



DEPARTMENT OF BUSINESS AND MANAGEMENT

MASTER OF CORPORATE FINANCE

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**THE STRATEGIC ROLE OF BOARDS OF
DIRECTORS IN SHAPING CORPORATE
SUSTAINABILITY:
A GOVERNANCE PERSPECTIVE**

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Abstract

This study examines the effects of corporate governance within large Italian enterprises on corporate sustainability between 2020 to 2024, answering to the following research question: « How do the Board of Directors and its characteristics influence the sustainability strategies of Italian firms? ». Within the legal framework of Italy and the European Union, the research focuses on how the structure and characteristics of the board of directors influence ESG (Environmental, Social and Governance) strategies, specifically for each pillar. The analysis evaluates the impact of governance-related variables, such as size of the board of directors, age of directors and presence of specific committees, on corporate sustainability using four OLS regression models. The results reveal that while monetary factors are most influential, board characteristics, particularly meeting frequency and number of independent directors, also shape significantly ESG performance. The findings provide valuable guidance for companies operating in comparable regulatory and institutional environments.

Keywords: Corporate Governance; Sustainability Strategy; Board of Directors; Italian Enterprises; ESG Performance; Corporate Social Responsibility; Board Characteristics & Monetary Variables.

1. Introduction

Back in 2012, Eccles et al. conducted a study among 180 US companies, dividing them into “High Profitability” and “Low Profitability” firms. The findings revealed that the companies in the first group significantly outperformed their counterparts over the long time, both in market-based returns and accounting performance. “High Profitability” firms were characterized by the presence of strong governance mechanisms focused on sustainability practices, such as executive compensation linked to sustainability objectives and promotion of stakeholder engagement.

More recently, according to studies such as Lingnau et al. (2022), investors are more inclined to allocate capital to firms reporting robust sustainability metrics, discouraging non-sustainable behaviour by management, which can be severely punished by both regulators and the market.

According to EY (2021), around 9 out of 10 investors state that non-financial performance, mainly ESG criteria, play a crucial role in investment decision-making.

To investigate how sustainability strategies are shaped within the Italian corporate context, this study addresses the following research question:

« How do the Board of Directors and its characteristics influence the sustainability strategies of Italian firms? »

While the academic literature offers several contributions on corporate governance, also within the Italian setting, there remains a notable gap concerning the relationship between board characteristics and ESG score performance for large enterprises in the Italian market. Specifically, few studies have explored how individual aspects of the board of directors affect the overall ESG score of companies and their pillars: Environmental, Social and Governance.

By evaluating the specific impact of each board-related variable, this research aims to provide actionable insights for large Italian enterprises. Identifying the most impactful governance aspects may help companies to enhance both their sustainability and financial performance (Chau et al., 2025).

To carry out the analysis, the impact of 16 variables, 14 governance-related variables and 2 monetary variables, was assessed across different dependent variables: ESG Score, Environmental Pillar Score, Social Pillar Score and Governance Pillar Score. The study was conducted using 4 Ordinary Least Squares (OLS) regression models for each dependent variable, focusing on a sample of large Italian enterprises. Data were sourced from the London Stock Exchange Group (LSEG) database.

Each OLS regression model is designed to evaluate how governance-related variables impact ESG performance, overall and its pillars, both individually and in combination with monetary variables.

The first model, TOTAL, includes all independent variables to assess their overall relationship with the dependent variable.

The second model, PILLAR EXCLUSION, excludes the ESG pillar performance to reduce potential bias and isolate the impact of remaining governance and monetary variables.

The third model, GOVERNANCE, excludes monetary variables to focus exclusively on the impact of governance-related variables.

The fourth model, MONETARY, includes only the monetary variables, allowing for a comparative assessment against governance factors in terms of their impact on dependent variables.

The paper is structured into the following sections: Literature Review, Corporate Social Responsibility, ESG Criteria, Research Question, Methodology, Results and Conclusion.

The “Literature Review” outlines the role of Corporate Governance in the modern economy and how governance practices differ across legal systems. Special attention is given to corporate governance mechanisms in the Italian context, with a focus on the design and structure of Board of Directors (BoD).

The following section, “Corporate Social Responsibility”, describes the growing importance of stakeholder value and its influence on corporate behaviour, mainly through Corporate Social Performance.

The section “Environmental, Social and Governance (ESG) Criteria” provides an overview of the rising significance of ESG performance, especially among investors and in company valuation.

The “Research Question” section introduces the main goal of the study and how the research addresses it.

In the “Methodology” section, the research design is presented, detailing the data collection process and the use of regression analysis. Furthermore, each variable included in the models is illustrated with reference to relevant literature, alongside a description of the descriptive statistics.

Finally, the “Results” and “Conclusion” sections present and interpret the empirical findings, evaluating their implications and discussing future implications.

2. Literature Review of Corporate Governance

Nowadays, Corporate Governance (CG) is one of the most relevant topics in modern economics, affecting the most important business decisions. CG is a dynamic and evolving theme that can be analyzed from different perspectives. In recent years, at the beginning of the 21st century, corporate scandals involving large firms, for example, the WorldCom case, inflamed the debate (Kaplan and Kiron, 2005).

Despite several years of debate, there is still no shared definition of “Corporate Governance”. The dilemma of CG is to satisfy the interests of shareholders and capital providers, who pursue a return on their investment (Shleifer, Vishny 1997), while also balancing other stakeholders’ interests, including employees, customers, suppliers and the local community (Sheridan and Kendall, 1992), in accordance with the “Stakeholder Value Theory” (Clarkson, 1995).

To accomplish this goal, CG regulates both mechanisms influencing the decision-making process of managers (Larcker et al., 2007) and the set of legal and institutional mechanisms to protect shareholders’ interests (Rezaee, 2002). Eventually, CG may be defined as a bundle comprehending internal and external mechanisms with the aim of reducing interests’ misalignment among the firm and its various stakeholders (Hanson and Song, 2006).

«The efficiency of Corporate Governance mechanisms in solving corporate agency problems and conflicts of interests depends mostly on the type of corporate governance system adopted by the firm»¹

2.1. Impact of the Legal System

Around the world, differences in the CG systems arise mainly due to the dissimilar institutional and cultural context (Daniels and Morck, 1995; & Roe, 1993). For this reason, it is important to analyze the two predominant legal systems in the world: Common Law and Civil Law. These two legal families are highly relevant for CG

¹ Franks and Mayer, 1996; & Schleifer and Vishny, 1997.

mechanisms because they determine shareholders' and debtholders' rights, therefore influencing managers' decision-making process.

2.1.1. Common Law & Outsider System

«Common Law is a system of laws based on customs and court decisions rather than on written laws made by a parliament»²

In fact, Common Law has and uncodified and general rules developing solutions case by case. Some countries that have implemented this legal system are: England, Australia, Canada and the United States.

Common Law countries provide a strong legal protection for shareholders, especially if compared to Civil Law countries, thus reducing the risk of expropriation by controlling shareholders or management. As a result, people are more willing to invest and buy shares, leading to liquid markets with dispersed ownership. Indeed, Common Law countries are characterized by public companies relying on equity provided by several private shareholders, resulting in an “Outsider System” (Shareholder-Oriented).

2.1.2. Civil Law & Insider System

«Civil law, also known as private law, regulates disputes between private individuals or entities (e.g. companies). It is thus different to cases dealing with matters between individuals and the state, i.e. public law and criminal law. Civil law deals with issues such as personal injury, contracts, property, inheritance and family law»³

Differently from Common Law, Civil Law has a set of codified rules which are applicable to several cases. Most Civil Law countries are part of the European Union, with some exceptions: Italy, Germany, France and Japan.

Historically, Civil Law countries secured weaker investor protections than Common Law systems, so favouring controlling shareholders. In fact, due to this legal system, minority shareholders cannot easily exercise their interests, leading to illiquid markets

² Cambridge Dictionary.

³ European Center for Constitutional and Human Rights (ECCHR).

with concentrated ownership. Small investors are not incentivized to buy shares, for this reason, companies operating under this legal system rely largely on debt provided by banks or institutional investors, creating an “Insider System” (Bank-Oriented).

2.2. Conflict of Interest

The separation between ownership and management may create a misalignment of interests between shareholders (principals) and managers (agents). The former seeks to maximize their share value while the latter may adopt opportunistic behaviours to pursue their personal interests (Jensen and Meckling, 1976). As a result, “Agency Costs” represent the negative difference in well-being that occurs when deviating from the ideal situation (Fama and Jensen, 1983). This issue is particularly prevalent in dispersed shareholding structures which are typical of Common Law countries.

Controlling shareholders, therefore, may appear as a potential solution to the “Principal-Agent” problem, limiting the top managers’ opportunism, because their incentives align (Jensen and Meckling, 1976). However, controlling shareholders may attempt to pursue their own interests.

2.2.1. Controlling Shareholders versus Minority Shareholders

In a concentrated ownership structure, particularly pyramidal groups (Zattoni, 1999), characteristic of Civil Law countries, a conflict of interest may arise between controlling shareholders and minority shareholders. Controlling shareholders have more impact in firms’ decisions compared to minority shareholders (Shleifer and Vishny, 1986) and may seek to gain private benefits at the expense of the others (Bebchuck and Fried, 2003).

On the other side, minority shareholders, due to their limited decision-making power and difficulties in exercising it (La Porta and Lopez-de-Silanes, 1999), face monitoring costs (Shleifer and Vishny, 1986; Kho et al., 2009), which increase when investor protection is weak (Stulz, 2005).

Sometimes, minority shareholders could be “Shareholder Activists” using their rights as shareholders of a publicly traded company to advocate for social change, like sustainability strategies (Puchniak & Varottil, 2024).

The activist model is taking root in Europe, with institutions like Institutional Shareholder Services (ISS) becoming increasingly influential. Furthermore, shareholder

activism is now recognised in Europe as a “legitimate economic activity” (European Parliament, 2009), which can be beneficial for companies and shareholders both (Alvarez and Marsal, 2024).

2.2.2. Transparency

Another important aspect that determines the relationship between controlling and minority shareholders is information asymmetry (La Porta et al., 2000).

In a concentrated ownership structure, the transparency of financial information is often reduced and control mechanisms may be weak (Cheng and Wang, 2021). This issue arises due to the fact that transparency is costly, however, it makes it more difficult for the controlling shareholders to obscure their personal benefits (Jin and Myers, 2006).

2.3. Corporate Governance Mechanisms

To ensure that managers act in the interests of investors, firms may implement corporate governance mechanisms (Bushman and Smith, 2001). The design of a set of mechanisms promotes the company’s long-term performance and assures a balanced distribution of value to all stakeholders, creating a bundle of interdependent mechanisms.

2.3.1. Board of Directors Monitoring

Corporate governance mechanisms are divided into two categories: external and internal. External mechanisms are factors outside the company that influence its corporate governance structure and decision making. Internal mechanisms are designed within the company to mitigate the agency problem (Cremers and Nair, 2005), like the monitoring by the board of directors (Denis and McConnell, 2003).

The board of directors monitors over related party transactions, in order to avoid the risk of the controlling shareholders’ opportunistic behaviour (Dey, 2008), leading to sustainable success (Italian Corporate Governance Code, 2020).

«The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders»⁴

⁴ *OECD Principles of Corporate Governance*, OECD/LEGAL/0413, 2015.

2.4. Board of Directors in Italian System

The Board of Directors (BoD) holds decision-making power in several areas: advising on corporate strategies, ensuring the effectiveness of corporate governance practices, maintaining overall corporate integrity and evaluating corporate performance. These are just some of the many responsibilities carried out by the BoD. However, these tasks are generally divided into two primary functions: oversight and advisory.

The oversight function aims to safeguard the stakeholders' interests while the advisory function plays a strategic role, focusing on the decision-making process (Frankel, 2006). According to the scope of this research, we will focus primarily on the advisory function, seeking to discover how BoDs in Italian listed companies define corporate objectives in alignment with the firm's mission and vision (Pugliese and Zattoni, 2012).

Among the administration and control models, Italian companies adopt the “One-Tier Board with Statutory Auditors”, introduced in 2003⁵. According to this model, the “Shareholders Assembly Meeting” nominates both the “Board of Statutory Auditors” (BoSA), or Collegio Sindacale, and the “Board of Directors”. The “Board of Statutory Auditors” is a supervisory board appointed to control the BoD and must maintain independence according to the requirements defined in the Article 2399 of the Italian Civil Code. On the other hand, the BoD is responsible for supervising the “Top Management Team”.

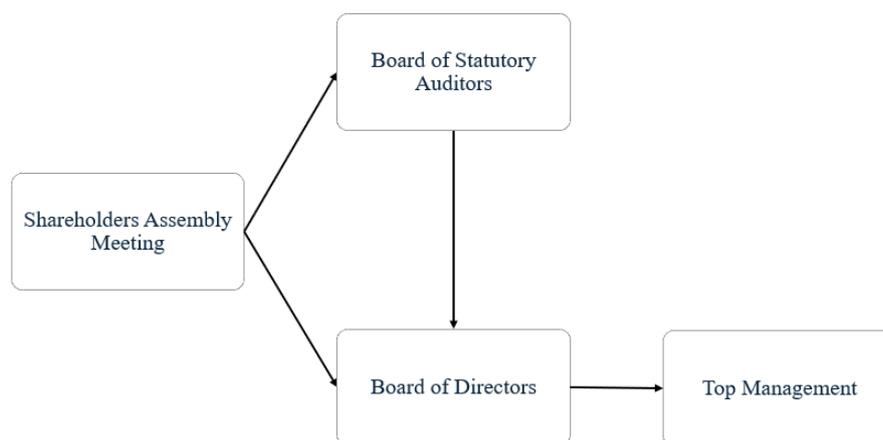


Figure 1: One-Tier Board with Statutory Auditors

⁵ Legislative Decree No. 6 of January 17th, 2003

Italy has been featured as a “Mixed-Market Economy” with the state playing a pivotal role in its economy (Di Carlo et al., 2024; Molina and Rhodes, 2007). However, the role of financial markets, originally weak, has increased during the last century. In this system, ownership is highly concentrated with presence of blockholders, generally families⁶. Sometimes, these powerful shareholders may decide to nominate family members as members of the BoD thus impacting negatively corporate performance of the firm (Pittino et al., 2021).

2.5. Insights on the Reform of “Diritto Societario” of 2003⁷

2.5.1. Listing Voting System

The “Listing Voting System” allows minority shareholders to elect some members of the BoD and BoSA, therefore being fairly represented (CONSOB, 2012). The rationale behind involving minority shareholders in corporate governance arises from the need to protect such class of investors. This system allows, through the presence of directors not appointed by the most powerful shareholders, to mitigate the risk of management decisions serving the interests of controlling shareholders, rather than pursuing all stakeholders’ interests (Guizzi, 2007).

2.5.2. Controlling Power by Board of Statutory Board

In companies that adopt the “One-Tier Board with Statutory Auditors”, the BoSA serves as the internal supervisory body responsible for overseeing management, permanently and continuously⁸.

According to the “Legislative Decree of 2003”, the BoSA was relieved from its accounting duties audit duties, which are now assigned to an external auditor or audit

⁶ The Milan Stock Exchange is the highest Euronext market in terms of incidence of family-controlled companies (74.9%). Moreover, Italy, along with France, has the highest share of family ownership in the stock market, with family owners holding around 60% of the controlling share (AIDAF ITALIAN FAMILY BUSINESS, 2022).

⁷ Legislative Decree No. 6/2003

⁸ Trib. Roma 27/07/2014, in “*Il Caso*”, 2015

firm. Only for companies that do not have access to capital markets, the statute may also allow BoSA to handle accounting audits.

Members of BoSA must attend meetings with the BoD and exercise their comprehensive supervisory power which is defined as “global and synthetic”. Under “Article 2403 of the Italian Civil Code”, their main duty is to observe compliance with law and bylaws, ensure that proper management principles are enacted and assess the adequacy and functioning of the company’s structure.

This power exercised by the BoSA also carries responsibilities, meaning that, if the company’s administration is not in compliance with the law, members may be held liable for failing to supervise or report any anomalies.

2.6 Design of Board of Directors

During the 1990s, a debate aimed at improving board accountability was initiated. Several corporate scandals and bankruptcies (Wilmarth, 2006; Dibra, 2016) across various investors groups, institutional, governments and top managers, highlighted the need for developing best practices, such as the Cadbury Code in 1992.

Best practices address different aspects of corporate governance, however, in this research, we will focus primarily on those related to BoD composition, specifically the selection of an appropriate number of qualified directors and their critical role in long-term value creation (SpencerStuart, 2017).

2.6.1. Board Size

The board size in Italian companies is determined by various factors, including legal requirements⁹, company bylaws, corporate governance codes¹⁰, ownership structure and industry regulations. However, there is no specific rule dictating the exact number of directors, rather there are recommendations regarding the minimum and maximum number.

The board size is mainly shaped by the company’s characteristics, such as the size, industry, political connections and ownership structure (Menozzi et al., 2011). A large BoD may promote the creation of connections with external stakeholders and provide the

⁹ Italian Civil Code, Articles 2380-2409

¹⁰ Italian Corporate Governance Code 2020

company with more information and competencies, which can reduce its reliance on the CEO’s actions. Nonetheless, an excessively large BoD may hinder effective decision-making and oversight, potentially negatively impacting the company’s performance (Fratini and Tettamanzi, 2020).

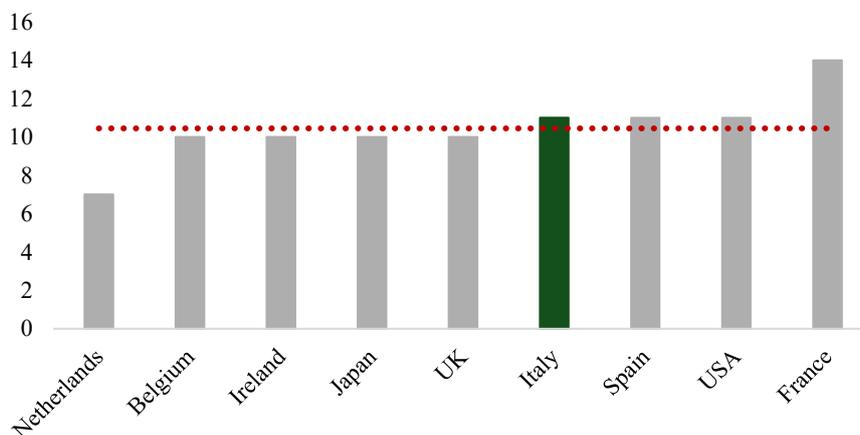


Figure 2: Average Board Size across the World¹¹

Italy, with an average of 11 board seats, is in line with the general trend compared to the average of its peer group (represented by the red dotted line), which stands at approximately 10.5 seats.

2.6.2. Age of Directors

The age of directors on the BoD of Italian companies is a very interesting factor in shaping corporate governance. On one hand, directors with more experience can bring valuable knowledge and industry insights, ensuring stability for the company. On the other hand, a more diverse age range can introduce new perspectives and innovative ideas, particularly in an era of rapid technological change.

However, research by Morrone et al. (2022) suggests that age diversity does not significantly affect firm performance. Similarly, Menicucci and Paolucci (2022), focusing on the Italian Banking sector, found no significant relation between board age and ESG outcomes.

¹¹ SpencerStuart, 2024

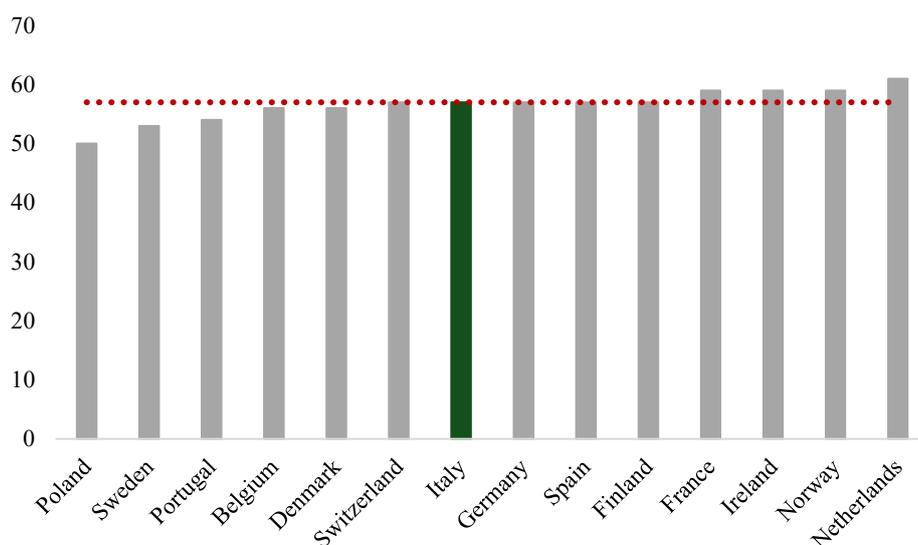


Figure 3: Average Age of Directors in European Boards¹²

Italy matches the European average for the age of directors (represented by the red dotted line), with an average of 57 years.

2.6.3. Gender Diversity

Nowadays, companies seek more diverse BoDs in terms of personal and professional background. Ethnicity and gender are considered the most relevant factors because they are seen as positive governance factors for companies. For this reason, director diversity is seen as a factor that enhances BoD's ability to fulfill its roles by broadening perspectives (Rossi et al., 2017). However, some academics and practitioners argue that diversity does not necessarily add value to the boardroom (Morrone et al., 2022).

In Italy, gender diversity on corporate boards has been legally enforced through specific regulations aimed at increasing female representation on BoDs.

«The Statute also lays down that the division of directors to be elected be made on the basis of a criterion that ensures a balance between genders. The less-represented gender must obtain at least one third of the directors elected. This division criterion applies for three consecutive mandates»¹³

¹² Heidrick & Struggles' analysis of European boards, 2023

¹³ Law No. 120/2011

The Golfo-Mosca Law introduced gender quotas for the BoD and BoSA of listed and state-controlled companies, coming into effect in August 2012. Initially, at least 33% of the board seats had to be allocated to the underrepresented gender, typically women, for three consecutive mandates. In the case, companies were not compliant with such a requirement, compliance could have been enforced through financial penalties and finally board dissolution.

However, this regulation was later reinforced with the Budget Law 2020¹⁴, increasing the mandatory quota from 33% to 40% for listed companies and extending it to six board renewals.

After the introduction of such regulatory frameworks worldwide, especially in Europe, a new body of literature has emerged that is interested in studying and analyzing the effect of this shift.

