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THE APPROACH TO SUSTAINABILITY POLICIES IN FAMILY FIRMS:

HOW THIS PHENOMENON HAS IMPACTED MANAGEMENT REMUNERATION

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INTRODUCTION

Enhancing sustainability in terms of a simultaneous pursuit of economic, ecological and social goals has become a key requirement for firms across industries and countries. Although many studies have focused on multiple aspects surrounding the topic of sustainability such as mechanisms, technologies and business models, little is known about sustainability in family businesses. This constitutes a relevant research gap as most firms in Italy are family firms and as such are associated with unique characteristics that differentiate their governance, structures, and behaviors from non-family firms. In this study, we will first examine the distinguishing characteristics of family businesses, focusing on the most significant challenges, before analyzing the Italian context and the effect COVID-19 has had on them. Then, we will analyze the performance of family-controlled firms, demonstrating that family control is advantageous for the valuation and operating performance of firms in continental Europe and that, in terms of valuation and performance, family-controlled firms are statistically indistinguishable from non-family-controlled firms when a descendant becomes CEO. In the second chapter, we will examine remuneration policies in family businesses in greater depth, assessing their advantages, downsides, and agency issues. We will examine the characteristics of CEO compensation in family-owned businesses, including how a family member CEO obtains comparatively lower stock-based compensation. We will show how family firms in Italy pay their CEOs more than other firms and that family CEOs are paid more than professional CEOs. In conclusion, we will argue that families overcompensate their CEOs in order to buy their loyalty and allow them to oust minority shareholders. In the third chapter, we will introduce the concept of sustainability and compare the CSR policies of family firms and non-family firms. We will see that a greater presence of family members in the top management of family firms has a positive impact on CSR performance, but that family firms with a family member as CEO have lower CSR scores than all other firms. The CSR performance of family firms with a family CEO remains lower to that of family businesses with a non-family CEO when only family enterprises are evaluated. The significance of generating the ESG report, a major data point required for the analysis in the fourth chapter, will then become apparent. In the fourth chapter, we will evaluate the data obtained in the database, focusing on the data collected from 206 Italian family firms and dividing the sample into two groups: those who write the ESG report and those who do not. We will then compare the performance and specifically

the board compensation of the two groups based on the sustainability policies they have adopted, and conclude with an examination of CEO compensation. I will next select one firm from each group (Luxottica for the reporting companies and Safilo Group for the nonreporting companies) and we will examine how these two companies have affected their compensation policies over the past few years.

CHAPTER 1 – FAMILY BUSINESS

1.1 An overview of Family Firms

1.1.1 Profile and features

I would like to begin this study with an overview of family firms, since they play a major role in my paper and also because defining a family company is one of the fundamental issues in family business research[1]. It is a never-ending story, since no conclusion has been reached due to the divergent perspectives and study objectives of the experts who have studied this issue. A common starting point is Chua et al. (1999)'s definition: "The family business is a business governed and/or managed with the intent to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families" (cf. p. 25). Therefore, the core of a family company is the goal of one or more families to form the organization's vision. This behavioral approach, which has been dubbed the "*essence approach*," was further developed in 2003 by Chrisman et al. (2003, p. 9), who stated that the essence of a family firm consists of the following: "(1) intention to maintain family control of the dominant coalition; (2) unique, inseparable, and synergistic resources and capabilities resulting from family involvement and interactions; (3) a vision set by the family-controlled dominant coalition and intended for transgenerational transmission and (4) pursuance of such a vision. We regard the essence approach to be essential since it incorporates the majority of family business characteristics.

The essence approach presupposes that a family business is an enterprise that is affected by one or more families. This assumption has centered on a variety of influence-exercising qualities. Power, experience, and culture, according to Astrachan et al. (2002), are three essential characteristics of family influence that should be examined. Analyzing the power dimension, the authors argue that a family's involvement in ownership, governance, and management may affect a firm. This amount of influence via ownership, management, and

[1] It is also known as the "*definition problem*". Astrachan et al. 2002

governance is consequently considered as interchangeable and cumulative, according to the authors[2]. Clearly, each of these three measures of influence must take into account the legal requirements of the country where the firm operates. Experience relates to succession and the number of family members that participate to the enterprise. Diverse writers argue that a firm should be considered a family business when a transfer to the subsequent generation is planned[3]. It is widely believed that each succession adds to the family and business's experience. The number of family members participating in ownership, governance, and management is also an important source of business and family experience. The cultural factor refers to the shared beliefs and values between the family and the business, as well as the family's dedication to the business[4]. Other scholars examine the cultural factor in terms of whether the CEO, management, or shareholders regard the organization as a family company. The intersection of corporate and family values is the aspect of cultural dimensions that receives the greatest attention, although its measurement can be tricky. Astrachan et al. (2002) noted, for instance, that "the values of an organization may be founded in the family values of a previous generation, but are not always visible in the present family" (cf. p. 50). This criticality, which appears to be an operational worry, is connected to the complexity of the family company idea and will be discussed further on in this section.

Another feature of the essence approach to family business is that the influence of the family or families refers to a family's or multiple families' visions of the business. It is the cultural aspect of the firm that outweighs its economic interest. Rather, family members view the firm as a means to live according to their principles. The essence method also emphasizes the transgenerational pursuit of the family's vision for the firm as a distinguishing characteristic of family-owned enterprises. The dynamics of family successions are crucial to the business's survival since the family's vision must be maintained over generations. The connections between older and younger generations, the leadership produced by the latter, and the planning of the succession process are facets of succession, which is another distinguishing characteristic of family companies and their studies. We will move more in depth on the next part of this paper. The transgenerational perspective of a family firm

[2] Astrachan et al. 2002, p. 48
[3] Barach and Ganitsky 1995; Birley 1986; Heck and Trent 1999; Ward 1987, 1988
[4] Gallo 2000

provides the family business system with dynamism. Astrachan et al. (2002) viewed this as a source of experience and one of the three components of family participation. On the other side, this transgenerational perspective is a source of instability, since it may jeopardize the continuation of the family business. According to Songini et al. (2013), "The Family Firm Institute projected that just 30 percent of all US family firms survive into the second generation, 12 percent make it to the third generation, and as few as 3 percent survive into the fourth generation" (cf. p. 78). This decreasing rate of survival can be explained by the increasing complexity of family business governance and management from the first to the subsequent generations, due to the descending founder's family. Researchers have used the stewardship theory to family business studies since family members frequently serve the family business rather than their personal interests[5]. In a family business characterized by stewardship, formal monitoring and control are less important[6]. As stated by Quinn et al. (2018), it could be worthwhile to investigate the roles that multigenerational families have had in the operations and evolution of the accounting function in various circumstances. It would be of interest to review accounting records over an extended historical timeframe to gain insights into the family business sub-system interplay, as suggested by Gersick et al.'s (1997) three-circle model.

Finally, a family business profile and its associated characteristics can be described and summarized as follows. A family company is, in general, a complex social structure comprised of two overlapping and interacting social sub-systems: the family sub-system, which is socio-emotionally oriented, and the business sub-system, which is economically focused. Interactions between the two subsystems occur along three primary dimensions: power, experience, and culture. Their purpose is to advance the family's vision for the firm across several generations. Thus, the social structure of a family business is dynamic.

[5] Madison et al. 2016; Neubaum et al. 2017; Siebels and zuKnyphausen-Aufseß 2012
[6] Hiebl 2013

1.1.2. Main Challenges

We next introduce the main challenges that family firms have to deal with, namely professionalization and managerialization, succession, internationalization and access to financial markets, outlining the role that governance and control systems may play when supporting the firm in facing such challenges.

Professionalization is one of the most common problems that a family business faces. A family firm must progress from a life-cycle stage characterized by the founder as the dominant figure, where decision-making processes are simple, quick, and centralized to the founder (Greiner 1998), to a stage of development in which the founder must change their entrepreneurial approach and adopt a more professional one[7]. At this point, the owner recognizes that the company needs a more formal structure in order to boost efficiency or pursue expansion. This necessitates greater delegating and formalized methods that might benefit them and their employees when conducting business. According to some contributions, family managers are frequently seen as nonprofessional managers because of their relationship to the company and their origin[8]. They have an emotive relationship with their family and are more inclined to make impulsive decisions[9]. The problem of family firm professionalization is thus how the new professional management fits their managerial and professional vision of conducting business with the historically embedded view of the family who founded the company. Indeed, research demonstrates that non-family management and board members may add valuable external expertise and experience to family businesses[10].

In particular, when boards and management teams are comprised of both family and non-family members, the governance structure can have significant consequences for the design of management accounting and control systems in family businesses. In family businesses, the makeup of boards and management teams appears to influence the usage and design of management accounting and control systems[11]. Moreover, accounting and control systems can assist the family in supervising non-family managers[12]. In studies on professionalization

[7] Howorth et al. 2016; Stewart and Hitt 2012
[8] Hall and Nordqvist 2008, Lee et al. 2003; Sacristán Navarro and Gómez Ansón 2009
[9] Schein 1995; Kets de Vries 1985
[10] Klein and Bell 2007; Bammens et al. 2011; Bettinelli 2011; Siebels and zuKnyphausen-Aufseß 2012; Hiebl 2014; Tabor et al. 2018
[11] Songini et al. 2013; Songini and Gnan 2015
[12] Hiebl et al. 2012

and governance, non-family professionals such as Chief Financial Officers (CFOs), controllers, and accountants are frequently cited as drivers of this process[13]. By establishing and implementing management accounting and control systems, these external professionals facilitate the professionalization of a family business's governance. Research and practice would find studies that seek to comprehend the professionalization of both the business and the family to be of interest. Consequently, during the professionalization process, the professional manager must have "a sufficient awareness of the owner family's prevailing aims and reasons for being in company (...)."[14]. Consequently, the professional manager is responsible for transmitting technical knowledge to the family and non-family organizational actors, who must acquire used to the impersonal, management principles of conducting business. Increasing the degrees of delegation and responsibility within an organization demands more information and more formalized methods[15]. The professionalization problem is intertwined with the managerialization challenge, which requires the use of formal management control mechanisms[16].

The management accounting research on family enterprises has emphasized the limited dissemination of managerial control systems due to the prevalence of entrepreneurship and the close linkages between the family and the firm at the governance and management levels, which result in reduced agency costs[17]. Family businesses in the early stages of their life cycle are characterized by the infrequent appearance of these instruments, since the owner often relies on informal management control mechanisms to make choices[18]. When a family business matures, it must deal with the growing complexity of its surroundings and business. As evidenced by the professionalization process, the owner must adopt a more professional approach in this circumstance[19]. The new managerial principles followed by the external non-family manager result in the introduction of more formalized management accounting instruments that aid in reducing difficulties associated with delegation and duties, merit procedures, and the objectification of the organization's goals. Managerialization may be viewed as a significant challenge for all organizational players participating in a family

[13] Amat et al. 1994; Giovannoni et al. 2011; Stergiou et al. 2013; Hiebl 2014, 2017; Huerta et al. 2017
[14] Hall and Nordqvist 2008, p. 63
[15] Moores and Yuen 2001; Songini and Vola 2015
[16] Songini and Vola 2015
[17] Schulze et al. 2001; Songini 2006
[18] Songini and Gnan 2015
[19] Moores and Yuen 2001; Songini and Vola 2015

business, who must acquire new technical skills to use the new accounting instruments. In this environment, the founder has a unique role in organizing and monitoring the progress made in the many organizational domains in terms of developing performance indicators, defining goals for each measure, and evaluating performance[20].

Consequently, professionalization and managerialization may be viewed as two interrelated issues in which management accounting systems play a vital role. Professionals and managerial tools that assist the family business in becoming a more formal, organized, and institutionalized organization might initiate the professionalization process. Concurrently, the introduction of new management accounting tools configures the managerialization process, which enables a family business to more effectively manage delegation and authority among non-family members.

Another important challenge for a family firm is succession, a particular process that involves the family firm when leadership at the top of the firm, and often ownership, are transferred[21]. This process could occur in case of the incumbent's death or unexpected retirement, or when the founder wants to prepare the successor for the business, ensuring the firm's existence through the next generation. When leadership is handed from one family member to another, the successor is chosen and prepared to gain the abilities and experience necessary to lead the organization into its next phase[22]. According to Le Breton-Miller et al. (2004), ensuring good family leadership through generations is one of the greatest problems for a family business. Many family businesses that do not survive into the third generation fail due to insufficient preparedness throughout the succession procedures[23]. During the succession planning process, all organizational players, including family and non-family individuals, engage in social interactions that might become complicated if the successor is not acknowledged as the leader following the transfer of authority. Studies in management accounting have shown that management accounting tools may promote internal communication and engagement, allowing a founder to convey their expertise to succeeding generations[24]. A few studies in the field of family businesses have demonstrated that an

[20] Giovannoni and Maraghini 2013
[21] Le Breton-Miller et al. 2004
[22] Dyck et al. 2002
[23] Birley 1986; Miller et al. 2003
[24] Kelly et al. 2000; Giovannoni et al. 2011

external professional management may contribute significantly to the succession process[25]. The presence of a professional management who steers the family business toward expansion has been noted as a factor in the internationalization process. This provides an additional significant barrier that family businesses must handle throughout their life cycle. Internationalization typically necessitates the acquisition of new assets and investments, exposing the family business to new types of debt. The decision to extend corporate borders suggests that family members are not risk-averse, but they must act quickly when exposing their company to new markets and kinds of risk. This growth step could be facilitated by the presence of non-family professional managers on the board of directors, who are able to offer alternative orientations to the management's decisions and generate new knowledge and information[26], despite the loss of control over strategic management. When a family business is listed on a financial market, the strategic decisions that the family owners must make provide still another significant obstacle. As a family business grows in size and complexity, its owners may contemplate entering the financial markets. When a family business becomes a publicly traded company, strategic choices can be authorized by family and non-family employees, but the impact on small investors, who are passive and external to strategic decisions, may be unfavorable. The small investors may perceive a risk of expropriation if the family owners make decisions that prioritize the family's interests over those of the business[27]. In this circumstance, family owners frequently seek to retain long-term corporate control and the firm's stability, so limiting development and investment opportunities and exhibiting risk-averse behavior[28].

1.1.3. Italian context

The Italian contingency allows us to examine potential conflicts between the family, as the main blockholder, and its outside shareholders. Previous study[29] indicates that, in contrast to family-owned businesses in the United States, the assets of Italian families are more concentrated in their businesses. In addition, because Italian company law encourages family

[25] Morris 1996; Salvato and Corbetta 2013
[26] George et al., 2005; Cerrato, 2012; Calabr, 2013
[27] Morck and Yeung 2003
[28] Schulze et al. 2001; Graves and Thomas 2006
[29] Corbetta and Montemerlo, 1999

control at the expense of shareholders, Melis (2000) observes that minority shareholders are more likely to be victimized by blockholders (i.e. family). And unlike their American counterparts, Italian family enterprises are less likely to transfer ownership beyond the family (e.g., sell the business) due in part to far less liquidity in both private and public markets[30]. This incapacity and, to a certain extent, reluctance to relinquish power affords a unique chance to investigate how idle resources are utilized when the situation may create conflicts of interest between the family and its stockholders.

In Italy there are estimated to be around 784,000 family businesses – more than 85% of the total number of businesses – constituting around 70% of employment. In terms of the impact of family businesses, the Italian context is in line with that of the main European economies such as France (80%), Germany (90%), Spain (83%) and the UK (80%), whilst the factor that sets Italy apart from these countries is the lesser recourse of family businesses to external managers: 66% of Italian family businesses are fully managed by family members, while this applies to only 26% of French family businesses and just 10% in the UK. Italian family businesses are also set apart by their longevity: of the world's 100 oldest businesses, 15 are Italian and, of these, 5 are among the top ten oldest family businesses still active today[31]. In the small to medium-sized business segment (turnover >50€MIL), there are around 4,000 family businesses with an incidence of around 58% of total turnover for that segment and around 3 million workers. In terms of distribution across different business sectors, family businesses monitored annually by the AUB Observatory – around 2700 businesses in its 5th edition – are primarily concentrated in Manufacturing (around 43%) and Commerce (28%), whilst Financial and Real Estate (12%), Services (8%), Construction (4%), Transport (3%) and Energy and Extraction (2%) are less significant. From a geographical point of view, 74% of medium-sized and large family businesses are found in the northern part of the country, 16% in the south and 10% in the south and islands. Numerically speaking, family businesses represent around 60% of the Italian shareholding market (with a total of around 190 companies recorded), accounting for around 25% its capital weight. Specifically, medium-sized and small family businesses are listed, particularly in the Industrial and Consumer Goods sectors. Almost 90% of family businesses are listed in the MTA (Mercato Telematico

[30] Corbetta and Montemerlo, 1999; Lane et al., 2006

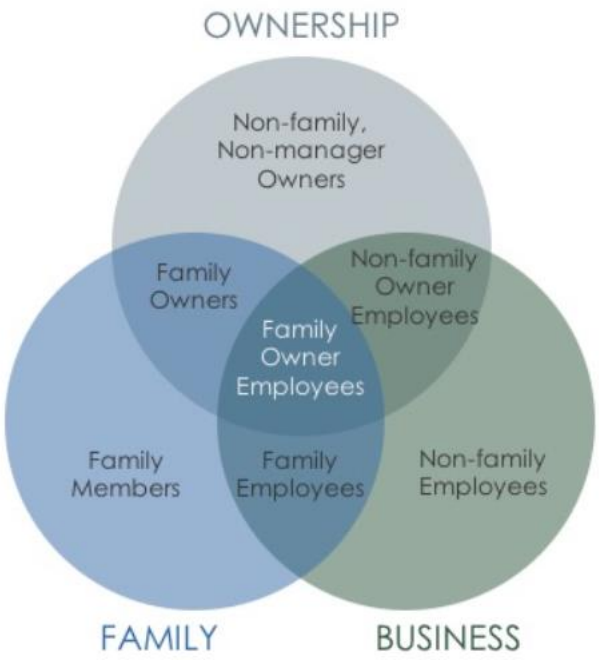
[31] Fonderie Pontificie Marinelli (founded in 1000), Barone Ricasoli (1141), Barovier & Toso (1295), Torrini (1369) and Marchesi Antinori (1385)

Azionario (screen-based stock exchange)), of which around 30% in the STAR segment, with the remainder found in AIM Italia (alternative stock exchange market[32].

1.2 The three circles model

The Three-Circle Model of the Family Business System illustrates three overlapping and interrelated groups: family, ownership, and business. A person in a family business occupies one of the seven sectors created by these three intersecting circles. Only an owner (partner or shareholder) is permitted to occupy the top circle. Family members will occupy the left circle, and family business employees will occupy the right circle. If you only have one of these roles, you will only be in one of these circles. However, if you have two jobs, you will be in a sector that overlaps, sitting in two circles simultaneously. You are in the bottom-center sector if you are a family member who works in the firm but has no ownership interest. If you are a family member who works in the business and is an owner, you will sit in the exact middle of the three circles that overlap.

Figure 1.1



[32] https://www.aidaf.it/en/aidaf-3/1650-2/

SOURCE: TANGIURI and DAVICE (1982).

Each of the seven interest groups identified by the Model has its own viewpoints, goals, concerns, and dynamics. The Model reminds us that the views of each sector are legitimate and deserve to be respected. No one viewpoint is more legitimate than another but the different viewpoints must be integrated in order to set future direction for the family business system. The long-term success of family business systems depends on the functioning and mutual support of each of these groups. How can a 40-year-old model assist us understand and handle difficulties in contemporary family business systems when so much in business, technology, wealth, family, and society has changed? Part of the reason why the Model has endured the test of time and is still relevant today is that it is flexible in its original form. As society's understanding of "family" has evolved, the Model accommodates these changes. All of these roles are congruent with the Model: in-laws, blended families, divorce, adoption, domestic partners, and whatever the family deems a "business family" because they are related through ownership. Similarly, the ownership circle can handle a variety of different circumstances. The Model can allow an ownership shift if a family business goes public or invites a private equity partner. If a corporation issues different classes of stock (voting and non-voting) and holds a portion of its shares in a trust, the Model allows this situation. As families now have numerous financial options, the Model accommodates joint ventures, mergers, acquisitions, and other capital sources that influence the ownership circle. In the past four decades, numerous businesses have undergone substantial transformations, but the business circle of the Model is adaptable: it can represent a single business, multiple enterprises, holding companies, joint ventures, and more. It can also indicate a circumstance in which a family-owned business has sold its operating company and is now managing its financial assets as a separate corporation. The family is involved in a different line of work, but it is still their enterprise. Likewise, the "company" circle can be renamed "family office" and the concept will still function. The changing environment will continue to influence enterprises, ownership groups, and families as a result of the rate of change, globalization, technology breakthroughs, and global disruption. This progress will continue to be accommodated by the Three-Circle Model.

Other works in this field have offered various models for the organizational life cycle, each with a unique number of stages[33]. All of these researches relied on Quinn and Cameron's (1983) model, which emphasized four major developmental stages: the entrepreneurial stage, the collectivity stage, the formalization and control stage, and the structure elaboration and adoption stage.

The stage of entrepreneurship is typically characterized by the founder's motivation and dedication, which is the primary growth driver. During this phase, creativity is fostered and tasks are not coordinated in a systematic manner, but rather in a "frantic" manner (Adizes 1979). According to Adizes (1979), "dreaming" and entrepreneurship are the actions required to launch an organization at this initial phase. The success of a business is typically determined at this stage, which is characterized by easy and rapid communication amongst members and also by market response. The organization is structurally and financially unstable, while the decision-making process is straightforward and swift due to the fact that a single leader assumes all obligations (Greiner 1998). This stage continues until the entrepreneur realizes that the company needs a formal structure to boost production efficiency. It may become more difficult for the entrepreneur to be involved alone as the organization grows in size. On this point, Lippitt and Schmidt (1967) stated that the ownership role is confined to the firm's founder due to the founder's inability to oversee all business matters as the firm grows.

The second stage, known as collectivity, is associated with collaboration, in which enterprises typically maintain informal structures with single-person ownership while recognizing the significance of production efficiency. However, no action towards change is taken. When these hurdles arise, a greater emphasis must be placed on human resource management, and interpersonal skills become increasingly vital. The primary characteristics of this stage, according to Quin and Cameron (1983), include a strong sense of family and cooperation among members, high member commitment, and personalized leadership. Even if production efficiency is acknowledged as important, the gradual transition is due to the founder's aversion to the outsourcing of responsibilities to other managerial roles, which necessitates the depersonalization of procedures[34].

[33] Heck et al. 2006; Phelps et al. 2007; Songini and Vola 2015
[34] Adizes 1979; Amat et al. 1994; Moores and Mula 2000; Moores and Yuen 2001; Quinn et al. 2018.

The third step, formalisation and control, is the most drastic and happens when businesses place a greater emphasis on administrative and control tasks. Organisational stability, production efficiency, rules and processes, and conservative tendencies are the defining characteristics of this stage of growth (Quin and Cameron 1983). There is still an essence of entrepreneurship, but the institution has become more impersonal and the notion of specialisation has grown (Adizes 1979). Communication becomes hierarchical (Greiner, 1998), and jobs between executives and lower-level managers are segregated, so separating the functional level of production from the unit of decision-making. Adizes (1979) identifies this phase as an adolescent organization.

In the final stage, known as structure elaboration and adoption, the organization monitors its external environment in an effort to refresh itself or expand its domain, or both[35]. Maturity signifies the organization's stability, yet it is not the most ideal stage. This stage is typical of mature, large businesses with balanced production and management structures. According to Phelps et al. (2007), mature organizations have a reduced failure rate, whereas "younger and smaller firms display the fastest growth rates"[36]. Consequently, maturity may offer enterprises with market security, but this is no longer accompanied with rapid expansion. They define maturity as "the realization of an organization's intrinsic potential," highlighting the significance of internal structure and the absence of external influences such as innovation. Firms must learn to rediscover their innovation in order to sustain future growth, which is the primary difficulty of this stage. In this phase, the style of leadership shifts from hierarchical to collaborative and participative. Greiner (1998) defines dual organizational structure as when organizations divide tasks into a habit structure that handles daily labor and a reflecting structure that fosters innovation.

[35] Quin and Cameron 1983, p. 44
[36] Phelps et al. 2007, p. 3

1.3 Succession in family business

As discussed in the previous section, the majority of companies in the world are controlled by their founders or their families and heirs. This type of family ownership is virtually widespread among privately owned companies and also predominates among publicly traded companies. Succession is a major problem when discussing family businesses in terms of corporate governance and finance. There comes a time when the founder of practically every business that does not fail no longer wishes to manage it. This can occur from the beginning, when owners hire expert managers to operate their businesses. Alternatively, a founder can retire or cut his workload later in life and appoint either an heir or a professional as a successor. When control is turned over to a professional, ownership and management become separated. The patterns of ownership and management separation differ per country. Founders in the United States frequently hire expert managers early on. By the time a founder retires, his family holds only a minority stake in the business. In businesses such as those described by Berle and Means (1932), professional managers exert practically total authority. After the founder retires in Western Europe, considerable ownership generally remains within the family. His offspring either employ a manager, as in BMW or FIAT, or run the company themselves, as in Peugeot. When the founder retires in emerging countries, both management and ownership typically remain within the family. A management occasionally marries into the family in both developed and emerging economies, as was the case at Bombardier in Canada, Matshushita in Japan, and Worldwide Shipping in Hong Kong.

There are three main theories on the preservation of family control. According to the first, family control has a great "amenity potential." Demsetz and Lehn (1985) coined the phrase "amenity potential" to refer to non-pecuniary private benefits of control, or value to the founder that does not come at the expense of profits. A founder may find satisfaction in having his offspring operate the family-named business. In other areas, such as sports and the media, a family can participate in or even influence exciting social, political, and cultural events through business ownership. This argument for family control predicts that there will be a dispersion of ownership patterns within a country, with a high probability of control remaining in the hands of families for enterprises that provide a substantial amenity. Families will likely attempt to hold control for as long as they can if the amenity potential is high.

When a company severely needs funds and is unable to get it without a change in control, or when the founder dies and hefty inheritance taxes are owed, control will be sold. Recent study supports the significance of these factors. In a cross-section of 20 nations, Wells (1998) finds that countries with higher inheritance taxes had a higher incidence of widely-held enterprises, as opposed to family-controlled firms. Bhattacharya and Ravikumar (2001, 2002) provide theoretical models that link family control to imperfect capital markets. In our approach, we acknowledge the role of amenity potential in maintaining family control of particular businesses. But we employ a theory that simultaneously explains capital market underdevelopment and the prevalence of family ownership on the basis of a country's institutional characteristics.

A second motive for maintaining family control is that the family name itself may have a reputation in economic and political marketplaces. Families may represent quality (as many adverts assert) or political connections. The Agnellis have maintained a tight relationship with the Italian government, occasionally placing family members in cabinet positions and always getting public contracts for Fiat. Such "reputational gains" would be diminished if outsiders gained power. This hypothesis claims, contrary to reality, that family-controlled enterprises would be more valued than professional-controlled firms. The connection between family control and politics is not examined in this study, despite the fact that it merits a further examination.

We concentrate on a third hypothesis of family ownership, namely the prospect of expropriating outside investors as a result of control. Unlike the amenity potential, these private gains of control, as stated by Jensen and Meckling (1976) and Grossman and Hart (1988), come at the expense of outside investors' profits. According to our theory, the primary advantage of employing a professional is that he is likely to be a more effective manager. The major expense is that the professional manager, not the entrepreneur, now controls the business and can therefore expropriate investors. We contend that the degree of legal protection of outside shareholders from expropriation (or tunneling) by insiders is a significant factor in determining the desirability of delegated management. Prior research demonstrates that this protection varies significantly between nations, and that this variation predicts disparities in financial development and ownership arrangements[37]. This research

[37] La Porta et al. 1997, 1998, 2000a,b, Johnson et al. 2000

examines the costs and advantages of management delegation from this perspective. This permits us to assess the costs and benefits of maintaining the managerial succession within the family.

