectiveness or impact of various governance mechanisms on firm performance.

2.4. Empirical Model

To empirically investigate the relationship between corporate governance mechanisms and firm performance, and critically, how this relationship is moderated by family control, the study employs panel data regression models. This approach is particularly well-suited for analyzing data collected on the same set of entities (firms) over multiple time periods (years), as is the case in this research. For each of the four dependent variables representing firm performance (log_ROA, log_ROE, log_Tobinsq, and ESG Score), a separate regression model is estimated. These models include the key corporate governance variables as independent predictors, along with control variables to account for other factors known to influence performance. Furthermore, to capture the potentially differential impact of corporate governance in family firms compared to non-family firms, interaction terms between each governance variable and a dummy variable indicating family control are included.

The general form of the econometric model estimated is as follows:

Financial Performance_{it}

$$\begin{aligned} &= \beta_0 + \beta_1 \text{BoardSize}_{it} + \beta_2 \text{GenderDiversity}_{it} + \beta_3 \text{Independence}_{it} \\ &+ \beta_4 \text{CEODuality}_{it} + \beta_5 \text{FamilyDummy}_{it} + \beta_6 \text{Size}_{it} + \beta_7 \text{Leverage}_{it} \\ &+ \epsilon_{it} \end{aligned}$$

Where:

- Financial performance_{it}: represents Log_ROA, Log_ROE, Log_TobinsQ, and ESG score for firm *i* at time *t*.
- β_0 : is the intercept.
- BoardSize_{it}: Number of board members in firm *i* at time *t*. The coefficient β_1 reflects the impact of board size on financial performance.
- GenderDiversity_{it}: Percentage or proportion of female board members. The coefficient β_2 measures how board gender diversity affects firm performance.
- Independence_{it}: Proportion of independent (non-executive) directors on the board. β_3 captures the influence of board independence on performance.
- CEODuality_{it}: A dummy variable equal to 1 if the CEO also holds the position of board chair (i.e., duality), and 0 otherwise. β_4 indicates whether combining these roles has a positive or negative effect on performance.
- FamilyDummy_{it}: A time-invariant dummy variable equal to 1 if the firm is family-controlled, and 0 otherwise. β_5 captures the average difference in financial performance between family and non-family firms.
- Size_{it}: A control for firm size, typically measured as the logarithm of total assets. β_6 accounts for the scale effects on performance.
- Leverage_{it}: A financial ratio indicating the firm's level of indebtedness (e.g., total debt over total assets). β_7 reflects how leverage influences financial performance.
- ϵ_{it} is the error term.

2.5. Justification for Panel Data Analysis

The use of panel data analysis offers significant methodological advantages over alternative approaches such as pooled Ordinary Least Squares (OLS) regression or analyzing cross-sectional data for a single year. A primary benefit is the ability to account for unobserved heterogeneity across firms. Firms possess unique characteristics (e.g.,

organizational culture, managerial ability, history) that can influence their performance but are difficult or impossible to measure and include as explicit variables in a regression. Panel data models, particularly fixed effects models, can control for these time-invariant, firm-specific effects, thereby reducing the risk of omitted variable bias and providing more reliable estimates of the relationships between the included variables.

In addition, having panel data makes it possible to control effects that do not change over time. This implies that all characteristics of a firm that are constant over the time period being observed (like whether the firm is fundamentally a family or non-family firm, provided no control changes during the period) are included. This is important in a study of this nature which most of the underlying features that differentiate the groups are unchanging cross-sectional attributes. With regard to the impacts of changing governance systems and other factors that are different in time on the performance of a firm, panel data has the advantage of enabling one to work with variations within a firm over time, and this strengthens the conclusions drawn about the cause-and-effect relationships being studied.

Two commonly used methods under the scope of panel data analysis are the Fixed Effects (FE) model and the Random Effects (RE) model. These two models differ based on whether there is some correlation between the unobserved firm-specific effects and the independent variables. The FE model believes the unobserved firm-specific effects are correlated with the independent variables. This model “sweeps” time invariant unobserved effects by looking at variation within a particular firm over time. It is best suited when the sample consists of a specific set of firms of interest instead of a random sample from some wider population. The opposite is true for the RE model which assumes unobserved firm specific effects are unrelated to independent variables. This model treats unobserved effects as random variables independent of the predictors. If the assumptions hold true, this RE model would likely outperform the FE model as it is more efficient. One common method to determine which model is more appropriate is the Hausman Test. The test applies the Hausman procedure by estimating FE and RE model coefficients, using the Independent Variables to derive relevant coefficients using set constraints. The test is considered valid if the RE and FE coefficients differ significantly. Statistically significant means the unobserved firm specific effects are in fact there.