Some studies, such as the one conducted by Lombardi et al. (2019), indicate that the Golfo-Mosca Law has significantly increased female board representation, leading to a more balanced age distribution, without adversely affecting firm performance or stock market valuation. Similarly, De Vita and Magliocco’s research (2018), produced the same outcome, focusing on the Italian banking sector. However, another common finding is that women remain underrepresented in executive roles, highlighting the need for a broader organizational change towards full gender equality.

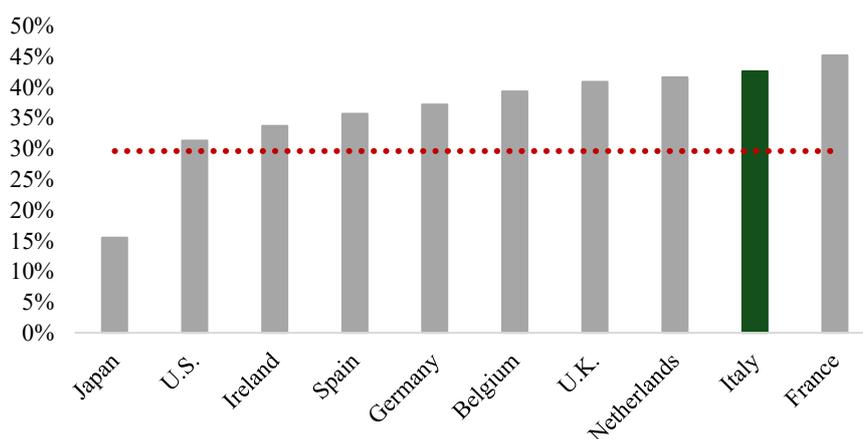


Figure 4: Female Share of Seats on Boards¹⁵

¹⁴ Law No. 160/2019

¹⁵ OECD – Data Archive “Female share of seats on boards of the largest publicly listed companies” 2022

Italy is ahead in addressing gender equality, as shown by the graph, especially compared to OECD countries (represented by the red dotted line), where female board representation is around 29%. Italy ranks among the top countries, with an average of over 40% female representation on the boards of listed companies.

2.6.4. Executive and Non-Executive Directors

A well-structured BoD should consist of two different types of directors: executives and non-executive directors.

Executive directors are generally top managers, as they possess in-depth knowledge of the company and industry dynamics. Due to their active involvement in decision-making, they are also directly liable for any damages resulting from their decisions.

In contrast, non-executive directors do not hold managerial positions and can be classified as either independent or non-independent directors, the latter is defined as an affiliate¹⁶. This is essential to reducing the risk of a passive board and promoting best practices. Moreover, non-executive directors may be held jointly liable if they fail to take all reasonable measures to prevent or mitigate negative consequences. This liability is assessed by courts under the principles of “Business Judgement Rule”¹⁷.

In the Italian context, it is crucial to evaluate the dynamics within BoDs between executive and non-executive directors. According to a study conducted by Melville and Merendino (2019), a higher proportion of executive directors negatively affects firm performance, aligning with the agency theory. This is because executives tend to be closely aligned with the CEO, leading to a weak monitoring of their activities, a lack of critical oversight and a weakening of corporate governance. Additionally, the paper finds a negative correlation between non-executive “affiliate” directors and firm performance. A possible reason is that their business affiliations may compromise their objectivity in decision-making.

¹⁶ «Affiliated Director — An affiliated director has a material financial, familial or other relationship with the company or its executives, but is not an employee of the company» Glass Lewis, 2022 Policy Guidelines - Italy

¹⁷ Article 2381 of the Italian Civil Code.

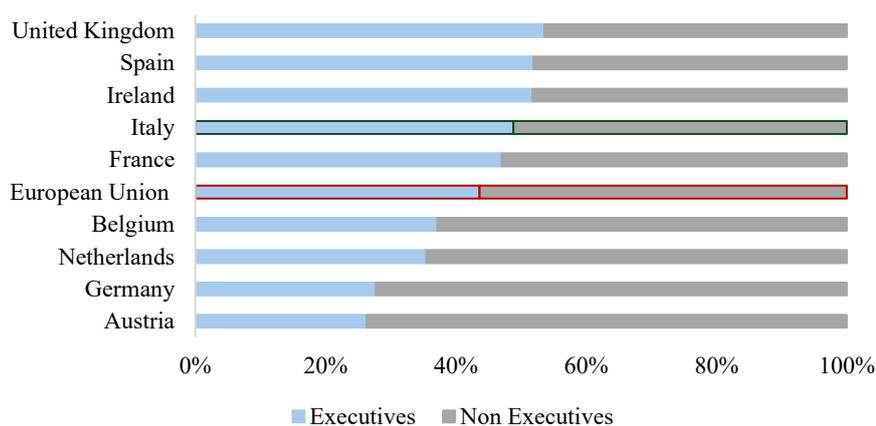


Figure 5: Average Percentage of Executive and Non- Executive Directors in European Boards¹⁸

Compared to the European Union average, where 44% of board members are executives, Italy ranks among the top countries with the highest proportion of executive directors, reporting 49% executives and 51% non-executives. This distribution results in a relatively balanced board composition.

2.6.5. Independent Directors

In order to fulfill their duties, directors are expected to be independent.

«Independent Director — An independent director has no material financial, familiar or other current relationships with the company, the shareholder or group of shareholders who control the company, its executives, or other board members, except for board service and standard fees paid for that service. An individual who has been employed by the company within the past five years is not considered to be independent. We use a three year look back for all other relationships»¹⁹

Independence is a critical factor in BoD, as it ensures objective judgements, particularly in evaluating top executive and risk-management policies, while also stimulating open dialogue in the boardroom, as fully explained in the “Italian Corporate

¹⁸ European Institute for Gender Equality, 2024

¹⁹ Glass Lewis, 2022 Policy Guidelines - Italy

Governance Code²⁰”. However, distinguishing between formal independence and true independence remains challenging and not all circumstances can be anticipated.

This issue has been a topic of major discussion since the early 2000s, as highlighted by Santella et al. (2005). Their study investigated whether independent directors in Italian companies truly met the independence criteria outlined in the Preda Code²¹. The findings revealed that, among 284 directors declared as independent, verification of the absence of business relationships with the company or an associated company was not possible in 96% of cases. Additionally, 84% of directors either failed to meet the independence criteria or the company did not allow the verification.

According to the empirical literature (Chahine and Filatotchev, 2008; Masulis and Mobbs, 2011), independent directors are associated with positive business performance, as they enhance the quality of monitoring, mitigate opportunistic managerial behaviour and improve the boards’ effectiveness in advising business operations.

Regarding Italian companies, Tenuta et al. (2018) support this hypothesis, demonstrating a positive relationship between independent directors and company performance. Furthermore, when independent directors are female, this relationship becomes even stronger. Previous studies (Adams and Ferreira, 2009) suggest that women tend to be more rigorous in monitoring processes, resulting in a greater precision and effectiveness in overseeing management compared to men.

In the Italian context, Mirone et al. (2021) further confirm the alignment between company performance and board independence, not only in the long run but also in addressing day-to-day challenges. Moreover, board independence is positively correlated with the adoption of sustainable practices, such as Corporate Social Responsibility (CSR) policies. This may be explained by the fact that independent directors, being neutral, are able to look beyond the mere economic profit and advocate for social sustainability.

²⁰ Article 2: Composition of the corporate bodies; *Recommendations: 7.*

²¹ COMMITTEE FOR THE CORPORATE GOVERNANCE OF LISTED COMPANIES – *REPORT CODE OF CONDUCT*, 1999

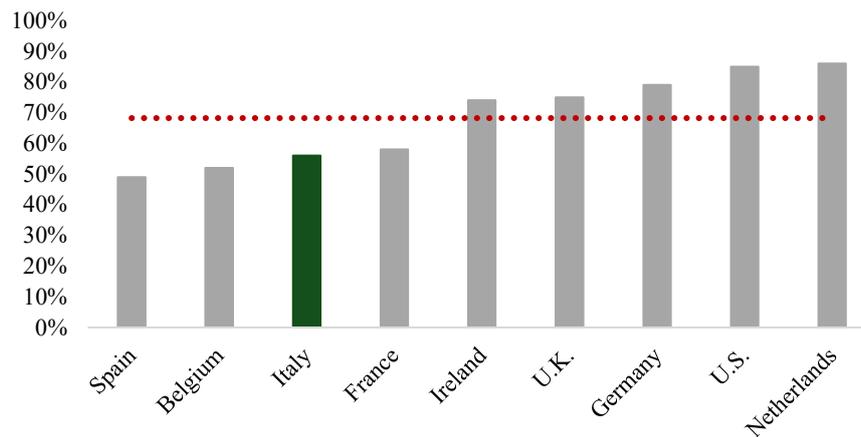


Figure 6: Average Percentage of Independent Directors in Boards²²

Italy reports a lower average percentage of independent directors in its BoDs, at approximately 56%, compared to the peer group average of 68%. This suggests that Italy should continue its effort to increase board independence, aligning more closely with the other countries.

2.7. Structure of Board of Directors

To ensure that the BoD provides strategic guidance to the company, it is essential to have a well-defined structure. The structure of the BoD refers to the distribution of tasks assigned to individual members or groups of directors. For this reason, we will focus on three key aspects: CEO Duality, the Lead Director and Committees.

2.7.1. CEO Duality

CEO duality refers to the practice of a single individual serving as both CEO and Chairman²³. Separating these two roles is advisable to avoid an excessive concentration of power which could result in detrimental to open debate among members of the BoD.

The Chairman provides leadership to the BoD, presiding overboard meetings and ensuring an efficient decision-making process by determining the content and timing of

²² SpencerStuart, 2024

²³ Krause et al., 2014

discussions. In contrast, the CEO is responsible for the overall management of the company and serves as its “public face”²⁴.

Unlike some OECD countries, Italy does not have a mandatory rule banning CEO duality. However, the “Corporate Governance Code” encourages such separation (Lagasio, 2021). Some studies acknowledge that CEO duality may lead to conflicts of interest and a concentration of power, potentially resulting in lower governance quality and a higher cost of equity (Bertoncelli et al., 2021). Moreover, such an aspect is also poorly perceived by investors, who are concerned about the excessive concentration of power. As a result, CEO duality may trigger negative investor reactions in the stock market (Caiffa et al., 2021).

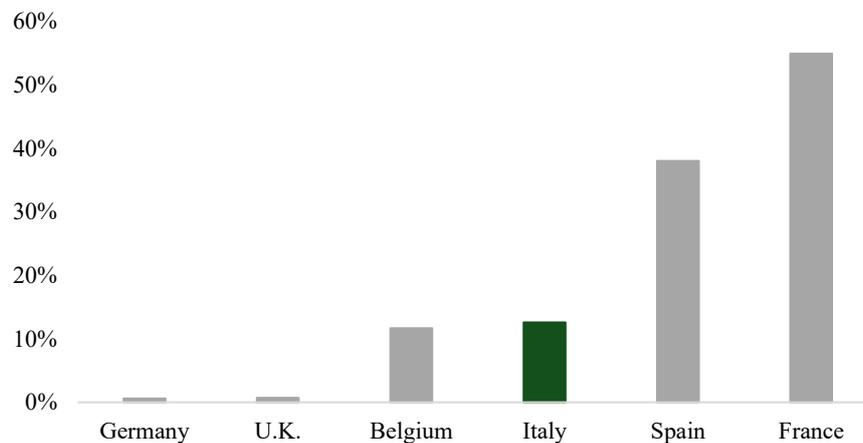


Figure 7: Percentage of CEO duality in listed companies [2009-2018]²⁵

The graph highlights a significant difference in CEO duality across European countries. Some, like Germany²⁶ and the U.K., report percentages close to 0%, whereas others, such as France, show a strong presence of this phenomenon, with 55% of listed companies having CEO duality. Italy falls in the middle of this set, reporting a CEO duality rate of 13%.

²⁴ Love et al., 2016

²⁵ Tiveron et al., 2023

²⁶ German Corporate Governance Code (*Foreword*), prevents CEO duality in the country.

2.7.2. Lead Director

In the case of CEO duality, the presence of a Lead Director becomes particularly important. The Lead Director is an independent director who acts as a representative for independent directors in discussions with the CEO.

«The lead independent director: a) collects and coordinates the requests and contributions of non-executive directors and, in particular, of independent ones; b) coordinates the meetings of the independent directors»²⁷

In Italy, this role is not mandated by law but is recommended under specific circumstances by the Italian Corporate Governance Code. The BoD must appoint an independent director as Lead Director in the following scenarios: when there is CEO duality, when the Chairman is the owner of the company, or in large companies, if requested by the majority of independent directors²⁸.

According to Mirone et al. (2021), the role of Lead Director has been increasingly adopted by Italian listed companies, rising from 74% in 2016 to 86% in 2019. Furthermore, in 2020, only 17% of companies that fell under the Corporate Governance Code's recommendations for appointing a Lead Director had not done so, almost exclusively among Small Caps (Assonime, 2020). Additionally, when a Lead Director is present, the company is more likely to hold meetings of independent directors (81,6%) compared to those without such a role (70,1%).

2.7.3. Board Committees

To encourage good governance, the BoD establishes both mandatory and non-mandatory committees, the latter known as “Specialized”. However, our focus will be on mandatory committees: the Audit Committee, Compensation Committee, Nomination Committee and Governance Committee.

Non-executive directors, better if independent, are assigned to committees based on their experience and qualifications²⁹. Each committee conducts analysis and formulates proposals on critical topics, which are then submitted to the board for review. These proposals may be revised, approved or rejected.

²⁷ Italian Corporate Governance Code, 2020 – *Recommendations*, 14.

²⁸ Italian Corporate Governance Code, 2020 – *Recommendations*, 13.

²⁹ Italian Corporate Governance Code, 2020 – *Principles*, XI.

2.7.3.1. Audit Committee

The Audit Committee is responsible for overseeing the external auditor and serves as the primary point of contact with such a figure. The Audit Committee has to be composed by at least 3 members, independent non-executive members of the board³⁰, including a chair, all whom must have an understanding of financial matters³¹.

The responsibilities of the Audit Committee include preparing financial reports, monitoring accounting policies, overseeing the internal control process, supervising the internal audit function and discussing risk management policies.

Particular emphasis should be placed on “Internal Auditing”. The head of this department, in charge of preparing the “Audit Plan” based on risk management, is completely independent from the CEO and “depends hierarchically on the board of directors and has direct access to all information that is useful for carrying out his or her duty”³². Both “Internal Auditing” and “External Auditor Control” are key internal mechanisms of corporate governance (Jensen, 1986; Bushman and Smith, 2001; Cremers and Nair, 2005).

Over the years, the Audit Committee has demonstrated a positive impact on company performance, highlighting its role in effective governance. Fratini and Tettamanzi (2015) show that in Italian companies, the presence of an Audit Committee is associated with a premium for those companies that engage in continuous monitoring activities, which is particularly appreciated by the market. This finding is further confirmed by D’Onza and Lamboglia (2011), who state that the Audit Committee reduces the likelihood of accounting fraud, reinforcing its role as a fundamental governance mechanism.

A recent study by Pozzoli et al. (2022) demonstrated that the Audit Committee plays a fundamental role in ensuring governance effectiveness, especially in ESG performance. The research, conducted on EU-listed companies, highlights that specific characteristics of the committee, such as independence and expertise, have a significant positive impact on ESG performance. This finding suggests that ESG factors are becoming increasingly important from an investment perspective, influencing a company’s sustainability and financial stability while also enhancing resilience (Albitar et al., 2022).

³⁰ Article 39.1 of EU Audit Directive

³¹ Legislative Decree no. 39 of 27 January 2010 - *Article 19: 3.*

³² Italian Corporate Governance Code, 2020 – *Principles, 36.*

2.7.3.2. Compensation Committee

The Compensation Committee is responsible for setting the CEO's compensation, including both the variable and fixed components, and informing the CEO about the remuneration of other executives. The primary goal of the Compensation Committee is to align the company's strategic goals, ensuring that all remuneration decisions are consistent with the company's mission and vision. Additionally, the committee must communicate clearly and effectively, especially in listed companies to maintain transparency with shareholders.

From a European perspective, the European Union mandates a "Remuneration Report" to enhance transparency and encourage long-term shareholder engagement, in accordance with the principles of "Shareholder Rights Directive II"³³. Regarding Italian law, there are no mandatory rules governing Compensation Committees, however, guidelines are provided in alignment with governance principles³⁴.

According to Menozzi et al. (2012), if the Compensation Committee is composed by a higher percentage of independent directors, managers are more incentivized to work in the shareholders' interests, mitigating agency conflicts. However, seems that there is no discernible link between the Compensation Committee and the company's performance. The same result was produced by Fratini and Tettamanzi's (2015) research.

A study by Cucari et al. (2023), observed a continuous increase in the weight of ESG factors in executive remuneration. Similarly, the number of ESG indicators used by companies and the independence of Compensation Committee have also risen, although the latter at a slightly slower pace compared to the other two factors.

2.7.3.3. Nomination Committee

The Nomination Committee, composed by a majority of independent directors³⁵, is responsible for the selection process of new board members and plays a key role in the CEO succession-planning process. To determine the ideal composition of the board, the Nomination Committee must first assess the company's needs and identify gaps in the

³³ Directive (EU) 2017/828

³⁴ Legislative Decree No. 58/1998 (TUF – Testo Unico della Finanza)

³⁵ Italian Corporate Governance Code, 2020 – *Recommendations*, 20.

board's capabilities, ensuring a mix of relevant expertise and diversity. The proposed nominees are then presented for shareholders' vote at the meeting. The Nomination Committee enhances the ability of minority shareholders to propose candidates (Jensen 1993) and contributes further to board effectiveness as a monitoring mechanism (Vafeas, 1999).

Additionally, the Nomination Committee oversees the evaluation process for both the BoD and CEO, and supervises corporate governance practices. The Italian Corporate Governance Code highlights the critical role of this committee in providing adequacy and transparency in board evaluations, which are typically conducted in collaboration with the board chair and board secretary³⁶. Given its responsibilities, the Nomination Committee is often combined with the Governance Committee. While the creation of such committees is not legally mandatory under Italian law, it is recommended. Furthermore, in companies with concentrated ownership, the Italian Corporate Governance Code allows the BoD to assume the functions of this committee, even if independent directors represent less than half of the board³⁷.

Empirical studies confirm that the Nomination Committee positively impacts the board disclosure (Cerbioni and Parbonetti 2007). However, Allegrini (2011) found that only 9,60% of Italian listed non-financial companies at that time had all three key committees (Nomination, Audit and Compensation), with the Nomination Committee being the most frequently absent. This finding is partially confirmed by D'Onza et al. (2014), who reported that only 11% of the Italian listed non-financial companies had a Nomination Committee. Companies often justify the absence of such a committee by arguing that minority shareholders already have the right to nominate at least one director by submitting a list at the general shareholder meeting.

Eventually, Nomination Committees appear to reduce the likelihood of ESG disputes in European banks (Iannuzzi et al., 2023), particularly when committee members possess specific skills³⁸, are independent (Wang et al., 2014), are younger (Borghesi et al., 2014) and come from different national backgrounds (Harjoto et al., 2014).

³⁶ Italian Corporate Governance Code, 2020 – *Recommendations*, 12 e).

³⁷ Italian Corporate Governance Code, 2020 – *Recommendations*, 16.

³⁸ European Banking Authority and European Securities and Markets Authority – Guidelines on the assessment of the suitability of members of the management body and key function holders under Directive 2013/36/EU and Directive 2014/65/EU: 6. *Adequate knowledge, skills and experience* – 63 d)

3. Corporate Social Responsibility

Corporate Social Responsibility (CSR) refers to the ethical value that businesses are morally responsible not only towards stakeholders but also towards society³⁹ and the environment as a whole.

In the Italian Civil Code, CSR is not explicitly mentioned, however, the principles of responsible business conduct are well reflected, especially in Article 2409-novies c.c., which concerns the role of the “supervisory board”. The Italian Stock Exchange also promotes CSR and ESG principles through its official documents, such as the ESG Reporting (2022). Furthermore, the Italian government, in 2016, enacted Legislative Decree No.254, which requires large companies, with more than 500 employees, to disclose non-financial information in order to promote sustainability and social well-being⁴⁰.

«CSR is the continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families, local communities and society at large»⁴¹

3.1. Definition of Corporate Social Responsibility

CSR is based on the fiduciary duties⁴² owed to all the firm’s shareholders and acts as an extended model of CG. Furthermore, as previously stated, CSR promotes business practices that generate an overall positive impact on society.

In countries like Italy, the government does not always explicitly regulate how companies should pursue such objectives, therefore, it becomes the responsibility of corporations to go beyond what the law requires. For instance, Italy’s National Action Plan for Policy Coherence for Sustainable Development (OECD, 2022) highlights how

³⁹ European Commission: *Corporate sustainability and responsibility* – Internal Market, Industry, Entrepreneurship and SMEs.

⁴⁰ NORMATTIVA - *DECRETO LEGISLATIVO 30 dicembre 2016, n. 254*

⁴¹World Business Council for Sustainable Development, 1999 – *Corporate Social Responsibility: Meeting Changing Expectations*.

⁴² Refer to three factors: duty of Care, of Loyalty and Candor - *Articles 2392; 2391; 2428; Italian Civil Code*

CSR fits into a broader framework of sustainable governance. Although CSR is not explicitly defined as a standalone concept, its core principles⁴³ promote transparency and long-term strategic thinking, aligning corporate and public initiatives with the “2030 Sustainable Development Goals”. The plan also emphasizes the importance of multistakeholder participation in advancing sustainability objectives.

3.1.1. Corporate Social Responsibility Indexes

Nowadays, CSR principles are increasingly applied to investment decisions. CSR-based indices, like the MIB ESG Index⁴⁴, identify companies in which to invest based on their ESG practices. The first step typically involves excluding companies operating in ethically controversial sectors, known as “Sin Industries”⁴⁵, such as alcohol, gambling, tobacco and military weapons.

As previously stated, the selection criteria are based on ESG factors, which may include a wide range of attributes. In the MIB ESG Index, the “E” (Environmental) pillar considers indicators such as: Climate Change Strategy, Eco-Efficiency, Energy Management, Environmental Impact of Product Portfolio, Environmental Management and Water Risk and Impact. These indicators aim to reduce or prevent pollution caused by corporate activities and to promote recycling and resource efficiency. The “S” (Social) pillar includes indicators such as: Equal Opportunities, Freedom of Association, Human Rights, Product Responsibility, Social Impact of Product, Supply Chain Management and Taxes. These attributes reflect companies’ efforts in areas such as employee profit sharing schemes and the promotion of equal opportunities for women and minorities. Finally, the “G” (Governance) pillar refers to corporate governance practices and includes indicators such as: Business Ethics, Compliance, Independence of the Board, Voting Rights, Shareholder Participation and Remuneration.