1.4 The impact of COVID-19 on family firms

The COVID-19 pandemic ushered in a crisis that was significantly distinct from prior economic downturns. Corporations experienced interruptions in their supply chains, battled to continue operations as a result of lockdowns, and faced a significant lack of demand. The pandemic disrupted the pre-existing business structures and norms and served as a wake-up call for companies all across the world. The social and economic impacts of the pandemic provide obstacles to the development of family businesses, which must now innovate to survive in the changing environment.

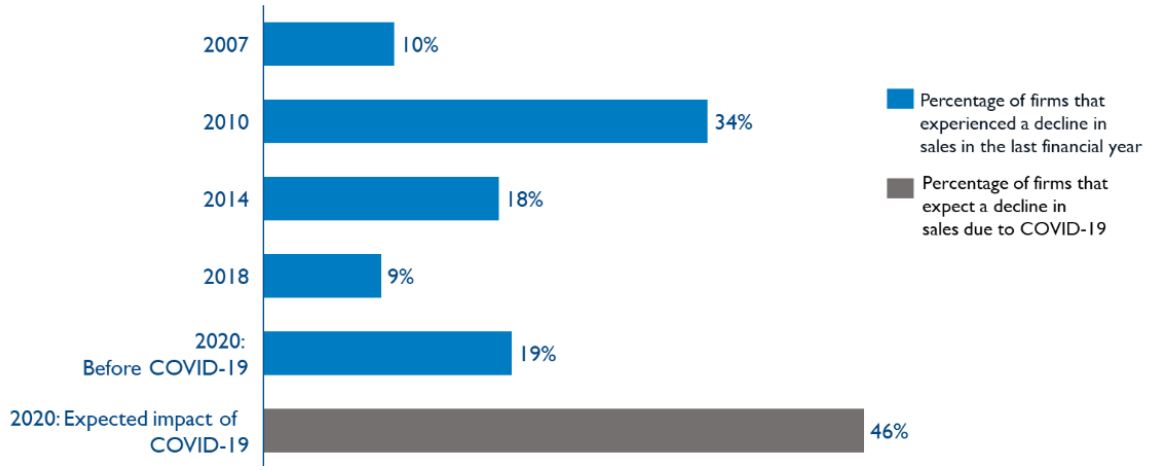
To better explain the effects the pandemic has had on family firms, we use data from the *PricewaterhouseCoopers (PwC) Family Business Survey 2021*[38] that covers 2,801 family firms in 87 countries. The survey draws attention to the financial resilience of family businesses and their unique advantages in terms of reputation and trust. However, it also underscores the need for family firms to adopt a more focused environment, social and governance (ESG) agenda, and to invest in technological transformation. The survey shows that 79% of the firms did not require additional capital in 2020, and only 34% had to decrease dividends during this period. Moreover, only 31% of family members had to take a salary reduction due to decreased profitability during the pandemic. Although 21% of the family firms had to raise capital, the confidence of the family members in the business was evident from the feedback that 15% of the owners invested their own cash during the pandemic, and a further 23% said that they were ready to do so if necessary. According to a research by the OECD, the pandemic altered public attitude and exposed economic and societal vulnerabilities. Since family enterprises are viewed as more trustworthy by their stakeholders and are less susceptible to short-term market pressures than their non-family counterparts, they have an inherent advantage in terms of sustainability. Moreover, privately

[38] https://www.pwc.com/gx/en/services/family-business/family-business-survey.html

held family firms get a head start when it comes to investing in sustainable initiatives with a long-term vision. However, survey results reveal that although family-owned businesses are eager to incorporate ESG practices, their pace has not kept up with their objectives.

Figure 1.2 shows that family businesses expected the effect of the COVID-19 pandemic on future growth would be more deleterious than the financial recession of 2008. It contrasts the responses to the 2021 PwC Survey Question: “Looking back over the last financial year, before the COVID-19 pandemic, would you say your sales have been...?” with the historical responses to a similar question: “Looking back over the last financial year, would you say your sales have been...”

Figure 1.2



SOURCE: PwC Family Business Survey 2021

Figure 1.2 demonstrates that family companies anticipated that the impact of the COVID-19 epidemic on future growth would be more detrimental than the 2008 financial crisis. The surveys report that in 2010, 34% of the family firms had experienced a decline in sales in the past financial year. This is much lower than the 46% of the family businesses that expected to see a decline in sales due to the COVID-19 pandemic.

According to De Massis and Rondi (2020), the pandemic and its aftermath will induce significant changes in family companies. They believe that succession planning may become increasingly important as the pandemic heightens the leadership cohort's awareness of mortality. In the 2018 and 2021 surveys, respondents were asked, "How essential are the

following longer-term goals, i.e., over the next five years or longer?". Figure 1.3 shows the responses. A comparison of the long-term personal goals of family firms in 2021 to those in 2018 reveals that the pandemic has increased the importance of protecting the business (82 percent of respondents in 2021 vs. 76 percent in 2018), creating a legacy (64 percent vs. 61 percent), and ensuring the business remains in the family (65 percent vs.61 percent). Despite the fact that family relationships are crucial to the success of family businesses, many businesses have recognized the necessity for a more professionalized approach to governance and succession planning.

Figure 1.3

Q: How important to you are the following longer-term goals, i.e., over the next five years or longer?

The top long-term priorities for family businesses

Top long-term priorities	Percentage of firms in 2021	Percentage of family firms in 2018
Protect the business as the most important family asset	82%	76%
Ensure the business stays in the family	65%	61%
Create a legacy	64%	60%
Create dividends for family members	63%	57%
Create employment for other family members	23%	20%

SOURCE: PwC Family Business Survey 2021

The survey also highlights the need for family firms to ensure more transparent communication and effective resolution of disagreements. Comparing the survey results from 2021 with those from 2018 reveals that the pandemic has accentuated the need to address sensitive issues related to family dynamics. Figure 1.4 shows that fewer respondents in 2021 feel that the family has a clear sense of agreed values and purpose for the business (68%) than did respondents in 2018 (79%). The pandemic highlighted the lack of emergency and contingency procedures for family firms, with only 19% of the respondents saying that their businesses had these procedures in place. This is about half of the percentage of

respondents in the 2018 survey, i.e., 36%, who believed that their firms had emergency and contingency procedures in place. This disparity was also evident in the respondents' views regarding conflict resolution mechanisms. Only 15% of respondents in 2021 believed that their companies had effective conflict resolution mechanisms, compared to 30% in the 2018 survey.

Figure 1.4

Q: How strongly do you agree or disagree that…

Values and purpose sentiment	Percentage of family business in 2021	Percentage of family business in 2018
Clear sense of agreed values and purpose as a company	68%	79%
Documented vision and purpose statement(mission) for the company	51%	68%
The family have a defined code of conduct	47%	66%
Family have family values and mission for the company articulated in written form	44%	49%

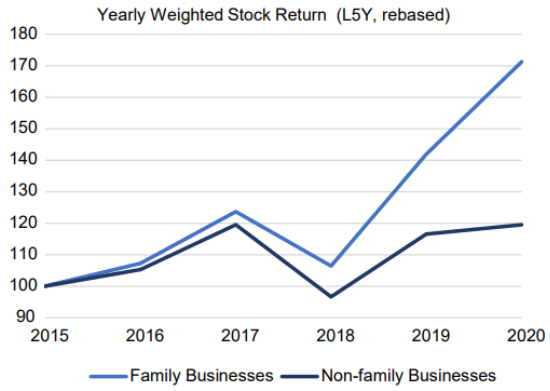
SOURCE: PwC Family Business Survey 2021

Another important study on the subject was conducted by Markus Eckey and Sebastian Memmel[39]. They selected operating performance data for the last five years as well as daily stock market performance data for the 12 months following the outbreak of COVID-19 to first investigate the long-term differences and subsequently those differences occurring after the outbreak of the pandemic. For the latter analysis, the choice of event day is important. They use the first trading day of March 2020, which also marks the last trading day of positive stock returns, with the 12th of March being the day with the highest intraday loss on the German stock exchange, which was caused by the announcement of the German lockdown plans. Using this timeframe, they cover the full period of the market sell-down and subsequent market recovery. To evaluate stock market performance, they examine daily weighted buy-and-hold stock returns over the period of Mar20 – Mar21 as well as annualized

[39] "Impact of COVID-19 on family business performance: evidence from listed companies in Germany"

weighted stock returns over the past five years for a long-term comparison. For operating performance, the main variables of interest are the yearly return on equity (RoE) and the return on assets (RoA) over the last five years. The outbreak of COVID-19 has resulted in bearish stock markets around the globe. To assess differences in stock returns of family and non-family businesses, they gathered daily prices of our sample of German CDAX listed companies and calculated their daily return before weighting them with their daily market capitalization. For a long-term comparison, examined a company's annualized stock return and weighted it with its average market capitalization of the year. Figure 1.5 reveals that over the past 5 years family businesses have achieved higher mean returns than non-family businesses. The outperformance of family businesses in 2020 has mainly been influenced by companies that benefitted from the pandemic and experienced significant growth over the course of the year, including Delivery Hero, HelloFresh, Zalando and Sartorius. Delivery Hero and Zalando were also two of the top performers in 2019, while SAP had the highest impact on the overall positive family business performance, also given its relative weight.

Figure 1.5



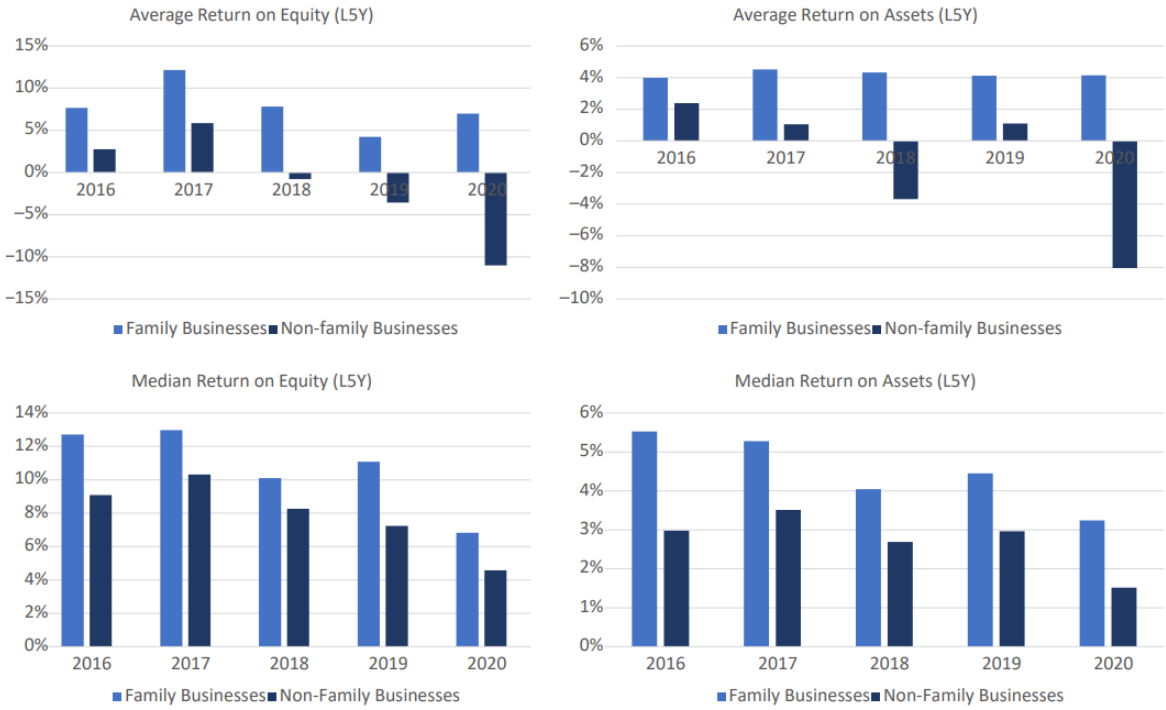
Year	Family Businesses	Non-Family Businesses
2016	7,3%	5,3%
2017	15,3%	13,6%
2018	−14,0%	−19,2%
2019	33,4%	20,7%
2020	20,7%	2,5%
Mean	12,5%	4,6%
Median	15,3%	5,3%

SOURCE: Thomson Reuters Eikon, Bureau von Dijk, authors' calculations. Data retrieved: 08-April-21

They have thus far employed stock market performance to compare whether family and nonfamily firms fared differently during the pandemic. To this end, they gathered full-year data on the ratio of earnings before interest and taxes to total assets (RoA), data commonly used in the literature to capture the differences of family and non-family firms with respect the ability to generate operating profits from their asset base (e.g. Bennedsen et al., 2007). As a second measure, they examine RoE calculated by dividing net income by shareholders'

equity, which is often referred to as return on net assets. Given that we would expect COVID-19 to have a full effect on a firm's accounting measures that is not initially similar to the direct stock market reaction, they compare full-year figures. By adopting this observation in a five-year context, we also account for any major deviations between family and non-family businesses prior to the crisis and are therefore able to at least put the 2020 numbers into perspective. Figure 6 indicates that family businesses have performed better over the past five years and will continue to do so in 2020. The left-skewed distribution, however, indicates significant heterogeneity, particularly within the non-family business group in 2020.

Figure 1.6



SOURCE: Thomson Reuters Eikon, Bureau von Dijk, authors' calculations.

This empirical investigation shows that family firms indeed fared better during the pandemic, supporting the hypothesis proffered in the literature that family involvement enhances the resilience potential of firms, enabling them to outperform their non-family peers during crisis periods. These findings might also have some practical implications for widely held firms.

In response to the effects of Covid-19, numerous family members have played crucial roles as business owners to protect their financial and emotional investment and preserve the legacy. They are implementing extra governance processes to ensure that their contributions to social causes are consistent with their ESG initiatives and are completely integrated with their commercial strategies.

1.5 Family firms and the decision to go public

A review of previous literature on family-owned companies going public reveals an underlying assumption: going public is something to do when family assets can no longer finance growth (e.g., Mahérault, 2000) or to ensure the company's continuity when no family members can or wish to succeed the previous generation (e.g. Jovenitti, 1998). By focusing on these incentives, however, historical literature has frequently portrayed going public as a reaction to a situation of need: if the family lacks the necessary funds or managerial skills, going public enables the business to have access to bigger pockets and attract skilled professional managers. In family-business literature, an IPO is typically described as a solution to two primary sorts of issues: capital shortage and succession. The majority of empirical research on IPOs has focused on financial considerations. Funding is one of the obstacles faced by family businesses. Numerous family businesses collapse due to inadequate capital and excessive debt loads (Jones 1979, Peterson, Kozmetsky, and Ridgway 1983, Wucinich 1979, De Visscher, Aronon, and Ward 1995). According to some authors, the primary objective of going public is to inject a substantial amount of investment capital into the company (Arkebauer, 1991). In fact, going public offers enterprises access to external financial resources. These resources can either be used to compensate for a shortage of capital or high debt/equity levels, or to seize and fund growth opportunities (Harvey, Evans, 1995; Mahérault, 2000). The money that can be raised on the market is typically larger, less expensive, and involves less dilution than a private placement. Long-term, access to the stock market also increases the company's borrowing capacity and bargaining leverage for the lowering of borrowing costs (Krips Newman, 1985). Additionally, because stocks are more easily transferred, banks will be more inclined to accept them as collateral.

Recent work identifies succession, family dynamics, and the continuity of the business as an additional major group of motivations for going public. As decades pass, the number of shareholders grows, and their ties to the company and to one another weaken. The dispersion of ownership increases the likelihood that a family stakeholder will sell or exchange their shares. The valuation of the shares frequently causes significant problems: if a firm is listed, however, its stocks are always negotiable on an open and free market where the prices are public and official[40]. In a public firm, governance and executive posts are typically assigned based on human competencies, regardless of dynastic considerations. Consequently, listed family businesses are in a better position to attract competent managers, providing the most effective strategic direction.

Gaia Marchisio and Davide Ravasi conducted an interesting study on what really influences a family firm to go public. They have combined evidence from a comparative case study and an extensive survey of recent Italian IPOs, investigating the capacity of the companies to build and sustain competitive advantage, through an increase in their reputational and social capital. The research utilized a two-step methodology that included qualitative and quantitative data collection techniques. The initial phase was based on six case studies of family businesses that went public. David and Gaia then explored the factors that led to the company's choice to go public, the benefits the company realized, and the structural, cultural, and operational changes that going public brought about. In a second phase, they circulated a questionnaire to all Italian companies that went public within the past five years, irrespective of their ownership structure. We opted to include non-family-owned businesses in the questionnaire so that we could compare family-owned businesses with other types of ownership and determine whether this variable influenced the observed behavior. Although all of the companies claimed in their offering circulars that the monies raised would be utilized to finance development projects, only a few were more explicit. In addition, interviews indicated a wider variety of motivations and benefits, of which raising capital and managing succession were only two of many.

[40] Corbetta, 1995; Jovenitti, 1998; Perrini, 1999

Figure 1.7

REASONS FOR AND BENEFITS OF GOING PUBLIC: EVIDENCE FROM THE CASES

Company	Main reasons for going public	Other benefits
Mediaset	- Possibility to establish strategic alliances - Rebalance debt/equity ratio - Finance development projects - Involving the general public in the ownership	- Increased protection from anti-trust decisions - Renewal of corporate image
Carraro	- Separate the company from the family - Rebalance debt/equity ratio	
ERG	- Rebalance debt/equity ratio - Finance development projects - Broaden potential sources of financing	- Establish advanced incentive systems
Sabaf	- Separate the company from the family - Legitimate the role of professional management - Finance development projects - Broaden potential sources of financing	- Improve corporate image - Increased commercial visibility and reputation - Increased opportunities of collaboration
Brembo	- Separate the company from the family - Improve corporate image	- Broaden sources of financing - Involve employees in the ownership
CSP	- Finance development projects - De-localization of operations	

SOURCE: MARCHISIO G., RAVASI D. (2001).

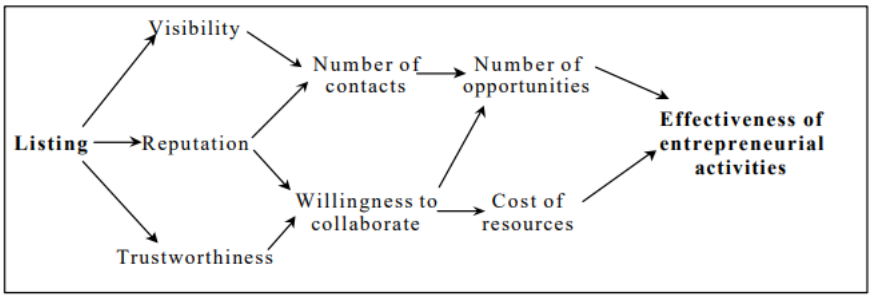
The ability to implement a stock-option plan or other forms of value-based managerial compensation plans provides a powerful incentive for skilled professional managers, who are attracted to the company by the opportunity to participate in the increase of the company's value, thereby enhancing their potential reward. However, several of these sources also stated that the status of a publicly traded corporation itself made a managerial job in the company more appealing, as it afforded professional managers greater visibility in the industrial and financial communities. These combined impacts contributed to an increase in the average profile of listed company management.

From a financial perspective, some of our sources observed that going public decreased the average cost of capital, not only because equity is less expensive than debt, but also because the company was able to negotiate a reduction in their bank interest rates after going public (i), and (ii) opened up a wider range of opportunities for raising additional capital. The first phenomenon was previously measured by Pagano, Panetta, and Zingales (1998) and is attributable to a reduction in the risk that banks identify with the company. In fact, a listed firm is subject to stricter oversight from both regulators and institutional investors. Financial reports of publicly traded corporations are required to be more transparent, exhaustive, and timely. Therefore, the greater flow of information permits a more accurate evaluation of the company's intentions and reduces the uncertainty around the company's future, resulting in a decrease in the discount rate applied to the predicted future returns. However, the positive impact of enhanced visibility and perceived integrity seems to extend well beyond financial or managerial problems. For several businesses, going public signified a significant break in their competitive standing. For Mediaset, the largest Italian private television broadcaster, going public was essential for forming an alliance with other international competitors in order to invest on the opportunities that digital and satellite broadcasting were creating in the industry and to expand the exploitation of proprietary television productions. The company could only support the development of these alliances with an exchange of shareholdings by going public, as industrial partners were reluctant to enter a private capital.

Evidence from the cases, then, suggests the existence of a third type of benefits, besides those related to finance and to family matters. Going public, in fact, tend to increases a company’s visibility in part as a consequence of the press coverage, in part as it introduces the company in a restricted industrial elite, with privileged relationships with the financial community. This effect is especially significant for smaller firms or those in less visible industrial-goods sectors. However, going public appears to have a positive impact on the reputation of all types of businesses and, consequently, on their connections with a variety of stakeholders, including financial institutions, significant clients, professional managers, and possible industrial partners. The company's increased reputation appears to be attributable, in part, to the higher status that being listed confers – particularly in Italy, where, until a few years ago, very few, primarily large companies were listed – and, in part, to a perception of trustworthiness that has its roots, as stated, also in the tighter institutional controls to which the company is subject. The combined effect of increased exposure,

reputation, and perceived trustworthiness appears to enhance a company's ability to attract desirable resources, reduce their cost, or extract greater value from them. Importantly, in view of the new competitive environment, the increased visibility and credibility increase the number of options for partnership in new development projects. Case studies indicate that going public may be intended to grow and strengthen the social network through which the company collects and deploys resources and competencies, thereby sustaining its entrepreneurial activity.

Figure 1.8

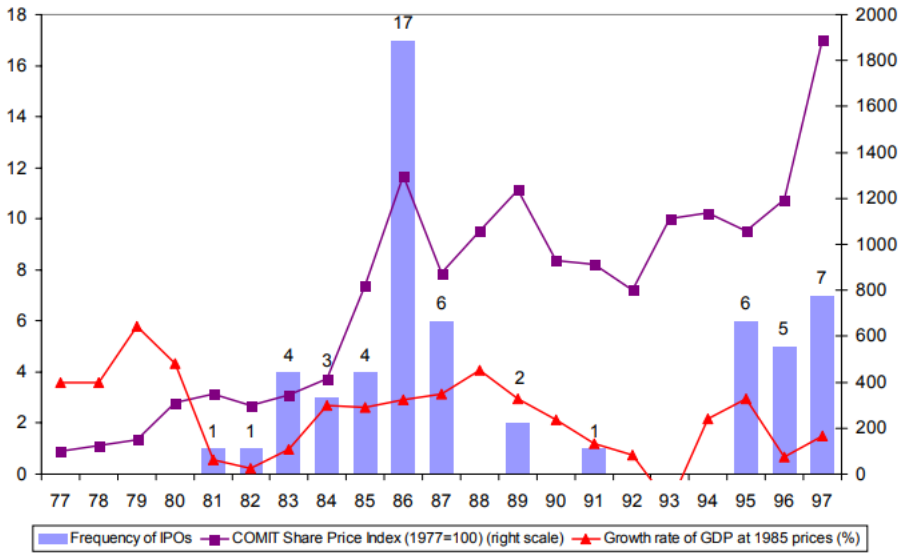


SOURCE: MARCHISIO G., RAVASI D. (2001).

1.5.1 Study of Italian IPOs

Figure 1.9 shows the distribution of Italian IPOs throughout time. On top of the table are graphs illustrating the time series features of Italian GDP growth and stock prices. On the one hand, substantial economic development in the middle of the 1980s may have contributed to a rise in the demand for equity capital and helped to explain the cluster of IPOs. Similarly, Italian managers' expectations that their markets would expand once Italy joined the EMU may be consistent with demand-side explanations and the 1990s IPO boom. On the other hand, the rise in equity prices during the 1980s and 1990s may have been consistent with a hot issue market and a supply-side explanation for the clusters of IPOs during both time periods.

Figure 1.9



SOURCE: R. Carpenter, L. Rondi, 2004

Figure 1.10 gives a summary of statistics for newly Italian public companies in the year of their IPO, categorized by ownership structure, size, and IPO year. The first column displays statistics for the whole sample of initial public offerings. To put them in context, just present a second set of statistics for all enterprises that did not go public and were not publicly traded during the sample period in column two. The first section of the table lists the company's physical qualities. Firms that went public were significantly larger than nonpublic firms, with median sales that were roughly 60 percent larger, total assets that were over twice as large, and more than 200 more employees. Companies conducting IPOs were younger than private companies. Section II of the table contains information on the company's financial qualities.

Figure 1.10

Characteristics of the IPO Sample, Grouped by Ownership, Size, and the Year of the IPO (median values)

	IPO Sample [1]	*Full Sample* [2]	*Group Affiliated IPOs*	*Independent IPOs*	*Large Firm IPOs*	*Small Firm IPOs*	*IPO 80 (1977-1989)*	*IPO 90 (1991-1999)*
N. Firms	*57*	*14,265 obs.*	*24*	*33*	*42*	*15*	*38*	*19*
I. Firm Characteristics								
Employees	579	373	912	404 [a]	755	283 [a]	717	353 [b]
Real Sales (Mill. ITL, 1980=100)	71,428	44,358	87,322	53,304 [b]	91,081	32,019 [a]	76,568	58,253
Real Total Assets (Mill. ITL, 1980=100)	73,412	38,836	96,087	62,305 [a]	82,281	31,675 [a]	75,537	67,409
Age	23.0	28	22.5	24	21.5	25	20.5	25
II. Financial Characteristics								
Leverage	0.310	0.503	0.349	0.310	0.280	0.411	0.393	0.225
Debt / Assets	0.162	0.252	0.134	0.213	0.141	0.256	0.238	0.135
Long Term Debt / Assets	0.092	0.082	0.099	0.087	0.096	0.087	0.100	0.057
III. Operating Characteristics								
Return on Assets	0.171	0.114	0.148	0.138	0.151	0.138	0.143	0.149
Return on Equity	0.585	0.474	0.400	0.324	0.355	0.332	0.388	0.324
Investment Rate	0.160	0.104	0.110	0.209 [b]	0.160	0.156	0.128	0.178
IV. Characteristics of the IPO								
Gross Proceeds / Total Assets	0.243	--	0.147	0.263 [a]	0.255	0.197	0.171	0.353 [a]
Net Proceeds / Total Assets	0.102	--	0.000	0.162 [a]	0.057	0.145 [b]	0.004	0.196 [a]
Net Proceeds / Gross Proceeds	0.531	--	0.000	0.682 [a]	0.261	0.996 [a]	0.024	0.627

Notes:
(a, b) means significant two-sample Wilcoxon rank-sum (Mann-Whitney) test of difference of medians at 0.01; 0.05 level.
1) Firms that went public between 1977 and 1997 as of the year of the Initial Public Offering.
2) Full sample of firms in the CERIS dataset, excluding observations for the firms that went public between 1977 and 1997 and of firms already quoted in the Milan Stock Exchange.

SOURCE: R. Carpenter, L. Rondi, 2004

Companies conducting IPOs appear to be less indebted than the sample of private companies. The median ratio of total debt to total assets for the IPO sample is 0.162%, compared to 0.252% for the nonpublic firm group. The third section of the table displays several operational aspects of the company. In the year of their IPO, both returns on assets (0.172 vs. 0.14) and returns on equity (0.171 vs. 0.14) are much higher for listed enterprises (0.585 vs. 0.474). 17 Additionally, they invest at a higher rate proportional to their capital stock size (0.159 vs. 0.104 for the nonpublic sample). The greater returns on assets and equity, along with the faster rate of investment, indicate that the newly public enterprises do somewhat better than the nonpublic ones. Less debt in the IPO sample is also indicative of somewhat greater financial performance. The final section of the table describes the characteristics of the IPO's proceeds. The ratio of the gross proceeds of the IPO to the firm's total assets at the beginning of the term is 0.304. The ratio is 0.243 based on total assets at the conclusion of the quarter. If all of the revenues from the IPO were reinvested into the company, its size would expand by nearly 30 percent. The median value of net proceeds, which is gross proceeds less proceeds retained by the existing shareholder, is less than half of gross proceeds, indicating that the owner manager exploits the IPO to extract his money.