CHAPTER 3 – ANALYSIS OF EMPIRICAL RESULTS

The governance of corporate boards is increasingly scrutinized for its influence on firms with respect to ESG matters and its financial performance. The study evaluates how various dimensions of board governance impact ESG scores and financial performance measures Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q publicly traded firms in Italian listed firms. It also compares the results between family-owned/controlled and non-family-owned/controlled companies.

3.1. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
BoardSize	480	23.215	21.694	7	115
BoardGenderDiversity	480	76.656	68.217	0	369.231
IndependentBoardMembers	480	122.487	132.206	0	640
CEODuality	480	.283	.451	0	1
ESGScore	480	135.969	148.242	16.337	733.876
Return on Assets	480	.034	.045	-.228	.204
Return on Equity	480	.111	.147	-1.201	1.209
Tobinsq	472	1.965	15.492	.007	324.169
Leverage	480	.269	.16	.013	.758
Size	480	23.571	2.27	19.213	29.176

Table 3.1. Descriptive Statistics. Source: Own Elaboration

The descriptive statistics show that board size, gender diversity, independent board members and CEO duality all exhibit a wide range of values. Board size varies widely from 7 to 115 and the average is 23.2 (SD = 21.7), much greater than the values reported in previous studies of European companies (Zahra & Pearce, 1989). Board gender diversity shows an average score of 76.66, which apparently reflects improved equity, even though the high SD indicates unevenness among organizations. This number also reveals that there is substantial variety in the extent of board independence among the firms. Approximately one quarter of firms share the positions of CEO and chairperson (28,3%). This structure exposes the organization to risks associated with agency conflicts (Fama & Jensen, 1983). Large variations in ESG scores (Mean = 135.97, SD = 148.24) indicate differing approaches to corporate sustainability among firms. The average ROA and ROE values fall within normal profitability levels for mature companies, though the substantial

variation shows that a few firms struggle financially very much. Statistical analysis requires the use of the natural log of Tobin's Q as its boundaries show considerable deviation from typical distributions. Tobin's Q has an average of 1.965, suggesting that, on average, the market values these firms at nearly twice the replacement cost of their assets, though the very high maximum value and standard deviation point to the presence of firms with exceptionally high market valuations or potential outliers. Control variables like Leverage (average of 26.9%) and Size (average of 23.571 log-transformed) are consistent with typical values found in corporate finance studies. Overall, the variability in these descriptive statistics underscores the diverse nature of the firms in the sample and sets the stage for examining how these differences relate to governance and performance.

3.2. Correlation Analysis

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) BoardSize	1.000									
(2) BoardGenderDiversity	0.882	1.000								
(3) IndependentBoardMembers	0.909	0.928	1.000							
(4) CEODuality	-0.051	-0.017	-0.067	1.000						
(5) ESGScore	0.896	0.923	0.952	-0.098	1.000					
(6) Return_on_Assets	-0.153	-0.117	-0.119	0.145	-0.117	1.000				
(7) Return_on_Equity	-0.049	-0.014	-0.009	0.051	-0.024	0.696	1.000			
(8) Tobin's Q	-0.058	-0.042	-0.029	-0.022	-0.035	0.054	0.015	1.000		
(9) Leverage	0.017	0.120	0.140	-0.051	0.072	-0.084	-0.065	-0.020	1.000	
(10) Size	0.649	0.537	0.643	-0.199	0.626	-0.359	-0.063	0.025	-0.055	1.000

Table 3.2. Matrix of Correlations. Source: Own Elaboration

The correlation matrix reveals several noteworthy relationships. Board governance variables are highly positively correlated, especially between Board Size and Independent Board Members ($r = 0.91$) and Board Gender Diversity ($r = 0.88$). Such strong correlations indicate both the threat of multicollinearity in regression analysis and the tendency for large companies to promote greater levels of diversity and independence among their boards. Remarkably, ESG Score correlates with every board feature, most strongly with Independent Board Members. A high correlation in these findings ($r = 0.95$) is consistent with evidence by Post et al. (2011) that diverse and independent boards are more likely to

promote sustainability strategies. Performance ratios are only weakly or negatively correlated with governance variables, suggesting intricate, potentially non-linear dependencies (Post, Rahman, & Rubow, 2011). For example, Board Size has correlations of -0.153 with ROA, -0.049 with ROE, and -0.058 with Tobin's Q. This preliminary finding suggests that simply increasing board size, gender diversity, or independence may not directly translate into higher financial performance in a simple linear fashion, and might even be associated with slightly lower performance, though these are only pairwise correlations and do not control for other factors. CEO Duality shows weak correlations with most variables, with a slight positive correlation with ROA (0.145). Between the control variables, Size shows a positive correlation with board structure variables and ESG Score, however, negatively with ROA (-0.359). Leverage shows weak correlations with most performance and governance variables. The strong positive correlation (0.696) between ROA and ROE is expected, as both are accounting-based profitability measures.