⁴³ Ethical conduct, social inclusiveness, environmental responsibility and stakeholder engagement (OECD, 2022)

⁴⁴ The MIB ESG Index is designed to identify the 40 highest ranking companies in Italy which demonstrate the best ESG (Environmental, Social and Governance) practices (Euronext, 2023).

⁴⁵ OECD, 2020 – *ESG Investing: Practices, Progress and Challenges*.

3.2. Stakeholder Value

Since the 1970s, the focus on managerialism has led to an increasing emphasis on shareholder value maximisation, particularly in the case of US corporations (Ward, 2020). These corporations experienced a decline in competitiveness due to the rise of foreign competitors, resulting in a decrease in share price. At the time, it was widely perceived that BoD were making decisions that primarily benefited themselves rather than shareholders, which drove the promotion of shareholder wealth maximisation as the primary corporate objective. However, this persistent focus on short-term gains, mainly favouring transient investors and directors, has been argued to be detrimental to long-term shareholders and other stakeholders concerned with the company's sustainability (Clarke and Friedman, 2016 & Englander and Kaufman, 2004).

The "Shareholder Value Creation" has had adverse effects due to the allocation of control rights. Although, this allocation might be efficient from the perspective of exercising ownership rights, it often had negative effects on other classes of stakeholders, who bore a share of the enterprise risk while receiving only residual income. As Pargendler (2016) demonstrates, there is a fundamental incongruence between focusing on shareholder value and social wealth.

The term "stakeholder" first appeared in 1963 in an internal memorandum by Stanford Research Institute where it was defined as: "those groups without whose support the organization would cease to exist". Later, Freeman and Reed (1983) refined the concept by distinguishing between: stakeholder in a wide sense (public interest groups that may influence the firm) and stakeholder narrow sense (group or individual on which the organization is dependent for its survival). Subsequently, Freeman (1984), in his work on stakeholder theory, argued that companies have a moral obligation towards their stakeholder who hold legitimate rights. Freeman and Mcvea (2001) further suggest that stakeholder theory offers a framework for managers and directors to incorporate personal values and ethical considerations into the formulation and implementation of strategic plans, considering all stakeholders who affect or are affected by the company's business.

Nevertheless, debate continues regarding academic definitions and interpretations.

«The firm is a system of stakeholders operating within the larger system of the host society that provides the necessary legal and market infrastructure for the firm

activities. The purpose of the firm is to create wealth or value for its stakeholders by converting their stakes into goods and services»⁴⁶

3.2.1. Relevance of Corporate Social Responsibility

As stated earlier, managers have the responsibility to satisfy the needs of stakeholders and society at large, beyond mere profit maximization⁴⁷.

Companies should engage in CSR policies to serve the public interest, based on the Social Contrast Theory.⁴⁸ According to this integrative theory, ethical obligations are grounded on two levels of consent: a theoretical "macrosocial" contract (principles agreed by rational contractors) and a real "microsocial" contract (norms and expectations of members of localized communities). This theory highlights the relevance of communities in shaping long-term strategies and value judgements concerning ethical attitudes and corporate conduct.

In addition, adopting CSR principles can yield an economic advantage. Reputational risks, arising from discriminatory and unethical practices, represent a real threat to corporate value (Zappi, 2007; Cavallini and Iacoviello, 2017), especially in light of frequent corporate scandals that promoted a negative perception of the business world. As a consequence, there is an increasing trend in investments directed towards sustainable and ethical business practices, known as "Social Responsible Investment", which rose from \$ 12,0117 billion in 2020 to \$ 14,054 billion in 2022 in Europe⁴⁹.

In response, governments have increasingly promoted CSR-related initiatives, including ESG performance for listed companies and mandatory disclosures concerning sustainability practices. ESG reporting has emerged as a tool to assess the impact of business activities, consistent with the "Triple Bottom Line" approach, also known as the "Triple P's" framework (People, Planet and Profit)⁵⁰. Nevertheless, despite these advancements, there are still significant challenges in managing the actual trade-offs

⁴⁶ Clarkson, 1995

⁴⁷ Carroll, 1991

⁴⁸ Donaldson and Dunfee, 1994

⁴⁹ GLOBAL SUSTAINABLE INVESTMENTS 2022

⁵⁰ Elkington, 1997

among these dimensions, probably due to persistent issues in data availability and transparency issues across the supply chain⁵¹.

3.3. Historical Insights

CSR has gained exponential interest and attention in recent years. However, the concept of CSR can be traced back to the 1950s, when the first idea about the responsibilities of businessmen towards society began to emerge.

«It refers to the obligation of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of objectives and values of our society»⁵²

CSR became relevant in the 1960s and 1970s among academics. During the 1970s, the concept of CSR gained growing scholarly attention about the role of businesses in society beyond the sole goal of profit maximization. Elbing (1970) contrasted the traditional economic framework with a social responsibility perspective, emphasizing that businessmen have a moral obligation surpassing financial returns. Davis (1973) reinforced such a definition, stating that:

«The firm's considerations of, and response to, issues beyond the . . . economic, technical, and legal requirements of the firm to accomplish social benefits along with the traditional economic gains which the firm seeks»

Subsequently, Purcell (1974) advanced this view by stressing the moral responsibility of managers to address societal problems, even in the absence of legal obligations. Similarly, Hay and Gray (1974) highlighted the complex responsibilities of managers, between balancing profit maximization with the demands of various stakeholders and pressure groups.

By the mid-1970s, academics like Gavin and Maynard (1975), Mears and Smith (1977), Crawford and Gram (1978) emphasized the firm's responsibility not only to

⁵¹ Winssolutions, 2024

⁵² Howard and Bowen, 1953

employees and consumers but to society as a whole, contributing to the development of CSR as a complex and multidimensional concept. CSR embodies four main areas of responsibility: economic, legal, ethical and discretionary. This is based on the idea that businesses have an obligation towards society throughout their operations (Carroll, 1979; Tuzzolino and Armandi, 1981; Aupperle et al., 1985).

In the early 2000s, CSR gained even more popularity with the advent of best practices aimed at aligning social initiatives with core business objectives such as cause promotions, corporate philanthropy, community volunteering and socially responsible business practices (Kotler and Lee, 2005). These actions aim to enhance both societal impact and corporate reputation, emphasizing the strategic importance of CSR in creating long-term value (Perrini, 2005), through proactive and measurable societal contribution.

3.3.1. Carroll

In 1979, Carroll coined the first structured definition of CSR. Prior to this, the concept of CSR lacked a clear and consistent definition, resulting in an ambiguous and diverse range of perspectives on CSR (Gutterman, 2020).

«The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time.»⁵³

Carroll's model of CSR identifies four basic criteria that should be considered when evaluating an organization's commitment and performance in CSR: economic (providing jobs, wages, services), legal (legal compliance), ethical (adhering to ethical standards and doing what is right and fair) and discretionary (philanthropy) responsibilities⁵⁴. For managers, the challenge lies in identifying potential conflicts among these responsibilities and addressing them through an appropriate balance. At the time of Carroll's work, the economic and legal responsibilities were the primary concerns of managers. However, stakeholders increasingly expected ethical conduct and broader social responsibility (Carroll, 1991).

⁵³ Carrol, 1979

⁵⁴ Gutterman, 2020

In particular, “Ethical Responsibilities” may not always align with a company’s economic interests and ethical behaviour is not necessarily codified in laws or regulations. Nonetheless, it remains the responsibility of businesses to pursue economic goals in an equitable and fair manner, avoiding unethical behaviours that could result in an unfair advantage at the expense of others or society.

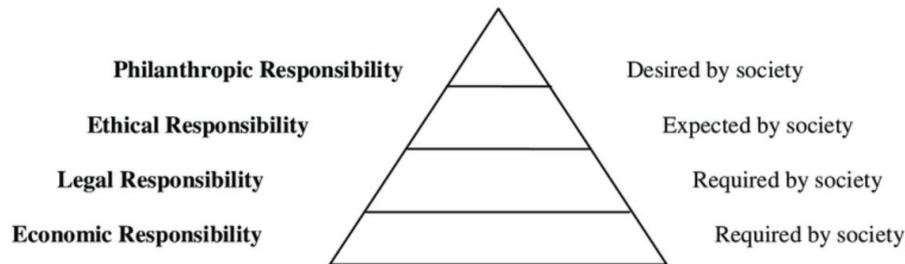


Figure 8: Carroll's Pyramid

3.4. Corporate Social Performance

The CSR strategy adopted by companies should include appropriate metrics to measure Corporate Social Performance (CSP).

Unlike Corporate Financial Performance (CFP), which focuses on a company’s financial performance⁵⁵, CSP focuses on performance by businesses to implement solutions to social concerns, such as environmental discrimination and shareholder activism (Gutterman, 2020).

«A business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships»⁵⁶

Initially, the CSP model was conceptualized as a three-dimensional model of social performance (Carroll, 1979), identifying the basic principles of social responsibility, the social issues for which responsibility occurs and the specific philosophy of response to these problems. The three dimensions of the model are: categories of social responsibility, social issues involved and the philosophy of social responsiveness.

⁵⁵ CFP consist of market-based (investor returns), accounting-based (accounting returns), and perceptual (survey) measures (Orlitzky et al., 2003).

⁵⁶ Definition of CSP by Wood (1991)

As previously analyzed, the categories of “social responsibility categories” are those found in Carroll’s pyramid, namely economic, legal, ethical and discretionary responsibilities. The “social issues involved” refer to the specific societal concerns that the company addresses. Finally, the “Philosophy of responsiveness” describes the company’s approach to addressing these issues, which can range from a proactive response to no response at all.

«Corporate social performance is a set of descriptive categorizations of business activity, focusing on the impacts and outcomes for society, stakeholders and the firm. Types of outcome are determined by the linkages, both general and specific, defined by the structural principles of CSR. The processes by which these outcomes are produced, monitored, evaluated, compensated and rectified (or not) are defined by the processes of corporate social responsiveness.»⁵⁷

3.4.1 Corporate Social Responsibility and Corporate Financial Performance

The research by Fiori et al. (2007) on Italian listed companies reveals that the voluntary disclosure of CSR initiatives does not affect firms’ stock price. Several reasons may explain this outcome, such as the fact that CSR was still a relatively new issue at the time, the short-term orientation of investors and the lack of generally accepted principles, which made the quality of CSR disclosure difficult to measure.

«Despite numerous efforts to achieve a clear and unbiased definition on Corporate Social Responsibility, there is still some confusion as how should be defined.»⁵⁸

Beyond the moral duty to protect stakeholders and support future sustainability, Zorzi (2019) found that CSR contributes to improved financial results in terms of profits. Specifically, the reduction of a firm’s direct emissions and greater female presence in the workforce were shown to enhance ROA, highlighting the importance of integrating CSR into business strategy.

⁵⁷ CSP Evolution by Wood (2010)

⁵⁸ Dahlsrud (2008)

Vaccari (2021) confirmed these findings, emphasizing that the presence of a CSR Committee is a key determinant in achieving high ESG Scores and effectively sustainable practices. These scores are positively associated with superior financial performance, implying that sustainable practices not only benefit society at large but also create value for shareholders, ultimately dismissing the traditional conflict between managers and investors.

4. Environmental, Social and Governance Criteria

Environmental, Social and Governance (ESG) criteria and CSR are two concepts that are inherently linked when discussing how business should be conducted ethically. In recent years, a common way to promote CSR has been through the evaluation of listed companies based on their ESG performance.

As previously stated, CSR refers to the ethical or responsible treatment of stakeholders by the firm (Hopkins, 2004). Companies have become increasingly conscious of their impact on society, which encompasses different aspects: the environment, the economy and people.

ESG criteria represent a set of standards used to assess whether a business can be considered sustainable by potential investors (Banca d'Italia, 2022). However, nowadays, there is no universally accepted definition of ESG criteria (CONSOB, 2022), although there is a general understanding of its components. Responsible investors may have different objectives and therefore may focus on different ESG factors in their investment decisions⁵⁹. Environmental criteria refer to how a company performs as a steward of nature. Social criteria examine how the company manages relationships with employees, customers and communities in which it operates. Governance criteria involve executive compensation, audits, internal controls and shareholder rights.

While both CSR and ESG criteria address the impact of business on society and the environment, they do so from different perspectives. CSR is a business model adopted by companies, whereas ESG criteria are used by investors to assess the ethical and sustainability performance of a firm.

⁵⁹ UN Principles for Responsible Investment (PRI), the world's leading proponent of responsible investment, which helps to understand the investment implications of ESG criteria and supports its members in incorporating these factors.

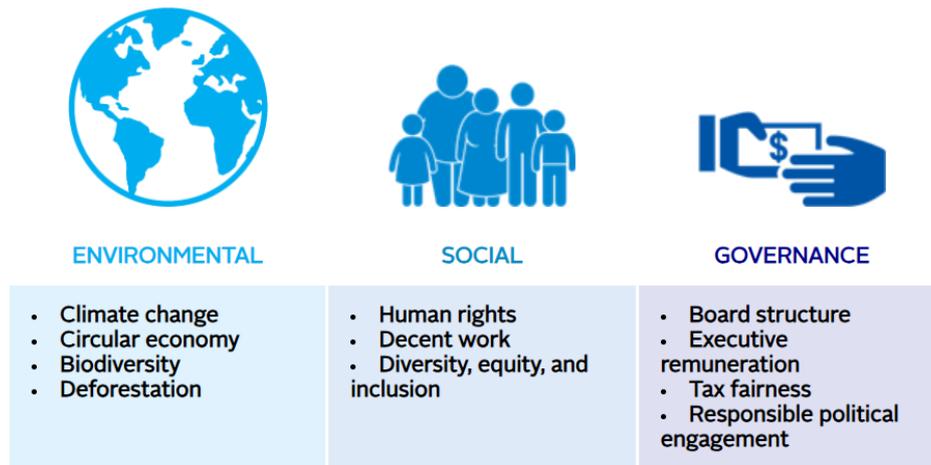


Figure 9: ESG Issues by Principles for Responsible Investment (PRI)

4.1. Investments' Attention on ESG

Business strategies are rapidly adapting to the growing focus on sustainability across various stakeholders. Governments and regulators are driving structural change to facilitate this transition. Consumers are demanding sustainable goods and services, while employees are advocating for equitable treatment. Furthermore, the European Investment Bank (EIB) has significantly invested in climate and environmental sustainability projects, with €50.7 billion allocated in 2024. However, the global pace of sustainability adoption remains uneven. In 2022, Italy registered a significant growth in the sustainability reporting rate, rising from 86% in 2020 to 94% (KPMG, 2022).

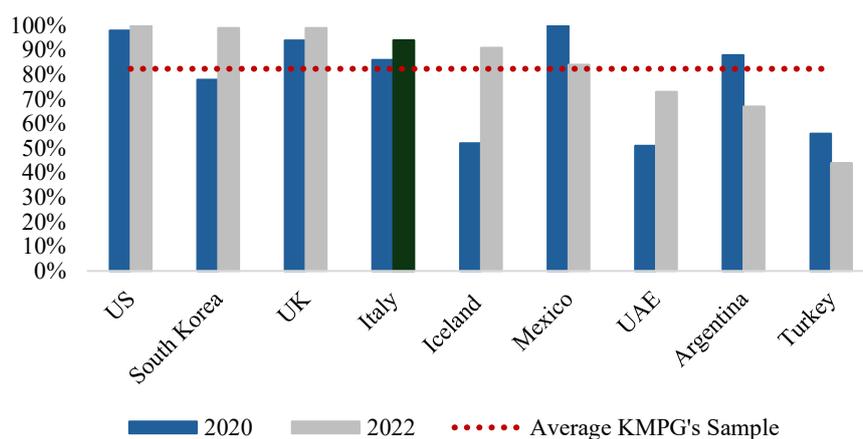


Figure 10: National rates of sustainability reporting 2022⁶⁰

Sustainability strategies are increasingly seen by investors as a competitive advantage, while the absence of one component of the ESG criteria is perceived as a risk. This shift in sentiment is driving the accumulation of Asset Under Management (AUM) in ESG strategies. According to the Global Sustainable Investment Alliance (2023), global sustainable assets⁶¹ increased from \$22,838 billion in 2016 to \$30,321 billion in 2022, with Europe and the US accounting for nearly 75% of total assets invested. However, this trend has reversed slightly recently, with total AUM peaking at \$35,301 billion in 2020, particularly in the US, where sustainable investments fell from \$17,081 billion to \$8,400 billion in 2022. This decrease may be attributed to changes in the definitions and classifications of sustainable investments, which also makes comparison across time more complex.

In recent years, the “ESG Integration” strategy has played a significant role in shaping investment decisions. This strategy involves constructing portfolios by assigning weights based on both financial factors and ESG scores, sometimes focusing specifically on E, S or G scores. As highlighted in the Global Sustainable Investment Review (2022), approximately \$5,588 billion has been invested following this approach.

⁶⁰ KPMG International: Europe, Middle East and Africa edition: Survey of Sustainability Reporting 2022 - October 2023

⁶¹ This sample includes: Europe, Canada, Australia, New Zealand, Japan and US.

4.2. ESG as Premium in Valuation

There are various drivers behind high ESG ratings in companies. Although ESG remains a broad concept with multiple definitions, a high ESG rating is generally associated with effective management of ESG risks. Companies that demonstrate such responsibility are often perceived by customers as a sustainable brand, enhancing their attractiveness not only in purchasing decisions but also as desirable employers (Sebastianelli et al., 2024).

Higher ESG rating also appears to be positively correlated with financial performance across broad indices of companies. According to MSCI ESG Rating, a comprehensive measure of a company's long-term commitment to responsible investments and ESG standards⁶², firms with top ESG ratings have consistently outperformed lower-rated peers in terms of cumulative returns.

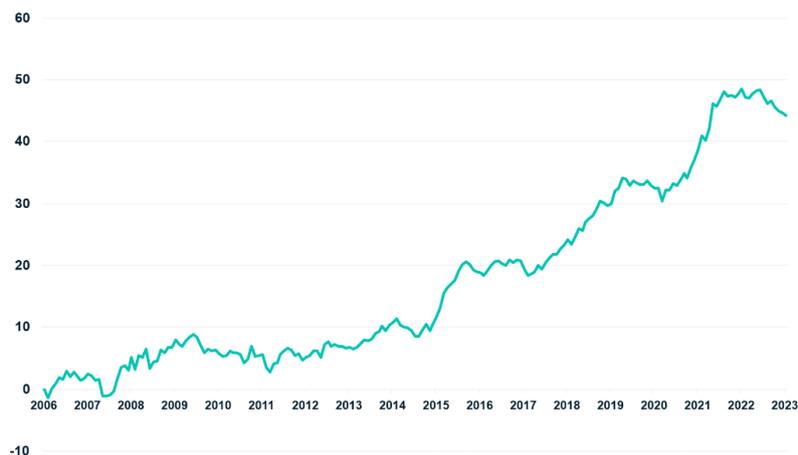


Figure 11: Performance of Highest- vs. Lowest-Rated ESG quintiles in Developed Markets (%)⁶³

These findings show that companies with higher ESG ratings are better positioned to capture dynamic and emerging risks. The performance of the ESG factor exhibits periods of strong outperformance, such as during the COVID-19 pandemic.

Investors' focus on sustainability has led analysts to suggest that valuation multiples may improve when a company's ESG profile is strengthened alongside other key fundamental factors⁶⁴. According to Pauritsch (2023), companies with high ESG ratings

⁶² Hayes, 2022, *Investopedia*

⁶³ MSCI Sustainable Institute, 2024

⁶⁴ *FactSet, Sustainalytics, Bloomberg: Growth Profile, Capital Allocation, Profitability, Business Risk and Liquidity Risk* (2022)

tend to experience lower cash flow volatility, which supports higher valuations. Furthermore, higher ESG scores appear to be positively associated with valuation multiples: a 10-point improvement in a company's ESG scores is linked to an approximately 1.8x increase in its EV/EBITDA multiple⁶⁵.

4.2.1. Investors' Expectations

In recent years, investors have increasingly demanded that CEO compensation be tied to ESG performance. In the S&P 500, 66% of companies incorporated ESG criteria into executive pay in 2020, rising to 73% in 2021. These metrics often focus on diversity, equity and inclusion goals as well as carbon footprint emissions, with notable differences across sectors. For example, 100% of companies in the Utilities sector included ESG goals, compared to 55% in the Information Technology sector⁶⁶.

Sustainability is increasingly shaping corporate strategies. Climate change, in particular, has become a key theme for investors, with 50% indicating that it is a very or extremely important factor in their investment decisions (PwC, 2024). Furthermore, 35% of investors agree that companies should incur expenditure to address ESG and sustainability issues, even if doing so reduces short-term profitability⁶⁷. This potential loss is viewed as justifiable, given the reputational benefits and improved consumer brand positioning. Nowadays, sustainability is a dominant factor in consumer behaviour, with demand elasticity increasingly favouring sustainable options. In some cases, consumers demonstrate a willingness to pay to 29,5% more for sustainable products (Li and Kallas, 2021), translating into pricing premiums for sustainability leaders.

5. Research Question

This study employs a descriptive case study to explore the following question:

« How do the Board of Directors and its characteristics influence the sustainability strategies of Italian firms? »

⁶⁵ Heinzer and Mezzanzanica, 2022, *Does a company's ESG score have a measurable impact on its market value?*, Deloitte

⁶⁶ Merel Spierings, 2022, *Linking Executive Compensation to ESG Performance*, Harvard Law School Forum on Corporate Governance

⁶⁷ PwC's Global Investor Survey 2024

The case study specifically focuses on the Italian listed companies from 2020 to 2024, in order to analyze the impact of the BoD in the COVID and post-COVID period.

5.1. Purpose of the Research Question

The purpose of this descriptive case study (Priya, 2021) is to analyze how the governance factors and characteristics of the BoD in Italian listed companies affect their sustainability strategies, as measured by ESG ratings.

As previously explained, ESG has become an important aspect on which companies focus (Banca d'Italia, 2022), particularly in Italy in recent years (KPMG, 2022). Therefore, identifying and describing a clear pattern or relationship between BoD characteristics and ESG ratings, analyzing the real-world context, would provide valuable insights for future research and practical analyzes. This is especially relevant given that sustainability strategies are now a critical component in investment decisions (PwC, 2024).

This research question bridges theory and practice, aiming to understand how individual and shared social meanings can shape corporate strategies.

