

ESG Score and Market Value: The Role of the Family Firm Evidence from the Italian Listed Market

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Abstract

In recent years, environmental, social, and governance (ESG) practices and disclosure has become a critical component of corporate finance and accounting. Indeed, increasingly, companies seek to demonstrate their accountability to the environment and society in order to meet the expectations of different stakeholders interested in ESG performance (Garcia-Sanchez & Garcia-Sanchez, 2020). Customers, regulators, employees, suppliers, social and activist groups, media and lenders are all potential stakeholders in sustainability accountability (Arif et al., 2021; Camilleri, 2015; Sajjad et al., 2020). Nevertheless, the shareholders, institutional investors and individuals, looking to invest their money in firms with sustainable finance goals and high levels of ESG performance (Lourenço et al., 2014). Companies are supposed to make and disclose sustainable initiatives in organizational decisions (Garcia-Sanchez et al., 2014) and managers convey the focus of their efforts towards a more sustainable environment and society paying much attention to ESG indicators (Broadstock et al., 2019).

This paper investigates the value of ESG score for family firms (FF) and non-family firms (NFF). Stemming from previous studies (Martínez-Ferrero & Frías-Aceituno, 2015), ESG performance in family business context is still unexplored. Indeed, most of the scholars have focused their effort on exploring the adoption of FF's non-financial disclosure while, to the best of our knowledge, no one has investigated the effect of the type of firm (family or non-family) in the relationship between non-financial performance (ESG) and financial performance.

The results of the analyzes demonstrate that there is no significant relationship between non-financial performance (ESG performance) and the value of companies. Indeed, for both the hypotheses there is just a positive but non-significant correlation. This evidence was verified for both FF and NFF panel.

Keywords: family firm, ESG score, Italian listed company, Socioemotional Wealth (SEW)

1. Introduction

Corporate Social Responsibility (CSR) has played a crucial role in business and Corporate Governance (CG) international doctrine (Johnson & Greening, 1999). The CSR reporting and compliance together with already existing best practices of corporate governance (ESG—Environmental, Social and Governance) have received much attention from managers to convey the focus of their efforts towards a more sustainable environment and society. According to Broadstock et al. (2019), managers may frequently establish ESG activities to enhance their reputation and self-interest, underlining the agency problem linked to ESG disclosures.

In recent years, there has been an inversion of priorities in society: the well-being of companies or the well-being of the world (Al-Hiyari et al., 2022). Nowadays there is a very strong perception that what is good for the world is also good for companies. In this new setting, companies are expected to play a different role and to broaden their sights. To direct their activity beyond the interest of its shareholders, to those of the group of stakeholders with whom they interact: shareholders, consumers, customers and society in general (Arvidsson & Dumay, 2022).

In the field of ESG, several scholars (Dyer et al., 2020; El Ghouli et al., 2016) have focused their attention on how this topic is tackled by family businesses and with what results on the latter.

In particular, many studies (Abeysekera & Fernando, 2020) have shown that family businesses are more likely to achieve better non-financial performance than non-family businesses.

Anyway, studies on family businesses and sustainability, so far, have concerned ESG disclosure and the effects of financial performance, without, however, investigating how non-financial performance can change the value of family businesses themselves. Indeed, Martínez-Ferrero et al. (2017) investigated the relationship between family ownership and ESG disclosure while Gavana et al. (2017) studied the influence of equity and bond issues in family businesses in consideration of sustainability disclosure.

Regard this, according to Adomako et al. (2019) the “question relating to whether family businesses are more sustainably oriented than non-family businesses remains largely unanswered.”

In the present study we try to answer to the following question: are ESG performance and financial performance more correlated in FF than in NFF?

To perform our investigation, we built a panel data set which comprises all the listed companies in FTSE MIB, covering the period 2017–2021. Firms’ data come from (i) Thomson Reuters platform (a database containing financial and ESG data of all Italian listed companies and considered the largest ESG rating in the world (Dorfleitner et al., 2020)) and (ii) Aida (a database containing governance data of all Italian companies). Italy, for several reasons, is the ideal setting to test our hypotheses.

First, with the Decree 254/2016, in 2016 Italy implemented the European Directive 95/2014 that mentioned environmental, social and governance disclosures alongside financial reporting obligations of big companies, and so EU law requires large companies (more than 500 employees) to disclose non-financial information on their social and environmental impact. Moreover, family businesses represent 64% of the Italian stock market (CONSOB, 2020).

The present research aims to contribute to the academic debate in a twofold way. First of all, our study investigates a topic that has not yet been analyzed in the literature and is certainly of interest, especially in the Italian context characterized by a preponderance of family businesses. Due to its unique economic, natural, and human resources, it is especially relevant to examine how investors of FF and NFF value corporate ESG performance. The result of the analysis may allow family businesses to change their approach to non-financial performance if this is closely correlated (positively or negatively) to stock market capitalization (expressed by the shareholders’ economic interest in the company).

Furthermore, the results of the analysis could provide useful information that will effectively participate in the reduction of agency costs in family businesses.