1.6 The effect of family control on firm value and performance

The impact of family control of public firms is a rising area of research in finance and management. Many papers highlight that founder-CEOs have a positive effect on corporate performance[41]. A critical event for family control is clearly the retirement of the founder coupled to the "passing of the baton" to a heir, that often leads to a decline in the performance of the firm.[42]

Barontini and Caprio (2005) conducted a fascinating investigation into the connection between ownership structure and firm performance. The core of the paper is the analysis of the relation between market valuation (Tobin's Q) and operating performance (ROA) on one side, and the variables representing ownership concentration and family control, on the other side. The valuation and operating performance of founder-controlled firms are much superior to those of descendants-controlled corporations, which are not significantly worse. Thus, based on their findings, we conclude that family control is beneficial for the valuation and operating performance of firms in Continental Europe. This is true not only when the founder is still living, but even when the majority interest is held by non-executive directors who are descendants of the founder. In terms of valuation and performance, family-controlled businesses are statistically indistinguishable from non-family businesses when a descendent assumes the post of chief executive officer. Barontini e Caprio's findings shed light on the favorable relationship between family control and market valuation and operating performance across Continental Europe. Families are the type of owners most likely to use control-enhancing equipment linked with inferior performance, although there is no evidence to suggest that family control is detrimental to firm value and operating performance. The study shows that if we consider both family affiliation and the percentage of cash-flow and voting rights held by the largest shareholder as explanatory variables of market valuation and operating performance, the effect of family control is neatly positive, meaning that for any given combination of cash-flow/voting rights, families tend to be superior to other types of controlling shareholders. When we combine the effect of family

[41] McConnaughy et al., 1998; Palia and Ravid, 2002; Anderson and Reeb, 2003; Adams, Almeida and Ferreira, 2003; Falenbrach, 2003; Villalonga and Amit, 2004
[42] McConnaughy et al., 1998; Pérez-González, 2001, Villalonga and Amit, 2004

control with the ownership structure chosen by families, we find that a portion of the beneficial effect is lost due to the extensive usage of wealth-reducing control-enhancing technologies by families, but that a residual positive effect remains. Thus, our findings contribute to the current research by cautioning that the sheer observation of a substantial use of control-enhancing technology by family enterprises does not necessarily suggest a negative worldwide effect of family control, as is commonly supposed. The presence of founders, either as CEO or as non-executive director, is associated with outstandingly high market valuation and operating performance. Family firms remain better than non-family ones when descendants limit themselves to the role of non-executive directors, and are not worse than non-family ones when a descendant takes the helm of CEO.

Figure 1.11 illustrate the general relation between corporate performance, ownership concentration and family control. Family is a dummy variable taking value 1 for family-controlled corporations. Cashflow rights is the share of cash-flow rights held by the largest shareholder. Wedge is the difference between the share of voting and cash-flow rights held by the largest shareholder. Ln (Size) is the natural logarithm of Total Assets. Leverage is the book value of total financial debt divided by the book value of equity. Sales growth is the growth of sales in the previous year.

Figure 1.11

Dependent variable	Ln (Tobin' s Q)			ROA		
Regression specification	1	2	3	4	5	6
Family		0,0481	0,0849		0,0099	0,0113
		(2,16)	(2,68)		(2,66)	(2,43)
Cash-flow rights	0,0004		-0,0003	0,0002		0,0001
	(0,73)		(-0,41)	(3,55)		(1,21)
Wedge	-0,0022		-0,0039	-0,0001		-0,0003
	(-1,93)		(-2,74)	(-0,45)		(-1,47)
Ln (Size)	0,0176	0,0174	0,0199	0,0039	0,0035	0,0042
	(1,24)	(1,08)	(1,36)	(2,22)	(2,39)	(2,43)
Leverage	-0,0003	-0,0002	-0,0003	-0,0001	-0,0001	-0,0001
	(-2,39)	(-2,11)	(-2,39)	(-4,36)	(-4,12)	(-4,47)
Sales growth	0,1727	0,1729	0,1698	0,0181	0,0180	0,0178
	(4,20)	(4,37)	(4,22)	(2,14)	(2,16)	(2,14)
R-squared adj	32,56%	32,46%	33,09%	19,94%	20,03%	20,40%
N. Observations	1852	1852	1852	1852	1852	1852

SOURCE: R. Barontini, L. Caprio, 2005

In columns 1 and 4 are reported the results for the regression specification in which the dummy-variable for family control is omitted. According to the regression results in column 1, there is no credible relationship between Tobin's Q and the cash flow rights of the largest shareholder in European firms. The results of the regression in column 4 show the further different picture emerging from the relation between accounting profitability and quantitative ownership variables. Here we find a strong positive relation between ROA and cash-flow right and a negative but non-significant relation between ROA and the wedge. The response provided in Table V is clearly supportive of family control in continental Europe. In all regressions, whether the dependent variable is Q (regressions 2 and 3) or ROA (regressions 4 and 5), the coefficient on the dummy variable "family" is positive and statistically significant (in two cases at the 1 percent level, in the other two at the 5 percent level). This discovery appears to have a particularly robust economic significance. It suggests that family control is advantageous, both when we measure a "pure family effect" separated from a "ownership structure effect" (regressions 3 and 6) and when we measure a "overall family effect", in which we attribute to the type of control the effect of the ownership structures chosen by the firms belonging to this type. In reality, the "total family effect" is smaller than the "pure family effect," but is still significant from a statistical and economic standpoint.

Specifically, in regressions 3 and 6, the coefficients on the family-dummy variables are positive and statistically significant when the dependent variable is Q (regression 3, significance level of 1 percent) and when the dependent variable is ROA (regression 6, statistical significance 5 %). This implies that, for any given combination of cash-flow rights and wedge, family organizations tend to demonstrate significantly superior valuation and operating performance compared to non-family enterprises.

As conclusion, despite the fact that the theory has highlighted both the costs and benefits of family control without determining which is more prevalent, there has recently been a widespread negative attitude towards it. For instance, Anderson and Reeb (2003) discover an overall favorable effect of family affiliation in the United States and suggest that family ownership can be a beneficial organizational form in a well-regulated and transparent market. Despite the fact that continental European markets are not as well-regulated and transparent as U.S. markets, the same outcome holds true. On the basis of partial

observations such as the high average separation of control and cash-flow rights in this type of enterprises, we believe this serves as a caution against overlooking the possibly favorable features of family control around the globe. In terms of policy implications, then, Barontini and Caprio's findings imply that the widespread dissemination of family control and the ways by which it is exercised do not provide a significant obstacle to the effectiveness of "corporate Europe."

CHAPTER 2 – EXECUTIVE REMUNERATION IN FAMILY BUSINESS

2.1 The conceptual foundations of executive remuneration

Now, let's examine in greater depth the characteristics of board compensation in family businesses. Few topics in the history of the modern company have drawn as much international interest as the compensation of top executives at the largest corporations. Business analysts have enjoyed examining and criticizing executive compensation for decades, fueled by transparency rules and human jealousy. Nonetheless, we are currently in the midst of a reexamination of chief executive officer (CEO) compensation that has more than the normal amount of intensity and substance.

According to C. Jensen and J. Murphy (2004), a well-designed remuneration package for executives (or for employees at all levels of an organization) will achieve three goals: attract the right executives at the lowest cost, retain the right executives at the lowest cost (and encourage the right executives to leave the firm at the appropriate time), and motivate executives to take actions that create long-term shareholder value and avoid actions that destroy value. In order to achieve these goals, the design of any payment scheme must incorporate three essential components:

1. *The expected total benefits associated with the job or position (including the costs and benefits of non-pecuniary aspects of the job).*

This dimension determines a person's place of employment. Each individual will be assigned to the position with the highest predicted overall benefits (taking into account the risk of the benefits and the cost of switching employers). We say expected because (from the employee's perspective) part of the costs or benefits of the employment will be unpredictable, and it is therefore the risk-adjusted expected value that is relevant. Therefore,

the anticipated overall benefits influence whether we attract and retain the appropriate executives and if we urge the appropriate ones to depart.

2. *The composition of the remuneration package.*

This dimension impacts the determination of the compensation package's constituent components (including for example the amount of cash received as salary, the amount of risky performance-related cash, stock, restricted stock or options, retirement benefits, non-pecuniary benefits such as prestige, the emolument package, and so on). It is in the best interests of both the employer and employee to shape the content of the package so that the advantages to the employee are maximized for any given overall cost to the company. Or, the overall cost to the corporation is minimized for any given total benefit to the individual. Thus, the accurate or optimal compensation package will be efficient in the sense that no resources will be wasted. Aspects of the working environment or compensation package that affect an employee's productivity are a bit more nuanced, but the substance remains unchanged.

3. *The relation between pay and performance (what for shorthand we call the pay-performance relation).*

This dimension specifies which behaviors and outcomes are rewarded and which are punished, and so dictates what an employee works on, how hard they work, and their productivity.

Each of the three dimensions of executive compensation must be regulated by the remuneration committee, and each component has substantial policy consequences. For instance, it should be apparent that there is no disagreement between the CEO and the corporation regarding the package's composition. The committee wants to hire and retain the executive at the lowest feasible premium above his or her best alternative job, whereas the executive wants to be paid only a small bit less than his or her greatest worth to the organization. Insofar as the pay-performance relationship incentivizes the executive to generate more value, and given that this additional value can be shared, both parties desire an optimal pay-performance relationship. However, aspects of friction, bargaining, and game may enter into the conversation regarding the executive's pay-performance relationship. And if not adequately managed, they can result in value loss and ineffective

compensation packages. Well-designed packages will also handle the riskiness of the compensation package with care. Bonus opportunities and other performance-based compensation (such as stock options and long-term incentive plans) are inherently volatile and expose plan members to unavoidable risk. While company shareholders are well-diversified and indifferent to firm-specific risk, executives tend to be risk-averse and inherently undiversified (with a disproportionate amount of their financial and human capital invested in their company), and will often prefer a pay package promising a fixed base salary over a risky package with the same expected value. Risk-averse leaders will "charge" for risk-bearing by devaluing the hazardous components of compensation or requesting higher predicted pay levels. This means that the company must choose between having highly-motivated employees who work diligently to achieve the desired results and hiring high-quality leaders at the lowest possible cost.

2.1.2. Executive Remuneration as an Agency Problem

If the manager of a company held 100 percent of the company's shares, then (risk aversion and self-control issues aside) the manager's decisions would be presumed to maximize long-term shareholder value, and other incentive programs would be unnecessary. However, company decisions are made by management who possess significantly less than 100 percent of the company's equity. Although these managers were hired for their experience and managerial ability, they cannot be expected to make the same decisions as the owners. This "agency problem" is especially prevalent for decisions that are personally costly for managers (such as decisions to lay off employees and sell divisions or the entire company) because managers bear a disproportionate share of the cost vs. benefits, and for decisions that benefit managers (such as purchasing corporate aircraft or remodeling the corporate headquarters) because managers reap a disproportionate share of the benefits vs. cost[43]. Agency costs resulting from this separation of ownership and control would be modest in family-owned businesses since large shareholders would have strong incentives to oversee

[43] Jensen and Meckling, 1980

management (Shleifer and Vishny, 1997). Thus, equity-based remuneration, which can play a key role in matching the interests of CEOs and shareholders in publicly traded companies, would not be expected to play a large role in the compensation of CEOs in family firms.The inherent conflict between managers and shareholders is comparable to the conflict that arises when a principal hires an agent to do activities on behalf of the principal. And it should be noted that agency issues are a component of all cooperative settings involving two or more people. In firms, partnerships, non-profit organizations, government agencies, and even families, there will always be some incompatibility of interests, and so agency difficulties will always exist. In public firms, however, there is an additional agency problem: top executives are chosen, monitored, and rewarded not directly by owners, but by boards of directors who are elected by the shareholder-owners but are not perfect agents for them. By aligning the objectives of managers and shareholders, well-designed executive compensation packages can alleviate the first type of agency issues. Similarly, well-designed corporate governance regulations (including director compensation) can alleviate the latter sort of agency difficulties by setting rules, processes, checks, and balances that help guarantee boards of directors faithfully carry out their fiduciary responsibilities to shareholders. Moreover, as well-designed pay policies cannot resolve all conflicts of interest and agency difficulties between executives and the firm, well-designed corporate governance mechanisms administered by directors of high integrity must be in place to address those conflicts. Compensation choices are made by boards of directors, not by shareholders (upon recommendation from the remuneration committees). In addition, pay committees frequently lack the information, expertise, and negotiating skills required for tough contract talks with incumbent and new leaders. As a result, many pay packages and processes are poorly structured, and pay packages can both exacerbate and alleviate agency problems in businesses by attracting the wrong managers (or at an excessive cost), retaining the wrong managers, and driving the wrong behavior. Because managers are self-interested and pay committee members spend the firm's resources, not their own, there is a significant risk that system participants would behave in ways that exacerbate rather than alleviate agency problems. Thus, corporate governance and payment policies are intricately intertwined: weak governance can quickly lead to value-destructive pay practices, while many infamous pay excesses can be traced back to poor governance.

2.1.2.1. Agency Costs in Family Business

Family businesses have raised new and challenging agency cost issues. Long time ago, the academic community generally believed that family-owned businesses had lower agency costs than non-family firms. The management right is unified, the interests of the owner and the family manager are similar, which reduces the likelihood of opportunistic behavior on the part of the family manager, and the degree of information asymmetry between family members is low, thereby resolving the problem of principal-agent information asymmetry. After the turn of the twenty-first century, a group of scholars led by Schulze challenged this conventional viewpoint. They proposed, from the standpoint of altruistic theory, that the agency problem of family businesses has its own unique characteristics. The agency cost of a family business is greater when altruism has a negative effect[44]. After this new perspective was published in some mainstream management journals (such as "Organization Science"), the international academic community's stance on this issue has become increasingly divisive. Agency issues in family businesses are ingrained in the altruistic relationships between parents and children and are a family tradition. Altruism, private ownership, and family management are intertwined, and agency conflicts arise from sources other than the traditional principal-agent dilemma.

When some family members have only ownership rights and others have both ownership and management rights, there may be conflicts between the principal (the family member with sole ownership) and the agent (the family member who also participates in the business). This circumstance may reduce altruism and the effectiveness of collaboration and information exchange, thereby increasing agency costs; conflicts of interest between major family shareholders and the financial and non-financial benefits of multiple family owners may differ, resulting in the possibility of family disputes and conflict. This conflict undermines the benefits of collective power exercise as a unified group of major shareholders, such as the undeniable extraction of private benefits from family control, supervision of managers, and non-economic benefits derived from them. Controlling and fostering businesses based on the strategic preferences of the family[45]. Moreover, this family conflict generates a centrifugal force that erodes family cohesion. These effects, if left

[44] Lubatkin et al., 2010
[45] Chrisman & Patel, 2012

unaddressed, could undermine the continued impact of family groups as a powerful economic and social actor and ultimately signal the demise of a collective organization[46]. Typically, the family separates the homeowner from its assets and creates a buffer by establishing an intermediate organizational entity, such as a home office or home trust, to avoid uncoordinated interference in the family's business activities, thereby limiting the damage caused by the conflicts of the family's largest shareholder. Nonetheless, this solution incurs an additional agency fee, the double agency fee[47]. Overall, the heterogeneous interests of family owners have resulted in conflicts among the family's major shareholders, and these conflicts are currently ongoing.

Both family members and non-family members may have ownership and management rights, resulting in a variety of roles including owner-manager, owner of board members, owner, non-owner manager, and non-owner board member. If the owner self-manages the company and other shareholders who do not manage the business co-own the company or jointly own the company with the non-owner manager, the owner manager and the owner or owner manager who is not involved in managing the business bear the agency costs. Disputes involving non-owner managers[48]. In such circumstances, family businesses require mechanisms that foster solidarity between family members and non-family members. Moreover, if non-family members (typically professionals) are superior managers to family founders and their heirs, the family management model may be quite expensive.

Altruism is a potent conceptual tool for explaining the existence of family businesses. In family businesses, altruism plays a unique role that does not necessarily exist in other businesses. Some academics believe that the enterprise adopting the owner management system does not exist or has a small agency cost[49], and since family members in family businesses are viewed as altruistic, this perception tends to extend into the field of family business. However, Schulze et al. incorporated social factors into the agency framework to study and concluded that altruism will increase agency costs. As a result, the relationship between altruism and agency costs is contentious within the field of family business research. To clarify the relationship between altruism in family businesses and agency costs.

[46] Franks et al., 2012
[47] Carney et al., 2013
[48] Chrisman, Chua, & Litz, 2010
[49] Jensen & Meckling, 1979; Fama & Jensen, 1983a; 1983b

As a supplement to the framework of agency theory, stewardship theory can better explain the behavior of businesses and organizations. The altruistic hypothesis in the steward's theoretical framework is truly unrewarding and non-self-interested, which differs from the concept of altruism prevalent in economic theory and agency theory research[50]. Agency theory assumes that agents will engage in opportunistic behavior regardless of the context, whereas organizational justice theory argues that corporate agents value fairness and justice only when they perceive that they have been treated unfairly. Consider opportunistic conduct. In addition, scholars have united economics and organizational justice under the general agency framework in an effort to resolve the dispute over the relationship between altruism and agency issues[51]. Some academics believe altruism can help family members love one another, protect family interests, and foster the growth of family businesses. Due to the impact of altruism on family businesses, informal contracts, benefit bundling, and risk sharing can reduce agency costs[52]. Although altruism can reduce some agency costs, it can also lead to issues such as the "free-rider" phenomenon, the inability of family members to manage, predatory managers, and trenching tendencies. Some authors believe that trenches cause more agency conflicts in family businesses than in non-family firms[53]. Altruism can facilitate the transmission of tacit knowledge within a family, and effective communication improves the quality of family business decisions. Altruism encourages family members to reduce agency costs and enhances the performance of family businesses as a result[54]. The altruism of family members in the family business is conducive to fostering loyalty and commitment to the long-term goals of the business, thereby reducing the agency costs of the company. When the level of altruism among family members is consistent, family business owners and family managers both practice altruism on one another. Altruism aids in alleviating the agency issues of family businesses[55]. Some scholars believe that altruism will exacerbate agency conflicts and increase agency costs in family businesses. Specifically, after the start-up phase of family businesses, new "moral hazards" such as cronyism, one-way altruism, and agency problems such as "free-riding" and "self-control" may emerge[56].

[50] Corbetta & Salvato, 2004
[51] Lubatkin et al. 2007
[52] Daily & Dollinger, 1992
[53] Morck & Yeung, 2010
[54] Vanden & Carchon, 2003
[55] Eaton et al., 2002
[56] Schulze et al. 2001, 2002, 2003a; 2003b

Children's lack of responsibility is positively correlated with their parents' generosity. The level of asymmetric altruism of the parents will exacerbate the agency problem in the family, resulting in the "Samaritan dilemma." The "Samaritan dilemma" demonstrates that the degree of parental altruism is positively correlated with the propensity of children to be slothful and avoid responsibility. The family's agency problem will worsen as the disparity between parental and child altruism increases. After a certain point in the development of the family business, altruism will exacerbate agency issues. In core families and close relationships, agency issues primarily manifest as moral hazard, including avoidance of responsibility, free-riding, and consumption on the job. In the "quasi-family" based on distant kinship and social, cultural, religious, and other factors, adverse selection is the primary manifestation of the agency problem. As a result of altruism, parents may have a bias against the behavior of family agents, which can easily lead to poor choices. Numerous other academics are of the opinion that the impact of altruism on agency costs varies at various stages of family business development[57]. When business owners can differentiate between bidirectional altruism and single altruism, they can reduce agency costs and promote the intergenerational inheritance of "children and fathers" family businesses. The effect of altruism on agency costs is dynamic from the perspective of the dynamic growth of family businesses. In the early phases of family business development, altruism will reduce agency costs. In the later period, as family businesses develop, altruism will increase agency costs. As a primary characteristic of family businesses, altruism has a complex influence on the principal-agent relationship, which is neither purely positive nor purely negative, nor statically unchanged. Understanding the complex relationship between altruism and agency costs in family businesses will be aided by research from fresh perspectives such as housekeeping theory and organizational justice.

By combing the research on the sources of agency costs, altruism and agency costs in family enterprises and reviewing the status quo of family enterprise agency costs research in the past decade, the following conclusions can be drawn: 1) The sources of family enterprise agency costs are the classic principal-agent problems and other sources. 2) In the field of family business research, there is controversy about whether altruism can reduce or increase agency costs. In addition to the principal-agent theory, it has also begun to conduct research

[57] Su Qilin, Zhang Qinglin, 2009; Karra et al., 2006

by combining housekeeping theory and organizational justice and other methods. The research on agency problem is still in its immature stage and needs further development. 3) In the past ten years, scholars have studied the agency costs of family businesses from different entry points. The relationship between family characteristics and the relationship between governance mechanisms and agency costs are the focus of research. Due to the interaction between the family and business systems within a fluctuating internal and external environment, the agency cost issue is deemed to be more complex. Family businesses face more agency problems than other types of businesses, and the nature and scope of these agency problems vary with the stage of development of the family business.

2.2. Family Business Compensation

If a privately held, family-run business wants to maintain a lucrative development trajectory for future generations, it must confront complicated business challenges as it ages. Recruiting, retaining, and engaging external executive talent is one of the greatest problems. Moreover, the present leadership team must be compensated in a way that stimulates continuous value generation and maximizes the compensation investment. In the executive labor market, family-owned businesses have a number of natural executive compensation advantages that assist them attract, engage, and retain senior talent. In figure 2.1 a summarize of the advantages and the challenges

Figure 2.1

EXECUTIVE COMPENSATION AT FAMILY-CONTROLLED COMPANIES	
Compensation Advantages	**Compensation Challenges**
• Freedom to design	• Informal pay governance process
• Unique pay programs	• Opaque compensation plans
• Long business time horizons	• Absence of a total compensation strategy
• Less equity volatility	• Below-market long-term incentives
• Great company culture	• Lack of market knowledge

SOURCE: SAITZ D. (2017)

2.2.1 The Advantages

Freedom to design: family businesses, particularly those that are privately held, have the freedom to design and structure executive compensation as they deem ideal for the organization. Private enterprises are not scrutinized by institutional shareholder advisers and investors with short time horizons, unlike public companies. These external pressures apply intense pressure on public company boards to propose vanilla, one-size-fits-all CEO compensation schemes, and their recommendations are frequently based on simplistic checkboxes. Programs and features that deviate from the market norm are occasionally marked purely for being unusual. The outcome is a continual homogeneity of executive compensation packages on the public market, which does not necessarily meet the

requirements of each organization. In contrast, private companies can plan programs more strategically.

Unique pay programs: given this protection from public scrutiny, family-controlled businesses generally have distinctive compensation plans. In many instances, the blueprints were devised by founding family members and have since become part of the cultural fabric. Frequently, these programs include nuances and features that one would not find at a publicly traded company, such as innovative deferred compensation plans, long-term incentive plans based on economic value drivers, and internal stock valuations that are insulated from the fluctuations of the public stock market. These specialized and distinctive pay systems give family-owned businesses with a possible competitive advantage over public companies' increasingly generic plans.

Long time horizons: family businesses have inherently long-term business perspectives. As ownership is passed down through generations, a sense of history and heritage emerges. This long-term perspective contrasts sharply with that of a public corporation, which is under immense pressure to reach quarterly earnings-per-share targets. This broader viewpoint affords family businesses greater flexibility in developing and executing a long-term company strategy. From the perspective of executive compensation, pay plans can be crafted to reward the enterprise's genuine long-term performance. In a 2015-2016 survey of private family business boards conducted by the National Association of Corporate Directors, nearly half of respondents considered a time horizon longer than three years for executive performance plans, in contrast to the nearly universal three-year period for public companies.

Less equity volatility: Private, family-owned businesses are better shielded from the gyrations of the public stock markets. Numerous private family businesses give some type of long-term incentive related to the value of the business, which may take the shape of an actual stock interest, phantom stock, or another form of long-term compensation based on the value of the private equity. This private valuation is not subject to the irrational behavior of public equities markets, which makes it a more solid basis for long-term remuneration.

Great company culture: family-owned businesses can create an enticing corporate culture. The family culture is a pleasant contrast to the bureaucracy and politics that are all too common in public corporations, according to several senior executives. In fact, a strong corporate culture is one of the primary reasons why family firms are frequently ranked

among the "best places to work." These companies can inspire extraordinary leadership loyalty. Many leaders choose to remain at family-owned businesses for reasons that go far beyond salary.

2.2.2 The Challenges

Despite these significant competitive advantages when it comes to executive compensation, privately owned family firms also face several common compensation challenges.

Informal pay governance process: in private family firms, the compensation governance process is typically less formal and less structured than in public companies. According to a poll conducted by the NACD family business board, around 72 percent of businesses have a pay committee that meets four times each year. However, the scope of the committee is frequently less clear, and its compensation decision rights and meeting topics may be more variable than in the public sphere. In addition, the committee is typically comprised of family shareholders and company insiders as opposed to independent directors. Stock market listing requirements need an independent committee for a public firm. When insiders serve on a compensation committee, conversations over executive salary can become more personal and potentially confrontational.

Opaque compensation plans: many family-owned businesses have distinctive compensation systems, but these arrangements are often opaque and not fully understood by all stakeholders. In general, executive remuneration is not subject to the same level of disclosure as in a public business; there is no obligation to outline the programs in an annual proxy statement. Thus, obtuse aspects of the compensation plan may persist, and executives may lack a comprehensive understanding of and appreciation for the whole worth of the package. In such circumstances, the corporation may not be maximizing the return on investment of its compensation program. In fact, the compensation committee may not comprehend the plans thoroughly.

Below-market long-term incentives: in the majority of cases, private corporations offer long-term incentives that are far lower than those offered by public companies. There are a variety of reasons why family-owned businesses give below-market long-term incentives. These

include the family's reluctance to transfer equity and so dilute ownership and earnings. Consequently, it is frequently impractical for a private family business to match the levels of long-term incentive compensation offered by public firms, and the entire compensation strategy must account for this deficit.

Absence of a total compensation strategy: frequently, family-owned businesses lack a comprehensive executive compensation structure that includes basic salary, annual incentive, long-term incentives, and benefits/perks. The company's leaders may not comprehend the interrelationships and trade-offs between the various components of remuneration. Moreover, while family culture can be a substantial competitive advantage, it also has disadvantages. Extremely, a family business may rely excessively on the culture and goodwill of its leaders, assuming that loyal, long-tenured executives are less concerned with salary. In certain instances, owners erroneously feel that company culture compensates for any wage gaps with the market.

Lack of external market knowledge: typically, family-owned businesses lack knowledge of contemporary market practices and standards. Small businesses are less concerned with the external labor market. They have a tendency to promote executive talent from within the organization until it is no longer feasible to do so. The inability to compete for talent can be hampered by ignorance about CEO wage trends. Just as a family business should not ignore the business practices of its competitors, ignoring market norms for executive compensation is not advantageous. As in other aspects of business, ignorance is not bliss.