6. Methodology

6.1. Collection of Data

A systematic search was conducted using Refinitiv LSEG as the primary database, selected for its comprehensive and up-to-date store of listed companies. The platform includes financial statements and a wide range of data on governance factors and ESG ratings, covering the period of time from 2020 to 2024 to ensure the analysis is both recent and relevant.

The initial search results were screened through a multi-stage filtering process:

Identification: A comprehensive search was conducted using the “SCREENER” function on Refinitiv, setting “UNIVERSE: Public Companies” and “Currency: EUR”. Companies were selected from the Equity Market labelled “FR Italy”. The final result generated 111 Italian listed companies for each year in the selected time frame.

Screening: To focus exclusively on large enterprises, the research followed the European Union’s definition of large undertakings, which states:

«Large undertakings exceed at least two of the three following criteria: balance sheet (€25 million), net turnover (€50 million), employees (250)»⁶⁸

Accordingly, in the “Add Filter” section, the criterion “Revenue Mean \geq 50,00 Million EUR” was applied. As a consequence, the initial set was reduced to 106 listed companies for each year.

Eligibility and Inclusion: Subsequently, in the “SCREENER” mode, the following data points were selected for the whole set of companies: Identifier, Company Name, ESG Score, ESG Combined Score, Governance Pillar Score, Social Pillar Score, Environmental Pillar Score, Revenue – Mean, CSR Strategy Score, CSR Sustainability Committee, Corporate Governance Board Committee, Nomination Board Committee, Audit Board Committee, Compensation Board Committee, Number of Board Meetings, Board Size, Independent Board Members, Female on Board, Company Market Capitalization.

The dataset for each year was then downloaded in Excel format and reviewed to verify eligibility for the regression analysis. In 2024 (FY0), 14 companies were excluded due to missing values related to governance factors or because they appeared as duplicate entries (the same company listed for different classes of shares, such as preferred shares).

Similarly, exclusions were made for the previous years: 18 companies in 2023 (FY-1), 19 companies in 2022 (FY-2), 19 companies in 2021 (FY-3), 19 companies in 2020 (FY-4).

As a result, the final dataset was reduced from a total of 530 companies (106 companies for 5 years) to 441 valid companies.

In addition, for the final set of 441 companies, I independently collected data on the “Average Age of Directors”. This was done by consulting the “Annual Financial Reports” of each company in the dataset. For each report, I identified the members of the BoD, searched their dates of birth and calculated their age by subtracting the birth year from

⁶⁸ Directive 2013/34/EU, especially relevant in light of the European Union’s announcement on February 26th, 2025, regarding the revision of the Omnibus Package. The revision aims to avoid overburdening small companies with sustainability compliance, recognizing that they do not have the same level of impact as large enterprises, especially not to burden small companies as they do not have same impact as the large enterprises.

the relevant fiscal year. The average age for each company was then computed based on the ages of all board members in a given year.

For instance, if the “Annual Financial Report 2024” of Company X listed Board Member Y and his/her date of birth was 1970, the calculation would be: $2024 - 1970 = 54$. This process was repeated for all board members and the average age was determined for that year.

6.2. Regression Analysis

This study investigates the impact of BoD characteristics and monetary factors on the ESG score of 441 Italian listed companies over a five-year period between 2020 to 2024.

The analysis focuses on four dependent variables: ESG Scores, Environmental Pillar Score, Social Pillar Score and Governance Pillar Score. By examining these dimensions separately, the study aims to identify which corporate attributes influence specific aspects of sustainability strategies.

Furthermore, to provide a comprehensive evaluation, four distinct OLS regression analyses are employed for each dependent variable (Y^{69}): Total, Pillars Exclusion, Governance and Monetary.

“ Y_{TOTAL} ” includes all independent variables⁷⁰, integrating governance-related, ESG strategy and monetary factors:

$$(1) Y_{TOTAL} = \beta_0 + \beta_1 \text{ Environmental Pillar} + \beta_2 \text{ Social Pillar} + \beta_3 \text{ Governance Pillar} + \beta_4 \text{ CSR Strategy Score} + \beta_5 \text{ CSR Sustainability Committee} + \beta_6 \text{ Corporate Governance Board Committee} + \beta_7 \text{ Audit Board Committee} + \beta_8 \text{ Nomination Board Committee} + \beta_9 \text{ Compensation Board Committee} + \beta_{10} \text{ Number of Board Meetings} + \beta_{11} \text{ Board Size} + \beta_{12} \text{ Independent Board Members} + \beta_{13} \text{ Female on Board} + \beta_{14} \text{ Average Age of Directors} + \beta_{15} \text{ Log Revenue} + \beta_{16} \text{ Log Market Capitalization}$$

⁶⁹ Y could be either: ESG Score, Environmental Pillar Score, Social Pillar Score and Governance Pillar Score.

⁷⁰ The only exception is “ESG Score”. Since the “Pillar Scores” (Environmental, Social and Governance) are subcomponents of the overall “ESG Score”, they are highly correlated with it. As a consequence, it was decided not to include the “ESG Score” as an independent variable when the dependent variable is a “Pillar Score”. Including them as independent variables in the OLS regressions would risk multicollinearity, potentially skewing the results.

This model offers a holistic overview of the impacts, assessing the combined influence of all identified factors on ESG outcomes.

“Y_{PE}” (Pillars Exclusion) removes the Environmental, Social and Governance Pillar Scores from the set of independent variables:

$$(2) Y_{PE} = \beta_0 + \beta_1 \text{ CSR Strategy Score} + \beta_2 \text{ CSR Sustainability Committee} + \beta_3 \text{ Corporate Governance Board Committee} + \beta_4 \text{ Audit Board Committee} + \beta_5 \text{ Nomination Board Committee} + \beta_6 \text{ Compensation Board Committee} + \beta_7 \text{ Number of Board Meetings} + \beta_8 \text{ Board Size} + \beta_9 \text{ Independent Board Members} + \beta_{10} \text{ Female on Board} + \beta_{11} \text{ Average Age of Directors} + \beta_{12} \text{ Log Revenue} + \beta_{13} \text{ Log Market Capitalization}$$

By excluding the ESG Pillars Scores, likely to be highly correlated with the dependent variable, the model focuses on how corporate governance and monetary variables independently impact ESG scores without distortion from the pillars.

“Y_{GOVERNANCE}” narrows the analysis to governance-related factors alone:

$$(3) Y_{GOVERNANCE} = \beta_0 + \beta_1 \text{ CSR Strategy Score} + \beta_2 \text{ CSR Sustainability Committee} + \beta_3 \text{ Corporate Governance Board Committee} + \beta_4 \text{ Audit Board Committee} + \beta_5 \text{ Nomination Board Committee} + \beta_6 \text{ Compensation Board Committee} + \beta_7 \text{ Number of Board Meetings} + \beta_8 \text{ Board Size} + \beta_9 \text{ Independent Board Members} + \beta_{10} \text{ Female on Board} + \beta_{11} \text{ Average Age of Directors}$$

This targeted model isolated the role of BoD and governance structures in determining ESG scores, offering valuable insights:

“Y_{MONETARY}” considers only the financial factors of the companies:

$$(4) Y_{MONETARY} = \beta_0 + \beta_1 \text{ Log Revenue} + \beta_2 \text{ Log Market Capitalization}$$

By focusing only on firm size and financial capacity, this model evaluates the extent to which monetary factors influence ESG outcomes independently of governance characteristics.

Both “Revenue” and “Market Capitalization” are expressed in Euros (€) and subsequently converted into logarithmic form. This transformation was necessary due to the fact that there was a substantial variability in company sizes. “Revenue” ranged from €77,633 million to €190.845,712 million, while “Market Capitalization” ranged from €54,998 million to €168.466,122 million. In this way, logarithmic transformation reduces the impact of extreme values, ensuring a more normalized distribution of these financial variables and allowing for more reliable results.

6.3. Variables

6.3.1. ESG Score

As previously mentioned, LSEG offers one of the most comprehensive ESG databases in the industry, covering approximately 90% of the global market capitalization across more than 870 different ESG metrics and 186 comparable measures⁷¹. The data spans from 2002 onwards, providing a robust historical foundation⁷².

LSEG recognises the progressive importance of ESG factors in the financial industry, emphasizing that transparent and comparable environmental, social and governance data is fundamental for informed investment decisions⁷³.

The LSEG ESG scores are based on the relative performance of companies within their respective industries for environmental and social aspects, while governance factors are compared against the standards of the country of incorporation. The scoring relies primarily on company-reported data available in the public domain⁷⁴.

The LSEG ESG scoring methodology involves few steps:

⁷¹ 68 for Environmental aspects, 62 for Social aspects and 56 for Governance aspects.

⁷² LSEG DATA & ANALYTICS: *Environmental, Social and Governance scores from LSEG* - October 2024

⁷³ In Europe are covered more than 3,700 public and private companies for ESG data.

⁷⁴ Annual reports, Company websites, NGO websites, Stock exchange filings and CSR reports.

1. Recognizing and weighting ESG factors according to their materiality within a given industry⁷⁵.
2. Evaluating the completeness of company disclosures, where missing information on “highly material” data points negatively affects the ESG score.
3. Conducting industry and country benchmarking to ensure the scores are comparable across the peer group.
4. Producing both a “Percentile rank scoring” (ranging from 0 to 100) and a corresponding letter grade⁷⁶ (Figure 1 in the Annex).

Reported ESG data in the LSEG database are updated once a year in line with companies’ own ESG disclosure, usually every fiscal year.

LSEG platform provides its users with two different options: ESG score and ESG Combined score. ESG score measures the company’s ESG performance based on verifiable and reported data in the public domain, while the ESG Combined score provides a comprehensive evaluation of the company’s impact and conduct over time. The ESG Combined score has as its main objective the discounting of the ESG performance score based on negative media stories. ESG Combined score, for this reason, may have a bigger impact for larger companies, so in this research will be “ESG Score”.

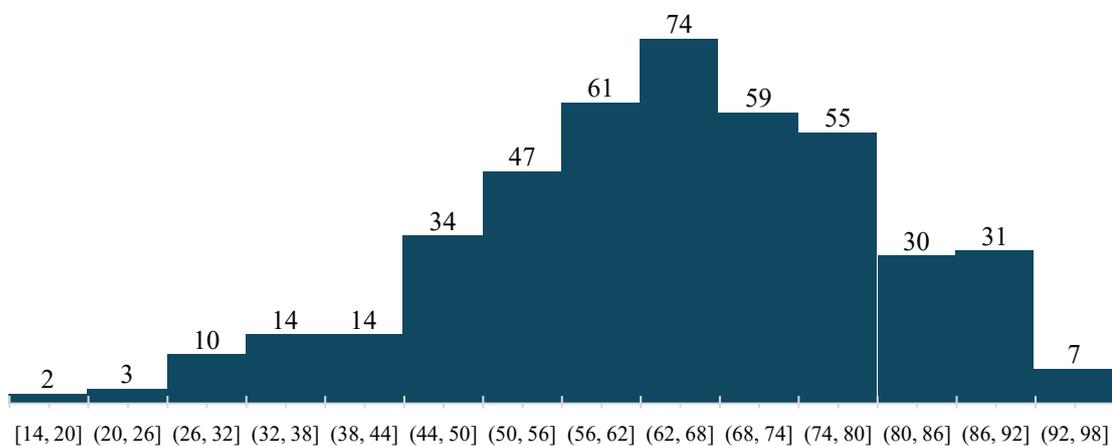


Figure 12: ESG Score Distribution in Large Italian Listed Companies (%) [2020-2024]

Observing Figure 12, we notice that the majority of observations (364) have a good ESG performance in line with the classification criteria outlined in Figure 1 of the Annex

⁷⁵ Every industry has a metric for materiality for ESG magnitude on a scale of 1 to 10.

⁷⁶ Letter grades from D- to A+, however, we will focus on “Percentile rank scores”.

(>50). Moreover, more than a quarter of the sample (123 observations) exhibit an excellent ESG performance according to LSEG metrics. Only 5 companies over the five-year period have reported a poor ESG performance.

In the regression analysis it is expected that “ESG Score” will be positively correlated with “Social Pillar Score”, “Governance Pillar Score” and “Environmental Pillar Score”, as all three pillars are part of the final ESG score calculation. However, it is likely that “Environmental Pillar Score” will show a stronger correlation, given that it includes more metrics in the ESG score calculation compared to the other two pillars.

The “CSR Strategy Score”, a metric of “Governance Pillar Score”, is also expected to be positively and significantly correlated with the “ESG Score”.

Regarding board committees, the presence of a “CSR Sustainability Committee” is expected to have a positive impact on the “ESG Score”, reflecting the committee’s key role in corporate governance and in addressing environmental and social challenges, as shown by Kateb et al. (2024). A similar positive relationship is anticipated for the “Corporate Governance Committee”, based on evidence provided by Handayati et al. (2025).

For the “Nomination Committee”, a positive but less significant relationship with “ESG Score” is expected, as suggested by Iannuzzi et al. (2023). Their study finds that Nomination Committees contribute to reducing the likelihood of ESG disputes in European banks, although effectiveness is more pronounced when combined with other specific skills related to reporting and governance.

The “Audit Committee” is expected to play a fundamental role in governance effectiveness, especially concerning ESG performance, as supported by the recent findings of Pozzoli et al. (2022).

Similarly, the presence of a “Compensation Board Committee” is expected to be positively correlated with “ESG Score”, as outlined by Ajay et al. (2024). However, this correlation might not be significant, considering that integrating ESG metrics into executive incentive plans is a relatively recent trend and not all companies have yet adopted these practices (The Conference Board, 2025)⁷⁷.

“Board Size” is expected to be positively correlated with “ESG Score”, although not excessively. A larger BoD may hinder effective decision-making and oversight,

⁷⁷ Almost 77,2% of companies traded in the S&P500 in 2023.

potentially negatively impacting the company's performance (Fratini and Tettamanzi, 2015). Conversely, the "Number of Board Meetings" is expected to have either a negative correlation (Wendy Liu Grannes, 2023) with the "ESG Score", or no significant correlation in line with Birindelli et al. (2018) findings observed among listed banks in Europe and the United States.

The proportion of "Independent Board Members" and the number "Female on Board" are both expected to be significantly and positively correlated with "ESG Score". This is supported by Menicucci and Paolucci (2022) for independent directors in the Italian Banking sector and by recent studies on the Italian Utilities Sector concerning women on board (2024).

The "Average Age of Directors" is expected to show a negative and significant correlation with the "ESG Score", particularly when directors are above 64 years old, as shown by Collevocchio et al. (2024), where older boards were associated with a reduction in ESG performance.

"Revenue" is expected to be positively correlated with ESG performance, although the significance remains uncertain. Literature (Sustainable Finance Consob, 2021 & ESG version of an Italian classic, 2024) suggests that good financial performance tends to result from, rather than cause, good ESG performance. Furthermore, such a trend is also reflected in being demonstrated through other financial data such as Tobin's Q, as highlighted by Bertoni et al. (2024).

Finally, for "Market Capitalization", Bifulco and Tiscini (2024) did not find a clear pattern and correlation between ESG performance and market size of Italian firms, suggesting that while ESG practices might impact market perception, they do not necessarily correlate linearly with such dimension.

6.3.2. Environmental Pillar Score

The "Environmental Pillar Score", a component of the total "ESG Score", includes 68 metrics grouped into three themes: Resource Use, Emissions and Innovation (Figure 2 in the Annex).

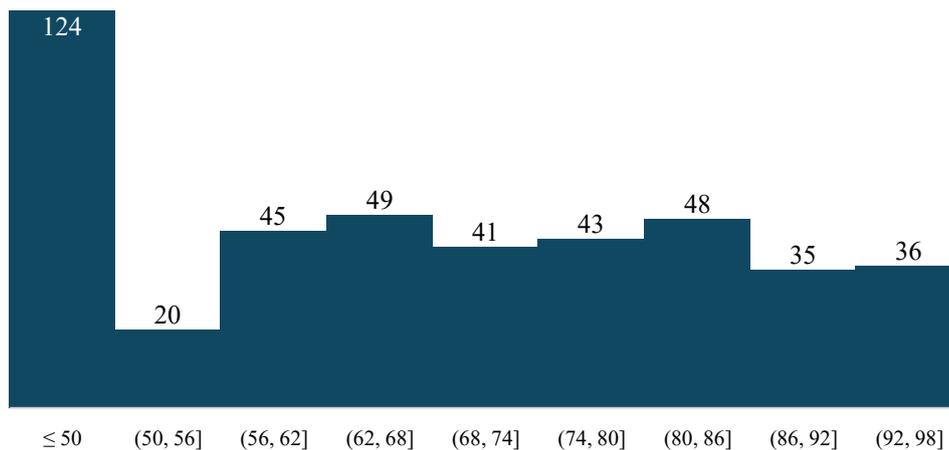


Figure 13: Environmental Pillar Score Distribution in Large Italian Listed Companies (%) [2020-2024]

Between 2020 and 2024, over one quarter of the sample (124 observations) registered a poor “Environmental Pillar Score” (≤ 50). On the other hand, 162 observations reported an excellent score in this dimension (Figure 13). This distribution indicates significant variability among companies, with an average score of 64.05%.

One possible explanation is that emission abatement costs are higher and less efficient in certain industries. As shown in Figure 3 of the Annex, the Energy and Transportation sectors accounted for 63% of Italy’s total CO₂ emissions in 2022. Consequently, for some industries, it may be more economically efficient to pay carbon taxes or purchase emission permits, like the EU Emissions Trading Scheme, rather than invest in reducing emissions.

Despite these challenges, the European Commission (2023), in its “Climate Action Report 2023”, stated that Italy reduced its Greenhouse Gas Emissions (GHG) by 4% between 2015 to 2022.

6.3.3. Social Pillar Score

The “Social Pillar Score”, a component of the total “ESG Score”, includes 62 metrics grouped into four themes: Community, Human Rights, Product Responsibility and Workforce (Figure 4 in the Annex).

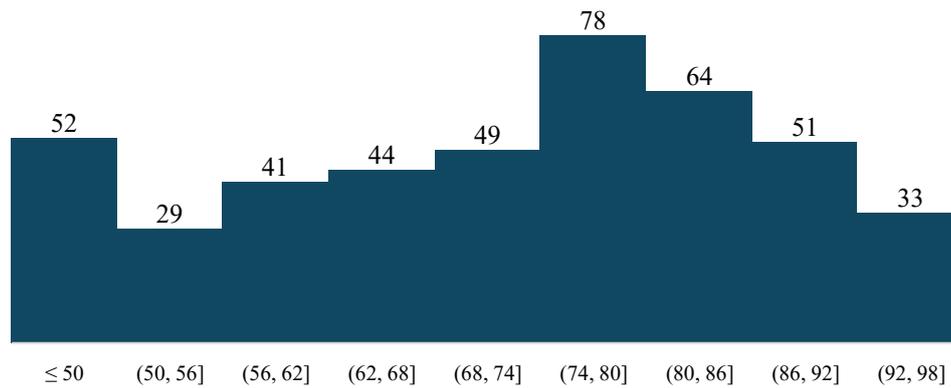


Figure 14: Social Pillar Score Distribution in Large Italian Listed Companies (%) [2020-2024]

Over the five-year period analyzed, only 52 observations reported a low “Social Pillar Score” while more than 226 observations, over half the sample, demonstrated excellent performance in this dimension (Figure 14). On average, the “Social Pillar Score” for the entire dataset stands at 70.82%, indicating that large Italian listed companies perform better in the social aspect of ESG reporting than in the environmental one. This may be attributed to the fact that environmental issues receive greater visibility in the media and public discourse, potentially placing more pressure on companies to improve environmental transparency than social aspects.

These findings are consistent with a recent study conducted on Italian Small-Medium Enterprises (SME) by “modefinance” (February, 2024), which reported a median of 78% and a mean of 54%. The area identified as the most critical was the “Supply Chain”, however, evaluating this dimension remains challenging. This is due to limited data availability in the LSEG database and, in some cases, even larger enterprises, making it difficult to reliably assess supply chain-related social performance.

6.3.4. Governance Pillar Score

The “Governance Pillar Score”, a component of the total “ESG Score”, includes 56 metrics grouped into three themes: Management, Shareholders and CSR Strategy (Figure 5 in the Annex).

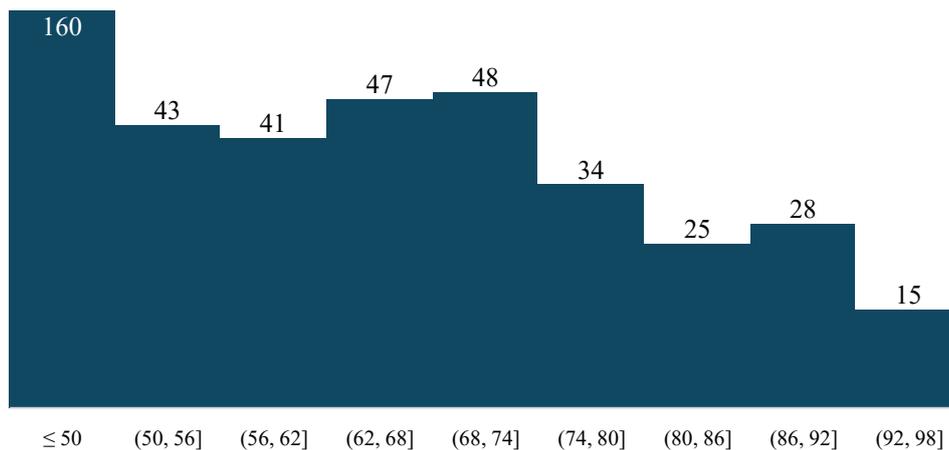


Figure 15: Governance Pillar Score Distribution in Large Italian Listed Companies (%) [2020-2024]

Between 2020 and 2024, more than one-third of the observations (160) reported a poor “Governance Pillar Score” (≤ 50). This result is even worse than the “Environmental Pillar Score” and is particularly surprising given that governance metrics (56) are fewer than those in the environmental (68) and social (62) dimensions. Only 102 observations, less than a fourth, reported an excellent score in the governance dimension (Figure 15). On average, the mean score for the governance dimension was 57,41%.

As previously discussed, Italy is defined as a “Mixed-Market Economy” where the state plays a pivotal role (Di Carlo et al., 2024; Molina and Rhodes, 2007). In this context, ownership is highly concentrated, often involving blockholders, generally families, who may appoint family members to the BoD. This practice may negatively impact the firm’s governance quality (Pittino et al., 2021).

According to Magli et al. (2014), the key variables considered by international rating agencies when evaluating governance include: ownership structure, governance structure and processes, stakeholder relationship, financial transparency, ethical practices and information disclosure (ICRA, 2004; Standard & Poor’s, 2002).