3.3. Normality Test

Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adj_chi2(2)	Prob>chi2
BoardSize	480	0.000	0.000	.	0.000
BoardGenderdiversity	480	0.000	0.000	.	0.000
IndependentMembers	480	0.000	0.000	.	0.000
CEODuality	480	0.000	0.000	.	0.000
ESGScore	480	0.000	0.000	.	0.000
Return_on_Assets	480	0.017	0.000	48.990	0.000
Return_on_Equity	480	0.000	0.000	.	0.000
Tobin's Q	472	0.000	0.000	.	0.000
Leverage	480	0.000	0.000	29.480	0.000
Size	480	0.000	0.294	16.200	0.000

Table 3.3. Skewness/Kurtosis tests for Normality. Source: Own Elaboration

The statistical tests for normality show that most variables—including Board Size, Board Gender Diversity, Independent Board Members, ESG Score, Tobin's Q and financial performance variables—don't satisfy normal distribution assumptions. These results indicate that the distribution of the data deviates considerably from normal ranges

and therefore regression estimates could be biased, and OLS regression assumptions might not hold. A transformation of these variables using logarithms was implemented to enhance the reliability and accuracy of the subsequent regression analysis. Log transformation is often used to address non-symmetry, equalize the dispersion of values and make distributions closer to normality in empirical investigations (Osborne, 2010). Transforming variables in this way minimizes the effects of outliers and improves the precision of the estimated relationships between variables. Specifically, Tobin's Q, ROA and ROE were each log-transformed prior to performing the regression analysis in order to improve model accuracy. Log transformations enhance the validity of the empirical findings by producing more reliable estimates from the regression models. As a result, employing transformation to overcome non-normality was essential as well as in line with the standards of empirical corporate governance research.

3.4. Regression Results

The following section presents and discusses the results from the panel data regression models for each of the four dependent variables: ESG Score, ROA, ROE, and Tobin's Q. The interpretation will focus on the coefficients of the corporate governance variables, the family controlled/owned dummy, and the control variables, relating them to the study's hypotheses and relevant literature.

3.4.1. ESG Regression

The table below summarizes the output from the estimated panel regression model for ESG Score. It presents the estimated coefficients, their corresponding standard errors, the calculated t-values, and the associated p-values, along with the 95% confidence intervals and significance levels.

ESGScore	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
BoardSize	.151	.182	0.83	.406	-.206	.509	
BoardGenderDiversity	.394	.052	7.51	0	.291	.497	***
IndependentBoardMembers	.371	.038	9.82	0	.297	.445	***
CEODuality	-4.653	3.401	-1.37	.171	-11.318	2.012	
Leverage	-36.765	12.885	-2.85	.004	-62.02	-11.51	***
Size	17.182	2.211	7.77	0	12.849	21.515	***
FamilyControlledOwned	0	.	.	.	.	.	
1	-60.905	11.431	-5.33	0	-83.31	-38.5	***
Constant	-304.043	46.972	-6.47	0	-396.106	-211.979	***
Mean dependent var		135.969	SD dependent var			148.242	
Overall r-squared		0.871	Number of obs			480	
Chi-square		792.935	Prob > chi2			0.000	
R-squared within		0.222	R-squared between			0.879	

*** $p < .01$, ** $p < .05$, * $p < .1$

Table 3.4. ESG regression results. Source: Own Elaboration

A regression model explains more than 87% of the variability in ESG scores by considering critical governance and firm-level variables. The analysis reveals that Board Gender Diversity Percent is a highly statistically significant positive predictor of ESG Score (coefficient = 0.394, $p < 0.001$). This finding indicates that firms with a higher percentage of female directors on their boards tend to achieve higher ESG scores. The magnitude of

the coefficient suggests that a one percentage point increase in board gender diversity is associated with a 0.394-unit increase in the ESG Score. Having a more diverse and independent board of directors positively affects ESG performance by increasing the board's ability to address and emphasize sustainability issues (Bear, Rahman, & Post, 2010). Similarly, the proportion of Independent Board Members also exhibits a strong and statistically significant positive association with ESG Score (coefficient = 0.371, $p < 0.001$). A one percentage point increase in board independence is associated with a 0.371-unit increase in the ESG Score. These results lend empirical support to the notion that diversity and independence on corporate boards are conducive to better performance in non-financial areas, aligning with stakeholder-oriented perspectives of corporate governance. In contrast, Board Size does not demonstrate a statistically significant relationship with ESG Score (coefficient = 0.151, $p = 0.406$). Although the estimated coefficient is positive, the lack of statistical significance suggests that, in this sample and context, the sheer number of board members does not have a discernible impact on ESG performance when other governance attributes are controlled for. CEO Duality also appears not to have a statistically significant effect on ESG Score (coefficient = -4.653, $p = 0.171$). While the negative sign on the coefficient might intuitively suggest that combining the CEO and Chairman roles could potentially hinder ESG initiatives (perhaps due to reduced oversight), this estimated effect is not statistically significant.