Executive salary can be a difficult topic for a family business. However, in order for the business to continue growing profitably, the executive remuneration system must also adapt. Family-owned businesses can manage CEO compensation in a manner that tackles the most prevalent difficulties while optimizing their inherent competitive pay advantages through careful planning and structure. This will allow them to construct teams that can simultaneously progress the company's long-term growth goal.

2.2.3. The effect of family control on CEO compensation

As seen before, in continental Europe, concentrated family ownership is the most typical form of ownership structure. Previous academics, such as Morck and Yeung (2003) and

Bertrand and Schoar (2006), have argued that choices in family enterprises may be made in the interests of the governing family, which may differ from the interests of minority shareholders. Families, as significant shareholders, value control and are frequently involved in corporate management, despite the fact that this may result in subpar company performance[58]. The level and composition of CEO compensation packages are likely to be affected by family control. Given the importance that families place on control, family businesses may be hesitant to offer stock awards and stock options to its leaders, thereby limiting the proportion of equity-based pay CEOs receive. In addition, the controlling family is frequently in a position to monitor and, if necessary, dismiss the CEO if she fails to meet the family's expectations. Thus, equity-based remuneration may be less significant in family firms than in publicly traded companies, where the alignment of CEO and shareholder incentives is of more relevance. Additionally, if a family member is the CEO, corporations are not required to offer her equity-based compensation to align her interests with those of the shareholders. We can assume that a CEO who is a family member would receive comparatively less equity-based pay. McConaughy (2000) and Block (2008) present evidence for the United States and Germany that is compatible with this notion. Families can also affect the salary of chief executives. CEOs of family enterprises may obtain greater remuneration packages if they boost the family's wealth and allow the controlling family to derive the benefits of control. Barontini and Bozzi (2009) demonstrate that family enterprises in Italy pay their CEOs more than other firms, and that family CEOs are paid more than professional CEOs. They interpret this result as evidence of rent extraction, contending that families overcompensate their CEOs in order to buy their loyalty and enable them to expropriate minority shareholders. Similar to Barontini and Bozzi (2009), Barak et al. (2008) give evidence that in Israel, extra pay is a private advantage of control. They discover, however, that family CEOs are rewarded for poor performance, but professional CEOs are rewarded for increasing firm value. Moreover, Haid and Yurtoglu (2006) discover a beneficial effect of family control on CEO salary for a sample of German firms. Alternately, family control could have a detrimental effect on the salary of the CEO. In family-controlled enterprises, risk-averse CEOs may be willing to accept lesser salary in exchange for greater job security, especially if they are related to the owners (Gomez-Mejia et al., 2003). Family ties can strengthen the executive's commitment to the company, making him or her less

[58] Perez-Gonzalez, 2006; Bennedsen et al., 2007

inclined to seek employment elsewhere and more ready to accept a reduced salary. For Sweden and Germany, Palmberg (2009) and Elston and Goldberg (2003) establish a negative correlation between family control and executive remuneration. Overall, the research regarding the effect of family control on CEO compensation packages is scarce and equivocal. Given the diverse time periods and compensation data types utilized in the literature, this is maybe not surprising. Due to the paucity of data at the individual director level, Haid and Yurtoglu (2006) and Elston and Goldberg (2003) utilize total compensation of supervisory and management board members as a measure of compensation. This research intends to contribute to the literature by offering a cross-country analysis of how family control can influence the amount of CEO remuneration and pay-for-performance sensitivity using both cash-based and equity-based CEO compensation components.

2.2.4 The effect of institutional ownership on CEO compensation

Institutional activism can benefit minority shareholders by decreasing potential agency costs and ensuring managers act in their best interests. Institutional investors, such as mutual funds, pension funds, insurance companies, bank trusts, and university endowments, frequently own block shareholdings and mitigate the free-rider problem that arises with dispersed ownership. Thus, they can provide effective oversight of management and influence key strategic policies in corporations, such as CEO compensation package decisions (Gillan and Starks, 2000). As part of their oversight responsibilities, institutional investors may exert a moderating influence on CEO compensation packages. Therefore, one would anticipate a negative relationship between institutional ownership and CEO compensation. In addition, institutional investors could encourage companies to provide more performance-based compensation to their CEOs, thereby establishing a significant and positive relationship between CEO pay and performance, as documented by Hartzell and Starks (2003) for U.S. companies. Despite the increasing presence of institutional investors in the capital markets of Continental Europe, there is scant evidence on the role of institutional investors in determining CEO compensation packages in Continental Europe, with the exception of some evidence of the negative impact of banks on executive

compensation in Germany (Elston and Goldberg, 2003; and Haid and Yurtoglu, 2006). In Continental Europe, institutional investors are permitted to hold large blocks of shares in family-owned businesses; consequently, they must interact with the family owners. In such circumstances, they can provide monitoring for family owners and aid in protecting minority shareholders' interests. Consequently, the presence of institutional investors may reduce agency costs in family firms (Tosi et al., 1999). Gomez-Mejia et al. (2003) contend that institutional shareholders should demand a lower emphasis on the long-term component of the CEO compensation package in family firms, particularly if the CEO is a family member. In fact, the long-term component of CEO compensation, in the form of stock options or stock grants, would strengthen the ownership rights of the controlling family and family CEO, thereby contributing to the possibility of increased CEO entrenchment. Thus, institutional investors can play an active role in determining the structure of CEO compensation in family-owned businesses. Recently, hedge fund activism has garnered significant attention from the financial press and academic communities (Brav et al., 2008, Klein and Zur, 2009, Becht et al., 2009, Becht et al., 2010). Expect hedge funds with significant shareholdings to have an incentive to monitor the company's management and other controlling shareholders. Consistent with this perspective, some hedge funds state that one of their primary goals is to reduce excessive executive compensation and strengthen the connection between executive pay and performance (Brav et al., 2008). Brav et al. (2008) find evidence to support this assertion.

2.3. CEOs' Compensation in Family versus Non-Family Firms

In a study on CEO pay at Hilton Hotels, Graef Crystal (1998) demonstrated that Stephen Bollenbach's compensation was significantly higher than that of his predecessor, Barron Hilton, the scion of the hotel family. Crystal observes that CEOs with substantial stock holdings represent some of the best acquisitions. Although he did not address the issue, Crystal noted that individuals with large shareholdings are frequently founders or founding family members. We will provide evidence that family-member CEOs in founding-family-controlled firms receive lower pay and fewer pay-based incentives than nonfamily CEOs. The findings support the hypothesis that founding family CEOs have superior incentives to

maximize firm value. The compensation of CEOs of public companies has received a great deal of attention from consultants, management scholars, and the popular press. Since nearly three decades, Forbes has published annual surveys of CEO compensation levels, and the United Shareholders Association has published surveys of the sensitivity of CEO pay to performance for 1,000 of the largest U.S. corporations. Over the years, numerous researchers have examined whether executive pay is sensitive to firm performance and the factors that influence the sensitivity of pay to performance. These efforts support the notion that executives should be rewarded (punished) for good (poor) performance and that rewarding executives for good performance provides incentives for future performance improvement. In contrast to the abundant literature on executive compensation, little effort has been made to examine compensation in a prevalent corporate organizational form: the family-controlled firm. According to Shanker and Astrachan (1996), it is difficult to precisely define a family business. Their expansive definition of family control is the effective control of strategic direction and the intention for the business to remain in the family with minimal direct family involvement. In the United States, they account for 60% of public companies, 100% of sole proprietorships, and 60% of partnerships and private corporations. CEOs who are founders or relatives of founders may have different motivations than other CEOs for managing firm value. For instance, they may have familial ties that provide oversight and efficiency incentives. They may also have a multigenerational perspective on the company's future. They may derive nonfinancial benefits from their positions, such as family identity with the company, which confers social status and unites the family. These CEOs may also be able to offer employment to their relatives. A study of their CEOs' compensation provides an opportunity to test some of the implications of agency theory regarding incentive compensation, given the prevalence of such incentives and the large number of publicly traded family-controlled firms. Moreover, pay-for-performance contracts can be used to reduce conflicts (Grossman & Hart, 1983; Ross, 1973). Eisenhardt (1989) identifies two types of incentive contracts: outcome-oriented and behavior-oriented (commissions, stock options, transfer of property rights, and market forces). The agency theory predicts that outcome-based compensation is more effective at reducing principal-agent conflicts; the stronger the correlation between pay and performance, the higher the expected level of performance. Jensen and Murphy (1990a, 1990c) found that the sensitivity of CEO compensation to firm performance was low but statistically significant. Owners desire

performance (increased value) from their companies. As higher performance necessitates greater effort and productivity from managers, the objectives of the owners may conflict with those of their agents, who may view increased effort as undesirable. Moreover, managers and owners have distinct preferences regarding expenditures. Managers prefer higher and more secure compensation and perks, at the expense of the owners. They also prefer to manage larger firms, even if the investments may have negative net present values (Jensen, 1986), as compensation is typically more closely correlated with firm size than performance. According to agency theory, owners who do not run their firms should tie compensation to performance. Stock prices are frequently used as a performance indicator because they are sensitive to the operating performance and future prospects of a company, both of which are dependent on the efforts of management. Rappaport (1987) and others criticize U.S. McConaughy 123 managers for focusing on quarterly or annual share prices at the expense of maximizing long-term value. However, the performance of the stock price should be a good indicator of the performance of the company and its management. The viewpoint of Rappaport disregards well-established financial economics theory, which asserts that stock prices reflect future performance expectations. Maximizing share price reflects optimum long-term performance, unless managers are able to consistently deceive shareholders.

Jensen and Murphy (1990a, 1990b, 1990c) present detailed analyses of CEO pay-performance sensitivities using the Forbes Executive Compensation surveys for the years 1974-1986 and 1975-1989 for 1,049 and 430 firms, respectively. They determine significant evidence of performance-based compensation by calculating the change in CEO pay for a $1,000 change in shareholder wealth. Using the following model to describe the relationship between pay and performance, Jensen and Murphy calculate pay-performance sensitivity as: $b = b1 + b2$, i.e. the sum of the sensitivity of pay to current and past performance:

$$\Delta(CEO\ Wealth)_t = a + b_1\Delta(Shareholder\ Wealth)_t + b_2\Delta(Shareholder\ Wealth)_{t-1}$$

Although they discover a statistically significant relationship, they deem the level of sensitivity to be low: CEO wealth varies by an average of $3.25 for every $1,000 change in

shareholder wealth. They believe that public outrage over "excessive" CEO compensation could limit payouts.

Gomez-Mejia, Tosi, and Hinken (1987) examine 71 large manufacturing companies from 1979 to 1982 and find that the structure of stock ownership influences the sensitivity of pay to performance. They examine two types of companies: (a) owner-controlled (a company with a dominant external shareholder) and (b) manager-controlled (no dominant shareholder). Salary, bonus, and long-term income are related to shareholder returns and profitability in owner-controlled businesses. However, in management-controlled firms, compensation is only proportional to firm size. In other words, managers prefer compensation that is unrelated to performance. Owners, on the other hand, prefer performance-based compensation. Lippert and Moore (1994) investigate the factors that influence pay-performance sensitivities and answer the question of why Jensen and Murphy (1990) found low sensitivities. They regress the total incentives sensitivity data from Jensen and Murphy (1990) against firm size, different growth and risk proxies, as well as inside ownership, institutional ownership, CEO tenure, and a regulated industry dummy. They discover that sensitivity is positively related to risk, negatively related to size, growth, and regulated industries, and insignificantly related to institutional ownership and insider ownership. In a separate paper, Lippert and Moore (1995) analyze the pay-performance sensitivity calculations of Murphy (1993) for the United Shareholders Association for 700 companies. Using a similar methodology as Jensen and Murphy (1990), they discover that firms with low pay-performance sensitivity have more independent boards or greater shareholder control. They reach the conclusion that shareholder monitoring systems and CEO bonding via incentive compensation are equivalent. Low average levels of pay-performance sensitivity are not necessarily indicative of ineffective corporate governance practices. Although these studies do not explicitly focus on family firms, their findings have implications for CEO compensation in family businesses. For example, CEO stock ownership may replace pay-based incentives, and CEO tenure may impact compensation. Large firms pay more and their compensation is less performance-based than smaller firms.

A very interesting study made by Daniel L. McConaughy (2000) examines CEO compensation in 82 founding-family-controlled firms; 47 CEOs are members of the founding family and 35 are not. It tests the family incentive alignment hypothesis, which predicts that family CEOs have superior incentives for maximizing firm value and, therefore,

need fewer compensation-based incentives. Univariate and multivariate analyses show that family CEOs' compensation levels are lower and that they receive less incentive-based pay—confirming the family incentive alignment hypothesis and suggesting the possible need for family firms to increase CEO compensation when they replace a founding family CEO with a nonfamily-member CEO. Figure 2.2 illustrates that a family CEO faces a different control environment than a nonfamily CEO of a founding-family-controlled firm. The average founding-family-controlled firm with a family CEO was roughly half the size of one with a nonfamily CEO; its sales were $3.82 billion versus $7.56 billion. The average tenure of family CEOs is 17.6 years, compared to 6.43 years for nonfamily CEOs. As a percentage of outstanding shares, family CEOs and their families own 17.0 times more stock than nonfamily CEOs: 6.13% compared to 0.36%. These findings suggest that the incentive environment for family CEOs differs from that for nonfamily CEOs. Without considering these variables, an analysis of their pay would be incomplete. The empirical evidence regarding CEO compensation supports the testable implications of the family-control incentive alignment hypothesis. Family CEOs are paid less and their compensation is less tied to performance. Both figure 2.2 and 2.3 demonstrate that family CEOs are paid less. In 1988, the average family CEO earned $401,700 less in salary and bonus and $133,200 less in other compensation than the average nonfamily CEO, for a total of $534,900 less pay, as shown in figure 2.2.

Figure 2.2

Variable	*Family CEO*	*Nonfamily CEO*	*Difference*	*P-Value*
Total Sales ($ millions)	3,892	7,568	-3,676	0.19
CEOTenure (years)	17.6	6.43	11.17	0.00
CEOStkown (%)	6.13	0.36	5.77	0.00
TotalPay ($000)	848.5	1383.4	-534.9	0.03
Sal&Bonus ($000)	813.9	1215.6	-401.7	0.10
Other ($000)	34.6	167.8	-133.2	0.02
Sal&BonusSens	0.087	0.169	-0.082	0.14
OtherSens	0.949	2.033	-1.084	0.12
OptionsSens	1.571	1.017	0.554	0.32
InsideStockSens	62.328	5.539	56.789	0.00

Note. The following data were obtained from *Forbes* (5/29/89): *Sales* is total sales for 1988 reported in millions of dollars. *CEOTenure* is how long the CEO has held the CEO position in years. *CEOStkown* is the percentage of the common stock held by the CEO. *Sal&Bonus* is the sum of salary and bonus in thousands of dollars. *Other* includes payments made under long-term compensation plans, restricted stock awards vested or released from restrictions in 1988, thrift plan contributions, company-paid health and insurance plans, and other benefits. *TotalPay* is the total of salary and bonus and other pay in thousands of dollars.

SOURCE: DANIEL L. McCONAUGHY (2000)

Figure 2.2 also demonstrates that family-controlled businesses are smaller, suggesting that the difference may be related to business size. Similarly, there may be a perplexing relationship between CEO tenure and pay if longer tenure as CEO results in higher pay due to more pay raises. CEO compensation may also be correlated with stock ownership. To account for these variables, we conducted simultaneous regressions that control for these variables and examine the impact of family control. Figure 2.3 summarizes the results. Figure 2.3, panel A, demonstrates that after controlling for firm size, CEO tenure, and CEO stock ownership, these results are robust. In fact, after controlling for these three variables, family CEOs received $565,100 less in total compensation on average. The majority of these differences are attributable to salary and bonus pay, which was $404,200 less. Although statistically significant, after controlling for size, tenure, and stock ownership, the family CEO receives only $1,300 less in other compensation. In other words, being a family CEO has a negligible impact on the value of long-term compensation plan payments, restricted stock awards that have vested or been released from restrictions, thrift plan contributions, health and insurance plans, and other benefits. There should be less need for pay-based

incentives among family CEOs. Figure 2.2 demonstrates this to be the case: In terms of salary and bonus sensitivity and other pay sensitivity, founding-family CEOs receive $0.087 and $0.949 for each $1,000 increase in shareholder wealth. Approximately half as sensitive as the compensation of nonfamily CEOs. Non-family CEOs received $0.169 and $2.033 per $1,000 increase in shareholder wealth for salary and bonuses and other pay incentives, respectively. Figure 2.3, panel B, suggests that after controlling for size, CEO tenure, and CEO stock ownership, the results for salary, bonus, and other pay are even more robust.

Figure 2.3

Panel A: Level of Compensation

Compensation Variable	*TotalPay ($000)*	*Sal&Bonus Pay ($000)*	*Other Pay ($000)*
C	-882.6	-951.3	68.7
SALES	261.4***	252.0**	9.4
CEOTENURE	19.5**	16.0*	3.4*
CEOSTKOWN	-16.9	-15.6	-1.3
FAMILYCEO	-565.1**	-404.2*	-161.6**
ADJ.R^2	.14	.10	.07

Panel B: Sensitivity of Compensation to Performance (Dollar Change in CEO Wealth for a $1,000 Change in Shareholder Wealth)

Variable	*Sal&Bonus*	*Other*	*Options*	*InsideStock*
C	.503**	6.899***	3.728	102.94*
SALES	-.045**	-.625**	-.336	-11.87
CEOTENURE	.006**	.042*	.011	.02
CEOSTKOWN	-.002	-.003	-.072	—
FAMILYCEO	-.149***	-1.752**	.746	52.55***
ADJ.R^2	.07	.05	.01	.07

*, **, *** Significant at the 10%, 5%, and 1% levels, respectively, using a 1-tailed test. *C* is the regression intercept. *C* represents the average level of the compensation component under consideration for nonfamily CEOs, given sales, tenure, and stock ownership. *Sales* is the logarithm of total sales in 1988, *CEOTenure* is the number of years the CEO has held the CEO position, and *CEOStkOwn* is the percentage of outstanding shares held by the CEO. *FamilyCEO* is a dummy variable that takes the value of 1 if the CEO is a member of the founding family and 0 otherwise.

SOURCE: DANIEL L. McCONAUGHY (2000)

The results also indicate that an intrafamily job market may provide executives at a lower cost. This is consistent with the findings of Dekop (1988), who discovered that founders are compensated less than CEOs recruited from outside the company. Family-member CEOs

are not required to be recruited from the CEO labor market, hired, retained, or rewarded. The higher pay-performance sensitivity of nonfamily CEOs is consistent with the notion that they lack the same incentives as family CEOs. Their pay is more variable (due to a greater pay-performance sensitivity) and their job security may be lower, making their pay riskier. Although nonfamily CEOs are more expensive, they do not run more profitable businesses: profit margins were not greater in companies with nonfamily CEOs. This indicates that the lower pay and absence of pay-based incentives offered to family CEOs do not hinder their performance. According to prior empirical research, after controlling for the presence of a family CEO, size has the greatest impact on compensation. CEO ownership of stocks had the least impact. The results also demonstrate a negative relationship between CEO stock ownership and compensation level and incentives. This suggests that the importance of size, CEO tenure, and family CEO in explaining compensation is greater. The results for CEO tenure indicate that longer-tenured CEOs are paid more. Long-term CEOs are typically prosperous, and prosperous CEOs are compensated more. In general, unsuccessful CEOs do not become long-term CEOs. Although founding-family CEOs have nearly three times the tenure of non-family CEOs, the longer tenure of founding-family CEOs does not result in higher compensation. In addition, the results indicate that short-term incentives are marginally greater as CEO tenure increases, whereas long-term incentives in the form of options and inside stock are unrelated to tenure. Kole (1997) observed that family-controlled firms were less likely than nonfamily-controlled firms to have performance plans (incentive pay). This study examines pay-based incentives using a different metric by examining how pay varies with performance (pay-performance sensitivity) in only family-controlled firms with and without founding-family member CEOs. The findings presented here are consistent with those of Kole (1997) in that the sensitivity of pay is lower in firms with family CEOs and that stock ownership is unrelated to incentive pay. If family CEOs have superior incentives, why do they also receive incentive (performance-based) pay? (The family businesses in the sample are public, extremely large, and have outside investors.) There may be valid reasons why family CEOs continue to have incentive-based compensation. First, their ownership stakes may not provide adequate incentives. They and their families hold an average of 6.13% of the company's shares. According to Jensen and Meckling (1976), higher levels of ownership provide more incentives. Despite the fact that family CEOs own a substantial amount of shares relative to their compensation, the shares may be unavailable for sale. Consequently, the payoffs of incentive pay could still have a significant impact on

the amount of money they have available to spend, and thus provide incentives. Second, tying their compensation to performance sends a message to outside shareholders and non-managing family members[59] that they will strive to maximize the firm's value.

[59] Aronoff & Ward, 1993

CHAPTER 3 – THE ROLE OF SUSTAINABILITY IN FAMILY BUSINESS

3.1 Firms' ESG/CSR attributes and firm risk

There is a growing amount of interest in how much business activity contributes to or detracts from social welfare. Environmental, Social, and Governance (ESG) or Corporate Social Responsibility (CSR) are common terms used to describe corporate actions in this field. According to the Governance & Accountability Institute, 86 percent of S&P 500 companies published sustainability or corporate responsibility reports in 2018, up from 20 percent in 2011. Investor interest in ESG/CSR is exemplified by the fact that 300 mutual funds with ESG mandates received a total of $20 billion in net flows in 2019 alone, which is four times the amount received in 2018. In addition, over 3000 institutional investors and service providers have signed the Principles of Responsible Investment (PRI), an agreement to incorporate ESG/CSR concerns into their investment analysis and decision-making. These investors' assets under management have increased from $6.5 trillion in 2006 to over $86 trillion in 2019.

Before discussing the ESG/CSR research, I will examine the terminology and its development. ESG is an acronym created in a 2004 report by 20 financial institutions in response to a request from Kofi Anon, the United Nations Secretary-General. ESG, as the acronym suggests, refers to the manner in which corporations and investors incorporate environmental, social, and governance concerns into their business models. CSR has traditionally referred to a company's efforts to be more socially responsible, or to be a better corporate citizen. One distinction between the two terms is that ESG explicitly includes governance, whereas CSR indirectly includes governance issues as they relate to environmental and social considerations. Therefore, ESG is typically a broader term than CSR. As previously stated, we do not review the vast literature solely focused on corporate governance. However, our emphasis on the environmental and social aspects of ESG/CSR enables us to examine the interrelationships between a company's governance structure and its environmental and social activities.

Several studies investigate the relationship between the ESG/CSR attributes of firms and the market characteristics in which they operate. Typically, these are country or state-level characteristics based on the geographic locations of firms, or industry-level characteristics. Just as there has been increased interest by investors and corporate managers, the academic research in ESG/CSR has expanded greatly. Cai et al. (2016) and Liang and Renneboog (2017) provide evidence that country characteristics appear to play a significant role in explaining ESG/CSR activities of firms. Both studies utilize cross-country samples with ESG/CSR measurements derived from the MSCI ESG Intangible Value Assessment (IVA) database. Cai, Pan, and Statman demonstrate that cross-country variation is more strongly associated with country factors than with firm characteristics. In addition, the authors provide evidence that economic development, law, and culture contribute to these differences. In particular, they demonstrate that firms' IVA ratings are significantly related to a country's economic development (proxied by per capita income), legal system (proxied by whether there are laws that encourage competition and strong civil liberties and political rights), and culture (using proxies for harmony and autonomy). Legal origin is the strongest predictor of ESG/CSR adoption and performance, more so than political institutions, regulations, social preferences, and a firm's own financial and operational performance, according to Liang and Renneboog (2017). Evidence also indicates that country attributes appear to be less significant for multinational or cross-listed companies (Cai et al. 2016). Boubakri et al. (2016) find that the act of cross-listing itself causes firms to seek higher ESG/CSR reputations. This is related but distinct from the previous finding. Comparing changes in ESG/CSR scores around cross-listing or de-listing events relative to a matched sample of firms that do not experience the cross-listing or de-listing events allows them to test their argument. In general, firms' ESG/CSR practices have a robust industry component. Borghesi et al. (2014) found that some industries, such as consumer goods and computer hardware, have above-average scores, while others, such as aircraft and petroleum and natural gas, have below-average scores. It is common for researchers to use ESG/CSR scores that have been devalued by industry, rather than the raw scores, because the industry effect is so significant. In fact, while some rating providers score firms relative to the universe of firms covered by the data provider, others construct measures of ESG/CSR practices based on industry benchmarking.

3.1.1. How board effect SGR and CEO compensation

A large literature examines relations between characteristics of firm management and the environmental and social aspects of a firm's ESG/CSR activities. In addition to documenting associations or causal relations, many of these papers ultimately contribute to our understanding of how a firm's ESG/CSR profile relates to its internal governance.

Iliev and Roth (2020) look at how boards affect *ESG*/CSR. The authors focus their research on American directors who sit on the boards of multinational corporations and are subject to changes in environmental and social standards as well as reporting responsibilities. The justification for this is that these directors are likely to inform the U.S. boards they also sit on about these changes, and that information transmission can be used to infer causality. The main finding is that US companies with directors who are subject to regulatory and reporting requirements saw an average 4.4% improvement in ESG/CSR performance as measured by MSCI KLD ratings. The authors also point out that advances in the environment are mostly seen in what are referred to as "clean" industries and that reforms are focused more on the environment than on social performance. The authors also show that companies in "dirty" industries improve their social performance but not their environmental performance (which they interpret as proof of greenwashing), and that companies with weaker financial standing are less likely to do so, which raises the possibility that the costs associated with raising ESG/CSR scores play a significant role.