Family firms may influence governance in multiple ways (Chrisman et al., 2004 & Schulze et al., 2001). They are often less likely to establish key standing committees, or they may also exhibit increased vigilance over the management. The empirical analysis of Magli et al. (2014) suggests that such theoretical characteristics are more common in SME rather than in large enterprises, particularly in relation to shareholder roles and

ownership structure. One explanation may be that larger firms have greater capacity to ensure shareholder protection.

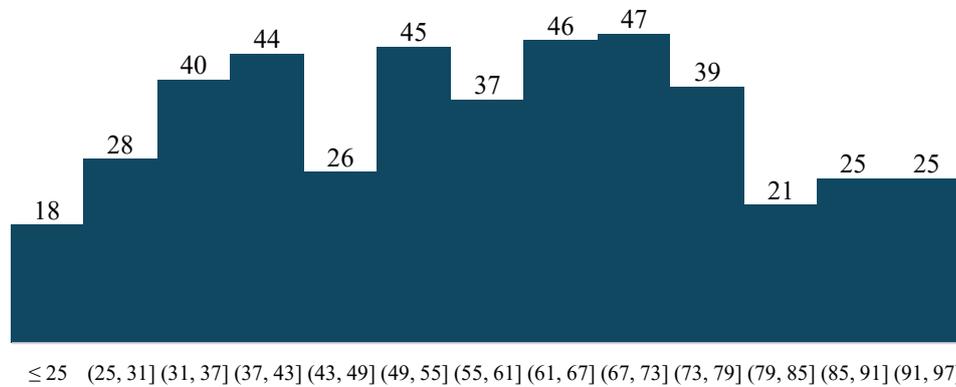


Figure 16: Governance Pillar Score Distribution in Large Italian Listed Companies “Detailed” (%) [2020-2024]

Figure 16 provides a more comprehensive view of the governance dimension, highlighting that companies are relatively evenly distributed across the different rating levels. This distribution may be explained by the significant variation in company size within the sample, in terms of “Revenue” and “Market Capitalization”, which could influence differences in ownership structure and so in governance practices.

6.3.5. CSR Strategy Score

The “CSR Strategy Score” is a component of the “Governance Pillar Score” and is based on 9 ESG metrics. Among the 10 ESG Category distributed across the 3 Pillars, the “CSR Strategy” category accounts for only 3% of the total ESG score calculation (Figure 6 in the Annex). Despite its relatively small weight, it remains important to isolate and analyze this. As discussed earlier, it aligns closely with the broader objective of corporate sustainability strategies: to enhance stakeholder value and contribute to the well-being of society as a whole. (Clarke and Friedman, 2016 & Englander and Kaufman, 2004).

«The CSR strategy score reflects a company’s practices to communicate that it integrates economic (financial), social and environmental dimensions into its day-to-day decision-making processes. »⁷⁸

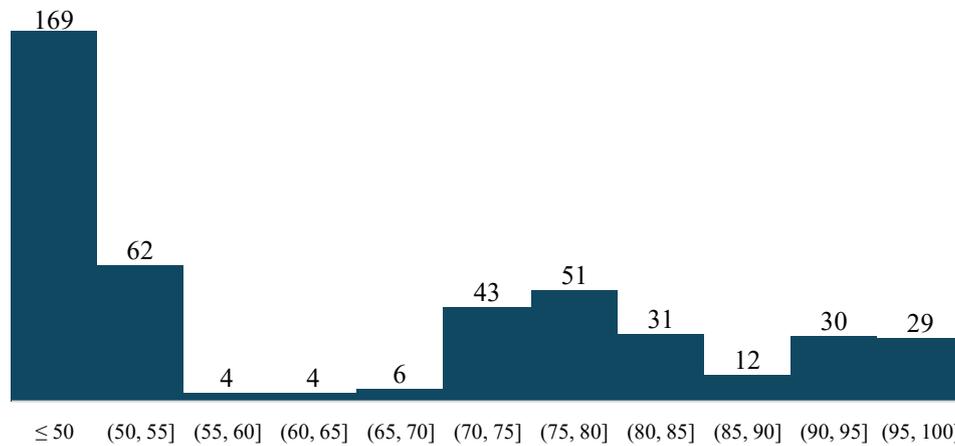


Figure 17: CSR Strategy Score Distribution in Large Italian Listed Companies (%) [2020-2024]

More than one third of the observations (169) reported a poor score in the “CSR Strategy” category, while 153 observations received as an excellent score. The resulting average score is 58,16%, which is consistent with the previous findings for the “Governance Pillar Score”. As illustrated in Figure 17, the results are clearly divided into two subgroups, with only 10 observations (approximately 2% of the dataset) reporting a “CSR Strategy” score between 55% and 70%. This polarization may be explained by the fact that companies in the upper bound of the distribution, often more exposed to the media and the press, may have stronger incentives to publicly communicate their ESG strategies (Saviano et al., 2019). In contrast, companies in the lower bound may show limited interest in doing so, possibly due to internal constraints such as management time or higher general and administrative costs.

The “CSR Strategy Score” is expected to be highly and positively correlated with the “Governance Pillar Score”, given that it constitutes one of its components. However, by definition, the CSR strategy also influences all three pillars and contributes to the overall “ESG Score”. Therefore, we expect also a positive correlation between the “CSR Strategy

⁷⁸ Environmental, Social and Governance scores from LSEG, *LSEG DATA & ANALYTICS*, October 2024.

Score” and the “ESG Score”, the “Environmental Pillar Score” and the “Social Pillar Score”. Nonetheless, these correlations are expected to be weaker compared to those with the “Governance Pillar Score”.

6.3.6. CSR Sustainability Committee

In Italian legislation, there is no legal obligation to establish a “CSR Sustainability Committee”. However, for larger listed companies, the presence of such a committee is becoming increasingly relevant. Already in 2014, the European Parliament required large companies to disclose non-financial information, including ESG issues, reinforcing the role of CSR within the European Union framework⁷⁹.

Subsequently, the European Union required large companies to disclose information on sustainability issues, including ESG factors, with greater scrutiny⁸⁰. As a result, some companies have found it necessary to establish a dedicated committee to comply with sustainability reporting obligations, this has also been the case in Italy. In fact, between 2020 and 2024, almost 90% of the observations in the sample reported the presence of a “CSR Sustainability Committee” within the company (Figure 18). This result is further confirmed by the CONSOB⁸¹, which states that the “Sustainability Committee” has been established with a share exceeding 90% in public-controlled companies and in the FTSE MIB firms.

Another reason for the widespread presence of CSR Committees may be the growing recognition among companies that such committees can positively influence market valuation by enhancing ESG score and the quality of CSR reporting, as highlighted in studies by Bifulco et al. (2023) and Fiori et al. (2015).

⁷⁹ DIRECTIVE 2014/95/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL, *European Parliament*, 22 October 2014

⁸⁰ DIRECTIVE (EU) 2022/2464 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL, *European Parliament*, 14 December 2022

⁸¹ Statistics and analyses Report on corporate governance of Italian listed companies, *CONSOB*, 2023

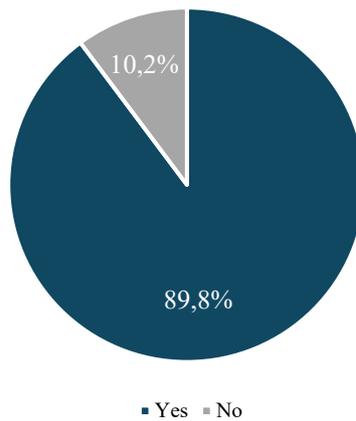


Figure 18: Presence of CSR Sustainability Committee in Large Italian Listed Companies [2020-2024]

For the reasons outlined above, we can expect the “CSR Sustainability Committee” to be highly and positively associated with the “ESG Score” (Bifulco et al., 2023) and particularly with the “Governance Pillar Score”, due to its direct influence on CSR reporting (Fiori et al., 2015). Since the committee contributes to shaping a company’s ESG strategies, it is also likely to be positively correlated with the other two pillars, the “Environmental Pillar Score” and “Social Pillar Score”. Nonetheless, these correlations are expected to be weaker than those observed with the overall “ESG Score” and “Governance Pillar Score”.

6.3.7. Corporate Governance Committee

In European legislation, it is neither mandatory nor explicitly required for listed companies to establish a “Corporate Governance Committee”. However, companies are expected to report on the role of the management and disclose governance structures related to sustainability strategies and ESG topics⁸², with attention to shareholders’ rights and governance transparency⁸³. Similarly, in Italy, the establishment of a “Corporate Governance Committee” is not legally required. Nevertheless, due to the increasing relevance of the topic, some Italian listed companies voluntarily nominate such a

⁸² DIRECTIVE (EU) 2022/2464 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL, *European Parliament*, 14 December 2022

⁸³ DIRECTIVE (EU) 2017/828 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL, *European Parliament*, 17 May 2017

committee by adopting the recommendations of the “Corporate Governance Code” (2020).

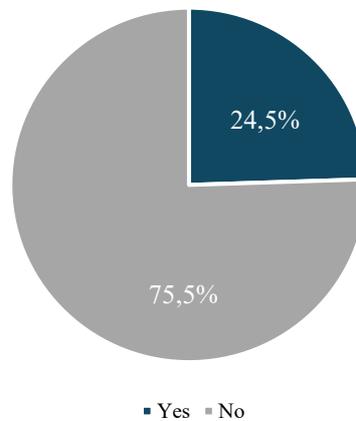


Figure 19: Presence of Corporate Governance Committee in Large Italian Listed Companies [2020-2024]

The results presented in “Figure 19” differ significantly from those in Figure 18. Only one fourth of the observations (24,5%) reported the presence of a “Corporate Governance Committee” within the company. This may be attributed to the fact that such a committee is not mandatory, leading companies to prioritize the establishment of other types of committees, such as the “CSR Sustainability Committee”, to support corporate governance. This reasoning is supported by the academic literature, which rarely focuses on the “Corporate Governance Committee” specifically, but rather on other committees that typically monitor corporate governance matters.

The “Corporate Governance Committee” is a theme within the “Governance Pillar Score”, specifically falling under the “Management” category⁸⁴. Therefore, a significant and positive correlation is expected between the presence of a “Corporate Governance Committee” and the “Governance Pillar Score”. A positive correlation is also likely with the “ESG Score”, given that the “Corporate Governance Committee” is one of its ESG metrics used in the final calculation, although, this relationship is possible to be weaker. For the “Environmental Pillar Score” and “Social Pillar Score”, a positive correlation may also be expected, but with lower significance compared to the “Governance Pillar Score” and “ESG Score”.

⁸⁴ Environmental, Social and Governance scores from LSEG, *LSEG DATA & ANALYTICS*, October 2024

6.3.8. Audit Committee

In Italy, the establishment of an “Audit Committee” is mandatory for listed companies that adopt the monistic governance model⁸⁵. In contrast, for companies adopting the traditional or dualistic governance models, the creation of an “Audit Committee” is not legally required, but it is strongly recommended by the Corporate Governance Model.

«Control body: the collegial body in charge of the functions of the "audit committee" (called the "internal control and audit committee" within the Italian framework) pursuant to Directive 2006/43/EC or functions similar to these for companies that have no registered office in a European Union country to which this Directive does not apply. »⁸⁶

As a result, early 95% of the observations (Figure 20) reported the presence of an “Audit Committee” within the company, highlighting its relevance in the company’s functions. The role of this committee is not only critical for market performance (Fratini and Tettamanzi, 2015), but even more so for the effectiveness of core governance mechanisms (D’Onza and Lamboglia, 2011). Furthermore, the Audit Committee plays a fundamental role in enhancing ESG performance (Pozzoli et al., 2022) and contributes to improving a company’s sustainability, financial stability and resilience (Albitar et al., 2022).

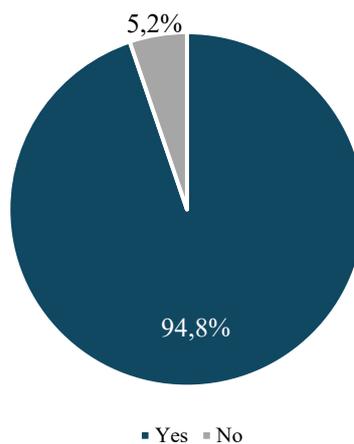


Figure 20: Presence of Audit Committee in Large Italian Listed Companies [2020-2024]

⁸⁵ Article 2409-octiesdecies of the Italian Civil Code.

⁸⁶ CORPORATE GOVERNANCE CODE, *Comitato Corporate Governance*, Definitions: Control Body, 2020.

As confirmed by Pozzoli et al. (2022), we expect a positive and significant correlation between the presence of an “Audit Committee” and the “ESG Score”. Similarly, a positive correlation is projected between ““Audit Committee” and the “Governance Pillar Score” (D’Onza and Lamboglia, 2011), as well as the “Environmental Pillar Score” (Albitar et al., 2022). However, these correlations are expected to be less significant than the one with the “ESG Score”, as the latter reflects the combined effects of both the “Governance Pillar Score” and “Environmental Pillar Score”. With regard to the “Environmental Pillar Score”, the correlation is expected due to strong connection between sustainability and numerous ESG metrics within the environmental dimension. Eventually, for the “Social Pillar Score”, a positive correlation is also expected, given its inclusion in the “ESG Score”, although it is likely to be less significant than the correlations observed with the “Governance Pillar Score” and “Environmental Pillar Score”.

6.3.9. Nomination Committee

In Italian legislation, the establishment of a “Nomination Committee” is not mandatory, however, it is strongly recommended by the “Corporate Governance Code” (2020), especially to assist the chair of the BoD in ensuring adequacy and transparency of the board review⁸⁷ and in fulfilling other related functions.

«The board of directors entrusts the nomination committee to support it on:

- a) the evaluation of the board and its committees;
- b) the definition of the optimal composition of the board and its committees;
- c) the identification of candidates in case of the director’s co-optation;
- d) the possible submission of a slate by the outgoing board, ensuring the transparency of the process that led to the slate’s structure and proposition;
- e) the development, updating and implementation of succession plan for the chief executive officer and the other executive directors. »⁸⁸

⁸⁷ Article 3. Functioning of the board of directors and the role of the chair – Recommendations: 12 e), *CORPORATE GOVERNANCE CODE*, 2020

⁸⁸ Article 4. Appointment of directors and board evaluation – Recommendations: 19, *CORPORATE GOVERNANCE CODE*, 2020

However, an exception applies in cases where the company has a concentrated ownership structure. In such instances, even in large companies, the functions typically assigned to the “Nomination Committee” may be carried out directly by the BoD⁸⁹.

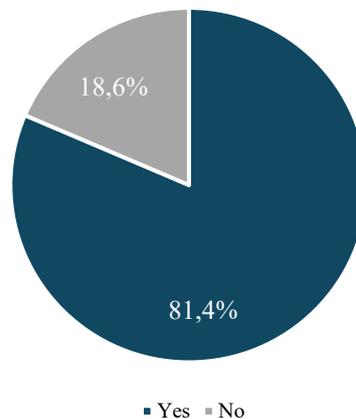


Figure 21: Presence of Nomination Committee in Large Italian Listed Companies [2020-2024]

Therefore, as shown in Figure 21, 18,6% of the observations reported the absence of a “Nomination Committee” within the company. These observations may be associated with companies that have a concentrated ownership structure (Corporate Governance Code, 2020).

For these reasons, the presence of a “Nomination Committee” is expected to be positively and strongly correlated with the “Governance Pillar Score”, as the absence of such a committee in firms with concentrated ownership may lead to conflicts of interest between controlling shareholders and minority shareholders (Zattoni, 1999 & Stulz, 2005)⁹⁰. A positive and significant correlation is also expected with the “Social Pillar Score”, although to a slightly lesser extent. This is because the “Nomination Committee” can support career development processes and mitigate excessive decision-making power concentrated in a small group of individuals (La Porta and Lopez-de-Silanes, 1999)⁹¹. Furthermore, the “Nomination Committee” appears to reduce the likelihood of ESG

⁸⁹ Article 3. Functioning of the board of directors and the role of the chair – Recommendations: 16, *CORPORATE GOVERNANCE CODE*, 2020.

⁹⁰ “Shareholders” is a category of “Governance Pillar Score”, including as themes: shareholder rights and takeover defences (LSEG DATA & ANALYTICS, 2024).

⁹¹ “Career development and training” is a theme of the “Workforce” category within the “Social Pillar Score” (LSEG DATA & ANALYTICS, 2024).

disputes in European banks (Iannuzzi et al., 2023) and is therefore also expected to be positively and significantly correlated with the overall “ESG Score”. Finally, a positive correlation is anticipated with the “Environmental Pillar Score”, as a component of the “ESG Score”, even though it is likely to be the least significant among the three pillars.

6.3.10. Compensation Committee

As with the “Nomination Committee”, the establishment of a “Compensation Committee” is not mandatory under Italian legislation, however, it is strongly recommended by the “Corporate Governance Code” (2020).

«The board of directors entrusts the compensation committee with the task of:

- a) supporting it in the development of the remuneration policy;
- b) submitting proposals or expressing opinions on the remuneration of executive directors and other directors who hold specific responsibilities, as well as on the setting of performance objectives related to the variable component of this remuneration;
- c) monitoring the actual application of the remuneration policy and verifying the effective achievement of the performance objectives;
- d) periodically assessing the adequacy and overall consistency of the remuneration policy for directors and the top management. »⁹²

Furthermore, the “Compensation Committee” should be chaired by an independent director, other than the “Lead Director”⁹³, and should include at least a member with expertise in financial matters and remuneration policies⁹⁴, preferably in line with experience relevant to the company’s sector and size.

⁹² Article 5. Remuneration – Recommendations: 25, *CORPORATE GOVERNANCE CODE*, 2020

⁹³ Article 2. Composition of the corporate bodies – Recommendations: 7, *CORPORATE GOVERNANCE CODE*, 2020

⁹⁴ Article 5. Remuneration – Recommendations: 26, *CORPORATE GOVERNANCE CODE*, 2020

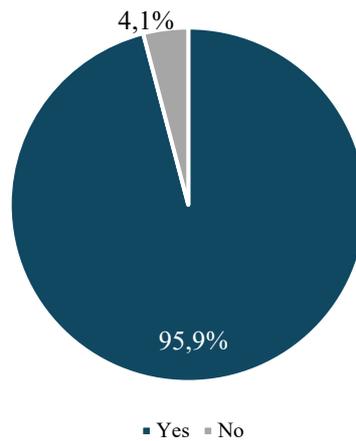


Figure 22: Presence of Compensation Committee in Large Italian Listed Companies [2020-2024]

According to Figure 22, more than 95% of the observations (424) reported the presence of a “Nomination Committee” within the company. This result is particularly noteworthy, as it represents the highest percentage of committee presence among Italian listed companies, surpassing even the “Audit Committee”, which was present in 419 observations (Figure 20), despite being mandatory under certain governance models.

The “Nomination Committee” may be especially relevant in regulated sectors, such as the banking sector. Furthermore, according to the “European Corporate Governance Institute”, the “Compensation Committee” is also considered a crucial governance mechanism, particularly in order to access public funding during a financial crisis by banks⁹⁵.

In recent years, many listed companies worldwide have begun to include ESG factors into directors’ compensation plans (Ammel et al., 2024), including those in the Italian market. As demonstrated by Cucari et al. (2023), the adoption of ESG metrics as part of compensation structures, appears to be positively correlated with ESG performance. In 2023, 137 Italian listed companies integrated ESG factors into their executive compensation policies, an increase from 127 in 2022⁹⁶. Based on this trend, we would expect the “Compensation Committee” to be positively correlated with the

⁹⁵ European Corporate Governance Institute, 2010

⁹⁶ Rapporto sulla rendicontazione non finanziaria delle società quotate italiane Addendum Attuazione dell’art. 8 del Regolamento Tassonomia 2023, CONSOB, 2024

“ESG Score”, although the strength of this correlation remains uncertain. A substantial portion of ESG integration within compensation structures focuses on environmental strategies and practices. However, the actual implementation remains limited, with only the 10,5% of CEO in Italian listed companies having compensation plans linked to environmental targets (Ratti et al., 2023). As a result, we expected a positive but weak correlation between the “Compensation Committee” and “Environmental Pillar Score”. Regarding the “Social Pillar Score” and “Governance Pillar Score”, no strong direct correlations are expected. However, since the “Compensation Committee” should have a positive correlation with “ESG Score”, we expect these two pillars to show a slightly positive but statistically insignificant correlation.

6.3.11. Number of Board Meetings

In Italian legislation, there are specific legal requirements regarding how board meetings should be conducted⁹⁷, including one provision concerning their frequency:

«The Board of Directors shall:

[...]

d) specify the frequency, in any case no less than once every three months, with which the delegated bodies must report to the Board on the activities performed in the exercise of the powers delegated to them. »⁹⁸

This provision was introduced to ensure effective oversight and strategic guidance of the company’s operations.

⁹⁷ Corporate Governance Committee, Article 1 - Role of the Board of Directors, Criteria: 1.C.5 & 1.C.6, *CORPORATE GOVERNANCE CODE*, 2018

⁹⁸ Corporate Governance Committee, Article 1 - Role of the Board of Directors, Criteria: 1.C.1, *CORPORATE GOVERNANCE CODE*, 2018

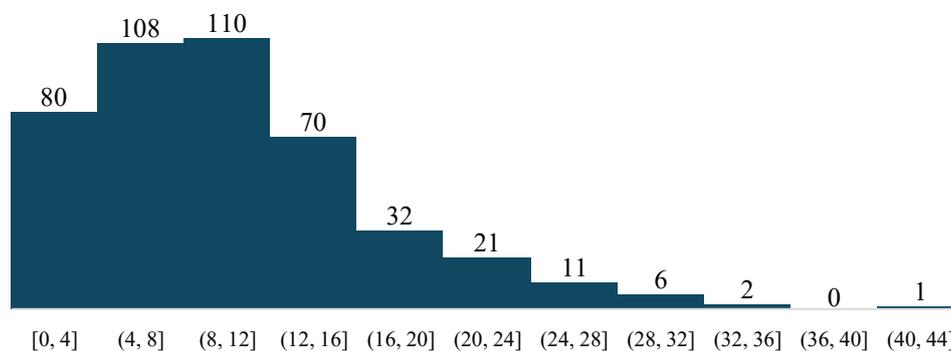


Figure 23: Number of Board Meetings Distribution in Large Italian Listed Companies [2020-2024]

As shown in Figure 23, almost one-fifth of observations (80) reported the minimum amount of 4 board meetings per year. Additionally, in the group [0,5], 69 observations did not report the number of meetings held but were assigned the value of 4, based on the minimum recommended by the “Corporate Governance Code”. On the other hand, 143 observations reported that the company held more than 1 meeting per month during the year. Almost half of the observations are between the minimum by the “Corporate Governance Code” and 1 meeting per month, with the overall average number of board meetings across the sample amounting to 10,4 meetings per year.