Higher levels of leverage are found to significantly reduce ESG performance according to the regression results (coefficient = -36.77, $p < 0.01$), suggesting that firms with substantial debt may devote fewer resources to sustainability efforts (Sharfman & Fernando, 2008). Conversely, Firm Size is strongly and positively related to ESG Score (coefficient = 17.18, $p < 0.01$), supporting the idea that size provides greater capacity and motivation for larger firms to implement and communicate their ESG goals (Barney, 1991). The coefficient for the Family controlled/owned dummy variable is statistically significant and negative (coefficient = -60.905, $p < 0.001$). In this context this coefficient represents the estimated baseline ESG Score difference for family firms when the interacted governance variables are at their reference point (e.g., zero for continuous variables like board percentages). This finding suggests that, on average, and before considering how governance effects might

differ, firms with a family control structure tend to achieve lower Environmental, Social, and Governance (ESG) scores compared to other types of firms (Chen & Hsu, 2009).

3.4.2. ROA Regression

The table below displays the estimated coefficients, standard errors, t-values, p-values, and confidence intervals for the regression model with log_ROA as the dependent variable.

log_ROA	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
BoardSize	-.026	.006	-4.14	0	-.038	-.014	***
BoardGenderDiversity	0	.002	-0.07	.942	-.004	.004	
IndependentBoardMembers	.006	.001	4.57	0	.003	.009	***
CEODuality	-.07	.126	-0.55	.579	-.316	.176	
Leverage	-1.158	.432	-2.68	.007	-2.004	-.311	***
Size	-.324	.053	-6.12	0	-.428	-.22	***
FamilyControlledOwned	0	.	.	.	.	.	
1	-.061	.234	-0.26	.793	-.521	.398	
Constant	4.069	1.11	3.67	0	1.893	6.244	***
Mean dependent var		-3.764	SD dependent var		1.210		
Overall r-squared		0.347	Number of obs		439		
Chi-square		88.684	Prob > chi2		0.000		
R-squared within		0.078	R-squared between		0.459		

*** $p < .01$, ** $p < .05$, * $p < .1$

Table 3.5. ROA regression results. Source: Own Elaboration

The regression results for ROA reveal statistically significant relationships between this profitability measure and several corporate governance characteristics and control variables.

Among the corporate governance variables, Board Size shows a highly statistically significant negative relationship with ROA (coefficient = -0.026, $p < 0.001$). This indicates that larger boards are associated with lower firm profitability as measured by ROA. Specifically, a one-unit increase in board size is associated with a decrease of 0.026 in the ROA. This finding supports Yermack (1996) view that smaller boards tend to produce greater value for the firm.

Independent Board Members, conversely, has a highly statistically significant positive impact on ROA (coefficient = 0.006, $p < 0.001$). A one percentage point increase in independent board members is associated with a 0.006-unit increase in ROA. This suggests that greater board independence, potentially leading to more effective monitoring and better strategic decisions, contributes positively to asset profitability. In general research suggests that having more independent directors in leadership roles is shown to enhance ROA (Fama & Jensen, 1983). Board Gender Diversity Percent does not show a statistically significant relationship with ROA (coefficient = 0.000, $p = 0.942$). The coefficient is very close to zero, indicating no discernible linear association between the proportion of female directors and ROA in this model. Similarly, CEO Duality is not statistically significant (coefficient = -0.070, $p = 0.579$), suggesting that combining the CEO and Chairman roles does not have a statistically significant impact on ROA in this sample.

Leverage and firm size are associated with inferior ROA ($p < 0.01$), suggesting that excessive debt and organizational complexity diminish operational efficiency due to capital allocation or systems management issues (Myers, 1977). However, no evidence was found to suggest that family ownership influences ROA to a statistically meaningful degree. These findings may suggest that family firms are able to achieve similar performance levels to conventional organizations due to the presence of both a forward-looking strategic orientation and a tendency to allocate resources in a cautious manner.

In this context, the coefficient for the Family controlled/owned dummy variable is not statistically significant (coefficient = -0.061, $p = 0.793$). This suggests that, on average, there is no statistically significant baseline difference in ROA between family and non-family firms when controlling for the other variables included in the model (and assuming interactive effects are at their reference points).