Other studies have shown an association between CEO and board traits and a firm's ESG/CSR actions. Gender is one demographic factor that is frequently shown to be important. For instance, according to Borghesi et al. (2014), American businesses with female executives or board members have much higher ESG/CSR ratings. Cronqvist and Yu (2017) also look at the gender of the CEO's children and find that S&P 500 enterprises with female CEOs had higher socially responsible corporate policies. The authors suggest that daughters of CEOs may have more "other-regarding" choices than sons, and that daughters of CEOs may internalize their children's preferences. The magnitude of the effect is almost comparable to one-fourth of the effect of the firm's CEO being a woman, and the authors discover that executives with daughters are hired by firms with ESG/CSR scores about 9.1% higher than the median firm's rating. Hegde and Mishra (2019) draw the conclusion that

companies with married CEOs had much higher overall ESG/CSR scores, with the diversity and employee relations sub-scores acting as the primary drivers of this conclusion rather than the other sub-categories (product, community, environment, and human rights). The idea that gender matters is supported by work done in multinational contexts, where women in leadership roles are linked to higher ESG/CSR scores. For instance, McGuinness et al. (2017) discovered that gender diversity on boards and in the executive suite is linked to higher ESG/CSR scores for Chinese companies. The presence of women on boards not only enhances environmental performance, but also has a rather large influence in comparison to the other company and board characteristics that they analyze, according to a more recent study by Dyck, Lins, Roth, Towner, and Wagner (2020). The authors argue that the gender effect is causal since it persists in the presence of a quasi-exogenous shock—the legislative requirement for female board representation. CEO age and CEO confidence levels are two other crucial characteristics that have been shown to be associated with businesses' ESG/CSR profiles. Younger CEOs are substantially more likely to run companies with higher ESG/CSR scores, according to Borghesi et al (2014). McCarthy et al. (2017) found a link between CEO confidence and company ESG/CSR performance to be unfavorable. They contend that this outcome might be attributed to the fact that hedging is a factor in organizations' ESG/CSR scores and that CEOs who are overconfident are less likely to hedge. According to Landier et al. (2007), which focused on a different sort of leadership demography and used a stricter measure of ESG/CSR (employee friendliness), managers become more employee-friendly when the employees are close to them geographically. They explain this outcome in part by noting that managers would incur greater personal expenses if they let go of neighbors. Numerous studies take the political stance of company leaders into account, although they reach diverse conclusions. According to Di Giuli and Kostovetsky (2014), American companies with CEOs, directors, and founders who give more money to Democratic (as opposed to Republican) candidates typically have higher ESG/CSR rankings. The authors further assert that a company's stakeholders, including its customers, suppliers, shareholders, and regulators, may have an impact on the ESG/CSR decisions made by the company. The authors come to the conclusion that the political inclinations of founders, directors, and CEOs of enterprises are associated with firms' ESG/CSR decisions by using geographic clustering of political beliefs as sources of exogenous variation in the firm's internal and external political contexts. Using the same

source of variation as Di Giuli and Kostovetsky (2014), Borghesi et al. (2014) offer an opposing view. They conclude that, after controlling for CEOs who donate to both Democrats and Republicans, the relation between CEOs who donate to Democrats and their firms' ESG/CSR scores is insignificant. It is unclear what is causing the differences in results. They could be driven by the presence of non-CEOs in the Di Giuli and Kostovetsky sample (which includes directors and founders) since the Borghesi, Houston, and Naranjo sample is limited to CEOs; they could be driven by the differences in sample periods, Borghesi, Houston, and Naranjo data covers the years 1992 to 2006 and the Di Giuli and Kostovetsky covers the years 2003 to 2009; or they could be driven by the differences in sample firms as the underlying KLD sample firms increase substantially over the period. The link between CEO compensation and a firm's ESG/CSR activities has also been examined in a number of publications. The agency cost view is that CEOs obtain non-pecuniary benefits from corporate spending on ESG/CSR activities and do so at the expense of shareholders. However, if boards reduce the CEO's compensation proportionally, spending on ESG/CSR initiatives may be consistent with optimal contracting or strong governance, rather than an indication of agency issues. Several articles provide evidence supporting the first viewpoint. For instance, Gillan et al. (2010) discover that CEOs at firms with stronger ESG/CSR performance have lower remuneration, indicating that, even if ESG/CSR expenditures are indicative of CEO rent seeking, they are substitutes for CEO pay as opposed to complements. Similarly, Jian and Lee (2015) discover a negative relationship between ESG/CSR investment and CEO compensation, indicating that CEOs are rewarded for "normal" levels of ESG/CSR investment but penalized when it deviates from the expected level. Ferrell et al. (2016) also show that a measure of excess CEO pay is adversely connected with ESG/CSR ratings and conclude that CEOs with high, unrelated-to-performance compensation engage less in ESG/CSR activities, supporting the good governance position. The authors provide additional evidence for their assumptions by demonstrating a significant positive correlation between a company's pay-for-performance sensitivity and its ESG/CSR scores. In contrast, several research have shown no correlation between salary and ESG/CSR metrics. Borghesi et al. (2014), for instance, report a negative relationship between total CEO remuneration and an employee subcategory of ESG/CSR investment, but they find no evidence of a relationship between CEO total compensation and a company's aggregate ESG/CSR score. Using an alternative measure of ESG/CSR, Masulis

and Rezulis (2015) find no indication that corporations that make substantial philanthropic contributions pay their CEOs less. Ikram et al. (2019) analyse the proxy statements of S&P 500 companies and report that more than 40 percent of them include ESG/CSR targets in executive contracts. Health and safety concerns are the most important (especially in the extractive and manufacturing industries), while customer satisfaction is a close second (and is particularly dominant in retail). Few sample organizations related compensation to sustainability or corporate responsibility. The authors argue that the diversity in ESG/CSR factors in CEO compensation across enterprises and industries supports an optimal contracting perspective. In addition, their findings imply that such contracts are related with greater ESG/CSR ratings in the future. Unanswered is the extent to which the appearance of compensation criteria focusing on specific elements, such as health and safety concerns or customer happiness, may represent regulatory requirements or a recognition of company value drivers rather than a commitment to ESG/CSR performance.

3.1.2. Firms' ESG/CSR attributes and ownership characteristics

A number of research investigate the relationships between ownership structures and ESG/CSR decisions. Numerous publications investigate this subject utilizing ownership structure measurements as proxy for external governance and a firm's ESG/CSR score as a dependent variable with the interpretation that it demonstrates strong or poor external governance. Other research explores the relationship between a firm's ownership structure and its ESG/CSR performance, with the ESG/CSR score serving as the independent variable. Authors in this field have adopted various definitions of ESG/CSR and have focused on various ownership arrangements or types.

3.1.2.2. Institutional investor ownership

Institutional investors are by far the greatest holders of equities in the United States, the country on which the majority of studies are focused. Examining the ownership patterns of institutional investors can help us understand shareholder preferences regarding ESG/CSR, as well as how owners may influence ESG/CSR through their role as monitors.

Consequently, the relationship between institutional ownership and ESG/CSR actions of corporations has been the subject of numerous research, not all of which agree on the nature or sign of the relationship. In addition, they employ distinct ESG/CSR profile metrics. Gillan et al. (2010) show evidence that institutional ownership reduces during the study period when enterprises improve their ESG/CSR rankings. Several investigations have demonstrated, however, that this relationship is complex. Although institutional ownership is not favorably associated with high environmental and social scores, it is negatively associated with low environmental and social scores, according to Nofsinger et al. (2019). Consistent with this conclusion, Chava (2014) examines exclusively environmental ratings and finds that enterprises with poorer environmental profiles had lower institutional ownership. Also focusing on environmental strengths and concerns, Fernando et al. (2017) conclude that there is a relationship between institutional ownership and the environmental performance of enterprises, but that it varies across the range of scores. Institutional ownership is lower for enterprises with extremely high or extremely poor environmental ratings, i.e., those with the greatest strengths or the largest worries, compared to firms in the medium range of environmental performance. Two studies that categorize institutional investors indicate that it is essential to understand shareholder preferences based on the type of institutional investor. Hong and Kacperczyk (2009) demonstrate that socially constrained institutions, such as pensions, dislike socially irresponsible stocks. Therefore, the authors claim and present evidence that these stocks tend to be owned disproportionately by institutions with less restrictions. Researchers have also categorized mutual fund ownership based on the political attitude of the portfolio manager. Hong and Kostovetsky (2012) discover that mutual fund managers who donate to Democratic politicians underinvest relative to others in socially irresponsible stocks. Several academics contend that causality operates in the opposite manner, i.e. that the existence of institutional shareholders influences managers' ESG/CSR decisions. Gollier and Pouget (2014) develop a theoretical model in which an activist can invest in a socially irresponsible company and transform it into a socially responsible company while reaping a profit. The empirical studies examine whether institutional investors "force" enterprises to improve their environmental and social performance through their equity ownership and engagement. Dyck et al. (2019) use the BP Deepwater Horizon oil spill as an exogenous source of variation in the importance institutional investors attribute to corporations' environmental obligations and obtain results

that are consistent with this hypothesis. Several studies utilize confidential data from individual institutional investors. Dimson et al. (2015), for instance, analyse the corporate social responsibility engagements of a single institutional investor from whom they were able to acquire data. They conclude that investor actions increase ESG/CSR activity at target enterprises. Using the engagements of a different major investor, Barko et al. (2018) found that the engagement itself is related with higher ESG/CSR ratings for firms in the lower ESG/CSR quartiles, but poorer ESG/CSR scores for firms in the highest ESG quartile. Hoepner et al. (2019) find, using data from yet another significant investor, that successful interactions on environmental concerns are followed by decreases in downside risk. Similarly, Naaraayanan et al. (2019) investigate the unanticipated focus on environmental issues by the New York City Pension System's Board Accountability Project and, utilizing plant-level data, provide evidence that target firms have subsequently reduced emissions of environmentally hazardous substances. Peer effects among investors or between enterprises can also be significant. Dimson et al. (2018) find that coordinated action among institutional investors participating in the PRI influences companies' ESG/CSR decisions. The majority of these investors utilized "behind-the-scenes" participation techniques. Using data from the public engagement technique of filing shareholder proposals, Cao et al. (2019) present evidence that peer firms follow similar ESG/CSR practices when a firm has a narrow passage of an ESG/CSR proposal and then implements the recommendations of that proposal. Consequently, the engagement might have an impact not only on the engaged organization, but also on other businesses in the same industry. Other research employs other identification methodologies to investigate whether institutional investors influence the ESG/CSR decisions of businesses. Using two quasi-natural experiments, Chen et al. (2020) identify the causal effects of institutional investors on firms' ESG/ CSR scores. The authors argue that gains in institutional ownership due to Russell Index reconstitutions promote firm ESG/CSR efforts, but that these activities decline when shareholders are preoccupied by exogenous events. In contrast, the previously stated study by Iliev and Roth (2020) reveals that ESG/CSR developments are slower when ownership is concentrated among large institutional investors. Hwang et al. (2017) find that, after controlling for businesses' ESG/CSR scores, firms with an increase in ownership by "non-socially responsible" investors in a given quarter experience positive excess returns in the subsequent quarter. Moreover, they report that this positive relationship is stronger for stocks with higher

ESG/CSR scores, which they interpret as evidence that institutional owners affect ESG/CSR rankings.

Multiple studies investigate the significance of the investor's time horizon, including how it influences and is influenced by ESG/CSR. Kim et al. (2019) use difference-in-differences estimations to determine whether ESG/CSR scores rise when an institution shifts to a long-term investment perspective and conclude that they do. In line with this, Gloßner (2019) employs lead-lag regressions of long-term investors, especially blockholders, and concludes that they have a positive association with the ESG/ CSR scores of enterprises. In contrast, Starks et al. (2019) claim and present evidence that long-term institutional investors are drawn to firms with stronger ESG/CSR profiles, as opposed to these institutions directly influencing the firms' decisions. In support of this result, they find that long-term institutional investors are more patient with the short-term underperformance of high ESG firms than they are with the underperformance of other firms in their portfolio. Overall, the data and conclusions regarding institutional investor ownership are contradictory, necessitating additional research into the preferences and impacts of major investors towards the ESG/CSR activities of their holdings. Specifically, Starks et al. (2019) note that the linkages between institutional investors and ESG/CSR are likely dynamic, implying that future research will likely reach different results than the existing literature.

3.1.2.3. Family Ownership

Abeysekera and Fernando (2020) hypothesize, in view of the agency issues inherent in ESG/CSR choices and whether these choices benefit shareholders, that family firms and non-family firms have distinct ESG/CSR agency issues. Due to the absence of diversification by controlling families, the authors anticipate that management of family enterprises will link its ESG/CSR decisions with maximizing shareholder wealth. However, the authors also note that an alternative hypothesis exists because conflicts might emerge between family owners and minority shareholders, in which case family enterprises may make decisions that do not maximize shareholder wealth. The authors evaluate their contradictory ideas with empirical experiments that quantify ESG/CSR utilizing the KLD environmental rankings.

They conclude that U.S. family enterprises are more accountable to shareholders when making environmental investment decisions than non-family firms. Gillan, Sekerci, and Starks (2020) examine a sample of Swedish enterprises and find evidence that family firms cater to investor demand for environmental (but not social) investments. Contrary to the findings of El Ghoul et al. (2016), who investigate a sample of publicly traded enterprises from nine East Asian economies, the outcomes of these two articles are somewhat different. According to the authors, the lower ESG/CSR performance of family-controlled enterprises in their sample is consistent with the expropriation theory of family control. In addition, the authors give evidence that these family-controlled enterprises with inferior ESG/CSR performance have more agency problems and are located in nations with poorer institutions. Unanswered is the question of whether these disparities in outcomes are attributable to geographical differences or differences in data and methodology.

3.1.2.3. State ownership

Some say that environmental or social issues should be controlled by governments rather than corporations due to the superior capabilities of governments in this regard. As proposed by Hsu, Liang, and Matos (2018) and Hart and Zingales (2017), state-owned enterprises may be better able to deal with market failures and externalities resulting from such challenges. On the other side, governments and the corporations they own may offer other disincentives to ESG/CSR. The empirical evidence often supports the first hypothesis, although this is not always the case. Hsu, Liang, and Matos examine a sample of publicly-owned corporations with majority government ownership from 45 nations. The authors demonstrate that state-owned enterprises are significantly more active in environmental and social issues than other firms, with this engagement being concentrated in energy firms and firms in emerging economies. In addition, they utilize a difference-in-difference analysis to determine that, following the 2009 Copenhagen Accord, state-owned companies improved their environmental performance more than other companies. Boubakri et al. (2019), using Asset4 Environmental and Social scores as measures of ESG/CSR and a sample of publicly traded firms from 41 countries that privatized from state ownership, find that prior to their privatization, privatized firms have higher ESG/CSR scores on both the Environmental and Social dimensions than other publicly listed firms. In addition, they discover that state

ownership and the political climate of the country influence this link. In contrast, McGuinness et al. (2017) present evidence of a nonlinear relationship between state ownership and business ESG/CSR profiles by analyzing China's state ownership. The connection is negative at lower levels of state ownership and favorable at larger levels of state ownership. Future investigation may resolve these somewhat contradictory findings.

3.2 The Influence of Family Ownership on Corporate Social Responsibility

Now, I would like to focus on the effect of closely held equity, and in particular family owned equity, on corporate social responsibility as measured by publicly available environmental, social, and governance (ESG) performance scores of corporations. The subject of what drives or inhibits environmental, social, and governance performance is gaining significance as regulators, investors, and corporations pay more attention to these issues. Prior research has primarily addressed this subject from an institutional or resource viewpoint[60]. However, the majority of influence on ESG investment comes from the firm's shareholders, especially powerful blockholders who oversee management. While there is some evidence of the negative impact of blockholdings on corporate social responsibility, family equity holdings have received very little attention. This may be significant since family owners frequently retain control of the company's management, so enhancing their influence on decision-making[61].

William Rees and Tatiana Rodionova conduct a highly intriguing study. They contend that family block ownership will have a greater detrimental influence on the environmental, social, and governance performance of companies than closely held equity in general. Families with big and long-term ownership shares in the company will be particularly hostile to excessive ESG investments because they may not provide personal benefits. First, this is compatible with the agency theory, which suggests that large, powerful owners direct the

[60] Aguilera & Jackson, 2003; Campbell, 2007; Ioannou & Serafeim, 2012; Kang & Moon, 2012; McWilliams & Siegel, 2001

[61] Faccio & Lang, 2002; La Porta, Lopez-de-Silanes, & Shleifer, 1999; Le Breton-Miller & Miller, 2006; Silva & Majluf, 2008

firm's actions to their own advantage. Families may, for instance, prioritize reliable income flow in order to maintain a privileged lifestyle and guarantee substantial dividend payments. In addition, DeAngelo and DeAngelo (2000) discover that family preferences for special payouts may affect their investing strategies. Second, families may oppose ESG investments on the grounds that they lose value. For instance, the entrenchment perspective implies that entrenched management may use corporate social responsibility efforts to push their agenda by appealing to non-financial stakeholders. Given their strong equity positions and financial stake in the company, it is reasonable to expect family owners to limit these developments. Thirdly, family owners may believe they are better monitors and have superior business understanding. Indeed, their long history with the company and personal ties can provide them with unique commercial knowledge and position them effectively to oversee decision making[62]. Family owners may forego governance changes in order to maintain control and assure family participation in management[63].

As demonstrated in the first chapter, agency theory argues that internal governance seeks to match the interests of managers and investors and to ensure that company actions maximize the return on investment for shareholders[64]. Such an outlook suggests that management would oppose excessive ESG.[65] More recently, it has been proposed that good governance serves (or ought to serve) the interests of diverse stakeholders[66]. Strong governance would then prevent firms from negatively impacting their stakeholders, such as through pension cuts or social unrest, and enhance their corporate social responsibility. Jo and Harjoto (2011, 2012) examined the connection between corporate governance and corporate social responsibility and discovered support for the stakeholder interpretation of governance. Their justification was that engaging in corporate social responsibility creates positive ties between the corporation and its stakeholders and helps to prevent costly conflicts[67]. When a firm has significant blockholdings, these owners are prone to oppose excessive ESG, considering it as an expensive investment with uncertain company benefits. It is stated that strong governance prevents huge blockholders from imposing their agenda and balances the power

[62] Anderson & Reeb, 2003; Le Breton-Miller & Miller, 2006; Sraer & Thesmar, 2007
[63] Andres, 2008; Hillier & McColgan, 2009
[64] Gillan & Starks, 2007
[65] Aguilera et al., 2007; Spitzeck, 2009
[66] Barnea & Rubin, 2010
[67] Jo & Harjoto, 2012

of the company's many investors[68]. Numerous investment funds view corporate social responsibility as a fiduciary obligation owed to their trustees. Other diverse investors may consider environmental and social programs as a crucial risk management tool, or they may value the reputational benefits of improved environmental performance. Therefore, if the governance system is robust, managers will have more opportunity to consider the interests of other financial and non-financial stakeholders, while the impact of large owners with closely held shares will diminish.

Campbell (2007) has demonstrated that national institutions influence the likelihood of businesses to act socially responsibly. Governance systems at the national level also determine the manner in which businesses connect with diverse stakeholders and take their interests into account[69]. The liberal market economy (LME) versus coordinated market economy (CME) dichotomy outlined by Hall and Soskice is one classification of institutional systems. Despite the multiple facets of this description, LMEs are viewed as primarily serving the interests of investors and management as essential stakeholders[70]. In these systems, the stock market is the primary source of capital; consequently, businesses are under more pressure to generate financial returns to equity providers. If the demands of non-financial stakeholders are consistent with the long-term production of shareholder value, corporate managers are urged to respond to them[71]. It is believed that LMEs provide investors with a higher level of protection, and that other stakeholders must typically push their goals through market processes such as stakeholder activism. Many environmental, social, and governance policies are voluntary in this context, and the strategic utilization of ESG practices and their consequences for investors and financial performance are stressed. Due to the voluntary nature of ESG and the emphasis on financially advantageous investments, households in LMICs are more likely to have the motive and ability to limit ESG spending when earnings are unclear. Moreover, management at LMEs has significant liberty in terms of decision-making and may overinvest in ESG projects for a personal "warm glow" or with the strategic purpose of balancing the interests of other stakeholders[72]. Families are likely to be able to impede these ESG activities in LMEs, however, as they are

[68] Shleifer & Vishny, 1986
[69] Aguilera & Jackson, 2003
[70] Kang & Moon, 2012
[71] Jackson & Apostolakou, 2010
[72] Barnea & Rubin, 2010; Jackson & Apostolakou, 2010; Jo & Harjoto, 2011

frequently well-represented in senior positions. In the case of CMEs, greater focus is placed on the general welfare of society, necessitating that businesses respond to a variety of stakeholders[73]. In this style of governance, businesses must rely more on networks and cooperation, such as with labor unions[74]. Campbell (2007) contends that corporations are more likely to embrace socially responsible practices if they engage in institutionalized discourse with employees, unions, the community, investors, and other firm stakeholders. Therefore, companies in CMEs face substantial relationship pressure to engage in environmentally and socially responsible operations. For instance, influential labor unions may compel businesses to address employee health and safety or community concerns. Therefore, family owners must consider these environmental and social requirements. In addition, many ESG issues in CMEs are regulated into business practice, but in LMEs they are addressed by voluntary policies and initiatives. Then, families may have less ability to limit ESG expenses. We expect the following relationship based on the variations in stakeholder power in these two institutional systems and how national governance can limit the impact of family owners.

It is possible to claim that undiversified shareholders, such as family equity holders, will reject ESG investing because at least a part of such investments may be value-destructive. Thus, influential family shareholders may have both the ability and motivation to fight ESG. Using a large and recent international sample, they demonstrate that closely held stock is related with poorer ESG performance, which is especially true for family shareholdings. This is consistent with family shareholders discouraging ESG investment, as well as low ESG performance encouraging family investors to preserve their stake.

First, we adjust for bias in sample selection. As they constitute an attempt to simulate random allocation, our propensity score matching tests are less likely to be influenced by omitted variables. They provide support for the assumption that there is a negative association between family equity holdings and ESG scores, albeit not being absolutely free of contamination. In addition, we utilize quantile regressions to examine the impact of family equity on ESG for firms with high ESG rankings and discover a negative correlation. Thus, we demonstrate that the negative relationship persists even when low ESG could not have

[73] Udge, Gaur, & Muller-Kahle, 2010; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1997
[74] Midtun, Gautesen, and Gjreberg, 2006

prompted family shareholders to maintain their holdings. In addition, we utilize quantile regressions to examine the impact of family equity on ESG for firms with high ESG rankings and discover a negative correlation. Thus, they demonstrate that the negative relationship persists even when low ESG could not have prompted family shareholders to preserve their holdings.

Future research should investigate the influence of family ownership on more specific ESG projects, including the categories of projects in which family-owned enterprises invest. Prior research demonstrates that the long-term nature of family ownership and the emotional tie of the owners to the firm improve the tendency to invest in relations with stakeholders, including as employees, customers, and the broader community[75]. Nonetheless, empirical evidence reveals that the reaction of family ownership to actions in environmental and social domains is negative and robust. Consequently, identifying the areas that families deem essential for enhancing the stakeholder environment is a topic worthy of further exploration.

The ownership measure is a second key drawback of the Rees and Rodionova study. In accordance with previous research, they utilized the proportion of equity held by employees/families[76]. They recognize that there are additional elements of family enterprises that demonstrate dedication and involvement, such as the number of family generations or founding member governance. However, ownership indicates both the owner's interest in the firm's financial performance and his or her ability to monitor management decisions. Additionally, the relationship between environmental and social scores and closely held equity via corporate governance has been explored. After accounting for governance, they conclude that closely held equity does not have a reliable impact on social and environmental performance. Thus, closely held ownership may have an effect on social and environmental performance, but mostly through its influence on governance. In contrast, they find that family shareholdings may have an impact on social and environmental scores even when the effect of governance is taken into account.

This result is less strong than the direct effect calculated without an intervening governance variable, but it is consistent with family equity holders directly impacting social and environmental performance. They are also able to explore how institutional differences

[75] Le Breton-Miller & Miller, 2006
[76] Anderson & Reeb, 2003; Andres, 2008; Miller, Minichilli, & Corbetta, 2013

effect the association between tightly held stock and ESG by utilizing the extensive worldwide distribution of our sample. Examined data from six LME nations are surprisingly consistent. Ownership has a substantial impact on ESG in all countries. In contrast, they discover a great deal of variation in the outcomes for our seven CMEs. With the exception of Japan, closely held stock has little effect on social and environmental ratings, and the effect on governance varies greatly, with a significant response in France, Switzerland, and Sweden, but a less response in Germany, Italy, Spain, and Japan. Previous studies[77] have claimed that CME is a less cohesive classification than LME, and their findings are consistent with this assumption. They have also asserted that Japan cannot be easily categorized with other nations, and the strong reaction of social and environmental scores to closely held stock and the weak response of governance to the same indicate Japan's uniqueness. Their results have applications in the real world. The threat posed by environmental deterioration is evident, the social performance of businesses is gaining relevance, and corporate governance failings are identified as contributing to the recent and ongoing economic crises. Under these conditions, regulators, governments, and stakeholders will be concerned with enhancing the ESG performance of corporations. Their findings show that enterprises with strong closely held ownership, particularly in economies that could be categorized as LMEs, may require special consideration. In light of their findings, if we aim to improve ESG performance, we should encourage diversified shareholding or implement policies and organizations to improve the performance of enterprises with considerable closely held ownership. In general, good governance appears to mitigate the influence of closely held stock on social and environmental performance, but not in the case of family ownership. When undiversified family ownership provides both motivation and influence, this is not surprising. This influence would be immediately applied when family members participate in management, which may explain the limited effect of governance on the impact of family ownership on social and environmental performance.

[77] Jackson, 2005; Yoshikawa & Rasheed, 2009

3.3. CSR Comparison Between Family Business And Non-Family Business

Now just explore whether family businesses outperform nonfamily businesses regarding Corporate Social Responsibility (CSR) performance. For better understand this concept, we focus our attention on a study conducted by Yazici O., Mcwilliams D. and Ercan S. (2018). Comparing the CSR performance of 64 top family businesses in the United States to the CSR performance of 64 top nonfamily firms in the United States reveals that nonfamily businesses do better on CSR. Four out of five categories of CSR performance analysis favored nonfamily businesses, while one category revealed no statistically significant difference. Consequently, the findings indicate that family firms are resistant to corporate social responsibility issues. This study's findings may show that family businesses are motivated by self-interest, although other research may suggest otherwise. Strong agency issues and the presence of family influence in the structure of the top management team could be identified as the primary causes of this phenomena. Also, data indicate that increased family member presence in the top management of family firms has a beneficial effect on CSR performance.

Examining the distinction between family and nonfamily businesses is the central theme of family business literature. In this study, it was demonstrated that family firms differ greatly from nonfamily enterprises in numerous elements of corporate social responsibility. TMT (Top Management Team) characteristics of family business studies are among the rarest types in family business literature. This rare literature was missing an analysis of CSR performance in connection to the TMT makeup of family firms. This study gives insights into the relationship between the TMT makeup of family firms and their CSR performance. First, they hypothesize that the CSR performance of non-family enterprises is superior to that of family businesses. The results indicate that nonfamily enterprises do better in terms of overall, community, employee, and environmental CSR ratings. Governance scores do not distinguish family firms from nonfamily businesses. However, they presume that family businesses may not be superior than nonfamily businesses. These findings corroborate the agency's contention that familiarity with the expectations of other stakeholders may have limitations. Therefore, the fact that community ratings decline by 3.13 points, employee ratings decrease by 11.59 points, and environment ratings decrease by 6.20 points in the

presence of family firms is evidence that family businesses may have weaknesses in regards to nonfamily stakeholders. Even after controlling for company size and age, the results are not much altered, and non-family enterprises continue to do better than family businesses in terms of CSR.

Then, they analyzed how the presence of a family CEO lowers the CSR performance of family firms in all categories, and the results corroborate the claim that the presence of a family CEO diminishes the CSR performance of family businesses. Family firms with a family member as CEO have lower CSR scores than all other enterprises. When just family firms are considered, the CSR performance of family businesses with a family CEO remains inferior than that of family businesses with a nonfamily CEO. Results support the literature's contention that family control may impact the objective decisions of the family CEO, resulting in actions favorable to the controlling family's noneconomic interests. This could result in excluding non-family stakeholders such as the environment and employees from the decision-making process.

When the family chairman is in charge, as opposed to the family CEO, all categories of CSR performance are badly affected. When this study is conducted by kind of controlling firm, a family chairman continues to result in bad community and governance scores. Therefore, the literature suggests that the family chairman is the knight of the family in order to ensure that the firm is managed according to the rules and desires of the family and not for the profit of all stakeholders.

They also explored the impacts of the family size in TMTs. Results indicate that increased family presence negatively impacts overall, governance, and employee ratings. Studies on the effects of top management diversity on TMT performance have identified a number of advantages and disadvantages. Due to the link between performance and CSR, these studies implicitly make reference to CSR performance. Although research suggests that family business employees are not satisfied and properly cared for[78], the number of family members in TMT may be an unaccounted for variable. Therefore, they believe that family firms are well-governed (without major governance ratings), but they disregard employee, environmental, and community concerns. Although Dyer and Whetten (2006) argue that family businesses are socially responsible due to the involvement of the family name, the

[78] Beehr et al., 1997; Block et al., 2013

results of this study largely support the contrary view[79] that family businesses are not socially responsible and care neither for the community nor the environment. Additional analysis of the family CEO, family chairman, age of the company, and industry produced significant findings for the literature. While the family CEO has bad effects on only three areas, the family chairman has negative effects on every category. The literature also supports these findings. Deniz and Suarez (2005) propose that the CSR performance of family businesses without family CEOs is superior. Age is a significant contributor to the CSR success of all organizations, including family businesses, according to an analysis of company age.