2. Literature Review and Hypothesis Development

2.1 ESG Performance and the Company’s Stock Price

Investors widely use ESG scores as a major index to understand a firm’s overall corporate social performance (CSP) and in the last two decades, some scholars investigated the correlation between CSP and corporate financial performance (CFP). In particular, it is possible identify 3 different streams: positive correlation, no-correlation and negative correlation.

Some authors find a positive correlation between the CSP and CFP, considering this last as a proxy of firm value (in terms of stock returns, ROE and share price). Yoon et al. (2018) found a positive correlation between CSR performance (measured using ESG score) and firm valuation. And, as showed by Osarto et al. (2015) that there are several reasons that could suggest firms to invest and to be part of a CSI index and those are: to raise funds, to search for competitive advantages and to increase its reputation.

As said before, other scholars sustain that there is not a relationship between CSP and CFP. Margolis et al. (2007), after they analyzed 85 published in international studies covering 190 experiments across 40 years (1972–2012), sustain that there is no significant relation between CSP, in terms of socially responsible investments (SRI) and financial performance. Also, other scholars (Santis, Albuquerque, & Lizarelli, 2016) found no evidence of correlation between CSP and CFP analyzing Brazilian listed companies included and not in the CSI Index. Other studies (Sahut & Pasquini-Descomps, 2015) demonstrated that there is not a clear correlation between CSP and CFP, supporting the theory that shareholders do not recognize the effect of a high ESG rating.

At least, in contrast to the stakeholders’ theory (Friedman, 1970), which sustain that the primary purpose of a firm is to increase the stakeholder’s wealth, several authors put the accent on how shareholders could disagree with this policy. In fact, investing in ESG, the firm redistributes its capital and for some categories of

shareholders this should be done in other ways (i.e., charity) (MacCkey et al., 2005). According to this interpretation, some scholars (Graff Zivin & Small, 2005) sustain that for the shareholders the first purpose of a firm is to maximize its wealth not necessarily adopting ESG investments. Other scholars (Demers et al., 2021) suggest that shareholders could not positively accept the investment in ESG considering it just a tool used by manager in order to increase the company's ESG scores just to improve their personal reputation. This aspect led to conclude that, in some circumstances, ESG performance is not positively correlated to share price just because investors could think that their money is used to finance managers investments (ESG activities) destroying the firm value. According to this view, Lys et al. (2015) show that ESG expenditures could be just a marketing channel used to communicate the non-financial initiatives sustained by firms. In fact, authors show that ESG investments don't provide a sufficient CFP, reducing the shareholder value.

Starting by the aforementioned literature review, there is no unanimous consensus regarding the nature of the relationship between CSP and CFP, but according to the majority of the studies reported before, we address the following hypotheses:

HP1. The level of ESG performance is positively associated with the company's stock price.

2.2 ESG Performance and the Company's Stock Price of Family Firm

Family businesses are characterized by various particularities that profoundly differentiate them from non-family businesses. Among the most striking connotations, Chrisman et al. (2012) have identified: transgenerational intention, family identity and social and human capital. In consideration of these characteristics, it is necessary to re-evaluate and analyze again all the relationships between the company and ESG performance, given that in a familiar context, non-financial performance can assume different connotations and can give rise, above all, to non-obvious effects.

Chua et al. (1999) state that there is a positive relationship between FF and corporate social performance (CSP). This relationship, according to the authors, would be due to the importance of non-financial objectives in corporate strategies. The reason why family businesses should be interested in improving their non-financial performance lies in the main framework of reference: Socioemotional Wealth (SEW). According to Gomez-Mejia et al. (2007), in family businesses, managers and owners are more oriented toward making decisions that are not necessarily influenced by profit maximization dynamics. Family firms unlike non-family firms, which reason exclusively in consideration of the greater profit to be obtained, are driven to make strategic investment decisions which maximize the utility of the family rather than the economic value of the firm (Berrone et al., 2012; Rahman & Zheng, 2022). The reason is twofold. The first lies in the family's desire to leave an intangible legacy to future generations. The second reason, in support of SEW, lies in the refusal of family businesses to engage in activities that, although highly profitable, could damage the image of the family (Smajić et al., 2022). Both aspects, according to Zellweger et al. (2012) would be even more marked when the company name is the same of (or directly refers to) the family (Gomez-Mejia et al., 2014). Precisely in view of the SEW, family businesses are more inclined to achieve more sustainable performance (Berrone et al., 2010).

At the same time, however, some scholars argue that the family component tends to reduce sustainable performance. This happens, according to Rudyanto (2023), especially in times of crisis, in which family businesses with slack resources tend to preserve their existence by investing less in sustainable activities.

While SEW supports the hypothesis of ongoing interest and commitment to sustainable performance, some theories argue the opposite. In fact, in line with the agency theory (Fama & Jensen, 1983), Bachiller et al. (2015) argues that the search for non-financial performance could generate agency costs (type II) attributable to the conflict between the interests of the owner's family and the shareholders. In this case, there could be a divergence of views on the profuse commitment to socially useful activities which could generate agency costs within family businesses.