3.4.3. ROE Regression

The table below summarizes the regression output for the log_ROE model. It includes the estimated coefficients, standard errors, calculated t-values, p-values, and the 95% confidence intervals for each predictor variable.

log_ROE	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
BoardSize	-.02	.006	-3.43	.001	-.032	-.009	***
BoardGenderDiversity	0	.002	0.12	.905	-.004	.004	
IndependentBoardMembers	.004	.001	3.19	.001	.002	.006	***
CEODuality	-.152	.12	-1.27	.203	-.387	.082	
Leverage	-.806	.407	-1.98	.048	-1.603	-.008	**
Size	-.074	.049	-1.52	.129	-.17	.022	
FamilyControlledOwned	0	.	.	.	.	.	
1	.136	.214	0.64	.524	-.284	.557	
Constant	-.453	1.024	-0.44	.658	-2.46	1.555	
Mean dependent var		-2.299	SD dependent var			0.906	
Overall r-squared		0.044	Number of obs			439	
Chi-square		23.230	Prob > chi2			0.002	
R-squared within		0.051	R-squared between			0.062	

*** $p < .01$, ** $p < .05$, * $p < .1$

Table 3.6. ROE regression results. Source: Own Elaboration

The regression analysis shows that the model accounts for just 4.4% of the variation in equity returns. Nonetheless, some governance-related insights emerge. Like the ROA results, Board Size demonstrates a statistically significant negative relationship with ROE (coefficient = -0.020, $p = 0.001$). Larger board sizes tend to be associated with lower returns on equity and are in alignment with earlier studies linking the size of boards to increased managerial complexity and reduced performance (Yermack, 1996). The percentage of Independent Board Members again shows a statistically significant positive impact on ROE (coefficient = 0.004, $p = 0.001$). Specifically, a one percentage point increase in board independence is associated with a 0.004-unit increase in ROE. This is in accordance with agency theory's prediction that independent monitoring can foster improved management responsiveness and performance (Fama & Jensen, 1983). Adding debt raises the likelihood that a company will fall into financial difficulties and thus reduces its ability to satisfy investors (Myers, 1977). Both gender diversity and family ownership appear to have limited influence on ROE, implying that other governance

elements are more aligned with environmental, social and corporate behavior than with delivering financial returns to shareholders. This suggests that the relationship between governance and financial performance can be complex and possibly explained by unmeasured factors (Wintoki, Linck, & Netter, 2012).

3.4.4. Tobin's Q Regression

The table below summarizes the output from the estimated panel regression model for Tobin's Q. It presents the estimated coefficients, their corresponding standard errors, the calculated t-values, and the associated p-values, along with the 95% confidence intervals and significance levels.

log_Tobinsq	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
BoardSize	-.012	.004	-3.06	.002	-.02	-.004	***
BoardGenderDiversity	-.002	.001	-1.91	.057	-.004	0	*
IndependentBoardMembers	.002	.001	2.80	.005	.001	.004	***
CEODuality	.14	.073	1.91	.056	-.003	.283	*
Leverage	-.987	.277	-3.56	0	-1.531	-.444	***
Size	-.366	.055	-6.65	0	-.474	-.258	***
FamilyControlledOwned	0	.	.	.	.	.	.
1	-.526	.332	-1.58	.113	-1.177	.125	.
Constant	8.178	1.199	6.82	0	5.829	10.528	***
Mean dependent var		-1.072	SD dependent var			1.645	
Overall r-squared		0.278	Number of obs			472	
Chi-square		112.377	Prob > chi2			0.000	
R-squared within		0.171	R-squared between			0.305	

*** $p < .01$, ** $p < .05$, * $p < .1$

Table 3.7. Tobin's Q regression results. Source: Own Elaboration

Analyzing Tobin's Q through the regression model provides evidence that board governance factors play a role in shaping firm valuation on a stock market. Our results align with previous studies showing that larger boards tend to have a damaging impact on Tobin's Q ratios (Yermack, 1996). Holding independent board seats is associated with an increase in Tobin's Q (coefficient = 0.002, $p < 0.01$), consistent with findings that

companies with strong independent director balance benefit from higher investor confidence and market valuation. Women's representation on boards has a statistically meaningful impact on firm market value though the underlying association may be intricate and influenced by how investors interpret such initiatives ($p < 0.06$). This finding corresponds with the observation by Adams and Ferreira (2009) that the effects of diversity depend on market perceptions and may require time to fully emerge in financial valuation. CEO duality appears to influence Tobin's Q in a modest and statistically significant manner (B coefficients = 0.14, $p < 0.056$) in ways that complicate assertions based on agency theory and could be related to widely held assumptions about effective management in Italy (Gomez-Mejia, Cruz, Berrone, & De Castro, 2011). Family ownership appears to have a limited impact on Tobin's Q, indicating that market investors generally don't regard the presence of family ownership as a drawback or benefit to a public company in Italy.