3.4. Sustainability Reporting and Family Firms

The increased awareness and criticism of the environmental and social impact of corporate activities over the past several decades have coincided with mounting pressure on businesses to more effectively meet the information needs of a broader range of stakeholders who have a deeper understanding of sustainability issues. Governmental and regulatory policy reforms emphasizing sustainable development have added to the rising pressure on businesses to improve their environmental and social performance and disclosure standards. Accordingly, research indicates that, since the late 1990s, there has been a growing trend among businesses to engage in sustainability reporting with the aim of developing more comprehensive and systematic methods to provide "disclosures encompassing economic, environmental, and social issues, in accordance with a concept of corporate sustainability based on social equity, economic, and environmental integrity"80. Different interpretations of underlying motivations for why a company might engage in sustainability initiatives and reporting are documented in the literature. Various tactics may be employed to attain, maintain, and repair the legitimacy of a company's operations, while sharing pertinent information regarding decisions that improve the company's social and environmental performance81. Sustainability disclosures may be used to shape the public image and

[79] Morck & Yeung, 2004
[80] Gavana et al., 2017a, p. 38
[81] Suchman, 1995

legitimacy of a company[82]. Alternatively, corporate management may publish sustainability disclosures to detract from unethical behaviors[83]. In the wake of numerous high-profile corporate scandals (e.g., Enron) and the global financial crisis (also known as the Great Recession), there has been a rise in mistrust over the capacity of companies to self-regulate sustainability disclosures. Moreover, capital market participants (i.e., investors and sell-side analysts) are increasingly incorporating sustainability data into valuation models[84]. As a direct result of these challenges, the desire for more systematic approaches to sustainability reporting has increased. This has prompted an increase in the number of nations mandating sustainability disclosures via legislation or stock exchange listing requirements. In spite of the proliferation of compulsory sustainability disclosure policies in recent years, the kind, nature, and extent of such disclosures remain entirely at the discretion of business management. Discretion is also maintained during any transition from a voluntary regime to mandatory sustainability reporting. Prior sustainability disclosure research has investigated either voluntary or required disclosure procedures. The factors may explain changes in practices during the transition1 from a voluntary to required disclosure regime (or vice versa). This moment of change presents a potential window of opportunity that company management may aim to seize. In order to distinguish their company from rivals, corporate management may seek to raise sustainability disclosures prior to the advent of legislated standards. Alternatively, corporate management may voluntarily boost sustainability disclosures during the transitional phase to enhance and legitimize the firm's reputation and status in the eyes of stakeholders prior to the implementation of compulsory standards. Changes in disclosure practices during a period of transition from a voluntary to required regime (or vice versa) might give a useful observational window into the elements that influence corporate management's decisions on disclosure practices. However, relatively few studies have explored such transitions, especially in the context of sustainability reporting, leaving a considerable gap in the existing research. Although there is a growing body of research on sustainability in a family firm context[85], sustainability reporting research is lacking. Indeed, to the authors' knowledge, only a small number of studies

[82] Farache and Perks, 2010
[83] Deegan, 2002; Chih et al., 2010
[84] Ioannou and Serfeim, 2017
[85] e.g., Uhlaner et al., 2004; Cennamo et al., 2012; Yu et al., 2015; Martinez-Ferrero et al., 2016; Zientara, 2017

concentrating on sustainability reporting within the context of a family business have been published86. Given the prevalence of family enterprises and their vital role in global economies, the dearth of sustainability reporting/family firm research is a significant oversight. Prior disclosure research indicates that family enterprises face different incentives to disclose information compared to non-family firms, which might result in the adoption of distinct reporting strategies. Furthermore, research indicates that different types of family enterprises (usually based on ownership and family engagement in management and governance) may adopt distinct reporting practices due to underlying differences in motivations and incentives.

3.4.1. Motivations for Sustainability Reporting

In the 1960s and 1970s, sustainability reporting was largely voluntary, motivated by a renewed awareness of society's duties toward social and environmental challenges when governmental institutional acts and/or economic activities fail. Early efforts at sustainability reporting during this time period tended to concentrate disclosures on environmental issues. In the 1980s, the emergence of ethical investment funds – mainly in the United Kingdom and the United States – that applied "negative screening" techniques3 to the investing process prompted a shift in sustainability reporting standards toward greater incorporation of societal concerns. 1997 saw the introduction of the Global Reporting Initiative (GRI), which expanded the scope of sustainability reporting to include a broader range of environmental, human resource, and societal challenges. The Global Reporting Initiative (GRI) intended to establish reporting criteria to enable companies to report on the "triple-bottom line" (i.e., accounting methods that combine a company's economic, environmental, and social performance). The major purpose of the GRI was to eventually bring sustainability reporting to the same level of rigor, reliability, and comparability as financial reporting. Despite the creation of GRI rules, the majority of sustainability reporting procedures remained optional. During the 2000s, the emergence of growing social (e.g., social inequality; corruption), labour (e.g., gender, sexual and racial discrimination; worker safety), and environmental (e.g., climate change; energy wastage; recycling) challenges led

[86] e.g., Iyer and Lulseged, 2013; Campopiano and De Massis, 2015; Cuadrado-Ballesteros et al., 2015; Gavana et al., 2017a, 2017b; Nekhili et al., 2017

to renewed pressures from various stakeholders (e.g., investors, shareholders, community) for businesses to adopt a more systematic approach to risk management and sustainability reporting. These obstacles increased the demand on businesses to improve their reporting of how they utilized and developed (or depleted) resources, as well as how their operations affected human capital, natural resources, and the larger community. Throughout the 2000s, global corporate scandals (e.g., Enron, Paramlat) and the Global Financial Crisis (or Great Recession) eroded investor and societal trust in the capacity of corporations to self-regulate. Growing skepticism over the capacity of corporations to self-regulate has rekindled worries that company disclosure policies are more focused on past performance than the entity's long-term future sustainability prospects. Investors, information intermediaries (e.g., sell-side analysts), asset managers and funds, and financial institutions increasingly incorporated sustainability data into valuation models as corporate mistrust of self-regulation increased and concerns about disclosure being more focused on the past than the future resurfaced. In addition to increasing the requirement for more comprehensive sustainability reporting, it increased the pressure for systematic reporting to improve comparability. In the last decade, a growing number of nations (e.g., China, Denmark, Japan, Malaysia, Philippines, and South Africa) have sought to mandate the disclosure of ESG information through the introduction of laws and regulations or changes to stock exchange listing requirements in response to pressure for more systematic sustainability reporting practices. The expected benefits of changing from a voluntary to an obligatory disclosure regime are contested in the literature. Some claim that, in addition to raising the amount of openness, mandated regulations will help to improve the uniformity of information reported, making it easier for investors and other stakeholders to make comparisons between companies and resulting in better-informed decisions. In addition, mandated requirements may aid in disciplining businesses, so encouraging them to enhance their performance across a larger range of socio-environmental aspects. On the other hand, it has been argued that the mandated disclosure requirements for sustainability could result in negative externalities. A company with superior sustainability performance and commitment to ESG concerns, for instance, may need to spend additional effort and invest higher costs to distinguish itself from the "herd" (particularly in periods following the introduction of mandatory regulations). Therefore, the implementation of mandated rules may result in an expensive pooling, rather than a separate equilibrium, in terms of the value and informativeness of sustainability disclosures, which may ultimately

lead to the destruction of shareholder value. Regardless of the positive or bad effects of the adoption of obligatory disclosure requirements, previous research demonstrates that an increase in the amount of information submitted is typically realized. In the research, it is less obvious if firms boost disclosures during the transitional period preceding a transfer from a voluntary to a mandatory disclosure regime. Before a formal transition takes place, there is frequently a lengthy period of transitional stages. During a period of informal discussion and consultations, authorities may announce an intention to implement a change, but first "test the waters" by soliciting comments and commentary from interested parties. The time between when changes are initially announced and when they become formally effective could be a crucial period of transition. In some situations, these periods may be quite brief, whilst in others, they may last for more than several years. Various alternate theoretical frameworks help to explain why a company may provide sustainability disclosures. These theoretical viewpoints may also aid in predicting how enterprises would adapt their disclosure practices prior to the implementation of a required disclosure system. Signaling theory, for instance, proposes that corporations attempt to indicate their fundamental values and beliefs through disclosure. If a company's objective is to be perceived as a "good corporate citizen," then, under a voluntary disclosure environment, it is likely to want to distinguish itself from competitors by giving more significant sustainability disclosures. In order to distinguish themselves from weaker competition, 'good corporate citizen' enterprises may be incentivized to provide greater sustainability disclosure. Additional benefits may be realized. Prior study demonstrates that corporations with a higher level of sustainability disclosure have greater brand recognition, better reputational capital, and greater access to funding87. The legitimacy theory gives an additional valuable framework for understanding why a company may share sustainability-related information. This theoretical perspective acknowledges that firms operate within a social compact that ties approval of the firm's goals to behavior consistent with social values. Suchman defines legitimacy as "the widespread view or assumption that an entity's acts are desirable, proper, or suitable within a socially formed system of norms, values, beliefs, and definitions". To prevent a legitimacy gap, businesses will seek to match their actions with the values of stakeholders and the general public. Failure to adhere to institutionalized standards of acceptability may threaten the legitimacy, resources, and longevity of the

[87] e.g., Luo and Bhattacharya, 2006; Cheng et al., 2014

organization. Communication plays a crucial part in establishing a company's legitimacy, since it informs stakeholders and society that the company's organizational behavior is consistent with theirs. Lack of communication may endanger efficiency, resource access, and overall survival. Prior study demonstrates that society places greater value on businesses that report their socially responsible behavior. Commitment to a social reporting plan can assist in altering public opinions of a company's legitimacy, while increased social reporting can assist in bolstering a company's competitive edge. Similar to legitimacy theory, stakeholder theory "conceives of the organization as part of a larger social system in which the organization influences and is influenced by other social groups" However, in contrast to the legitimacy theory, the stakeholder theory acknowledges that society is composed of diverse groups with divergent perspectives on organizational behavior and standards. Instead of seeking to address the values and norms of society as a whole, proponents of stakeholder theory say that enterprises should prioritize stakeholders based on their importance to the firm's aims. A company then attempts to align its behavior and processes with those of its most important stakeholders. If action on environmental issues, for example, is a priority for a company's main stakeholders, then the company is believed to be more likely to engage in actions that help the environment and disclose more information as a result. Lastly, resource dependence theory has been proposed as an additional theoretical framework to explain a firm's willingness to disclose sustainability information. The resource dependence idea was first developed by Emerson and is based on social exchange theory. According to Pfeffer and Salancik, "organizations depend on the resources of others in their surroundings to ensure their long-term viability." Due to this dependence, a company will structure its formal and informal partnerships with other companies so as to gain strategically significant resources. Then, firms will take initiatives to eliminate uncertainty, risks, and dangers to these interdependent connections. In a highly competitive setting when acquiring substantial and limited resources is crucial, efforts to eliminate uncertainty are strengthened. As stronger relationships between suppliers of resources develop increasing reliance, proponents of the resource dependence hypothesis propose that increased communication and disclosure is a potential method for reducing uncertainty and risk. This type of disclosure may involve the reporting of sustainability information, especially in ecologically and socially sensitive corporate operations. In conclusion, the various theoretical views (i.e., signaling, legitimacy, stakeholder, and resource dependence theories) suggest that a company may have diverse

objectives and incentives for voluntarily disclosing sustainability information. Prior research indicates that under a mandated framework, overall disclosure across all enterprises on a given topic is likely to be greater than under a voluntary regime. Consistent with this perspective, it is reasonable to predict that ex ante the introduction of mandatory rules, the average level of sustainability disclosure among Singapore public companies will be greater than a priori. However, this does not imply that the implementation of legislated regulations will remove differences in sustainability reporting between companies. For instance, if a 'good corporate citizen' firm feels that enforced rules will increase disclosure levels across all enterprises, this firm may believe that the competitive advantage it enjoyed over inferior competitors under a voluntary framework may be removed. To prevent a loss of distinctiveness under a required system, the 'good corporate citizen' company may take proactive measures to ensure that its degree of sustainability disclosure exceeds that of its competitors following the change in disclosure regime. In the lead-up to a change in disclosure regime, a "good corporate citizen" company may voluntarily raise sustainability disclosures to indicate to stakeholders that it intends to maintain its leading reputation and standing as a socially and environmentally conscientious enterprise. Such signaling could also prevent the company from being labeled a "green-washing" entity, i.e., one that is only motivated to disclose information when required.

3.4.2. Family Firms and Sustainability Reporting

Over the past several decades, the literature has extensively analyzed the factors that influence sustainability reporting methods. Scholars have just recently begun to seriously investigate the topic of sustainability reporting in the realm of family business. Prior research indicates that corporate characteristics may impact the effectiveness of sustainability reporting and the scepticism of stakeholders[88]. Becker- Olsen et al. (2006) claimed that stakeholders respond to the trustworthiness of sustainability activities and sustainability disclosures based on an assessment of these initiatives in relation to the firm. Therefore, stakeholder confidence in the company is a crucial moderating factor that explains the

[88] Du et al., 2010

effectiveness and success of sustainability communication[89]. In the opinion of stakeholders, family enterprises are distinguished from non-family firms by a number of distinguishing and distinctive traits[90]. Such qualities may play a significant role in shaping how stakeholders evaluate and respond to sustainability reporting, and they give information that influences stakeholder perceptions of the firms and sustainability reporting[91]. Although the theoretical and empirical definitions of the family firm have been the subject of considerable debate, the centrality power embedded in family control and engagement in the firm's decision-making and strategy growth is a defining trait of family firms. Family businesses exist at the juncture of two systems: the family and the company. This duality, also known as familiality, is the defining characteristic of family company study, since the organizational outcomes of these entities are the result of the interplay between the family and the business. Research reveals that family enterprises approach stakeholder relations differently than non-family firms. Miller et al. (2008) suggest that family enterprises are more likely than non-family firms to seek out partnerships that cement and maintain strong bonds with internal and external stakeholders. The owners of family businesses want to strengthen the stability of stakeholder connections and urge stakeholders to retain specific relations with the business as a contract of long-term, collaborative exchanges based on trust[92]. Positive sustainability performance, particularly in areas that are essential to external stakeholders, can bolster support for the family business among key stakeholders and help legitimize the family business's existence[93]. This expanded relational approach may manifest itself through a longer-term direction and vision, higher respect and treatment of employees, stronger supplier and customer relationships, and a strong community presence and roots. Based on these traits, there is a greater possibility that stakeholders will perceive a family business as "excellent." This is anticipated to have a favorable effect on sustainability reporting. Family engagement in the firm may also have an effect on sustainability reporting. This participation fosters a set of attitudes that facilitate the adoption of socially responsible behavior and the implementation of sustainability policies in family businesses[94]. Rim et al. (2016) discovered that academics usually believe that exceptional sustainability performance can aid a

[89] Elving, 2013
[90] Zellweger et al., 2012; Panwar et al., 2014
[91] Nekhili et al., 2017
[92] Stanley and McDowell, 2014
[93] Cennamo et al., 2012; McGuire et al., 2012
[94] e.g., Dyer and Whetton, 2006; Berrone et al., 2010

company in establishing a trustworthy and sincere image that will increase stakeholder support. The adoption of sustainability development activities fosters stakeholder confidence in the organization. This allows the company to retain positive connections with important stakeholders[95]. Consequently, communication of the family business's sustainability measures might be regarded as objective, reducing stakeholder scepticism. A body of empirical research addressing distinctions between family and non-family enterprises that can effect sustainability reporting yields contradictory results. Adams et al. (1996) did not uncover evidence of difference ethical behavior between family and non-family enterprises, but they did find that family firm features influenced corporate ethics and, ultimately, behaviors toward stakeholders, including communication. Hirigoyen and Poulain-Rehm (2014) discovered comparable outcomes. Dyer and Whetton (2006) showed that family businesses were more concerned with their reputation and more likely to be perceived as legitimate by the community. Berrone et al. (2010) also discovered that family enterprises were more compliant with environmental norms than their non-family counterparts. This result supported the notion that family enterprises are more likely than non-family firms to preserve their socioemotional riches[96]. Campopiano and De Massis (2010) examined the sustainability reporting procedures of 98 privately held and publicly traded Italian family and non-family businesses. Their [97] findings indicated that, compared to non-family firms, family firms were less compliant with GRI standards but provided a greater variety of sustainability reports and paid more attention to different topics, especially those (e.g., environmental, philanthropic) that protected the family firm's socioemotional wealth. Nekhili et al. (2017) found, based on a sample of French enterprises, that family firms disclose less information than non-family firms about their sustainability tasks and responsibilities. According to the family business literature, it is evident that prominent and distinctive characteristics of family enterprises are likely to produce disparities in attitudes toward reputation maintenance and stakeholder involvement compared to non-family firms. These distinctions may have an effect on sustainable disclosure methods. The empirical research on family firm/sustainability disclosure practices is still in its infancy, with conflicting outcomes. Nevertheless, we suggests that the extent of sustainability disclosure by SGX publicly listed family enterprises during the period of transition from a voluntary to

[95] Park et al., 2014
[96] Berrone et al., 2010; Cennamo et al., 2012
[97] Campopiano and De Massis, 2010

a mandatory "comply or explain" reporting system will be significantly different from that of SGX publicly listed non-family firms. Emerging (albeit limited) research suggests family enterprises are more prone to reputation preservation, a larger incentive to pursue stakeholder legitimization, and a desire to protect socio-emotional wealth. However, research also suggests family firms are not always a homogenous sector. Consequently, sustainability reporting procedures may vary among family businesses, as the degree of family engagement (also known as "embeddedness") influences a company's perspective on sustainability concerns, thereby generating heterogeneity within family businesses. It is believed that the involvement of family members in firm management and/or governance increases family familiarity and attachment, influence and personal investment in the entity, family endowment in the firm, and the incentive to maintain the family enterprise's reputation. As non-economic aims (e.g., endorsement of shared ethical principles) become more significant, Bingham et al. (2011) believe that increased family embeddedness results in a collective orientation toward stakeholders. The involvement of the founder in active management of the family firm increases the chance of positive activism toward external and internal stakeholders (e.g., employees, suppliers, consumers, and community)[98]. As with non-family enterprises, family firms are more likely to engage in social activities when there is support from senior management, such as when the founder is actively involved in the management of the family company[99]. Probably, this will improve sustainability communication. Greater family integration is therefore likely to result in internal and external stakeholders viewing the family business as an extension of the family. Consequently, family members involved with the family firm are more likely to view the entity as "an extension of themselves-their identity, or self-view," necessitating proactive measures to protect the family firm's reputation in the same manner that it protects the self-image of the family member[100]. Motivated by an incentive to preserve family firm and self-image repute, sustainability communication is likely to be enhanced[101]. In addition to embeddedness, prior research (both family and non-family) implies that the entity's visibility will influence corporate disclosure policies. Literature[102] indicates that more visible

[98] O'Boyle et al., 2010; Gomez-Mejia et al., 2007; Kalm and Gomez-Mejia, 2016
[99] Le Breton-Miller and Miller, 2013; Dobele et al., 2014
[100] Zellweger et al., 2013
[101] Micelotta and Raynard, 2011
[102] e.g., Brammer and Pavelin, 2008; Dyduch and Krasodomska, 2017

enterprises (based on size or media exposure) garner higher interest from stakeholders and the broader community. In response to this heightened visible pressure, the company is expected to strengthen its sustainability communication efforts[103]. Greater business size also improves the entity's capacity to bear the signaling costs of increased sustainability reporting. Within family businesses, the entity's size may operate as a socio-emotional moderator[104]. This is due to the fact that when the size of the organization develops, so will the pressure to hire external professional management rather than family members. Consequently, the impact of family embeddedness may decline, resulting in a diminished motivation to transmit sustainability information[105]. Alternately, the potential prospect of greater reputational damage for a larger organization that is more visible and vulnerable to societal scrutiny could counteract the decrease in embeddedness among large family firms. In general, the size of a family-owned versus non-family business is likely to influence sustainability reporting procedures. However, the impact of scale is likely to be greater in family businesses than in non-family businesses.

3.5. Sustainability Impact of COVID-19

Prior to COVID-19, the world was preoccupied with escalating environmental and social crises, which, according to many, stemmed from contentious economic policies and international commerce. The present COVID-19 outbreak illustrates the importance of incorporating human health as one of the sustainability development goals. It is almost difficult for life to continue as usual when the health of a society deteriorates drastically owing to a global health threat. Previously, the sustainability pillars addressed issues that affect us all and connect us globally. Economic, social, and environmental challenges have been viewed as such, but the function of human health has been viewed more as a local, individual issue. Interesting to note, the third target of the sustainable development goals is "Good Health." Clearly, this encompasses the feature of human health that we wish to

[103] Reverte, 2009; Morhardt, 2010; Lu et al., 2017
[104] Berrone et al., 2010; Cennamo et al., 2012
[105] Gavana et al., 2017a, 2017b

include in our definition of sustainability. However, it is essential to distinguish between the UN's definition of sustainability and the three pillars. As noted previously, the three pillars are the most common definition of sustainability, with health not being included. We strongly believe that adding human health as the fourth pillar or dimension to the overall definition of sustainability is a logical and valid redefining step, as proven by the tremendous importance of health and the fear of losing it, as illustrated by the present COVID-19 problem. In comparison to other UN Sustainable Development Goals (SDGs), SDG 2 is an essential criteria that every individual must meet. However, as a result of the economic pillar's contribution to an increase in global wealth, the majority of mankind will no longer suffer hunger. Moreover, in countries where the majority of the population suffers from hunger, the primary causes are a faltering economy and a corrupt political climate, which the social pillar accounts for. "No Hunger" is an important goal for a community to pursue, but it does not need to be a separate pillar because it is included in the acts of two other pillars.

Due to its relevance to human life and the continuation of civilization, however, physical and mental health must be a separate fourth pillar and cannot be subsumed under any of the other three. It is possible to argue that the term 'society' encompasses the aspect of human health, but in common usage, society has evolved to mean solely the social wellbeing of humans. "Socially sustainable communities are regarded equal, diversified, interconnected, and democratic, and they offer a high quality of life." Therefore, none of these phrases encompass the physical and mental health of humans. COVID-19 mostly affects physical health, but mental health is also affected. As a result of COVID-19, economic instability, marital violence, substance abuse, deviation from a regular schedule, and even trivial factors such as a lack of sunlight might affect mental health. These characteristics have a significant impact, but they do not account for the mental health costs incurred by health care professionals. Not only do healthcare personnel constantly dread for their lives, but they are also terrified of the possibility of infecting a close relative. This has an incalculable effect on their mental state under the current conditions. Physical and mental health are tightly intertwined, and a significant decline in one will have a significant impact on the other.

Not only has the pandemic harmed the physical health of hundreds of thousands of people, but also their mental wellbeing. As a result of its spread, the economy has plunged to record lows, social issues such as domestic violence have worsened, and worldwide animal species

have become threatened due to a decline in conservation efforts by conservationists who are in quarantine due to COVID-19. In addition, conservation funding is seeing one of the greatest funding declines in history due to the cancellation of events that were intended to collect funds for conservation activities. Due to decreased human activity, innumerable images and videos of animals wandering the streets are appearing on social media. Many celebrate this freedom for animals as a beneficial effect of COVID-19, but this is a lie because the species most at risk of extinction are those that require constant human involvement to thrive. These creatures are now being neglected. For instance, in Africa, a major ecotourism industry helps fund extensive conservation efforts near Mount Kilimanjaro. In actuality, non-harmful human activity is as vital to the existence of certain species as food and water, despite the fact that most people view human activity as a negative to environmental well-being.

The global economic repercussions of COVID-19 have been disastrous, resulting in the loss of jobs and the inability of firms to support their staff while losing business and being unable to pay the rent. Wall Street has recently set a number of milestones, and the spread of coronavirus has brought America's longest bull market to a spectacular halt, as the Dow Jones Industrial Average (DJIA) experienced historic losses in mid-March. Large companies, like as the aviation industry, have begun to incur insurmountable losses, to the point that they are requesting bailouts from the government. The coronavirus pandemic will also increase the pressure on firms to compare the efficacy, costs, and benefits of a globalized supply chain system to those of a domestic supply chain. Switching to a domestic supply chain would decrease reliance on a fragmenting global supply system. This transition would certainly increase costs for firms and consumers, despite the fact that it would better assure that individuals have access to the necessities. The societal cost is primarily attributable to the inequality gap. In recent decades, the wealthiest fifth of Americans have had greater income growth than those behind them in the income hierarchy. As high-income professionals, they reside in Internet-ready homes that allow for telecommuting, and in this crisis, the majority will generate stable salaries while receiving deliveries of essentials. Eighty percent of low-income Americans lack this financial cushion. Many will struggle with unemployment and family responsibilities. They are less likely to be able to work from home and are more likely to be engaged in the service or delivery industries, which increase their risk of contracting the virus. In addition, the gap between economic inequality and

political power has always had an inverse relationship; as economic inequality decreases, individuals become increasingly voiceless.

The rising wealth disparity has also created a societal divide based on social class, which has contributed to unequal educational outcomes. COVID-19 has established a new reality for the school system that involves online learning, but only the wealthy have access to a stable internet connection and the technology that supports this form of learning. Thus, economic disparity, which is fueled by a public health crisis, is currently contributing to the collapse of one of the three pillars: society. The UN's sustainable development goals have been reordered due to the emergence of persistent public health problems. The United Nations currently has a sustainable development target (SDG 3) that addresses the health of a society. However, its independence from all other purposes suggests that it is merely one of many, and not a vital component of human life and sustainability. The fact that health is no longer merely a demographic or individual issue, but rather a global pandemic, demonstrates its true significance, and its impact contributes to the development of a fourth pillar of global sustainability.

CHAPTER 4 – The effect of Sustainability on the remuneration of Italian family business

4.1 Executive Compensation and Social Performance

There is a greater emphasis on incentivizing and rewarding management for achieving social objectives. In light of the belief that management must be compensated for the greater risks associated with long-term social goals, companies concerned with sustainability are likely to link executive compensation to sustainability[106]. Indeed, some companies are tying CEO compensation to sustainability performance, recognizing that by doing so, they can serve as models for their peers, given that sustainability reporting is growing and investors are increasingly recognizing the financial benefit of sustainability performance[107]. For instance, an E&Y (2010) report provides an overview of the key problems that CEOs and boards of directors should examine when contemplating sustainability reporting. In response to a question on what governance structures and processes are required to report on sustainability, it is revealed that some organizations link CEO compensation to sustainability performance in order to increase their focus on sustainability issues. Maas (2015) proposes that firms might utilize incentives by incorporating corporate social performance criteria into executive compensation. Maas and Rosendaal (2016) study the incorporation of sustainability criteria into CEO compensation using 490 listed businesses from 11 countries and find that companies incorporate socially-focused sustainability targets in their compensation plans. Kolk and Perego (2014) use four case studies from the Netherlands to study the performance criteria in incentive programmes and evaluate whether the inclusion of sustainability-related bonuses is a credible signal or merely a means to maintain bonus levels. Francoeur et al. (2017) examine the commitment of firms to environmental

[106] Frye et al. 2006; Berrone and Gomez-Mejia 2009b; Eccles et al. 2014
[107] Tonello and Singer 2015

sustainability based on key data, such as actual performance, reporting procedures, policies and guidelines, and management systems, obtained from public reports and fnancial accounts, interviews with stakeholders, and media releases. The relationship is stronger in institutional contexts where national environmental regulations are weaker.4 They argue compensation committees should consider psychological and institutional factors when designing compensation for CEOs, but their study does not include corporate governance mechanisms. Schiehll and Bellavance (2009) investigate non-financial performance indicators utilized as a component of pay-for-performance programs to align and incentivize executive activities and reflect the benefits of CEO strategic planning and business objectives. They contend that introducing non-financial performance criteria into CEO contracts improves investors' decisions and the ability of boards to create shareholder wealth by monitoring managerial actions. Davila and Venkatachalam (2004) investigate whether CEOs are compensated based on non-financial performance measures and argue that non-financial metrics that are explicitly disclosed in compensation contracts are useful when they provide information about the agent's efforts that goes beyond financial metrics. The relationship between executive salary and sustainability assurance has received scant study attention. Brown-Liburd and Zamora (2014) suggest in a recent study that managerial remuneration that is expressly related to sustainability information is value relevant and that pay-for-performance incentivizes managers to significantly invest in sustainability solutions and to disclose high sustainability performance. They argue that managers must seek independent assurance of sustainability information to signal credibility, and that investors will highly value independently assured information that is linked to an incentive system.5 The study reveals that in the presence of pay-for-CSR performance and high CSR investment level, investors' stock price assessments are only higher when CSR assurance is also present. Moser and Martin (2012) contend that voluntary and unverified sustainability disclosures present dependability and credibility concerns that require external verification, whereas Berrone and Gomez-Mejia (2009) urge for monitoring systems to evaluate the credibility of sustainability information.

