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# DO INSTITUTIONAL INVESTORS PROMOTE SUSTAINABILITY IN FAMILY BUSINESS? EVIDENCE FROM ITALIAN LISTED FIRMS

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## Abstract

The aim of this study is to investigate the role of institutional investors in promoting sustainability in family firms, measured in terms of corporate sustainability performance (CSP) and sustainability disclosure. Due to societal pressure, firms have started to engage more in pursuing sustainable practices and embracing sustainability tenets, and from a governance perspective, they have begun to make changes and adapt their governance structures. The demand for sustainable corporate governance and CSR-oriented initiatives is particularly relevant for family firms, considered to be more long-term oriented. This study contributes to the ongoing debate about the antecedents of corporate sustainability outcomes, shedding some light on the role of institutional investors' ownership by analyzing as a sample all the Italian non-financial family firms listed on the Italian Milan Stock Exchange between 2011 and 2021. Understanding how the presence of institutional investors contributes to fostering sustainability in family businesses can be beneficial to both the firms and the society.

## 1. INTRODUCTION

Over the last years, increasing attention has been paid to the sustainability theme, especially by policy-makers, investors and firms. Regulations and guidelines have been issued in many countries in order to stimulate sustainability awareness, and investors have started to look at firms' sustainable practices and performance, therefore encouraging them to engage more in sustainability-oriented efforts.

In particular, in Europe the European Union (EU) has commenced a great change to foster sustainability in listed and non-listed firms, by issuing the Non-Financial Reporting Directive (Directive 2014/95/EU) and the recent Corporate Sustainability Reporting Directive (Directive 2022/2464/EU), according to which firms are required to disclose information about their actions towards sustainability, in order to increase transparency and help investors and stakeholders evaluate the sustainability performance of firms.

From a corporate standpoint, although good financial performance is required to grow, prior research has demonstrated that corporate social responsibility (CSR) is potentially profitable for businesses, in particular in the long run.

As a consequence, firms are nowadays expected, beyond effectively responding to the extant business complexity, to progressively address the environmental, social and governance (ESG) issues, by making sustainability-oriented decisions and actions. Evidence indicates indeed that a growing number of firms have been reacting to the demand for sustainability: they seem to be more engaged in the adoption of value-enhancing ESG initiatives, as the increasing number of firms' sustainable disclosure confirms. In fact, over time firms have increasingly included ESG information in their annual reports, in the light of sustainable reporting.

From a corporate governance perspective, firms have started to make changes and adapt their governance structures, for instance by appointing directors to the board with ESG skills and introducing CSR committees dealing with sustainability matters (Ricart et al., 2005).

The demand for sustainable corporate governance and CSR-oriented initiatives is particularly relevant in the family firm context. Family firms represent the predominant organizational form around the world (La Porta et al., 1999), whose main feature is the overlap between family, ownership and management (Tagiuri & Davis, 1996).

Family firms are considered to be more long-term oriented (Le Breton-Miller & Miller, 2006), and by the socioemotional wealth (SEW) perspective (Gómez-Mejía et al., 2007), to be more interested in non-financial or affective objectives rather than purely financial ones (Berrone et al., 2012), compared to non-family firms.

Prior research presents conflicting viewpoints regarding family firms' sustainable attitude. If on the one hand, some scholars claim that

family firms are more inclined to satisfy external stakeholders' expectations so as to preserve the family reputation and therefore they show greater sustainable performance (Berrone et al., 2010), on the other hand, according to other scholars, family firms tend to be less socially responsible due to the prioritized family interests (Kellermanns et al., 2012), hence they might be less prone to make changes to their corporate governance system in a sustainable fashion in order to avoid to lose their influence over the business.

As reported by previous studies, firms' shareholders can positively influence firms' orientation towards sustainability, by encouraging proactive behavior in relation to good ESG practices (Alda, 2019), which can result in attracting more socially conscious investors.

In recent years, investors indeed have shown greater attention with reference to the firms' sustainable attitude and performance. In particular, in a rising quest for sustainable investment initiatives, the investment decisions of institutional investors have been increasingly based on the sustainable development of their investee firms (Dimson et al., 2015).

The aim of this research is, therefore, to investigate the influence of institutional investors on family firms' sustainability, in particular by analyzing whether institutional investors' ownership promotes corporate sustainability performance (CSP) and sustainability disclosure in the family firm context.

## 2. RESEARCH METHODOLOGY

In order to conduct the analysis, the sample employed consists of all the Italian non-financial family firms listed on the Italian Milan Stock Exchange between 2011 and 2021. Italy represents a suitable country setting since it is characterized by a wide diffusion of non-financial listed firms controlled by a family or by a coalition of families.

Data are drawn together from different sources. Firm-level data (e.g., financial and non-financial performance) are collected from the Refinitiv Thomson Reuters database. Board-level data are gathered from the corporate governance reports issued yearly by the Italian listed firms and available on the Italian Stock Exchange website. Finally, ownership data are hand-collected using the information available at the Consob website (i.e., the Italian Stock Exchange Regulatory Authority).

Regarding the variables included in the study, hypotheses are tested using two dependent variables, namely the CSP, and the dummy variable sustainability reporting. As explanatory variables, two variables are considered: a dummy variable accounting for the presence of institutional investors in family firms, and the institutional investors' ownership, measured as the percentage of corporate shares held by the institutional investors. Finally, consistent with prior studies, we

include a set of control variables both at the firm level (i.e., firm age, firm size, profitability, leverage ratio) and at the board level (i.e., board size, board independence, CSR committee, presence of family members in the board). We also control for family ownership.

To perform our analysis, a quantitative research method and a longitudinal research design are adopted, including industry year dummy variables.

### 3. CONCLUSION

This study calls attention to the role of institutional investors in promoting sustainability in family firms. In particular, it seeks to broaden the theoretical understanding of the relationship between institutional investors' ownership and firms' sustainability outcomes, in the context of family businesses.

The results of the research aim at providing significant contributions to both theory and practice, by suggesting relevant managerial implications and insightful recommendations to policy-makers.

In particular, we contribute knowledge to the extant corporate governance and family business literature, investigating whether institutional investors' ownership pushes family firms to focus on prioritizing long-term performance over their short-term financial interests. Institutional investors' ownership may potentially play an important role in fostering sustainability-driven decisions, also in the light of the recent increasing quest by investors for firms' commitment to sustainability, therefore influencing corporate social performance and sustainability disclosure.

Furthermore, this study has also the potential to provide significant practical implications, as it may offer suggestions related to ESG initiatives and sustainability-related practices to implement in family firms.

Finally, the findings of the research may help address policy issues related to the reduction of short-termism. In particular, policy-makers may better understand how to design their policies in order to favor the integration of sustainability tenets into firms' decisions, by gaining evidence regarding the sustainability outcomes in the presence of institutional investors in family firms' capital.

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