3.5. Results Discussion and Conclusions

The study's results reveal the influence of factors like board size, gender diversity, board independence, CEO duality and firm size and debt on both ESG ratings and the company's financial performance. We focus on ROA, ROE and Tobin's Q as key indicators of Italian publicly listed companies, compare both family-controlled and non-family-controlled companies. It is clear from the data that board independence and gender diversity in the boardroom are key factors in improving ESG outcomes, as expected by past research. According to the agency theory discussed by Fama and Jensen (1983), independent board members improve a firm's ESG performance by allowing better and stricter oversight over the management team. In a similar way, social diversity's positive effect on ESG results reinforces the findings of Bear, Rahman and Post (2010), who observed that gender-mix boards contribute to better engagement with all stakeholders and more responsible decisions.

These outcomes demonstrate the importance of Italy's Law 120/2011 which requires gender diversity on boards (Drago, 2019), as they suggest that rules can truly help make companies more sustainable and better managed. Still, these characteristics did not always show a straight link to financial performance. While having independent directors boosted ROA and ROE, too many directors hurt the company in terms of ROA, ROE and DCF,

supporting Yermack (1996) claim on the problems of large boards due to coordination issues. Gender diversity had very little impact on both ROA and ROE, and it affected Tobin's Q slightly on the negative side, suggesting that its early positive impact might not be seen in the scope of only financial results, but rather over a longer period. Results show that the way investors view companies, traditional valuation approaches and possible gender biases may limit the financial advantages of having inclusive governance structures (Adams & Ferreira, 2009).

It was determined that families owning and managing companies had repeatedly negative impacts on ESG scores, as the socioemotional wealth theory argues that such firms concentrate more on preserving their family status and less on meeting external demands to be transparent about ESG policies (Berrone, Cruz, & Gomez-Mejia, 2012). This explanation is in line with past studies that explain how holding power for generations leads family firms in Italy to be less decisive and more cautious with their strategies (Carney, 2005). Still, family ownership was not related to ROA, ROE or Tobin's Q, meaning that the firms' low ESG scores do not necessarily impact their financial performance. The key to neutrality might be having similar amounts of both benefits such as long-term focus and costs like lacking professionalization and innovative efforts (Anderson & Reeb, 2003).

According to the findings, it is necessary to break down family ownership to include factors like who controls the business, how much the family is involved and plans for passing on the business. In most cases, when the CEO also served as board chair, this setup generally did not materially impact the business' standing on ESG, nor its finances, with the exception of a small, positive influence on Tobin's Q. In addition, Aguilera and Jackson (2003) claim that national institutions impact governance views, so in Italy, grouping the CEO role may be perceived as a familiar system for effective leadership in traditional or family firms (Aguilera & Jackson, 2003). Leverage was linked with lower ratings on ESG and financial measures, strengthening the argument that large debt loads hinder a company's flexibility and chances to focus on sustainability and progress (Myers, 1977).

The higher the amounts of debt a business uses, the more negative impact it has on ROA, ROE and Tobin's Q which can lead to more serious problems in both its strategies and operations. The size of a company positively impacted its ESG ratings but negatively

affected its financial results. Firms with a larger scale usually have more assets to respond to ESG and social pressures (Barney, 1991), but these assets may slow down internal management and prevent the organization from performing well financially. Because of these dichotomous effects, size allows firms to invest in sustainability, but at the same time, it can increase the difficulty of managing the business, making it less profitable. All of the findings together support various main theoretical approaches. The role of independent directors in providing better financial results supports agency theory; the role of gender diversity in improving ESG results supports resource dependence theory; and stakeholder theory is supported when firms with inclusive and transparent ways of running the company improved their ESG performance (Freeman, 2010).

Still, research indicates that most governmental structures seldom show major or predictable effects on financial outcomes which prompts questions about how these things are related. The research indicates that factors such as environment, organizational rules and company aspects can shape the success of board governance methods. As an example, family firms at the helm can gain from firm stability and good reputation, despite not following ESG rules. On the other hand, some non-family firms can follow progressive governance, yet they may have trouble making high profits because of external factors or changes in the market. There are many policy implications that can arise from these results. A key point for reform is making sure governance rules help boards to be independent and include people from diverse backgrounds, mostly in family-owned companies. Encouraging companies to adopt ESG measures could be achieved by means of tax reliefs, dedicated public funds or making ESG ratings important for loans. Financial authorities should also make it easier for companies with solid governance to access green financing. It is also important to improve investor education and transparency so that market rewards go to companies with strong ESG practices, closing the current gap between sustainability and market valuation. Specialized training on ESG integration that keeps family values intact can help narrow the gap in governance for family firms.