Birindelli et al. (2018) conducted a study on Italian listed companies in the banking industry, analyzing BoD characteristic and their correlation with ESG performance. The study found that “Number of Board Meetings” was positively correlated with the “ESG Score”, although it was never statistically significant. In line with these findings, we expect a similar result in this research, slightly stronger than the correlations expected with the three individual pillars (“Environmental Pillar Score”, “Social Pillar Score” and “Governance Pillar Score”), which are probable to be positively correlated, though likely with low significance.

According to the literature, a larger number of BoD meetings may hinder decision-making effectiveness and oversight quality, potentially negatively impacting the company’s performance (Bettinelli et al., 2023). As a consequence, it could result in a negative correlation with the “ESG Score” and its pillars, as observed by Wendy Liu

Grannes (2023). Although only 20 observations in the sample reported companies holding more than 24 board meetings per year, equal to more than 2 meetings per month, such extreme cases are relatively uncommon.

6.3.12. Board Size

According to Italian legislation, there is no specific rule regarding the number of directors within a company, this is primarily determined by the company’s bylaws⁹⁹. However, the “Corporate Governance Code” suggests that the board size be appropriate to the company’s size and industry¹⁰⁰.

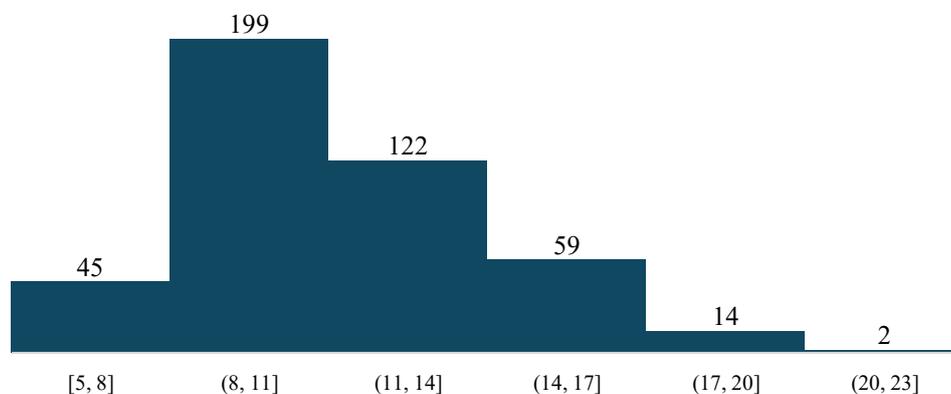


Figure 24: Number of Board Members Distribution in Large Italian Listed Companies [2020-2024]

The average number of board members among Italian listed companies between 2020 and 2024 is 11,4 directors, which is consistent with the findings of the SpencerStuart (2025) study (see Figure 2), which also reports an average of 11 directors for Italian companies. Notably, 321 observations, more than one-third of the sample, reported a board size between 8 and 14 members.

A larger BoD may hinder effective decision-making and oversight, potentially having a negative impact on firm performance (Fratini and Tettamanzi, 2020). However, as shown in Figure 24, only 16 observations registered a “Board Size” greater than 17, indicating they are outliers within the sample. Given that the average board size in the

⁹⁹ Italian Civil Code – Article 2380-bis

¹⁰⁰ Article 4. Appointment of directors and board evaluation, Recommendations: 23, *CORPORATE GOVERNANCE CODE*, 2020

sample aligns with the findings of Spencer Stuart (2025), which reports an average of approximately 10,5 board members for global companies and 11 for Italian companies, we do not expect the negative implications proposed by Fratini and Tettamanzi to materialize in this context. Therefore, we expected the “Board Size” to be positively correlated with the “ESG Score”, “Environmental Pillar Score”, “Social Pillar Score” and “Governance Pillar Score”, although the correlation is not expected to be highly significant.

6.3.13. Independent Board Members

In Italian legislation, various regulatory texts define the criteria for the independence of directors, as a result of a significant debate since the early 2000s (Santella et al., 2005). The topic is extensively addressed in the “Italian Corporate Governance Code¹⁰¹” and it was initially formalized in the “Report Code of Conduct” (1999), also known as Preda Code, which outlines the main independence criteria for directors:

«An adequate number of non-executive directors shall be independent, in the sense that they:

- a) do not entertain business relationships with the company, its subsidiaries, the executive directors or the shareholder or group of shareholders who controls the company of a significance able to influence their autonomous judgement;
- b) do not own, directly or indirectly, a quantity of shares enabling them to control the company or participate in shareholders’ agreements to control the company.»¹⁰²

¹⁰¹ Article 2: Composition of the corporate bodies; *Recommendations*: 7, 2020.

¹⁰² Glass Lewis, 2022 Policy Guidelines - Italy

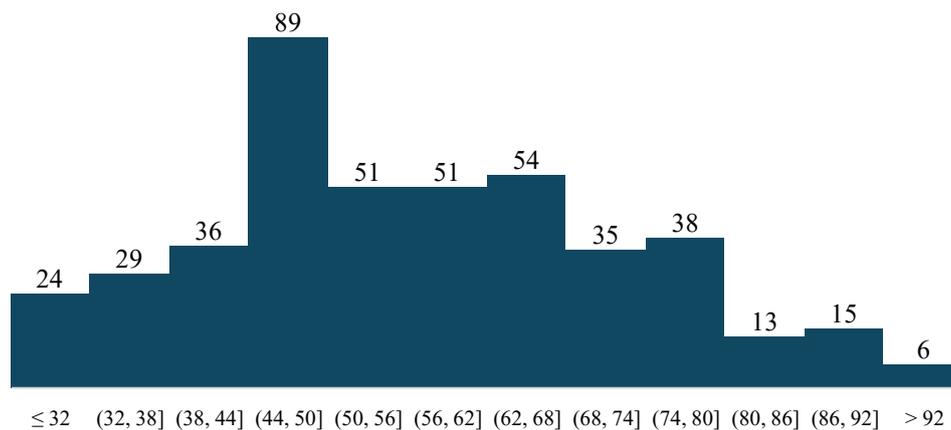


Figure 25: Independent Directors Distribution in Large Italian Listed Companies (%) [2020-2024]

According to the “Corporate Governance Code”¹⁰³, issuers included in the FTSE-Mib index are required to have at least one-third (approximately 33%) of their BoD composed of independent directors. If this threshold is not met, the board must still include no fewer than two independent directors. As shown in Figure 25, 24 observations in the sample reported boards with no more than 32% independent directors, representing only 5% of the sample. The average proportion of independent directors across the sample is 56,72%, which aligns closely with the data presented in Figure 6 of the SpencerStuart (2025) study, where the Italian average was 56% compared to a global average of 68%. Remarkably, 107 observations, roughly one-fourth of the sample, reported BoD with more than 68% independent directors.

According to Menicucci and Paolucci (2022), board independence has a significant positive impact on the ESG performance of Italian banks, particularly in relation to sustainability performance. Furthermore, independent directors are considered crucial to prevent opportunistic behaviour within firms (Masulis & Zhang, 2019), reinforcing their relevance in governance matters. This view is further supported by Mirone et al. (2021), who emphasize the role of independent board members in enhancing CSR policies. However, independent directors do not appear to be strongly correlated with a company’s ability to fulfill social obligations linked to business dynamics. A similar pattern is

¹⁰³ Article 3: Independent Directors; *Criteria*: 3.C.3, 2020.

observed by Fera et al. (2025), who find that in Italian firms there is a positive correlation between the presence of minority shareholders, a key component of “Governance Pillar Score”, and the number of independent board members. Notably, independent directors seem to be highly correlated with environmental performance.

According to the above-mentioned studies, we expect the “Independent Board Members” to be positively correlated with the “ESG Score”, as well as with its three individual components: “Environmental Pillar Score”, “Social Pillar Score” and “Governance Pillar Score”. In particular, a strong correlation is probable with the “Governance Pillar Score”, due to the role of independent directors in supporting CSR initiatives and protecting minority shareholders, and with the “Environmental Pillar Score”, as previously demonstrated in the literature (Menicucci and Paolucci, 2022 & Fera et al., 2025). Contrarywise, the correlation with the “Social Pillar Score” is expected to be positive but not statistically significant. Eventually, the correlation with the “ESG Score” is also expected to be strong, but less pronounced than the correlations observed with the “Environmental Pillar Score” and “Governance Pillar Score”, as a result of the combined influence of the three pillars.

6.3.14. Female Directors

Italian legislation has introduced specific regulations to strengthen female representation on BoDs. Firstly, with the Golfo-Mosca Law (2012), which mandated a minimum representation of 33% for the less represented gender. This requirement was later reinforced by the Budget Law 2020¹⁰⁴, which increased the quota to 40%.

¹⁰⁴ N° 160 of December 27, 2019

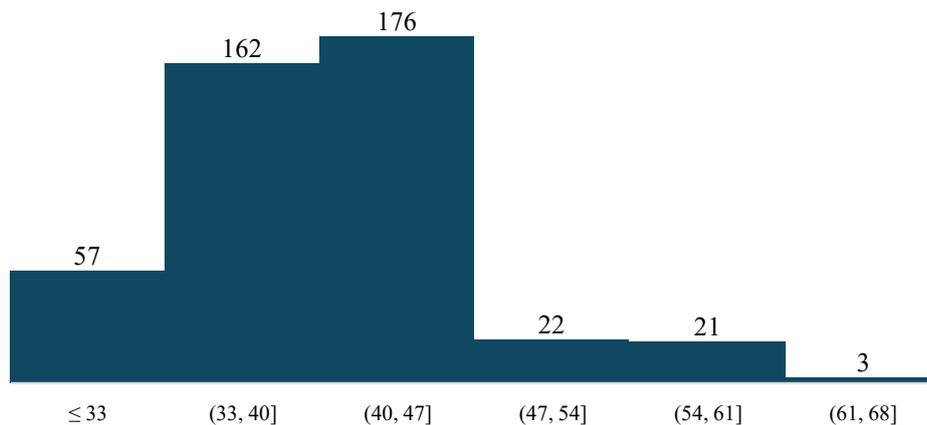


Figure 26: Female Directors Distribution in Large Italian Listed Companies (%) [2020-2024]

As shown in Figure 26, the majority of observations (384) report a female board representation above 33%, indicating that most of the Italian listed companies are compliant with national gender diversity regulations. However, 13% of the sample reported a female representation below 33%, suggesting that some companies have not yet aligned with the legislative requirements. Furthermore, approximately 77% of the sample falls within the range (33%, 47%], which implies that female directors rarely constitute the majority of the BoDs. This suggests that many Italian listed companies aim to fulfill the minimum threshold established by the Budget Law 2020, rather than exceeding it. Consequently, the average percentage of female directors in Italian listed companies is 39,86%, which is slightly lower than the minimum target set by Budget Law 2020, but close to the 43% national average reported in the OECD 2022 study (Figure 4).

The presence of female directors is essential for broadening strategic perspectives (Rossi et al., 2017) and adding the quality of boardroom discussions (Morrone et al., 2022). According to Menicucci and Paolucci (2022; 2024), the presence of women on BoDs is positively correlated with ESG performance, particularly in the banking¹⁰⁵ and utility¹⁰⁶ sectors. Their findings also indicate a strong and positive correlation with both the environmental and social dimensions. Based on the literature, it is expected that the “Female Directors” is positively and strongly correlated with the “Environmental Pillar

¹⁰⁵ Board Diversity and ESG Performance: Evidence from the Italian Banking Sector - *Sustainability* 2022, 14, 13447.

¹⁰⁶ Women on Board and ESG Performance: Insights from the Italian Utilities Sector - *Canadian Center of Science and Education*, 2024, Vol. 19, N° 3

Score”, “Social Pillar Score” and the “ESG Score”, though the correlation with the latter may be slightly lower due to the compound effect of the three pillars. Finally, a positive but less pronounced correlation is expected with the “Governance Pillar Score”, as there is no substantial evidence in the literature revealing a strong correlation between the presence of female directors and governance performance in Italian listed companies’ boards.

6.3.15. Average Directors’ Age

Italian legislation does not set any specific rules regarding the age for directors.

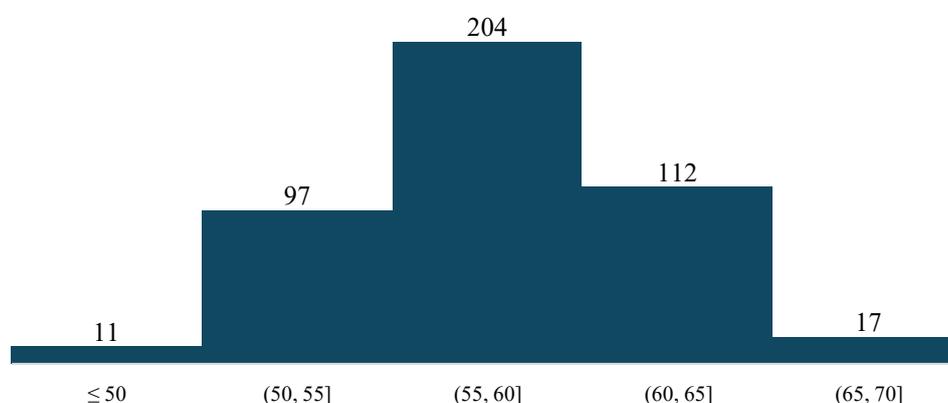


Figure 27: Average Directors' Age Distribution in Large Italian Listed Companies [2020-2024]

In Figure 27, only 6% of the observations (28) are outside of the age range (50,65], with almost half of the sample reporting an average BoD age between (55, 60 years]. As a result, the average directors’ age of the whole sample is 57,8 years, in line with the findings of Heidrick & Struggles’ (2023) analysis of European boards, where the average age was 57 years at the European level and for Italian listed companies (Figure 3).

According to Menicucci and Paolucci (2022), the average board age of directors does not show a statistically significant correlation with ESG performance in the banking sector among Italian listed companies. However, a study by Marrone et al. (2023) found that the average age of directors, surprisingly, is positively correlated with ESG disclosure, within the CSR Strategy theme of “Governance Pillar Score”. On the other hand, Collevocchio et al. (2023) report that older boards are associated with a reduction

in ESG performance, specifically in relation to sustainability strategies and ethical business conduct.

Based on the literature, the “Average Directors’ Age” is expected to be positively correlated with the “Governance Pillar Score” (Marrone et al., 2023). Contrarywise, we expect a negative correlation with the “Environmental Pillar Score”, “Social Pillar Score” the “ESG Score” (Collecchio et al., 2023). However, it is probable that the correlations with the individual pillars are stronger than with the “ESG Score” (Menicucci and Paolucci, 2022), as the latter may reflect contrasting effects across dimensions.

6.3.16. Revenue

In Italy, Small and Medium Enterprises (SMEs) play a critical role in the national economy. According to the European Investment Bank (2021), SMEs represent approximately 99,9% of all active companies, amounting to around 4.4 million enterprises, and contribute to 70% of the Gross Value Added (GVA). Moreover, micro-enterprises, defined as enterprises with less than 10 employees and annual revenues below €2 million, account for 94,9% of all SMEs¹⁰⁷.

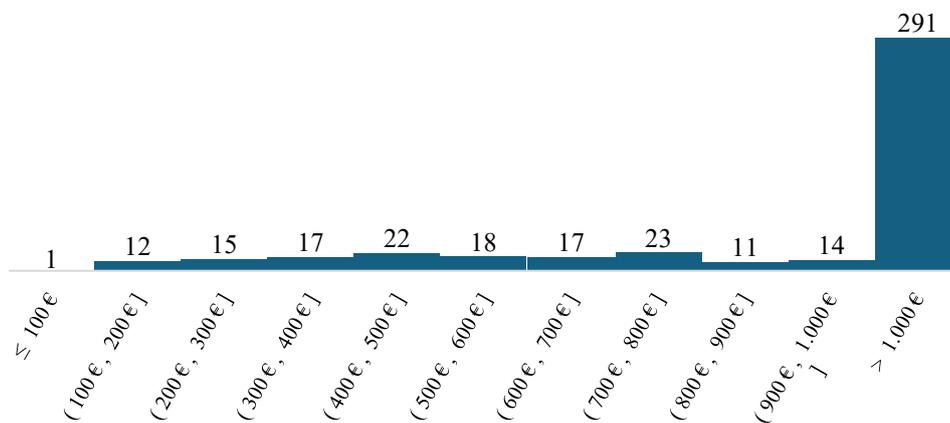


Figure 28: Revenue Distribution in Large Italian Listed Companies (million) [2020-2024]

¹⁰⁷ The digitalisation of small and medium-sized enterprises in Italy - Models for financing digital projects: Summary report, *European Investment Bank*, 2021.

As shown in Figure 28, more than half of the sample (291 observations) reported revenues exceeding €1.000 million. The remaining 150 appear to be equally distributed within the revenue range (€100, €1.000 million].

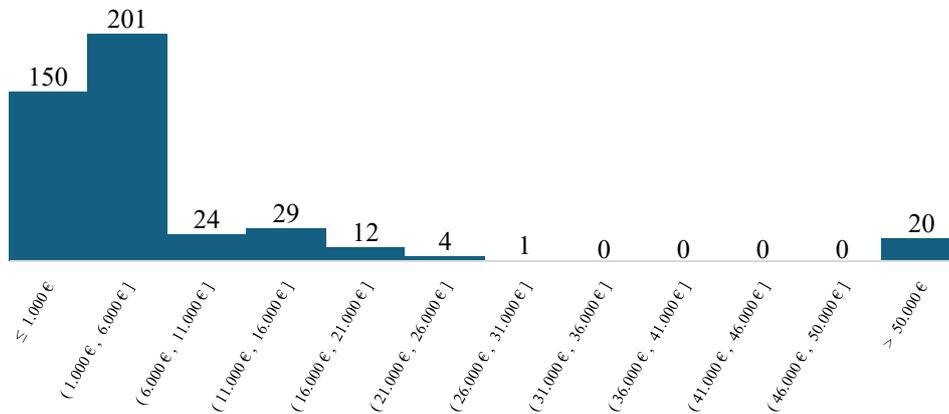


Figure 29: Revenue Distribution in Large Italian Listed Companies Upper Bound (million) [2020-2024]

However, the same distribution pattern does not apply to the upper bound of the sample. Among the initial 291 observations, 201 observations reported revenues between (€1.000, €6.000 million], while only 20 observations recorded revenues exceeding €50.000. As a result, the average annual revenue recorded by the companies in the sample is €8.097 million, exceeding one third of the observations. Given this skewed distribution, the “Revenue” variable has been transformed into a logarithm for use in the OLS regressions to reduce variability and minimize the impact of extreme values.

According to Pulino et al. (2022), the ESG score has a positive impact on firm performance, measured through EBIT and ROA, particularly in relation to the environmental and social dimensions, while no statistically significant impact was observed on the governance pillar. Similarly, Baldissera (2023) in her research on Italian blue chips, found that good economic performance favours the adoption of ESG practices, especially in the context of sustainability strategies. Based on this literature, it is expected that “Revenue” will be positively correlated with all dependent variables. However, the strongest correlation is expected with the “Environmental Pillar Score”, followed by slightly weaker correlations with the “ESG Score” and “Social Pillar Score” and not statistically significant correlation with the “Governance Pillar Score”.

6.3.17. Market Capitalization

Under Italian legislation, SMEs issuing listed shares are defined as companies with a market capitalization of less than € 1 billion, as stated by CONSOB¹⁰⁸. Furthermore, according to a 2025 study by Borsa Italiana, out of 408 listed companies, more than 80% (321 companies) are SMEs¹⁰⁹.

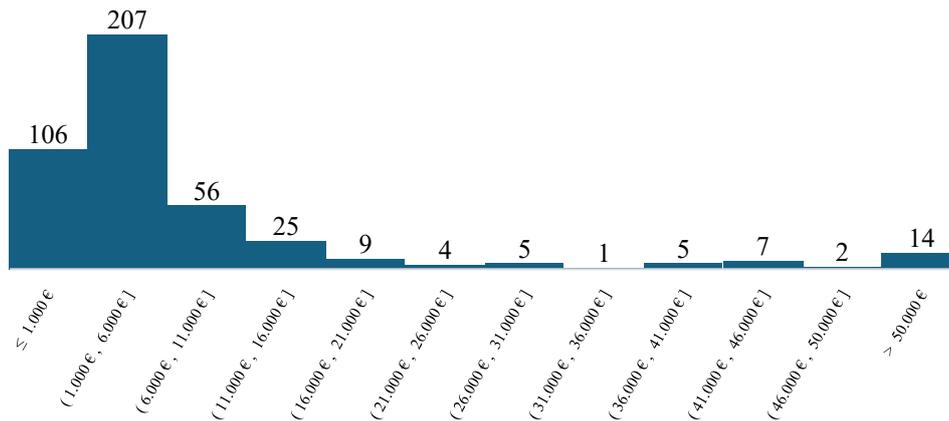


Figure 30: Market Capitalization Distribution in Large Italian Listed Companies (million) [2020-2024]

As previously explained, the final sample includes companies classified as large enterprises by the European Commission. However, almost one-fourth of them (106 observations) would be classified as SMEs under Italian legislation, based on their market capitalization. A similar uneven distribution observed for annual revenues (Figure 29) is also evident for market capitalization among Italian listed companies (Figure 30). As in the previous graph, the majority of the observations fall within the range (€1.000; €6.000 million]. Consequently, the average market capitalization across the sample is €8.093 million, which is very close to the average annual revenue (8.097 million) and exceeds the market capitalization of one-third of the observations. Due to this skewed distribution, the “Market Capitalization” variable has been transformed into a logarithm for the OLS regressions, in order to reduce variability and minimize the influence of extreme values.

According to Bifulco and Tiscini (2024), there is a positive but statistically non-significant correlation between ESG performance and the market value of Italian listed

¹⁰⁸ CONSOB: CONSOB AND ITS ACTIVITIES – PARTICIPANTS AND MARKETS – LISTED COMPANIES – SMES, 1. Regulation, January 2025

¹⁰⁹ BORSA ITALIANA, Borsa Italiana for SMES, Primary Markets Italy, March 2025

companies. In contrast, D’Arcangelis et al. (2025) found a positive correlation between ESG performance and stock performance, particularly in the environmental and social dimensions. However, this latter study focused specifically on SMEs. Since SMEs represent only one-fourth of the total sample, a positive correlation is expected between “Market Capitalization” and all dependent variables (“ESG Score”, “Environmental Pillar Score”, “Social Pillar Score” and “Governance Pillar Score”). The correlation is probable to be stronger with the first three variables, while less significant for “Governance Pillar Score”.