Based on the above, we now go on to analyze how Italian family firms have changed their board compensation policies and how their performance has evolved over the years in relation to ESG decisions. To do the analysis, we rely on a database representing listed Italian family firms, for a time frame from 2010 to 2020. The study found that about 30.58% (63

out of 206) of the surveyed companies regularly publish the sustainability report, of which 92.06% prepare them regularly throughout the years analyzed. The reason why companies decide not to publish the ESG report can be led by company size. In fact, the average market capitalization of reporting companies is enormously higher.

Avg Mkt Cap	
ESG report	no ESG report
2366,63	192,1

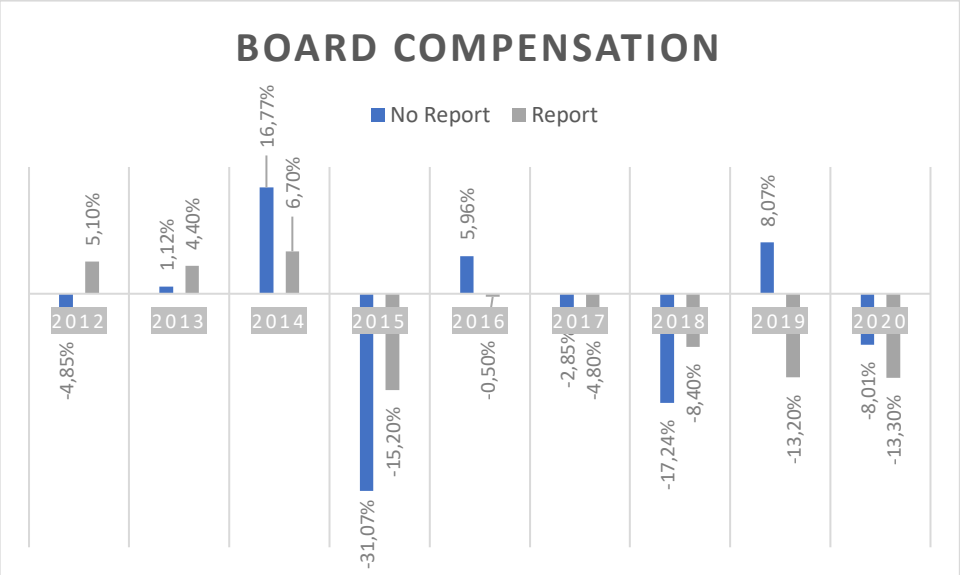
This aspect suggests that large companies are more likely to publish the report because of their high relevance in the target market and also because, depending on the sector, they have a more significant impact with the environment, while small companies are less involved.

4.1.1 Board Remuneration

Now let's take a look at how board remuneration has performed over an 8-year time span between companies that report and those that do not report or about which we have no information. It is evident from Figure 4.1 that nonreporting companies had greater volatility than reporting companies, increasing more in good years but decreasing more in bad years. The two samples show a correlation of 58.97%. In particular, we can see that in 2015 both samples had the most negative trend of the entire period studied, disadvantaging the nonreporting companies the most. Another important finding we can glean from the last two years studied. In fact, in 2019 there was a clear difference between the two samples studied, registering a +8.07% for nonreporting companies versus a -13.20% drop in nonreporting companies. This mismatch was evened out in 2020, the year when covid-19 became part of the issues companies needed to address. Specifically, compensation performance for reporting companies has been negative since 2015, falling by an average of -9.23% per year, compared with an average of -7.52% for nonreporting companies. From this graph, we can conclude that companies that are more attentive to sustainability policies are also more reluctant to change the compensation of their board of directors, despite the fact that it is

decreasing year by year. Conversely, we have noticed how companies that do not have a focus to sustainability actions are more likely to change their compensation policies, precisely because they have fewer constraints in place. We would have expected more the reverse situation, i.e., as the literature argues, managers of reporting companies are compensated more by achieving sustainability goals. But since changes in remuneration are "flatter" than companies that do not follow sustainability policies, this thesis is discarded.

Figure 4.1



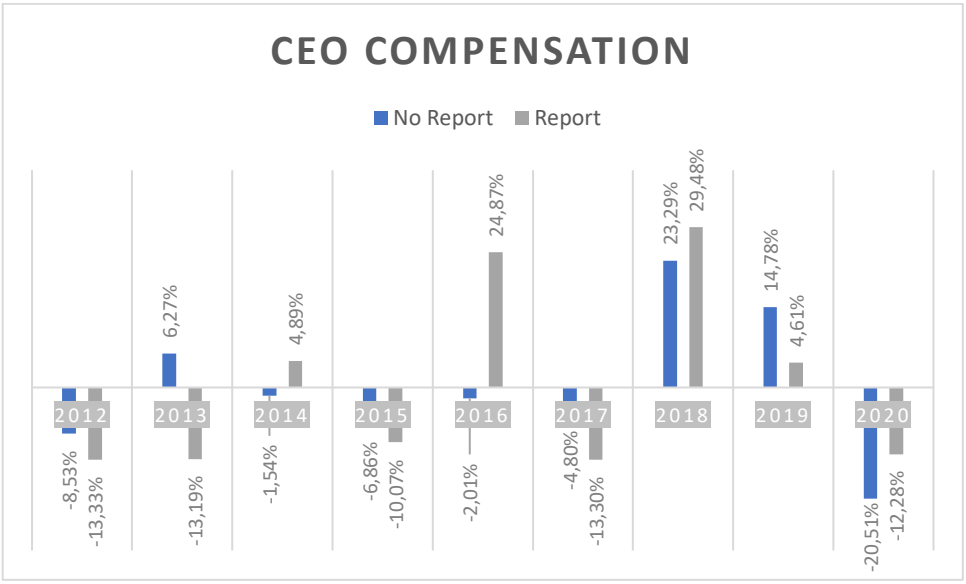
Source: personal elaboration on data provided by the Dataset

4.1.1.1. CEO Compensation

As argued by Brown-Liburd and Zamora, managerial compensation is explicitly related to sustainability information. Let us check whether their hypothesis is also reflected in the data collected in our database. In Fig. 4.2 I have shown how CEO compensation (including bonuses), has changed from the previous year, comparing the changes between CEOs of ESG reporting companies and CEOs of ESG nonreporting companies. From the graph we can see that, except for the last two years, the change in compensation was more pronounced for CEOs of ESG reporting companies. This graph demonstrates, as initially inferred by Brown-Liburd and Zamore, that companies that pay attention to sustainability policies

change their CEOs' compensation more markedly, precisely because it is influenced by the achievement of particular sustainability goals that most influence compensation. This finding confirms what is supported in the literature, specifically the average annual variation was 0.19% for ESG reporting firms versus 0.01% for nonreporting firms. When analyzing the last two years, as mentioned earlier, the correlation between the two figures reverses. This is likely due to the spread of the COVID-19 epidemic, which has shown the most dramatic change in ESG nonreporting companies.

Figure 4.2



Source: personal elaboration on data provided by the Dataset

4.1.2. Performance

Sales

Analyzing year-over-year sales growth reveals a very significant element. As depicted in Figure 4.3, the number of companies that publish ESG report has maintained a steady increase. Except for 2013, revenues have always increased year on year at an average of

6.31%. Looking at graph 4.3, we can see that non-reporting companies had slower average yearly growth (4,52%). This average is supported by the exceptional gains in 2011 and 2012 but returns from 2013 through 2020 are even slightly negative (-0,51%).

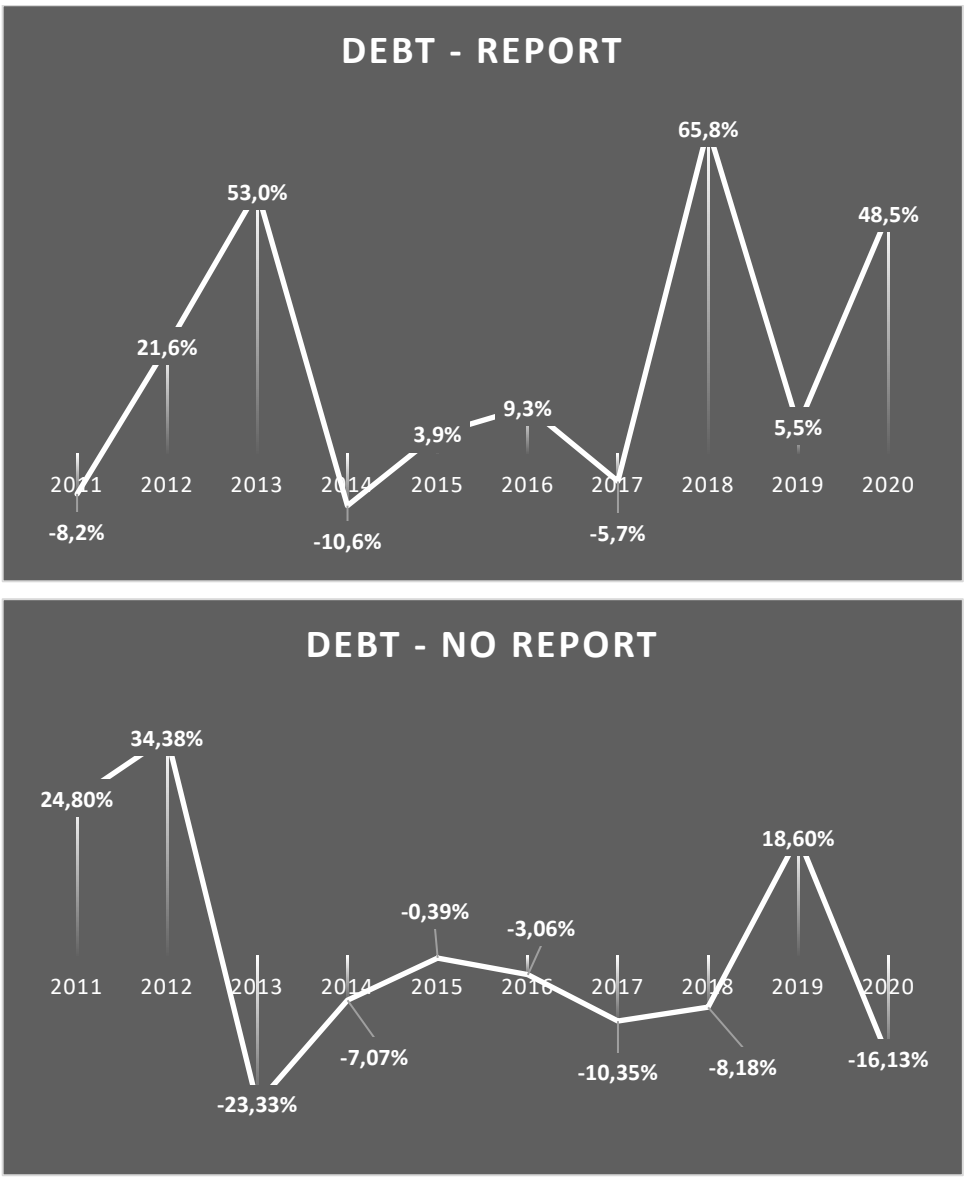
Fig.4.3

Source: personal elaboration on data provided by the Dataset

Debt

Regarding debt, we can assume that family firms that compile the ESG report, have experienced more substantial increases in debt than firms that do not compile the report. This is undoubtedly due to higher costs from preparing the report and implementing sustainability policies. On average, debt increased by 18,3% for companies publishing the report, while for all others debt even dropped by 5,19%. This confirms the fact that following sustainability guides increases costs.

Figure 4.4

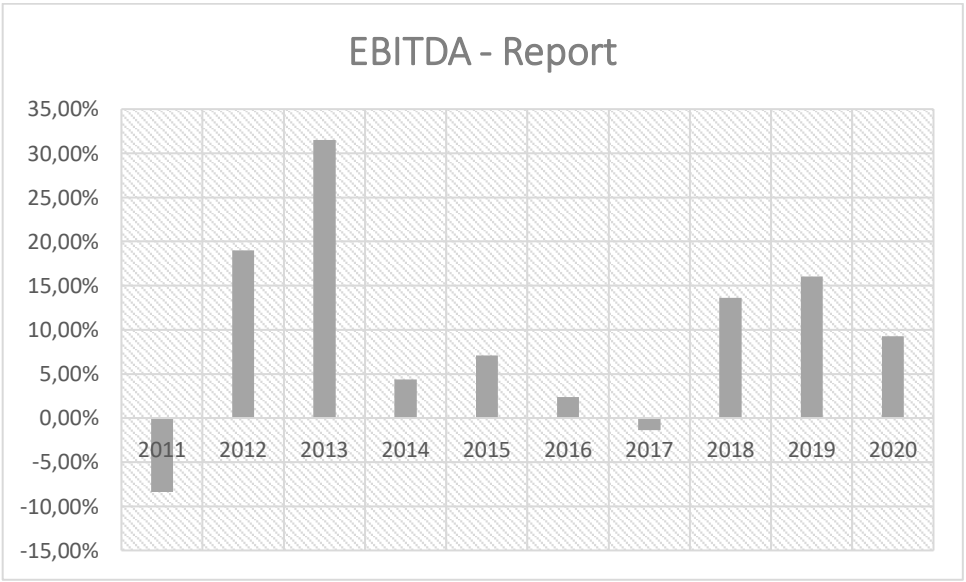


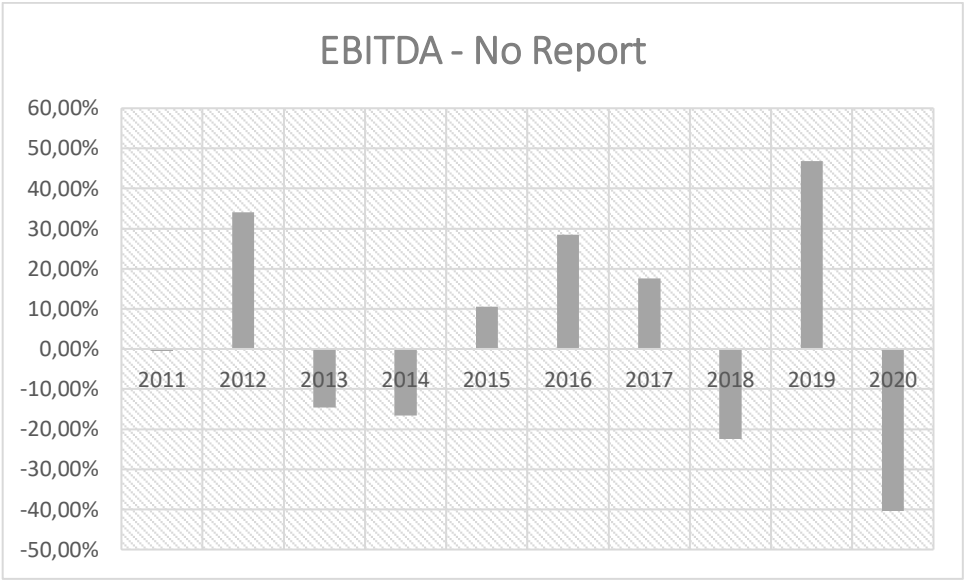
Source: personal elaboration on data provided by the Dataset

EBITDA

Fig. 4.5 shows the trend of EBITDA. We can see that for companies in the first group (reporting), the data is essentially positive, that is, with steady growth year after year (excluding 2011), at an average of 9.34% annually. This shows how companies that have followed sustainability actions have always gone on to improve their operating income, particularly peaking in 2013, when the average growth was 31.50%. As for nonreporting companies, however, the situation is slightly different. We can see that EBITDA trends are more volatile, alternating between positive and negative periods. In particular, it is evident that in 2020, the year of the outbreak of the pandemic, nonreporting companies recorded an average change of -40.39%, compared to +9.4% for reporting companies.

Figure 4.5





Source: personal elaboration on data provided by the Dataset

4.2 Luxottica and Safilo Group

Let us now analyze more specifically two companies in the eyewear industry. In the study, I wanted to include one ESG reporting company (Luxottica) and one ESG nonreporting company (Safilo Group). The eyewear sector is a flagship for Italy for two reasons: The optical industry was born in our country and even nowadays the made in Italy is recognized all over the world (more than 80% of the production is destined for foreign markets, especially European and American) for its excellent quality, innovation at the technological level, in materials and methods that improve the ergonomics of frames. As has been the case in the apparel and luxury sectors, many CSR interventions aimed at solving vision-related issues have also been promoted in eyewear. In the study, I wanted to consider the two largest companies in terms of turnover in the industry. In order to avoid CSR activities being seen by consumers as a purely short-term marketing objective, the companies understood that their use in social work had to be strategic and long-lasting over time, to be realized,

therefore, through serious, credible, concrete strategies and, above all, shared by the entire organization.

4.2.1 Sustainability aspects

LUXOTTICA

Luxottica, founded in 1961 on the initiative of Leonardo Del Vecchio, is today a leader in the design, production and distribution of high quality technical and stylistic sunglasses and eyeglasses. What has always distinguished Luxottica is its focus on the consumer, his or her aspirations and well-being.

"To see the beauty of life" is the vision that inspires Luxottica, dictates its sustainable way of operating and, because of this, can now be considered an integral part of its strategies. As can be read on the company website, this slogan stems from an idea of universal beauty, visible to everyone's eyes, which is embodied in the pursuit of a balance between people's well-being, respect for the environment, ethics and transparency of relationships. Luxottica aims to make people grasp the beauty of life in all its facets:

- the beauty of people enhanced even more by their products and initiatives;
- the beauty of the surrounding world, which needs protection and enhancement;
- the beauty of being able to look far into a better future.

Sustainability-economic, social, environmental-is now fully integrated into the company's history, culture and entire value chain. Luxottica's intent is not simply to hit economic-financial targets but to create shared value, contributing to the economic development and social progress of the community and engaging in environmental protection.

Luxottica pursues sustainability goals that go beyond the standards required by relevant regulations and look to best practices and input from the international context. In particular, it has been inspired by the Sustainable Development Goals established by the United Nations' 2030 Agenda. In fact, on September 25, 2015, the UN approved the Global Agenda for Sustainable Development and its 17 goals, known as the Sustainable Development Goals

(SDGs), broken down into 169 Targets to be achieved by 2030. These Sustainable Development Goals have the main purpose of:

- eradicating poverty, hunger and inequality;
- intervening in climate change and preserving the environmental ecosystem;
- adopting accessible and quality education and health systems for all;
- building strong institutions and partnerships.

Specifically, Luxottica's sustainability vision, based on four pillars (Commitment to excellence, Visual well-being, Social impact and Protecting the environment), operationally addresses 10 of the 17 "Sustainable Development Goals".

SAFILO GROUP

Safilo Group, among the market leaders in the field of production and distribution of prescription eyewear, sunglasses and married glasses, has a history of 140 years. The competitive aspects that distinguish Safilo in the global eyewear industry are: excellence in design, product innovation and quality, and above all, sustainability policies. Indeed, Safilo Group's socially responsible division has been embodied over the years in various initiatives, starting with the publication of the Code of Ethics, addressed to all stakeholders. Very clear is also their vision:

"A sustainable business not only creates high quality products, but also delivers value that lasts over time, that benefits people, customers, employees and all stakeholders, and, at the same time, protects the planet's resources. Sustainability is at the core of our business strategies and is based on developing projects and initiatives that can contribute to reaching the United Nations' Sustainable Development Goals for 2030"[108].

[108] https://www.safilogroup.com/en/sustainability/vision

Group Environmental Policy is based on five pillars:

- Full compliance with environmental laws and regulations;
- Optimization of processes to 105inimize environmental impact;
- Creation of greater awareness in the supply chain;
- Involvement and empowerment of all workers;
- Transparency towards stakeholders.

In July 2022 Safilo Group joined "The Fashion Pact", a coalition of leading global fashion and textile companies (ready-to-wear, sports, lifestyle, and luxury), as well as suppliers and distributors, all committed to a set of shared goals focused on three main areas:

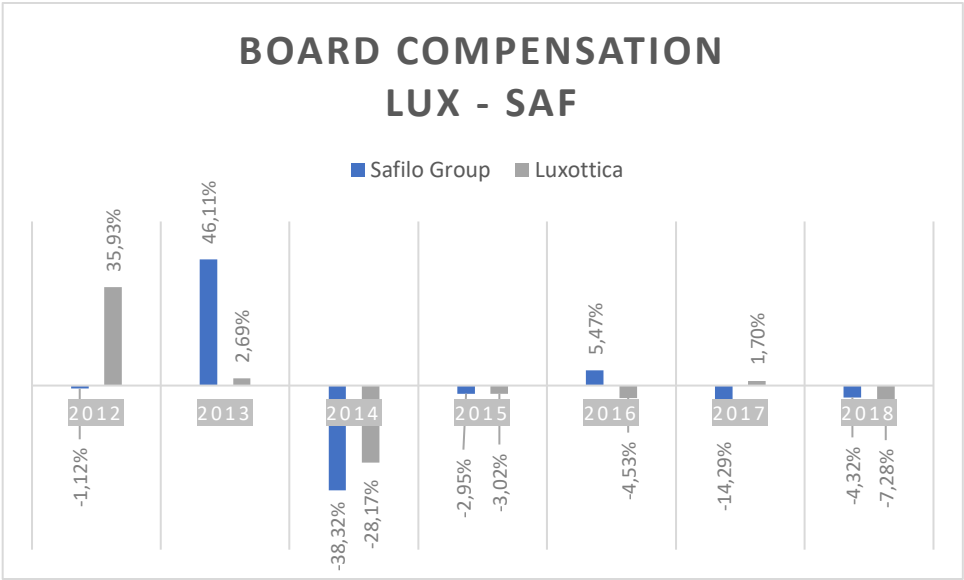
- halting global warming,
- restoring biodiversity,
- protecting the oceans.

4.2.2. Board Compensation

Luxottica and Safilo Group are two similar companies in terms of business model and also in size. However, we can see how board remuneration has behaved over the years. As for Luxottica, for a time frame from 2012 to 2018 (the year of the EssilorLuxotica merger), we can see how the average remuneration was €6,767,479 per year, while as for Safilo Group the average was only 3,569,137€, almost half. In Fig 4.6 we can see how the remuneration of the two companies changed from year to year. In particular we can see a fairly flat graph for the last 4 years examined, while on the other hand, as far as the first two years are concerned, the two companies basically alternated in the growth of board remuneration. We can also see from the graph that although Safilo Group does not prepare the ESG report, there has not been much variance in terms of board remuneration trends. Both companies

moved fairly simultaneously, so we can conclude that even if Luxottica prepare the ESG report, it did not behave differently from its competitor Safilo Group, which does not prepare it.

Figure 4.6



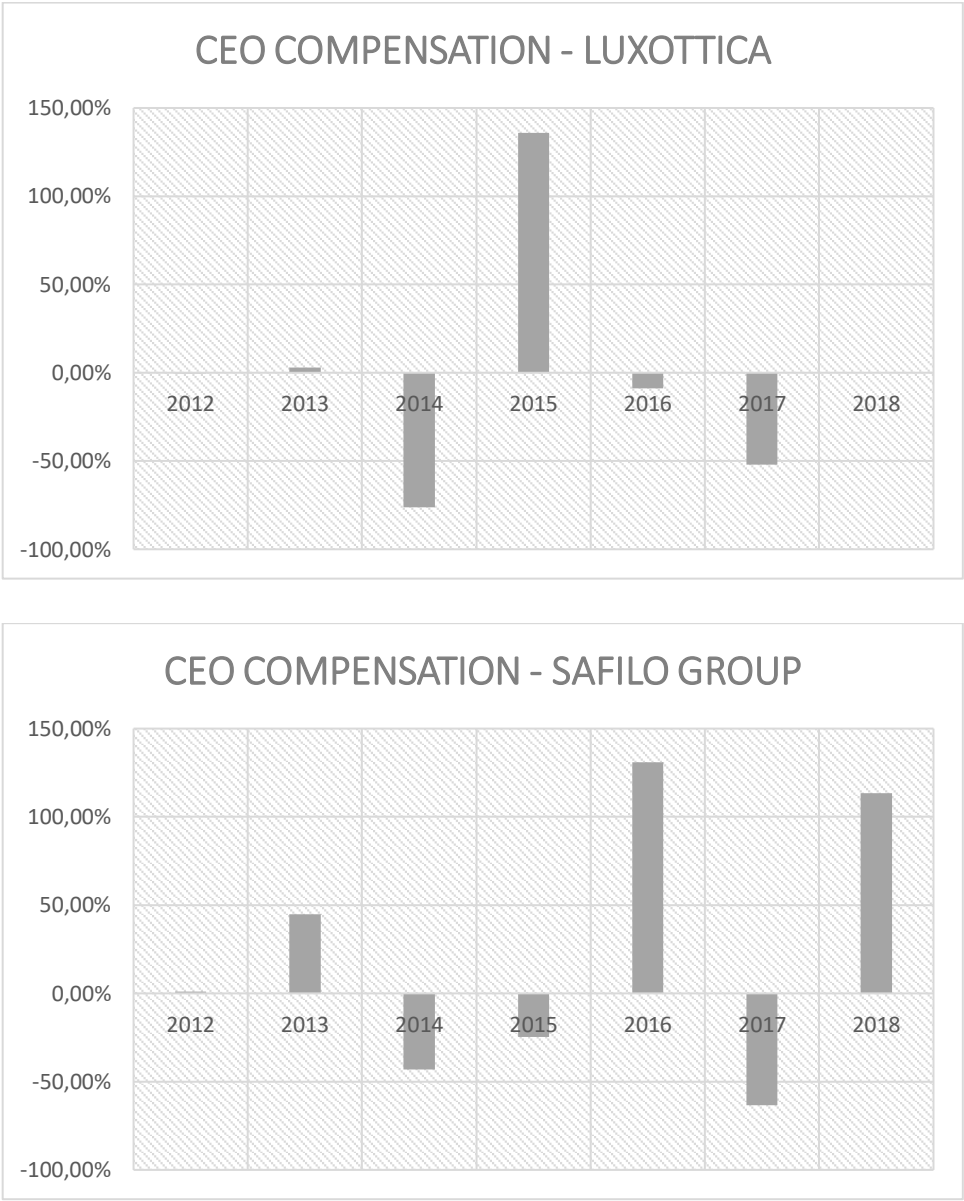
Source: personal elaboration on data provided by the Dataset

4.2.3. CEO Compensation

Let us now look at the performance of the CEO compensation of the two companies. One element to take into account is definitely the CEO turnover of the two companies. In fact, in 9 years analyzed, both companies have changed their CEOs as many as 3 times, changing their remuneration policies accordingly. In fact, we can see how in 2015 Luxottica increased by as much as 135.91% the remuneration to CEO Massimo Vian, who saw his salary, including bonus, go from €1,068,602 to €2,520,980. Similar discussion can be made for Safilo Group, which in 2016 decided to reward its CEO Luisa Deplazes by increasing her salary, again including bonus, from €1,135,289 to €2,622,294, an increase of 130.98%. Increase that was then confirmed in 2018 when Luisa Deplazes left the helm to Angelo

Trocchia, who was given a salary 113.39% higher than the last salary received by his predecessor. All in all, it can be seen that the two companies behaved quite similarly in terms of their compensation policies, except for the year 2018, as we said before, Safilo decided to reward the new incoming CEO while Luxottica decided not to change the compensation policies adopted the previous year.