Looking ahead, researchers should consider long-term studies and include mediating and moderating factors such as innovation, ownership structure or incentives for managers to learn how governance, ESG and results are connected. Governance mechanisms will see increasing importance as ESG disclosure becomes more standardized across the European

countries through the Corporate Sustainability Reporting Directive. Overall, the research provides evidence of how different board features link to ESG and financial performance and it also highlights the role of family ownership in the Italian context. Results demonstrate that more independent and diverse board structures do improve ESG, though this effect may change depending on the specific circumstances. An analysis of these connections aids this research's contribution to the wider discussion on sustainable governance and gives practical advice to those working to improve a firm's strength and value for stakeholders as the economy and regulations develop.

Based on the empirical results, the research provides a clear response to the hypotheses that had been previously developed. Hypothesis H1, which assumes a strong connection between board governance and bottom-line performance, is validated to a certain extent. Although the board independence is observed to consistently show a positive and statistically significant linkage to ROA, ROE, and Tobin's Q, other governance aspects like gender diversity and CEO duality do not have a sustained or strong influence on bottom-line results. Besides, board size has a negative influence on all three performance measures and hence corroborates concerns regarding coordination inefficiencies of large boards. These results substantiate the agency theory view and also indicate that not all aspects of board governance get similar financial payouts.

Hypothesis H2, which originally supposed that the impact of board governance on financial performance is different in family-owned/controlled and non-family-owned/controlled firms, in this case is rejected in its initial form. Despite the family ownership relationship with much weaker ESG scores, no significant effect is found on ROA, ROE, or Tobin's Q. This suggests that although governance practice can vary extensively between family and non-family firms, this does not necessarily result in an influence on financial performance in the Italian context. The observed neutrality could be due to a balance between family-related benefits (e.g., long-term orientation) and liabilities (e.g., reduced professionalization or risk aversion). More generally, these findings underscore the subtlety of governance-performance relationships and suggest that contextual and moderating factors—such as firm size, leverage, or market sentiment—played a critical role in outcomes.

3.6. Contributions of the study

Despite its limitations, this study can provide important contributions to the areas of corporate governance and performance at the organizational level.

This research can enrich theoretically the existing literature on the performance of family businesses by offering proof from the Italian context contradicting reductionist theories postulating worldwide financial superiority or excellence in environmental, social and governance (ESG) practice. The findings propose a context-sensitive application of Stewardship Theory and Socioemotional Wealth (SEW) theories on the grounds that their beneficial effects may not be universally transferred without suitable governance systems or may be constrained by certain dynamics specific to family businesses. Moreover, through an examination of a specific comparative context like Italy, this paper increases the understanding of how general governance concepts like board independence and size operate in an institutional and cultural context dominated by concentrated ownership and a strong heritage of family-run businesses. An important contribution relates to the interplay between ESG aspects and family businesses: the finding of lower ESG performance in family-run businesses calls for theoretical clarification on the specific variables affecting ESG activity or their absence in these organizations. Such a state could be linked to divergent views on long-run value or changes in the salience of stakeholders.

The empirical work in the present study adds to the existing literature on corporate governance and performance using panel data of listed Italian companies representing a highly industrialized European economy dominated by family businesses. By analyzing four performance measure variables—ROA, ROE, Tobin's Q, and ESG Score—the study provides a better picture of firm performance than research based on a single measure. The supporting empirical insights from the consistent findings on the positive impact of board independence and the negative impact of the size of the board on performance in the Italian economy are also important in this regard. Strong empirical confirmation obtained from the correlation between gender diversity on boards and ESG performance is also significant.

The findings of this study also offer a number of practical implications for primary stakeholders, including family businesses, non-family businesses, investors, and regulatory bodies. For family firms, the positive link between independent directors and

all performance measures suggests the importance of strengthening board independence. Doing so can bring more objective oversight, broader expertise, and mitigate agency conflicts, ultimately improving both financial and ESG outcomes. Additionally, the negative association between board size and financial performance indicates a need to critically reassess board structures. Family firms should avoid excessively large boards, even when accommodating family members, to ensure efficiency. The lower ESG performance among family firms presents both a challenge and an opportunity: critically reviewing ESG strategies, enhancing reporting practices, and improving engagement—perhaps through increased board gender diversity—could help unlock long-term value. While not tested directly, the findings implicitly support the broader professionalization of family firms, especially in governance, as a way to enhance performance and sustainability. Non-family firms also benefit from the study's insights. The evidence reinforces the value of maintaining strong governance practices, particularly ensuring board independence and managing board size to avoid inefficiencies. Furthermore, the positive relationship between gender diversity and ESG performance applies equally to non-family firms, encouraging continued efforts to foster inclusive boards and strengthen sustainability practices. The study emphasizes the need for investors to identify governance as a key investment decision-making criterion. When examining Italian companies, thorough review of the independence and make-up of their boards will be necessary. Investors who focus on ESG considerations will be required to examine family-run businesses more intensely and work with those organizations so as to better understand and create ESG models, especially in light of evidence showing lower average ESG rating performance. The absence of a clear financial performance link between family-run companies also indicates investors will be forced to look beyond generic ownership categorizations and look at the true quality of governance and strategic direction displayed by a given firm. Policymakers and regulatory bodies stand to gain important insights from this situation. Governance policies and codes should continue to promote the importance of independent boards and possibly strengthen the existing requirements. Given the significant economic contribution of family-run businesses in Italy, it would be useful to establish programs promoting ESG awareness and the implementation and disclosure of ESG practices in this segment. Additionally, although it would not be wise to impose requirements on the size of the board, offering recommendations on the possible