7. Results

7.1. ESG Score

“Table 1” presents the results of four different OLS regression analysis for “ESG Score” as the dependent variable.

7.1.1. TOTAL Regression Analysis

The “TOTAL” regression analysis shows overall strong significance, with the F-statistic (1276,00) being strong evidence that the model fits. This is further supported by the p-value and the adjusted R^2 , which is close to 1, reinforcing the explanatory function of the model.

The three pillars (Environmental, Social and Governance), as predicted, show a positive and very strong correlation with the dependent variable, with the “Governance Pillar Score” displaying the strongest correlation. Contrary to the initial hypothesis, “CSR Strategy Score”, “CSR Sustainability Committee” and “Corporate Governance Board Committee” show a negative correlation with respect to the “ESG Score” variable, although none of them are statistically significant.

Inversely, “Audit Board Committee”, “Nomination Board Committee” and “Compensation Board Committee”, confirming the initial prediction, are all positively correlated with the dependent variable. However, only the coefficients for “Audit Board Committee” and “Nomination Board Committee” are statistically significant, indicating a strong relationship.

Interestingly, both “Number of Board Meetings” and “Average Age of Directors” are significantly and negatively correlated with the “ESG Score”, in line with the initial hypothesis, although the significance of the “Number of Board Meetings” was not expected. On the other hand, the variables “Board Size”, “Independent Board Members” and “Female on Board” are not statistically significant, which was unexpected, especially in the case of the latter two independent variables. Their coefficients are either negative or close to zero.

In conclusion, the two monetary variables showed divergent results. “Log Revenue” is strongly and positively correlated with the “ESG Score”, while “Log Company Market Capitalization” is the opposite, it is negatively correlated but not statistically significant.

7.1.2. PILLAR EXCLUSION Regression Analysis

In the second OLS regression analysis, titled “PILLAR EXCLUSION”, the F-statistic is lower (54,22) compared to the previous OLS regression, due to the exclusion of the pillar variables that were shown to be highly correlated with the “ESG Score”. Nevertheless, the model still has a good overall fit, with a p-value close to zero and a high adjusted R² (above 0,6), indicating statistical significance.

Unlike in the “TOTAL” regression analysis, the variable “CSR Strategy Score” shows a strong and positive correlation with the “ESG Score”. Meanwhile, “CSR Sustainability Committee” and “Corporate Governance Board Committee” remain statistically insignificant, though their coefficients are now positive.

The results for “Audit Board Committee”, “Nomination Board Committee” and “Compensation Board Committee” are consistent with what was observed in the “TOTAL” regression analysis.

Notably, “Number of Board Meetings” remains statistically significant, but differently from the “TOTAL” regression analysis, it now shows a positive coefficient. Additionally, “Board Size” and “Independent Board Members” have become statistically significant in this model, with “Board Size” reporting a negative coefficient and “Independent Board Members” a positive one.

Conversely, “Female on Board” and “Average Age of Directors” confirmed their level of significance in the regression analysis. However, the coefficient for “Average Age of Directors” is now positive, contradicting the initial hypothesis.

Finally, “Log Revenue” confirms its previous result with the “ESG Score”, while the results for “Log Company Market Capitalization” shift completely. Unlike in the “TOTAL” regression analysis, “Log Company Market Capitalization” in this model shows a strong and positive correlation with the “ESG Score”.

7.1.3. GOVERNANCE Regression Analysis

In the third OLS regression analysis, titled “GOVERNANCE”, the F-statistic is lower (47,43) compared to the previous OLS regression, reflecting the exclusion of the monetary variables that were shown to be highly correlated with the “ESG Score”. Nevertheless, the model still has a good overall fit, with a p-value close to zero and a relatively high adjusted R^2 (above 0,5), indicating statistical significance.

“CSR Strategy Score” and “CSR Sustainability Committee” confirm the results observed in the “PILLAR EXCLUSION” regression analysis.

Similarly, the other committees’ variables (“Corporate Governance Board Committee”, “Audit Board Committee”, “Nomination Board Committee” and “Compensation Board Committee”) continue to show positive correlations with the “ESG Score”. Among them, only the “Compensation Board Committee” remains statistically insignificant.

The variables “Number of Board Meetings”, “Independent Board Members”, “Average Age of Directors” also confirm the results previously reported in the “PILLAR EXCLUSION” regression analysis.

In conclusion, “Board Size” and “Female on Board” exhibit deviations from the previous model. “Board Size” is no longer statistically significant in the third model, while “Female on Board” remains statistically insignificant but, differently from the second regression analysis, shows a negative coefficient.

7.1.4. MONETARY Regression Analysis

The F-statistic (147,50) of the fourth model is higher than that of the second and third models, indicating strong overall significance. However, the adjusted R^2 (close to 0,4) is slightly lower than in the previous three models. Despite this, the “MONETARY” regression analysis can still be considered statistically significant and a good fit for its variables, as confirmed by its p-value.

Eventually, both “Log Revenue – Mean” and “Log Company Market Capitalization” show a positive and strong correlation with the dependent variable, “ESG Score”.

7.1.5. Overview of ESG Score Regression Analysis Results

Among the four regression models, the first (“TOTAL”) is the most statistically significant and exhibits the best overall fit, followed by the fourth (“MONETARY”). In contrast, the second and the third models show relatively similar levels of statistical significance and model fit.

As expected, the three ESG pillars are the independent variables most strongly correlated with the “ESG Score”. Additionally, other independent variables that consistently showed statistical significance and a strong correlation with the dependent variable are: “Audit Board Committee”, “Nomination Board Committee” and “Log Revenue”. “Number of Board Meetings” and “Average Age of Directors” were also statistically significant overall, however, the sign of their coefficients varied.

Several independent variables showed incongruencies across the models. For instance, “CSR Strategy Score”, “Governance Board Committee” and “Log Company Market Capitalization” were not always statistically significant, especially in the first model, and also shifted in the sign of their coefficients. Similarly, “Board Size” and “Independent Board Members” were sometimes statistically insignificant, both in the “TOTAL” model, too. On the contrary, “CSR Sustainability Committee” and “Female on Board” were never statistically significant, although their coefficients varied in sign across models.

In conclusion, the only independent variable that was consistently statistically insignificant and maintained a stable coefficient, in this case positive, across all models was the “Compensation Board Committee”.

Table 1: Variables' Impact on "ESG Score"

Variable	TOTAL	PILLAR EXCLUSION	GOVERNANCE	MONETARY
<i>(Intercept)</i>	-9,12*** (-3,24)	-83,11*** (-7,30)	-7,15 (0,86)	-96,27*** (-10,23)
<i>Environmental Pillar Score</i>	0,25*** (31,44)			
<i>Social Pillar Score</i>	0,44*** (48,16)			
<i>Governance Pillar Score</i>	0,28*** (37,28)			
<i>CSR Strategy Score</i>	-0,01 (-0,96)	0,20*** (8,19)	0,27*** (10,96)	
<i>CSR Sustainability Committee Corporate Governance Board</i>	-0,50 (-1,20)	2,09 (1,17)	2,50 (1,29)	
<i>Committee</i>	-0,44 (1,47)	0,00 (0,00)	3,78*** (2,90)	
<i>Audit Board</i>	1,14** (2,18)	6,64*** (3,02)	7,66*** (3,22)	
<i>Committee</i>	0,84*** (2,60)	4,07*** (2,96)	4,15*** (2,77)	
<i>Nomination Board</i>	0,38 (0,61)	2,49 (0,95)	2,80 (0,86)	
<i>Compensation Board Committee</i>	-0,04** (-2,12)	0,41*** (4,94)	0,42*** (4,73)	
<i>Meetings</i>	-0,05 (1,21)	-0,52*** (-2,80)	-0,27 (-1,35)	
<i>Board Size</i>	0,00 (0,24)	0,15*** (4,33)	2,21*** (5,87)	
<i>Independent Board Members</i>	0,01 (0,51)	0,02 (0,87)	-0,05 (-0,69)	
<i>Female on Board</i>	-0,07** (-2,30)	0,32*** (2,60)	0,50*** (3,80)	
<i>Average Age of Directors</i>	1,58*** (6,16)	5,46*** (5,09)		9,43*** (7,88)
<i>Log Revenue</i>	-0,14 (-0,56)	4,59*** (4,29)		7,71*** (6,33)
<i>Log Company Market Capitalization</i>				
N° Observations	441	441	441	441
F-statistic	1276,00	54,22	47,43	147,50
p-value	0,000	0,000	0,000	0,000
Adjusted R²	0,979	0,611	0,537	0,400

Dependent variable: "ESG Score"

T-statistic in parenthesis

***p<0,01, **p<0,05, *p<0,1

7.2. Environmental Pillar Score

“Table 2” presents the results of four different OLS regression analysis for “Environmental Pillar Score” as the dependent variable.

7.2.1. TOTAL Regression Analysis

The “TOTAL” regression analysis shows good overall statistical significance with the F-statistic (40,48) providing evidence that the model fits. This is further supported by the p-value and the adjusted R^2 (approximately 0,6), reinforcing the explanatory function of the model.

As predicted, the other two ESG pillars (Social and Governance) show a very strong correlation with the dependent variable, with the “Social Pillar Score” displaying the strongest correlation. However, their coefficient is different in direction: the “Social Pillar Score” is positively correlated with the dependent variable, while the “Governance Pillar Score” has a negative coefficient, contrary to the initial hypothesis.

Only two variables confirm the original expectations: “CSR Strategy Score” and “Compensation Board Committee”. “CSR Strategy Score” is positively and strongly correlated with the dependent variable and “Compensation Board Committee” is positively but not statistically significant. In contrast to the initial hypothesis, “CSR Sustainability Committee”, “Corporate Governance Board Committee”, “Audit Board Committee” and “Nomination Board Committee” are all statistically insignificant in relation to the “Environmental Pillar Score”. Among these, only “Audit Board Committee” reports a negative coefficient.

“Board Size” also aligns with the initial hypothesis, showing a positive but not statistically significant effect. A similar outcome was expected for “Number of Board Meetings” variable, however, it resulted in being positively correlated and statistically significant.

On the other hand, “Independent Board Members”, “Female on Board” and “Average Age of Directors” are all statistically insignificant, with coefficients that are either slightly positive or close to 0. This result was unexpected, especially for “Independent Board Members” and “Average Age of Directors”. Furthermore, the positive coefficient of the latter independent variable contradicts the original hypothesis.

In conclusion, the two monetary variables showed the same result. “Log Revenue” and “Log Company Market Capitalization” are both strongly and positively correlated with the “Environmental Pillar Score”, in line with the initial expectations.

7.2.2. PILLAR EXCLUSION Regression Analysis

In the second OLS regression analysis, titled “PILLAR EXCLUSION”, the F-statistic is lower (33,96) compared to the previous OLS regression, reflecting the exclusion of the pillar variables that were previously shown to be highly correlated with the “Environmental Pillar Score”. Nevertheless, the model still has a good overall fit, with a p-value close to zero and a high adjusted R^2 (close to 0,5), indicating statistical significance.

The results for “CSR Strategy Score”, “CSR Sustainability Committee”, “Corporate Governance Board Committee”, “Audit Board Committee”, “Nomination Board Committee”, “Compensation Board Committee”, “Number of Board Meetings”, “Board Size” and “Independent Board Members” are consistent with those observed in the “TOTAL” regression analysis. Notably, the coefficients for “Corporate Governance Board Committee”, “Compensation Board Committee” and “Board Size” have reported decreased substantially in magnitude.

Differing from the “TOTAL” regression analysis, the variable “Female on Board” reports a negative coefficient, although it remains statistically insignificant. In the meantime, “Average Age of Directors” has become statistically significant and is positively correlated with the dependent variable.

Finally, both “Log Revenue” and “Log Company Market Capitalization” confirm the results observed in the previous model, exhibiting even greater statistical significance in this regression.

7.2.3. GOVERNANCE Regression Analysis

In the third OLS regression analysis, titled “GOVERNANCE”, the F-statistic is lower (32,05) compared to the previous OLS regression, reflecting the exclusion of the monetary variables that were shown to be highly correlated with the “Environmental Pillar Score”. Nevertheless, the model still has a good overall fit, with a p-value close to zero and a relatively high adjusted R^2 (above 0,4), indicating statistical significance.

The variables “CSR Strategy Score”, “CSR Sustainability Committee”, “Audit Board Committee”, “Nomination Board Committee”, “Compensation Board Committee”, “Number of Board Meetings”, “Board Size”, “Independent Board Members”, “Female on Board” and “Average Age of Directors” confirm the results observed in the “PILLAR EXCLUSION” regression analysis.

The only exception is “Corporate Governance Board Committee”, which, for the first time across the three models, is statistically significant and positively correlated with the dependent variable.

7.2.4. MONETARY Regression Analysis

The fourth model’s F-statistic (109,60) is the highest among all models, indicating strong overall significance. However, the adjusted R^2 (close to 0,3) is slightly lower than in the previous three models. Despite this, the “MONETARY” regression analysis can still be considered statistically significant and a good fit for its variables, as confirmed by its p-value.

Eventually, both “Log Revenue – Mean” and “Log Company Market Capitalization” display a positive and strong correlation with the dependent variable, “Environmental Pillar Score”, with effects greater than those observed in the previous models.

7.2.5. Overview of Environmental Pillar Score Regression Analysis

Results

Among the four regression models, the last one (“MONETARY”) is the most statistically significant and exhibits the best overall fit, followed by the first (“TOTAL”). In contrast, the second and the third models show relatively similar levels of statistical significance and model fit.

As expected, the other two ESG pillars are strongly correlated with the “Environmental Pillar Score”. Additionally, several independent variables consistently showed a strong correlation with the dependent variable: “CSR Strategy Score”, “Number of Board Meetings”, “Log Revenue” and “Log Company Market Capitalization”. Among these, the latter two displayed the highest correlation across the models.

Several independent variables were consistently statistically insignificant while maintaining a positive coefficient across all models: “CSR Sustainability Committee”,

“Nomination Board Committee”, “Compensation Board Committee”, “Board Size”, “Independent Board Members”. Conversely, “Audit Board Committee” and “Female on Board” were also consistently insignificant but reported a negative coefficient throughout all models.

Some variables showed incongruencies across the models. For instance, “Governance Board Committee” constantly had a positive coefficient but was statistically significant only in the third model. Similarly, “Average Age of Directors” remained positively correlated to the dependent variable in all models, but in the first model was statistically insignificant.

In conclusion, it is noteworthy that most of the independent variables showed an increase in the positiveness of their coefficients, such as “CSR Strategy Score”, “CSR Sustainability Committee”, “Audit Board Committee”, “Nomination Board Committee”, “Board Size”, “Independent Board Members”, “Average Age of Directors”, “Log Revenue” and “Log Company Market Capitalization”. In contrast, only two independent variables (“Compensation Board Committee” and “Female on Board”) exhibited a decrease in coefficient value across the models.

Table 2: Variables' Impact on "Environmental Pillar Score"

Variable	TOTAL	PILLAR EXCLUSION	GOVERNANCE	MONETARY
<i>(Intercept)</i>	-76,62*** (-4,56)	-109,43*** (-6,19)	-18,03 (-1,44)	-135,29*** (-10,00)
<i>Social Pillar Score</i>	0,46*** (8,89)			
<i>Governance Pillar Score</i>	-0,16*** (-3,52)			
<i>CSR Strategy Score</i>	0,17*** (4,65)	0,23*** (6,12)	0,32*** (8,58)	
<i>CSR Sustainability Committee Corporate</i>	1,93 (0,76)	2,01 (0,72)	2,41 (0,83)	
<i>Governance Board Committee</i>	2,08 (1,14)	0,51 (0,26)	5,03** (2,57)	
<i>Audit Board Committee</i>	-3,95 (-1,23)	-3,57 (-1,05)	-2,42 (0,68)	
<i>Nomination Board Committee</i>	0,14 (0,07)	0,52 (0,24)	0,65 (0,29)	
<i>Compensation Board Committee</i>	4,97 (1,32)	3,09 (0,76)	1,12 (0,26)	
<i>Number of Board Meetings</i>	0,85*** (7,12)	0,92*** (7,24)	0,94*** (7,02)	
<i>Board Size</i>	0,34 (1,27)	0,08 (0,28)	0,38 (1,26)	
<i>Independent Board Members</i>	0,07 (1,24)	0,05 (1,00)	0,14 (1,42)	
<i>Female on Board</i>	0,00 (0,04)	-0,03 (0,34)	-0,15 (-1,54)	
<i>Average Age of Directors</i>	0,22 (1,23)	0,55*** (2,91)	0,77*** (3,88)	
<i>Log Revenue</i>	3,74** (2,40)	6,25*** (3,75)		11,45*** (6,66)
<i>Log Company Market Capitalization</i>	4,15*** (2,68)	5,80*** (3,49)		9,80*** (5,60)
N° Observations	441	441	441	441
F-statistic	40,48	33,96	32,05	109,60
p-value	0,000	0,000	0,000	0,000
Adjusted R²	0,574	0,493	0,437	0,331

Dependent variable: "Environmental Pillar Score"

T-statistic in parenthesis

***p<0,01, **p<0,05, *p<0,1

7.3. Social Pillar Score

“Table 3” presents the results of four different OLS regression analysis for “Social Pillar Score” as the dependent variable.

7.3.1. TOTAL Regression Analysis

The “TOTAL” regression analysis shows good overall statistical significance with the F-statistic (32,06) providing evidence that the model offers a moderate fit. This is further supported by the p-value and the adjusted R^2 (slightly above 0,5), reinforcing the explanatory power of the model.

As predicted, the other two ESG pillars (Environmental and Governance) exhibit a positive and very strong correlation with the dependent variable, with the “Environmental Pillar Score” displaying the highest correlation. This finding is consistent with the result previously observed when the “Environmental Pillar Score” was the dependent variable.

In line with initial expectations, “CSR Strategy Score” is positively and strongly correlated with the dependent variable.

“Corporate Governance Board Committee”, “Board Size” and “Average Age of Directors” are also statistically significant, although all of them report coefficient signs contrary to the original hypothesis. Specifically, both “Corporate Governance Board Committee” and “Board Size” were expected to show positive coefficients, however, they report negative ones, while “Average Age of Directors” shows a positive coefficient, contrary to the initial prediction.

Among the remaining independent variables, “CSR Sustainability Committee”, “Audit Board Committee”, “Nomination Board Committee” and “Independent Board Members” confirm the expected coefficient signs, however, all of them are statistically insignificant.

Conversely, “Compensation Board Committee”, “Number of Board Meetings” and “Female on Board” are also statistically insignificant but display coefficient signs opposite to what was initially hypothesized, all three having negative coefficients.

In conclusion, both monetary variables, “Log Revenue” and “Log Company Market Capitalization”, are strongly and positively correlated with the “Social Pillar Score”, exceeding the initial expectations of statistical significance.

7.3.2. PILLAR EXCLUSION Regression Analysis

In the second OLS regression analysis, titled “PILLAR EXCLUSION”, the F-statistic is lower (24,09) compared to the previous OLS regression, reflecting the exclusion of the pillar variables that were previously shown to be highly correlated with the “Social Pillar Score”. Nevertheless, the model still has a moderate fit, with a p-value close to zero and a good adjusted R^2 (close to 0,4), indicating moderate statistical significance.

The results for “CSR Strategy Score”, “CSR Sustainability Committee”, “Nomination Board Committee”, “Compensation Board Committee”, “Board Size”, “Female on Board” and “Average Age of Directors” are consistent with those observed in the “TOTAL” regression analysis.

Differing from the “TOTAL” regression analysis, the variables “Audit Board Committee”, “Number of Board Meetings” and “Independent Board Members” are all statistically significant and positively correlated with the dependent variable. Notably, “Number of Board Meetings” has changed its coefficient sign between the models, turning from negative to positive.

Furthermore, “Corporate Governance Board Committee” lost its statistical significance in this model, though it maintains a negative coefficient.

Finally, both “Log Revenue” and “Log Company Market Capitalization” confirm the results observed in the previous model, exhibiting even greater statistical significance in this regression analysis.

7.3.3. GOVERNANCE Regression Analysis

In the third OLS regression analysis, titled “GOVERNANCE”, the F-statistic is lower (21,79) compared to the previous OLS regression analysis, reflecting the exclusion of the monetary variables that were shown to be highly correlated with the “Social Pillar Score”. Nonetheless, the model still has a moderate overall fit, with a p-value close to zero and a relatively moderate adjusted R^2 (above 0,3), indicating moderate statistical significance.

The variables “CSR Strategy Score”, “CSR Sustainability Committee”, “Nomination Board Committee”, “Compensation Board Committee”, “Number of Board Meetings”, “Independent Board Members”, “Female on Board” and “Average Age of Directors” confirm the results observed in the “PILLAR EXCLUSION” regression analysis.

The only exception is “Corporate Governance Board Committee”, which, for the first time across the three models, shows a positive correlation with the dependent variable, though it remains statistically insignificant.

In conclusion, “Audit Board Committee” and “Board Size” slightly changed their levels of statistical significance compared to the second model. Precisely, the statistical significance of “Audit Board Committee” increases, while that of “Board Size” drastically decreases.

7.3.4. MONETARY Regression Analysis

The fourth model’s F-statistic (89,95) is the highest among all models, indicating strong overall significance. However, the adjusted R^2 (close to 0,3) is slightly lower than in the previous three models. Despite this, the “MONETARY” regression analysis can still be considered statistically significant and a good fit for its variables, as confirmed by its p-value.

Eventually, both “Log Revenue” and “Log Company Market Capitalization” display a positive and strong correlation with the dependent variable, “Social Pillar Score”, with effects greater than those observed in the previous models.

7.3.5. Overview of Social Pillar Score Regression Analysis Results

Among the four regression models, the final one (“MONETARY”) is the most statistically significant and exhibits the best overall fit, followed by the first (“TOTAL”). In contrast, the second and the third models show relatively similar levels of statistical significance and model fit.

As expected, the other two ESG pillars are strongly correlated with the “Social Pillar Score”. In addition, several independent variables consistently demonstrated a strong correlation with the dependent variable: “CSR Strategy Score”, “Board Size”, “Average Age of Directors” “Log Revenue” and “Log Company Market Capitalization”. Among these, “Environmental Pillar Score” displayed the highest correlation across the models and “Board Size” was the only independent variable to constantly have a negative coefficient.