Figure 4.7



Source: personal elaboration on data provided by the Dataset

CONCLUSION

In the international debate on future economic progress, the concept of sustainable development has become a central element. Our lifestyles and ways of doing business have changed rapidly. In these developments, and in the definition of new development models, the environmental component has become increasingly important. In this study, we have seen how over the past few years many companies have intervened in board compensation policies, especially in the compensation of their CEO. Steps forward, on the other hand, have been made in the area of sustainability. Here, too, companies have had to adapt to the changes taking place, tweaking their internal policies several times, in terms of remuneration. We have seen in this study what the characteristics of a family firm are, what the strengths and weaknesses are. We looked at the performance of family firms, saw how they are more profitable when family value is at stake. We looked at the role of the CEO, in particular we looked at CEO compensation, we looked at how CEOs of family enterprises may obtain greater remuneration packages if they boost the family's wealth and allow the controlling family to derive the benefits of control. We saw how pay-for-performance contracts can be used to reduce conflicts and the structure of stock ownership affects the sensitivity of it. We have seen how the average tenure of family CEOs is 17.6 years, compared to 6.43 years for nonfamily CEOs. As a percentage of outstanding shares, family CEOs and their families own 17.0 times more stock than nonfamily CEOs: 6.13% compared to 0.36%. These findings suggest that the incentive environment for family CEOs differs from that for nonfamily CEOs. In the third chapter, we examined the concept of sustainability, applied it to family firms, and analyzed its effects on them. In particular, we saw how the presence of a family CEO lowers the CSR performance of family firms in all categories, and that family firms with a family member as CEO have lower CSR scores than all other firms. Families with large and long-term ownership shares in the company will be particularly hostile to excessive ESG investments because they may not provide personal benefits. This is compatible with the agency theory, which suggests that large, powerful owners direct the firm's actions to their own advantage. We also saw how important it is for companies to regularly prepare the ESG report and how a company with superior sustainability performance and commitment to ESG concerns, for instance, may need to spend additional effort and invest higher costs to distinguish itself from the "herd" (particularly in periods following the introduction of mandatory regulations). In the end, we

looked more specifically at the board remuneration of 206 Italian family firms, we saw that the reporting firms are basically large companies. By analyzing board remuneration, we came to the conclusion that nonreporting firms are more likely to vary their remuneration policies than reporting firms. Finally, we analyzed CEO compensation policies, we saw how both companies opt for CEO turnover, changing as many as 3 CEOs in 9 years. We saw how the two remuneration policies did not differ that much, concluding that the two companies were not influenced by sustainability policies. In conclusion, sustainable business management requires the right foundation that includes a strong governance system, new people and organizational skills, extensive data capabilities, and robust information analytics processes. Virtually all of the world's largest companies now issue a sustainability report and set goals; more than 2,000 companies have set a science-based carbon target; and about one-third of Europe's largest public companies have pledged to reach net zero by 2050. On the social side of the agenda, companies have been expanding diversity and inclusion efforts, committing funds to fight racial inequity, and speaking out on societal issues they used to avoid. In traditional corporate culture, social and environmental concerns are often considered to be in conflict with financial goals. For example, depletion of non-renewable natural resources isn't a sustainable practice. However, because alternatives typically require investments in infrastructure, continued reliance on fossil fuels is the least expensive short-term option. Similarly, investments in socially ethical practices may initially cost money but ultimately lead to enhanced recruitment, branding and public relations, and increased profitability. Sustainability is a business approach to creating long-term value by taking into consideration how a given organization operates in the ecological, social, and economic environments. Sustainability is built on the assumption that developing such strategies fosters company longevity.

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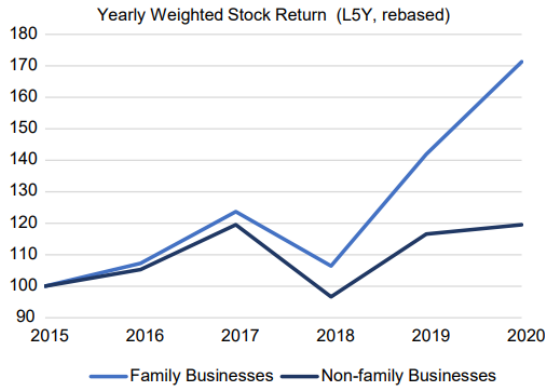
EXECUTIVE SUMMARY

In sustainability practices have become increasingly important. Studies indicate that sustainable development can be a source of success and innovation that is profitable for companies and that companies with sustainability practices have a competitive superiority over others that do not have them. Thus, sustainability is no longer a burden but has become a source of earnings. Family firms make up the majority of companies listed in Europe, Asia, Africa, and Latin America. Despite the fact that sustainability is a widely discussed topic, studies have not given it the importance that it should have in the context of family firms. Sustainability practices affect an organization's reputation, both in the short and long term. Considering the importance that family firms give to sustainability and the relevance that family firms have in the world economy, the study of the two topics simultaneously is increasingly relevant. Topics that relate both literatures, like the conditions that influence sustainability practices in family firms and the types of behavior related to sustainability in family firms, have attracted research interest. I would like to begin this study with an overview of family firms, since they play a major role in my paper and also because defining a family company is one of the fundamental issues in family business research[109]. It is a never-ending story, since no conclusion has been reached due to the divergent perspectives and study objectives of the experts who have studied this issue. A family business profile and its associated characteristics can be described and summarized as follows. A family company is, in general, a complex social structure comprised of two overlapping and interacting social sub-systems: the family sub-system, which is socio-emotionally oriented, and the business sub-system, which is economically focused. Interactions between the two subsystems occur along three primary dimensions: power, experience, and culture. Their purpose is to advance the family's vision for the firm across several generations. Thus, the social structure of a family business is dynamic. . Previous study[110] indicates that, in contrast to family-owned businesses in the United States, the assets of Italian families are more concentrated in their businesses. In addition, because Italian company law encourages family control at the expense of shareholders, Melis (2000) observes that minority shareholders are more likely to be victimized by blockholders (i.e. family). And unlike their American

[109] It is also known as the "*definition problem*". Astrachan et al. 2002
[110] Corbetta and Montemerlo, 1999

counterparts, Italian family enterprises are less likely to transfer ownership beyond the family (e.g., sell the business) due in part to far less liquidity in both private and public markets. This incapacity and, to a certain extent, reluctance to relinquish power affords a unique chance to investigate how idle resources are utilized when the situation may create conflicts of interest between the family and its stockholders. In Italy there are estimated to be around 784,000 family businesses – more than 85% of the total number of businesses – constituting around 70% of employment. In terms of the impact of family businesses, the Italian context is in line with that of the main European economies such as France (80%), Germany (90%), Spain (83%) and the UK (80%), whilst the factor that sets Italy apart from these countries is the lesser recourse of family businesses to external managers: 66% of Italian family businesses are fully managed by family members, while this applies to only 26% of French family businesses and just 10% in the UK. Italian family businesses are also set apart by their longevity: of the world's 100 oldest businesses, 15 are Italian and, of these, 5 are among the top ten oldest family businesses still active today. In the small to medium-sized business segment (turnover >50€MIL), there are around 4,000 family businesses with an incidence of around 58% of total turnover for that segment and around 3 million workers. The COVID-19 pandemic ushered in a crisis that was significantly distinct from prior economic downturns. Corporations experienced interruptions in their supply chains, battled to continue operations as a result of lockdowns, and faced a significant lack of demand. The pandemic disrupted the pre-existing business structures and norms and served as a wake-up call for companies all across the world. The social and economic impacts of the pandemic provide obstacles to the development of family businesses, which must now innovate to survive in the changing environment. To better explain the effects the pandemic has had on family firms, we use data from the *PricewaterhouseCoopers (PwC) Family Business Survey 2021* that covers 2,801 family firms in 87 countries. The survey draws attention to the financial resilience of family businesses and their unique advantages in terms of reputation and trust. However, it also underscores the need for family firms to adopt a more focused environment, social and governance (ESG) agenda, and to invest in technological transformation. The survey shows that 79% of the firms did not require additional capital in 2020, and only 34% had to decrease dividends during this period. Moreover, only 31% of family members had to take a salary reduction due to decreased profitability during the pandemic. Although 21% of the family firms had to raise capital, the confidence of the

family members in the business was evident from the feedback that 15% of the owners invested their own cash during the pandemic, and a further 23% said that they were ready to do so if necessary.



Year	Family Businesses	Non-Family Businesses
2016	7,3%	5,3%
2017	15,3%	13,6%
2018	−14,0%	−19,2%
2019	33,4%	20,7%
2020	20,7%	2,5%
Mean	12,5%	4,6%
Median	15,3%	5,3%

Barontini and Caprio (2005) conducted a fascinating investigation into the connection between ownership structure and firm performance. The core of the paper is the analysis of the relation between market valuation (Tobin's Q) and operating performance (ROA) on one side, and the variables representing ownership concentration and family control, on the other side. The valuation and operating performance of founder-controlled firms are much superior to those of descendants-controlled corporations, which are not significantly worse. Thus, based on their findings, we conclude that family control is beneficial for the valuation and operating performance of firms in Continental Europe. This is true not only when the founder is still living, but even when the majority interest is held by non-executive directors who are descendants of the founder. In terms of valuation and performance, family-controlled businesses are statistically indistinguishable from non-family businesses when a descendent assumes the post of chief executive officer.

Now, let's examine in greater depth the characteristics of board compensation in family businesses. Few topics in the history of the modern company have drawn as much international interest as the compensation of top executives at the largest corporations. Business analysts have enjoyed examining and criticizing executive compensation for decades, fueled by transparency rules and human jealousy. Nonetheless, we are currently in the midst of a reexamination of chief executive officer (CEO) compensation that has more than the normal amount of intensity and substance. If a privately held, family-run business wants to maintain a lucrative development trajectory for future generations, it must confront

complicated business challenges as it ages. Recruiting, retaining, and engaging external executive talent is one of the greatest problems. Moreover, the present leadership team must be compensated in a way that stimulates continuous value generation and maximizes the compensation investment. In the executive labor market, family-owned businesses have a number of natural executive compensation advantages that assist them attract, engage, and retain senior talent. In figure 2.1 a summarize of the advantages and the challenges

EXECUTIVE COMPENSATION AT FAMILY-CONTROLLED COMPANIES	
Compensation Advantages	**Compensation Challenges**
• Freedom to design	• Informal pay governance process
• Unique pay programs	• Opaque compensation plans
• Long business time horizons	• Absence of a total compensation strategy
• Less equity volatility	• Below-market long-term incentives
• Great company culture	• Lack of market knowledge

The level and composition of CEO compensation packages are likely to be affected by family control. Given the importance that families place on control, family businesses may be hesitant to offer stock awards and stock options to its leaders, thereby limiting the proportion of equity-based pay CEOs receive. In addition, the controlling family is frequently in a position to monitor and, if necessary, dismiss the CEO if she fails to meet the family's expectations. Thus, equity-based remuneration may be less significant in family firms than in publicly traded companies, where the alignment of CEO and shareholder incentives is of more relevance. Additionally, if a family member is the CEO, corporations are not required to offer her equity-based compensation to align her interests with those of the shareholders. We can assume that a CEO who is a family member would receive comparatively less equity-based pay. Barontini and Bozzi (2009) demonstrate that family enterprises in Italy pay their CEOs more than other firms, and that family CEOs are paid more than professional CEOs. They interpret this result as evidence of rent extraction, contending that families overcompensate their CEOs in order to buy their loyalty and enable them to expropriate minority shareholders. They discover, however, that family CEOs are rewarded for poor performance, but professional CEOs are rewarded for increasing firm value. Moreover, Haid and Yurtoglu (2006) discover a beneficial effect of family control on CEO salary for a sample of German firms. Alternately, family control could have a detrimental effect on the salary of the CEO. In family-controlled enterprises, risk-averse CEOs may be willing to accept lesser salary in exchange for greater job security, especially if they are related to the

owners (Gomez-Mejia et al., 2003). Family ties can strengthen the executive's commitment to the company, making him or her less inclined to seek employment elsewhere and more ready to accept a reduced salary. For Sweden and Germany, Palmberg (2009) and Elston and Goldberg (2003) establish a negative correlation between family control and executive remuneration. Overall, the research regarding the effect of family control on CEO compensation packages is scarce and equivocal. Given the diverse time periods and compensation data types utilized in the literature, this is maybe not surprising. Due to the paucity of data at the individual director level, Haid and Yurtoglu (2006) and Elston and Goldberg (2003) utilize total compensation of supervisory and management board members as a measure of compensation. This research intends to contribute to the literature by offering a cross-country analysis of how family control can influence the amount of CEO remuneration and pay-for-performance sensitivity using both cash-based and equity-based CEO compensation components. Next, I will provide evidence that family-member CEOs in founding-family-controlled firms receive lower pay and fewer pay-based incentives than nonfamily CEOs. The findings support the hypothesis that founding family CEOs have superior incentives to maximize firm value. The compensation of CEOs of public companies has received a great deal of attention from consultants, management scholars, and the popular press. Jensen and Murphy (1990a, 1990b, 1990c) present detailed analyses of CEO pay-performance sensitivities using the Forbes Executive Compensation surveys for the years 1974-1986 and 1975-1989 for 1,049 and 430 firms, respectively. They determine significant evidence of performance-based compensation by calculating the change in CEO pay for a $1,000 change in shareholder wealth. Although they discover a statistically significant relationship, they deem the level of sensitivity to be low: CEO wealth varies by an average of $3.25 for every $1,000 change in shareholder wealth. They believe that public outrage over "excessive" CEO compensation could limit payouts. A very interesting study made by Daniel L. McConaughy (2000) examines CEO compensation in 82 founding-family-controlled firms; 47 CEOs are members of the founding family and 35 are not. It tests the family incentive alignment hypothesis, which predicts that family CEOs have superior incentives for maximizing firm value and, therefore, need fewer compensation-based incentives. Univariate and multivariate analyses show that family CEOs' compensation levels are lower and that they receive less incentive-based pay—confirming the family incentive alignment hypothesis and suggesting the possible need for family firms to increase

CEO compensation when they replace a founding family CEO with a nonfamily-member CEO. The average founding-family-controlled firm with a family CEO was roughly half the size of one with a nonfamily CEO; its sales were $3.82 billion versus $7.56 billion. The average tenure of family CEOs is 17.6 years, compared to 6.43 years for nonfamily CEOs. As a percentage of outstanding shares, family CEOs and their families own 17.0 times more stock than nonfamily CEOs: 6.13% compared to 0.36%. These findings suggest that the incentive environment for family CEOs differs from that for nonfamily CEOs. Without considering these variables, an analysis of their pay would be incomplete. The empirical evidence regarding CEO compensation supports the testable implications of the family-control incentive alignment hypothesis. Family CEOs are paid less and their compensation is less tied to performance.

There is a growing amount of interest in how much business activity contributes to or detracts from social welfare. Environmental, Social, and Governance (ESG) or Corporate Social Responsibility (CSR) are common terms used to describe corporate actions in this field. Investor interest in ESG/CSR is exemplified by the fact that 300 mutual funds with ESG mandates received a total of $20 billion in net flows in 2019 alone, which is four times the amount received in 2018. In addition, over 3000 institutional investors and service providers have signed the Principles of Responsible Investment (PRI), an agreement to incorporate ESG/CSR concerns into their investment analysis and decision-making. These investors' assets under management have increased from $6.5 trillion in 2006 to over $86 trillion in 2019. A large literature examines relations between characteristics of firm management and the environmental and social aspects of a firm’s ESG/CSR activities. In addition to documenting associations or causal relations, many of these papers ultimately contribute to our understanding of how a firm’s ESG/CSR profile relates to its internal governance. The link between CEO compensation and a firm’s ESG/CSR activities has also been examined in a number of publications. The agency cost view is that CEOs obtain non-pecuniary benefits from corporate spending on ESG/CSR activities and do so at the expense of shareholders. However, if boards reduce the CEO's compensation proportionally, spending on ESG/CSR initiatives may be consistent with optimal contracting or strong governance, rather than an indication of agency issues. Several articles provide evidence supporting the first viewpoint. For instance, Gillan et al. (2010) discover that CEOs at firms with stronger ESG/CSR performance have lower remuneration, indicating that, even if

ESG/CSR expenditures are indicative of CEO rent seeking, they are substitutes for CEO pay as opposed to complements. Similarly, Jian and Lee (2015) discover a negative relationship between ESG/CSR investment and CEO compensation, indicating that CEOs are rewarded for "normal" levels of ESG/CSR investment but penalized when it deviates from the expected level. Ferrell et al. (2016) also show that a measure of excess CEO pay is adversely connected with ESG/CSR ratings and conclude that CEOs with high, unrelated-to-performance compensation engage less in ESG/CSR activities, supporting the good governance position. The authors provide additional evidence for their assumptions by demonstrating a significant positive correlation between a company's pay-for-performance sensitivity and its ESG/CSR scores. In contrast, several research have shown no correlation between salary and ESG/CSR metrics. Borghesi et al. (2014), for instance, report a negative relationship between total CEO remuneration and an employee subcategory of ESG/CSR investment, but they find no evidence of a relationship between CEO total compensation and a company's aggregate ESG/CSR score. William Rees and Tatiana Rodionova conduct a highly intriguing study. They contend that family block ownership will have a greater detrimental influence on the environmental, social, and governance performance of companies than closely held equity in general. Families with big and long-term ownership shares in the company will be particularly hostile to excessive ESG investments because they may not provide personal benefits. First, this is compatible with the agency theory, which suggests that large, powerful owners direct the firm's actions to their own advantage. Jo and Harjoto (2011, 2012) examined the connection between corporate governance and corporate social responsibility and discovered support for the stakeholder interpretation of governance. Their justification was that engaging in corporate social responsibility creates positive ties between the corporation and its stakeholders and helps to prevent costly conflicts. When a firm has significant blockholdings, these owners are prone to oppose excessive ESG, considering it as an expensive investment with uncertain company benefits. Now just explore whether family businesses outperform nonfamily businesses regarding Corporate Social Responsibility (CSR) performance. For better understand this concept, we focus our attention on a study conducted by Yazici O., Mcwilliams D. and Ercan S. (2018). Comparing the CSR performance of 64 top family businesses to the CSR performance of 64 top nonfamily firms reveals that nonfamily businesses do better on CSR. Four out of five categories of CSR performance analysis favored nonfamily businesses, while one category

revealed no statistically significant difference. Consequently, the findings indicate that family firms are resistant to corporate social responsibility issues. This study's findings may show that family businesses are motivated by self-interest, although other research may suggest otherwise. Strong agency issues and the presence of family influence in the structure of the top management team could be identified as the primary causes of this phenomena. Also, data indicate that increased family member presence in the top management of family firms has a beneficial effect on CSR performance. Examining the distinction between family and nonfamily businesses is the central theme of family business literature. In this study, it was demonstrated that family firms differ greatly from nonfamily enterprises in numerous elements of corporate social responsibility. TMT (Top Management Team) characteristics of family business studies are among the rarest types in family business literature. This rare literature was missing an analysis of CSR performance in connection to the TMT makeup of family firms. This study gives insights into the relationship between the TMT makeup of family firms and their CSR performance. First, hypothesize that the CSR performance of non-family enterprises is superior to that of family businesses. The results indicate that nonfamily enterprises do better in terms of overall, community, employee, and environmental CSR ratings. Governance scores do not distinguish family firms from nonfamily businesses. However, they presume that family businesses may not be superior than nonfamily businesses. These findings corroborate the agency's contention that familiarity with the expectations of other stakeholders may have limitations. Therefore, the fact that community ratings decline by 3.13 points, employee ratings decrease by 11.59 points, and environment ratings decrease by 6.20 points in the presence of family firms is evidence that family businesses may have weaknesses in regards to nonfamily stakeholders. Even after controlling for company size and age, the results are not much altered, and non-family enterprises continue to do better than family businesses in terms of CSR. Then, we analyzed how the presence of a family CEO lowers the CSR performance of family firms in all categories, and the results corroborate the claim that the presence of a family CEO diminishes the CSR performance of family businesses. Family firms with a family member as CEO have lower CSR scores than all other enterprises. When just family firms are considered, the CSR performance of family businesses with a family CEO remains inferior than that of family businesses with a nonfamily CEO. Results support the literature's contention that family control may impact the objective decisions of the family CEO,

resulting in actions favorable to the controlling family's noneconomic interests. This could result in excluding non-family stakeholders such as the environment and employees from the decision-making process. When the family chairman is in charge, as opposed to the family CEO, all categories of CSR performance are badly affected. When this study is conducted by kind of controlling firm, a family chairman continues to result in bad community and governance scores. Therefore, the literature suggests that the family chairman is the knight of the family in order to ensure that the firm is managed according to the rules and desires of the family and not for the profit of all stakeholders. We also explored the impacts of the family size in TMTs. Results indicate that increased family presence negatively impacts overall, governance, and employee ratings. Studies on the effects of top management diversity on TMT performance have identified a number of advantages and disadvantages. Due to the link between performance and CSR, these studies implicitly make reference to CSR performance.

Based on the above, we now go on to analyze how Italian family firms have changed their board compensation policies and how their performance has evolved over the years in relation to ESG decisions. To do the analysis, we rely on a database representing listed Italian family firms, for a time frame from 2010 to 2020. The study found that about 30.58% (63 out of 206) of the surveyed companies regularly publish the ESG report, of which 92.06% prepare them regularly throughout the years analyzed. The reason why companies decide not to publish the ESG report can be led by company size. In fact, the average market capitalization of reporting companies is enormously higher for reporting firms that nonreporting firms. This aspect suggests that large companies are more likely to publish the report because of their high relevance in the target market and also because, depending on the sector, they have a more significant impact with the environment, while small companies are less involved. Now let's take a look at how board remuneration has performed over an 8-year time span between companies that report and those that do not report or about which we have no information. We can assume that nonreporting companies had greater volatility than reporting companies, increasing more in good years but decreasing more in bad years. The two samples show a correlation of 58.97%. In particular, we can see that in 2015 both samples had the most negative trend of the entire period studied, disadvantaging the nonreporting companies the most. Specifically, compensation performance for reporting companies has been negative since 2015, falling by an average of -9.23% per year, compared

with an average of -7.52% for nonreporting companies. We can conclude that companies that are more attentive to sustainability policies are also more reluctant to change the compensation of their board of directors, despite the fact that it is decreasing year by year. Conversely, we have noticed how companies that do not have a focus to sustainability actions are more likely to change their compensation policies, precisely because they have fewer constraints in place. We would have expected more the reverse situation, i.e., as the literature argues, managers of reporting companies are compensated more by achieving sustainability goals. But since changes in remuneration are "flatter" than companies that do not follow sustainability policies, this thesis is discarded. As argued by Brown-Liburd and Zamora, managerial compensation is explicitly related to sustainability information. Let us check whether their hypothesis is also reflected in the data collected in our database. My study demonstrates, as initially inferred by Brown-Liburd and Zamore, that companies that pay attention to sustainability policies change their CEOs' compensation more markedly, precisely because it is influenced by the achievement of particular sustainability goals that most influence compensation. This finding confirms what is supported in the literature, specifically the average annual variation was 0.19% for ESG reporting firms versus 0.01% for nonreporting firms. When analyzing the last two years, as mentioned earlier, the correlation between the two figures reverses. This is likely due to the spread of the COVID-19 epidemic, which has shown the most dramatic change in ESG nonreporting companies. Analyzing year-over-year sales growth reveals a very significant element. As depicted in my study, the number of companies that publish ESG report has maintained a steady increase. Except for 2013, revenues have always increased year on year at an average of 6.31%. We can see that non-reporting companies had slower average yearly growth (4,52%). This average is supported by the exceptional gains in 2011 and 2012 but returns from 2013 through 2020 are even slightly negative (-0,51%). Regarding debt, we can assume that family firms that compile the ESG report, have experienced more substantial increases in debt than firms that do not compile the report. This is undoubtedly due to higher costs from preparing the report and implementing sustainability policies. On average, debt increased by 18,3% for companies publishing the report, while for all others debt even dropped by 5,19%. This confirms the fact that following sustainability guides increases costs. Concerning EBITDA, we can see that for companies in the first group (reporting), the data is essentially positive, that is, with steady growth year after year (excluding 2011), at an average of 9.34%

annually. This shows how companies that have followed sustainability actions have always gone on to improve their operating income, particularly peaking in 2013, when the average growth was 31.50%. As for nonreporting companies, however, the situation is slightly different. We can see that EBITDA trends are more volatile, alternating between positive and negative periods. In particular, it is evident that in 2020, the year of the outbreak of the pandemic, nonreporting companies recorded an average change of -40.39%, compared to +9.4% for reporting companies. Let us now analyze more specifically two companies in the eyewear industry. In the study, I wanted to include one ESG reporting company (Luxottica) and one ESG nonreporting company (Safilo Group). Luxottica and Safilo Group are two similar companies in terms of business model and also in size. However, we can see how board remuneration has behaved over the years. As for Luxottica, for a time frame from 2012 to 2018 (the year of the EssilorLuxotica merger), we can see how the average remuneration was €6,767,479 per year, while as for Safilo Group the average was only 3,569,137€, almost half. My analysis show that both companies moved their remuneration fairly simultaneously during the years, so we can conclude that even if Luxottica prepare the ESG report, it did not behave differently from its competitor Safilo Group, which does not prepare it. Let us now look at the performance of the CEO compensation of the two companies. One element to take into account is definitely the CEO turnover of the two companies. In fact, in 9 years analyzed, both companies have changed their CEOs as many as 3 times, changing their remuneration policies accordingly. In fact, we can see how in 2015 Luxottica increased by as much as 135.91% the remuneration to CEO Massimo Vian, who saw his salary, including bonus, go from €1,068,602 to €2,520,980. Similar discussion can be made for Safilo Group, which in 2016 decided to reward its CEO Luisa Deplazes by increasing her salary, again including bonus, from €1,135,289 to €2,622,294, an increase of 130.98%. Increase that was then confirmed in 2018 when Luisa Deplazes left the helm to Angelo Trocchia, who was given a salary 113.39% higher than the last salary received by his predecessor. All in all, it can be seen that the two companies behaved quite similarly in terms of their compensation policies, except for the year 2018, as we said before, Safilo decided to reward the new incoming CEO while Luxottica decided not to change the compensation policies adopted the previous year.

In conclusion, the international debate on future economic progress, the concept of sustainable development has become a central element. Our lifestyles and ways of doing

business have changed rapidly. In these developments, and in the definition of new development models, the environmental component has become increasingly important. In this study, we have seen how over the past few years many companies have intervened in board compensation policies, especially in the compensation of their CEO. Steps forward, on the other hand, have been made in the area of sustainability. Here, too, companies have had to adapt to the changes taking place, tweaking their internal policies several times, in terms of remuneration