disadvantages of very large boards would be beneficial. Finally, continued policy efforts promoting gender diversity on boards is essential as it promotes better ESG performance in the broader corporate sector.

3.7. Limitations of the study

This study has limitations that should be considered when interpreting its results, as is the case with all empirical research. First, a sample of Italian businesses that operate in a single industry and have comparatively comparable traits forms the basis of the investigation. This restricts the conclusions' applicability to businesses in different industries, with varying sizes, or situated in nations with diverse institutional and cultural frameworks. Therefore, when projecting the results to larger situations, care should be taken. Furthermore, the data used came from commercial databases, raising possible questions about how important variables were defined and measured. For example, the criteria for classifying family firms or the scaling of board diversity and independence may not reflect simple percentages and are instead determined by the data provider. This is especially important given the unusually high values observed for Board Gender Diversity Percent and Independent Board Members in the descriptive statistics, which would benefit from further verification to ensure data accuracy.

The study covers the period from 2016 to 2024, offering a reasonably contemporary timeframe. Nonetheless, the results may still reflect temporary economic conditions or regulatory environments specific to that period, which could limit their applicability in future or different economic contexts. Methodologically, although Fixed Effects panel models were employed to address unobserved time-invariant heterogeneity, other sources of endogeneity—such as simultaneity (where performance influences governance choices) or time-varying omitted variables—remain possible. These issues complicate the establishment of definitive causal relationships between governance and performance.

The existence of multicollinearity is an additional technical concern. The precision and dependability of individual coefficient estimates in the regression models may be lowered by the strong correlations between variables like board size, gender diversity, and board independence, which raise the possibility that these aspects are not statistically independent.

3.8. Prospects for future research

Notwithstanding these drawbacks, the study provides a wealth of opportunities for further investigation. Explicitly modeling and testing the interaction effects between family ownership and corporate governance variables is one of the main recommendations. This would make it clear whether governance mechanisms work differently across ownership forms and enable a more thorough investigation of contingent connections.

Future research should also officially evaluate multicollinearity utilizing diagnostic tools like Variance Inflation Factors (VIFs) in order to increase the robustness of regression models. To lessen the bias, researchers may think about developing composite governance indexes or using different estimating methods. Qualitative studies, such as case studies or interviews with family firm owners and managers, are necessary to examine the motives, values, and decision-making logics driving ESG participation, given the persistent finding of inferior ESG performance among family firms. These methods may help explain why, in spite of potential informal or values-based sustainability initiatives, formal ESG results seem to be lower in family-controlled enterprises. The generalizability of the findings would also be enhanced with larger and more varied samples. Incorporating businesses from other industries, size ranges, and institutional settings—especially those outside of Italy—may provide fresh perspectives on the ways in which ownership and governance interact in various settings. Similarly, more nuanced results might be obtained using different definitions of family control, such as generational stage or level of family involvement in management.

Longitudinal, longer-term research might also be beneficial. Researchers could better capture the dynamic relationship between governance, performance, and business lifespan by examining data across lengthy time horizons and throughout many economic cycles. Furthermore, to better handle endogeneity and approach causal inference with more confidence, more sophisticated econometric techniques could be used, such as instrumental variables (IV) estimation, dynamic panel models like System GMM, or natural experiments using difference-in-differences designs. Also, future study should aim to comprehend the reasons underlying the constant lack of financial performance disparities between family and non-family enterprises in this and previous studies.

Examining how particular benefits and drawbacks within family businesses balance one another out could reveal important details about how these businesses operate internally.

To sum up, this study makes a significant contribution by illuminating the dynamics of governance and performance in Italian businesses, particularly when it comes to family ownership. Despite being particular and context-bound, its conclusions draw attention to important theoretical conflicts and empirical trends that demand more research. Understanding the relationship between ownership, board composition, and business outcomes is still a crucial and developing research area as interest in sustainable governance grows globally.

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