Two independent variables were consistently statistically insignificant while maintaining a positive coefficient across all models: “CSR Sustainability Committee” and

“Nomination Board Committee”. Conversely, “Compensation Board Committee” and “Female on Board” were also consistently insignificant but reported a negative coefficient throughout all models.

Some variables showed incongruencies across the models. For instance, both “Audit Board Committee” and “Independent Board Members” constantly had positive coefficients but were statistically insignificant only in the first model. In contrast, “Corporate Governance Board Committee”, was statistically significant only in the first model. “Number of Board Meetings” was statistically insignificant with a negative coefficient in the first model, but became positively correlated and statistically significant in the second and third models.

In conclusion, it is important that most of the independent variables showed an increase in the positiveness of their coefficients across the models, significantly “CSR Sustainability Committee”, “Corporate Governance Board Committee”, “Audit Board Committee”, “Nomination Board Committee”, “Log Revenue” and “Log Company Market Capitalization”.

Table 3: Variables' Impact on "Social Pillar Score"

Variable	TOTAL	PILLAR EXCLUSION	GOVERNANCE	MONETARY
<i>(Intercept)</i>	-39,32*** (-2,68)	-83,31*** (-5,40)	-5,06 (-0,47)	-79,09*** (-7,04)
<i>Environmental Pillar Score</i>	0,34*** (8,89)			
<i>Governance Pillar Score</i>	0,19*** (5,04)			
<i>CSR Strategy Score</i>	0,08** (2,56)	0,20*** (6,10)	0,28*** (8,53)	
<i>CSR Sustainability Committee</i>	0,19 (0,09)	1,78 (0,73)	2,13 (0,84)	
<i>Governance Board Committee</i>	-2,94* (-1,88)	-1,95 (-1,14)	1,92 (1,13)	
<i>Audit Board Committee</i>	4,15 (1,51)	5,62* (1,89)	6,62** (2,12)	
<i>Nomination Board Committee</i>	1,60 (0,94)	3,00 (1,61)	3,11 (1,59)	
<i>Compensation Board Committee</i>	-4,03 (-1,24)	-1,57 (0,44)	-3,26 (-0,87)	
<i>Number of Board Meetings</i>	-0,09 (-0,85)	0,29** (2,57)	0,30** (2,58)	
<i>Board Size</i>	-0,68*** (-2,95)	-0,76*** (-2,98)	-0,50* (1,90)	
<i>Independent Board Members</i>	0,01 (0,24)	0,09** (-1,98)	0,16*** (3,347)	
<i>Female on Board</i>	-0,04 (-0,48)	-0,01 (-0,09)	-0,11 (1,27)	
<i>Average Age of Directors</i>	0,51*** (3,36)	0,67*** (4,01)	0,85*** (4,93)	
<i>Log Revenue</i>	3,30** (2,47)	5,38*** (3,70)		8,86*** (6,20)
<i>Log Company Market Capitalization</i>	2,20 (1,64)	4,94*** (3,40)		7,12*** (4,90)
N° Observations	441	441	441	441
F-statistic	32,06	24,09	21,79	89,95
p-value	0,000	0,000	0,000	0,000
Adjusted R²	0,514	0,406	0,342	0,288

Dependent variable: "Social Pillar Score"

T-statistic in parenthesis

***p<0,01, **p<0,05, *p<0,1

7.4. Governance Pillar Score

“Table 4” presents the results of four different OLS regression analysis for “Governance Pillar Score” as the dependent variable.

7.4.1. TOTAL Regression Analysis

The “TOTAL” regression analysis shows moderate statistical significance with the F-statistic (29,49) indicating that the model offers a reasonable fit. This is further supported by the low p-value and the adjusted R^2 (close to 0,5), reinforcing the explanatory power of the model.

As predicted, the other two ESG pillars (Environmental and Social) exhibit a strong correlation with the dependent variable, with the “Social Pillar Score” displaying the highest correlation. The negative correlation observed with the “Environmental Pillar Score” is consistent with the result previously obtained when the “Environmental Pillar Score” was used as the dependent variable.

In line with initial expectations, the following variables are positively correlated with the dependent variable: “CSR Strategy Score”, “CSR Sustainability Committee”, “Corporate Governance Board Committee”, “Audit Board Committee”, “Nomination Board Committee”, “Compensation Board Committee”, “Independent Board Members” and “Female on Board”. These variables exhibit varying levels of statistical significance, with “CSR Strategy Score” and “Independent Board Members” in the upper bound, while “CSR Sustainability Committee” is at the bottom.

“Number of Board Meetings” is also statistically significant, although contrary to the original hypothesis.

Among the remaining independent variables, “Board Size” and “Average Age of Directors” are statistically insignificant but display coefficient signs opposite to the initial expectations, both having negative coefficients.

In conclusion, the two monetary variables show divergent results. “Log Company Market Capitalization” is strongly and positively correlated with the “Governance Pillar Score”, while “Log Revenue” is negatively correlated but not statistically significant.

7.4.2. PILLAR EXCLUSION Regression Analysis

In the second OLS regression analysis, titled “PILLAR EXCLUSION”, the F-statistic is slightly higher (29,97) compared to the previous OLS regression. This result may be explained by the fact that the remaining independent variables are statistically significant and compensate for the exclusion of the pillar variables that were previously shown to be highly correlated with the “Governance Pillar Score”. Nevertheless, the model still has a moderate fit, with a p-value close to zero and an adjusted R^2 slightly lower than that of the “TOTAL” regression analysis, indicating moderate statistical significance.

The results for “CSR Strategy Score”, “CSR Sustainability Committee”, “Corporate Governance Board Committee”, “Audit Board Committee”, “Nomination Board Committee”, “Compensation Board Committee”, “Number of Board Meetings”, “Independent Board Members”, “Female on Board” and “Average Age of Directors” are consistent with those observed in the “TOTAL” regression analysis. Specifically, “Compensation Board Committee” and “Number of Board Meetings” exhibit a lower level of statistical significance compared to the previous model.

In contrast to the “TOTAL” regression analysis, the variable “Board Size” is statistically significant in this model, though it remains negatively correlated with the dependent variable.

Finally, both “Log Revenue” and “Log Company Market Capitalization” confirm the results observed in the previous model.

7.4.3. GOVERNANCE Regression Analysis

In the third OLS regression analysis, titled “GOVERNANCE”, the F-statistic is higher (34,41) compared to the previous OLS regression analysis, reflecting the strong correlation between the governance-related independent variables and the “Governance Pillar Score”. The model demonstrates a good overall fit, with a p-value close to zero and a moderate adjusted R^2 (above 0,45), indicating solid statistical significance.

The variables “CSR Strategy Score”, “Corporate Governance Board Committee”, “Audit Board Committee”, “Nomination Board Committee”, “Compensation Board Committee”, “Number of Board Meetings”, “Independent Board Members”, “Female on Board” and “Average Age of Directors” confirm the results observed in the “PILLAR EXCLUSION” regression analysis. Notably, both “Corporate Governance Board

Committee” and “Female on Board” change in their level of statistical significance, the former increasing in magnitude while the latter becomes less significant.

In conclusion, the only exceptions are “CSR Sustainability Committee” and “Board Size” which slightly decrease in statistical significance compared to the second model, becoming statistically insignificant, though retaining the same coefficient signs.

7.4.4. MONETARY Regression Analysis

The fourth model’s F-statistic (39,43) is the highest among all models, indicating strong overall significance. However, the adjusted R^2 (below 0,2) is lower than in the previous three models. For this reason, while the “MONETARY” regression analysis can be considered statistically significant, as confirmed by its p-value, its explanatory power remains limited.

Eventually, both “Log Revenue” and “Log Company Market Capitalization” display a positive and strong correlation with the dependent variable, “Governance Pillar Score”, with effects greater than those observed in the previous models. In fact, “Log Revenue” shows a positive and strong correlation in this model with the dependent variable, which contrasts with the results observed earlier.

7.4.5. Overview of Governance Pillar Score Regression Analysis

Results

Among the four regression models, the final one (“MONETARY”) is the most statistically significant and exhibits the best overall fit, followed by the third (“GOVERNANCE”). In contrast, the first and the second models show relatively similar levels of statistical significance and model fit.

As expected, the other two ESG pillars are strongly correlated with the “Governance Pillar Score”. Additionally, several independent variables consistently demonstrated a strong correlation with the dependent variable: “CSR Strategy Score”, “Corporate Governance Board Committee”, “Audit Board Committee”, “Nomination Board Committee”, “Compensation Board Committee”, “Number of Board Meetings”, “Independent Board Members”, “Female on Board” and “Log Company Market Capitalization”. Among these, “Social Pillar Score” exhibited the highest correlation

across the models and “Environmental Pillar Score” was the only independent variable to have a negative coefficient.

Only one independent variable, “Average Age of Directors”, was consistently statistically insignificant and maintained a negative coefficient across all models.

Some variables showed incongruencies across the models. For instance, “CSR Sustainability Committee” constantly had a positive coefficient but was statistically insignificant only in the third model. In contrast, “Board Size” was statistically significant only in the second model, though it always retained a negative coefficient. Furthermore, “Log Revenue” was statistically insignificant and negatively correlated in the first and second models but became positively correlated and statistically significant in the fourth.

In conclusion, the evolution of the coefficients across the regression analysis varied among the independent variables. Some independent variables showed an increase in the positiveness of their coefficients across the models, significantly “Nomination Board Committee”, “Average Age of Directors” and “Log Company Market Capitalization”. Conversely, a decrease in the positiveness of the coefficient was observed for independent variables like “Compensation Board Committee” and “Number of Board Meetings”.

Table 4: Variables' Impact on "Governance Pillar Score"

Variable	TOTAL	PILLAR EXCLUSION	GOVERNANCE	MONETARY
<i>(Intercept)</i>	-29,73* (-1,65)	-34,56** (-1,97)	-4,01 (-0,34)	-72,47*** (-4,93)
<i>Environmental Pillar Score</i>	-0,18*** (-3,52)			
<i>Social Pillar Score</i>	0,29*** (5,04)			
<i>CSR Strategy Score</i>	0,19*** (4,87)	0,21*** (5,48)	0,24*** (6,80)	
<i>CSR Sustainability Committee Corporate Governance Board</i>	4,47* (1,67)	4,63* (1,68)	4,19 (1,53)	
<i>Committee</i>	4,85** (2,55)	4,19** (2,15)	5,54*** (2,99)	
<i>Audit Board</i>	11,56*** (3,48)	13,82*** (4,07)	13,63*** (4,02)	
<i>Committee</i>	5,50*** (2,66)	6,28*** (2,96)	6,61*** (3,11)	
<i>Nomination Board</i>	8,24** (2,09)	7,24* (1,78)	7,00* (1,72)	
<i>Compensation Board Committee</i>	0,41*** (3,11)	0,33** (2,56)	0,32** (2,48)	
<i>Number of Board Meetings</i>	-0,31 (-1,11)	-0,55* (-1,89)	-0,47 (-1,62)	
<i>Board Size</i>	0,32*** (6,01)	0,34*** (6,19)	0,36*** (6,76)	
<i>Independent Board Members</i>	0,20** (2,18)	0,20** (2,15)	0,16* (1,71)	
<i>Female on Board</i>	-0,27 (1,42)	-0,17 (-0,90)	-0,13 (-0,72)	
<i>Average Age of Directors</i>	-0,68 (-0,41)	-0,22 (-0,13)		5,24*** (2,80)
<i>Log Revenue</i>	3,50** (2,14)	3,91** (2,37)		8,58*** (4,51)
<i>Log Company Market Capitalization</i>				
N° Observations	441	441	441	441
F-statistic	29,49	29,97	34,41	39,43
p-value	0,000	0,000	0,000	0,000
Adjusted R²	0,493	0,461	0,455	0,149

Dependent variable: "Governance Pillar Score"

T-statistic in parenthesis

***p<0,01, **p<0,05, *p<0,1

8. Conclusion

8.1. Discussion

8.1.1. Regression Analysis

Among the four regression models evaluated in this research (TOTAL, PILLAR EXCLUSION, GOVERNANCE and MONETARY), the MONETARY regression emerges as the most statistically significant, as indicated by the highest F-statistic on average. However, it is generally associated with a lower adjusted R^2 , likely given by the limited number of independent variables included. Nonetheless, the result remains solid and meaningful within the context of this research.

The second most statistically significant model is the TOTAL regression, which proves particularly reliable for “ESG Score” as the dependent variable. This model shows the highest value for adjusted R^2 , probably attributed to the broader set of independent variables, increasing its overall explanatory power.

Subsequently, the PILLAR EXCLUSION model shows moderate statistical significance, while the GOVERNANCE model demonstrates the lowest performance in terms of overall fit and statistical significance.

These findings suggest that governance factors, when taken in isolation, are relevant in shaping sustainability strategies, measured by ESG Scores, especially when Governance Pillar Score is used as the dependent variable. In this context, the statistical significance and positive magnitude of governance-related variables increase, in accordance with the findings of Standard & Poor’s (2002) study conducted in the U.S.

Nevertheless, governance factors appear to be more impactful when in conjunction with other factors, such as the monetary variables (Revenues and Market Capitalization). As demonstrated in the MONETARY regression analysis, the monetary variables exhibit a stronger and more positive correlation with ESG performance compared to governance factors alone.

8.1.2. Dependent Variables

Excluding the three ESG pillars (Environmental, Social and Governance), the most statistically significant independent variables across the four models are: “CSR Strategy Score”, “Number of Board Meetings” and “Log Company Market Capitalization”. All of them are always positively correlated with the dependent variables, with “Log Company Market Capitalization” showing the strongest positive coefficient.

Additionally, variables such as “Audit Board Committee”, “Independent Board Members”, “Average Age of Directors” and “Log Revenue” are statistically significant, though generally slightly less than the first group. Among these, “Audit Board Committee” stands out for its consistent positive coefficient across the models.

Other variables, “Corporate Governance Board Committee”, “Nomination Board Committee” and “Board Size”, show more inconsistent statistical significance across the models. “Nomination Board Committee” shows a consistently positive coefficient, “Board Size” consistently shows a negative one, while “Corporate Governance Board Committee” is unstable both in significance and in coefficient sign.

Moreover, “CSR Sustainability Committee”, “Compensation Board Committee” and “Female on Board” are statistically insignificant in all four models, with “Female on Board” being generally negatively correlated with the dependent variables.

In conclusion, as previously explained, monetary variables appear to be more strongly and positively correlated with ESG performance than governance factors. Among the governance factors, committee-based variables are the least predictive, with “Audit Board Committee” as the only exception. By contrast, governance factors related to board characteristics are generally more impactful. Specifically, “Number of Board Meetings”, “Independent Board Members” and “Average Age of Directors” show the most consistent influence on ESG outcomes. Surprisingly, “Average Age of Directors” is mostly positively correlated with dependent variables across models, contrary to the initial hypothesis.

8.2. Limitations

Although the results obtained in this study are statistically significant and robust, several limitations can be acknowledged.

First, the dataset consists exclusively of large enterprises based in Italy, as defined under Directive 2013/34/EU. While this ensures a degree of consistency in company size and reporting requirements, it may limit the generalizability of the findings across countries or smaller firms. Additionally, the dataset is not industry-specific, which poses a further constraint, given that ESG priorities and governance practices vary across sectors.

Second, among the regression models, only one focuses on governance-related variables, the GOVERNANCE model. The remaining models combine governance and monetary variables impact. This lack of focus on governance factors may hinder the real impact of governance mechanisms on ESG performance and fail to fully capture the qualitative dimensions intrinsic to board structures and companies' practices.

In conclusion, while Refinitiv is a comprehensive and reputable database, especially in the domain of governance data, the study relies solely on its ESG ratings. ESG ratings can differ significantly across providers and results may not be directly comparable to studies using an alternative ESG rating agency, therefore, hindering the validity of the conclusions of this study.

8.3. Future Research

Future research could expand the scope of this study by exploring similar analysis in different institutional and sectoral contexts.

First, future research could adopt a cross-country dataset to evaluate whether the relationship between governance variables and ESG performance varies across legal systems. For instance, comparing companies from European Union member states, which share a common legal framework, with those operating under U.S. legislation or other common law jurisdictions.

Second, since ESG outcomes are often industry-specific, it would be beneficial to focus on specific sectors. Specifically, industries such as energy and agricultural sectors could be prioritized due to their significant contribution to CO₂ emissions (International Energy Agency).

Third, future research could apply regression models fully focused on governance-related variables, adding additional dimensions such as board tenure, executive

compensation linked to ESG targets or directors' education. This would allow for a profounder understanding of governance dimensions.

In conclusion, combining quantitative analysis with qualitative methods, such as case studies and interviews with board members and ESG managers, could offer deeper insights into the implementation of sustainability strategies and the influence of governance on ESG performance.

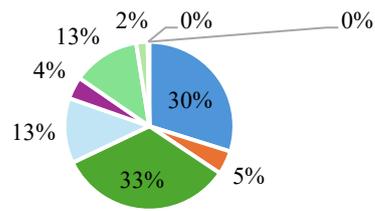
Annex

Score range	Grade	Description
0.0 <= score <= 0.083333	D-	'D' score indicates <i>poor relative ESG performance and insufficient degree of transparency</i> in reporting material ESG data publicly.
0.083333 < score <= 0.166666	D	
0.166666 < score <= 0.250000	D+	
0.250000 < score <= 0.333333	C-	'C' score indicates <i>satisfactory relative ESG performance and moderate degree of transparency</i> in reporting material ESG data publicly.
0.333333 < score <= 0.416666	C	
0.416666 < score <= 0.500000	C+	
0.500000 < score <= 0.583333	B-	'B' score indicates <i>good relative ESG performance and above-average degree of transparency</i> in reporting material ESG data publicly.
0.583333 < score <= 0.666666	B	
0.666666 < score <= 0.750000	B+	
0.750000 < score <= 0.833333	A-	'A' score indicates <i>excellent relative ESG performance and high degree of transparency</i> in reporting material ESG data publicly.
0.833333 < score <= 0.916666	A	
0.916666 < score <= 1	A+	

Figure 1: Score Range for Percentile Score and Letter Grade (source: LSEG Data & Analytics)

Category	Number of Metrics	Subcategory	Thomson Reuters Metric	Weight Type
<i>Emission</i>	28	Emissions	Analytic CO2	Quantitative industry median
		Waste	Analytic Total Waste	Quantitative industry median
<i>Innovation</i>	20	Product innovation	Environmental Products	Transparency weights
		Green revenues, R&D, and Capital Expenditure	Analytic Environmental R&D	Quantitative industry median
<i>Resource Use</i>	20	Water	Analytic Water Use	Quantitative industry median
		Energy	Analytic Energy Use	Quantitative industry median

Figure 2: Environmental Pillar Score Table (source: LSEG Data & Analytics)



- Electricity and heat producers
- Other energy industries
- Transport Sector
- Industry Sector
- Commercial and Public Services
- Residential
- Agriculture
- Fishing
- Non-specified

Figure 3: CO₂ emissions by sector in Italy [2022] (source: International Energy Agency)

Category	Number of Metrics	Subcategory	Thomson Reuters Metric	Weight Type
<i>Community</i>	14	Equally important to all industry groups	/	Equally important to all industry groups
<i>Human rights</i>	8	Human rights	Policy Human Rights	Transparency weights
<i>Product responsibility</i>	10	Responsible marketing	Policy Responsible Marketing	Transparency weights
		Product quality	Product Quality Monitoring	Transparency weights
		Data privacy	Policy Data Privacy	Transparency weights
<i>Workforce</i>	30	Diversity and inclusion	Women Employees	Quantitative industry median
		Career development and training	Average Training Hours	Transparency weights
		Working conditions	Trade Union	Quantitative industry median
		Health and safety	Analytic Lost Days	Transparency weights

Figure 4: Social Pillar Score Table (source: LSEG Data & Analytics)

Category	ESG Metrics	Subcategory	Data Points	Weighting
<i>CSR strategy</i>	9	CSR strategy	Governance category and governance pillar	Count of data points in each governance category/all data points in governance pillar
		ESG reporting and transparency		
<i>Management</i>	35	Structure (independence)	Governance category and governance pillar	Count of data points in each governance category/all data points in governance pillar
		Compensation		
<i>Shareholders</i>	12	Shareholder rights	Governance category and governance pillar	Count of data points in each governance category/all data points in governance pillar
		Takeover defences		

Figure 5: Governance Pillar Score Table (source: LSEG Data & Analytics)

Pillar	Category	Category Weights	Sum of Category Weights
Environmental	Emissions	0,15	0,44
	Resource use	0,15	
	Innovation	0,13	
Social	Community	0,09	0,31
	Human rights	0,05	
	Product responsibility	0,04	
	Workforce	0,13	
Governance	Shareholders	0,05	0,25
	CSR strategy	0,03	
	Management	0,17	

Figure 6: Weighted ESG Scores by Pillar and Category (source: LSEG Data & Analytics)

VARIABLE	N°	STANDARD DEVIATION	MEAN	1st QUARTILE	MEDIAN	3rd QUARTILE
<i>ESG Score</i>	441	15,53	64,44	14,16	54,30	65,99
<i>Environmental Pillar Score</i>	441	21,14	64,05	17,26	61,03	66,03
<i>Social Pillar Score</i>	441	17,04	70,82	13,45	59,51	74,86
<i>Governance Pillar Score</i>	441	20,36	57,41	5,52	40,08	58,62
<i>CSR Strategy Score</i>	441	25,33	53,16	0,00	41,60	51,22
<i>CSR Sustainability Committee</i>	441	0,30	0,90	0,00	1,00	1,00
<i>Corporate Governance Board Committee</i>	441	0,43	0,24	0,00	0,00	0,00
<i>Audit Board Committee</i>	441	0,22	0,95	0,00	1,00	1,00
<i>Nomination Board Committee</i>	441	0,39	0,81	0,00	1,00	1,00
<i>Compensation Board Committee</i>	441	0,20	0,96	0,00	1,00	1,00
<i>Number of Board Meetings</i>	441	6,45	10,97	1,00	6,00	10,00
<i>Board Size</i>	441	2,83	11,36	5,00	9,00	11,00
<i>Independent Board Members (%)</i>	441	16,56	56,72	0,00	45,45	55,56
<i>Female on Board (%)</i>	441	8,72	39,86	8,33	33,33	41,67
<i>Average Age of Directors</i>	441	4,02	57,82	46,43	55,11	58,00
<i>Log Revenue - Mean</i>	441	0,64	9,32	7,89	8,88	9,25
<i>Log Market Capitalization</i>	441	0,62	9,15	7,74	9,01	9,44

Figure 7: Descriptive Statistics by Variables

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