About the FF field, Le Breton-Miller and Miller (2006) argue that there are specific governance conditions which, in FF, determine long-term investments and produce competitive asymmetries, which create sustainable capabilities. This is motivated, in particular, by the desire to hand down the company to future generations (James, 1999). In addition, according to Demsetz and Lehn (1985), FF have a greater incentive to reduce agency conflicts since this would lead to a better alignment of interests between shareholders and managers and, therefore, to better performance (Anderson & Reeb, 2003). In conclusion, according to Anderson et al. (2003), the lower agency costs, the lower debt and the greater aversion to risk of family businesses, would determine their better appreciation on the capital market.

As highlighted by numerous previous studies (Tenuta et al., 2022), the attention of the management literature has

been mainly focused on the non-financial communication of family businesses and, to date, there are few contributions investigating the effect of sustainable performance (ESG performance) on the value of family businesses.

Exactly in consideration of the little attention paid to the relationship between ESG performance and the value of non-family companies, some scholars including Martínez-Ferrero and Frías-Aceituno (2015), argue that this issue should be investigated further as it represents a decisive aspect in understanding phenomena that distinguish family businesses.

Starting by the aforementioned literature review, there is no defined consensus regarding the nature of the relationship between CSP and CFP in the family firm context, but according to the SEW, we address the following hypotheses:

HP2. The level of ESG performance is positively associated with the company's stock price of Family Firm.

3. Research Method

3.1 Empirical Setting

The ideal setting to test our hypotheses would allow us to observe how company's value (in terms of share price) is affected by firm's ESG score, and if there are moderating effects of specific variables on that correlation. While finding a perfect setting might be difficult, numerous circumstances make the Italian context suitable for our work.

The analysis was carried out on a sample of listed Italian companies and refers to the period 2017–2021. The decision to analyze the companies starting from 2017 is in line with the implementation in Italy of the European Directive 95/2014, concerning the non-financial disclosure. This directive was implemented in Italy with Legislative Decree 254/2016 and, therefore, its effects are only visible starting from 2017.

Italy represents an excellent scenario on which to develop our analysis as it presents companies with very concentrated ownership and a stock market made up of a large number of family businesses. These determinants give Italy significant relevance.

3.2 Data and Sample

To perform our investigation, we built a panel data set with all the listed companies in FTSE MIB, covering the period 2017–2021. The final sample is composed by 387 companies.

For our empirical analysis, we used two types of data at company level. The first is related to financial information, while the second to firm's ESG data. According to prior studies related to firm's market value, we used financial information as book value per share and share price (Barth & Clinch, 2009; Lee et al., 2014; Ohlson, 1995). Moreover, we considered other data like total assets, return on equity (ROE), earnings before interest and taxes (EBIT), earnings per share (EPS), and market index price.

Firms' data come from Thomson Reuters platform, a database containing financial and ESG data of all Italian listed companies.

Descriptive statistics for the variables are following reported.

Table 1. Descriptive statistics

Variables	Observations	Average	Standard Deviation	Min	Max
PriceToSales	1,531	8.445841	73.0622	.0002488	2130.905
ESG Score	434	57.79163	18.44167	4.534282	93.05452
ROE	863	.0958974	.1700247	-1.806	.55
EPS	898	.8623432	9.775808	-76.30231	207.9474
Total Asset (ln)	1,609	19.15385	2.67069	10.99089	27.83355
Book Value per Share	1,611	11.3056	133.1188	-146.9234	4800.526
EBIT	1,622	2.36	1.27	-4.31	1.64

Using Aida, we identified family-controlled firms as those firms in which (i) the same family own at least 30% of the shares (Minichilli et al., 2010) and (ii) one or more members of the family had to be involved in the top management team (Cirillo et al., 2017). This definition is in line with the Italian context, in fact, according to Corbetta (1995), family businesses are defined as companies in such as one or more families linked by ties of kinship, close affinities or solid alliances hold sufficiently large share of capital to enable them to make decisions

in the field of strategic management.

Descriptive statistics of FF panel for the variables are following reported.

Table 2. Descriptive statistics of FF

Variables	Observations	Average	Standard Deviation	Min	Max
PriceToSales	351	2.102602	3.534326	.0725403	45.18446
ESG Score	116	53.97302	15.60171	7.655257	84.89047
ROE	220	.1205158	.1260249	-.4626667	.55
EPS	239	.6372231	.9636861	-3.71224	6.166225
Total Asset (ln)	373	19.14937	2.149259	11.77446	23.67452
Book Value per Share	376	4.3054	6.149259	-9.071738	39.37608
EBIT	373	5.24	9.78	-3.08	5.51

3.3 Analytical Method

The aim of the paper is to explain how ESG Score impacts company's share price, and if in the family firm contest there is a different relationship between ESG Score and share price than non-family ones. To inspect the effect of ESG Score on company share price we implemented a modified Ohlson model (1995), since it provides a theoretical and empirical framework for examining the impact of ESG elements on company share price. With his work Ohlson (1995) suggested to implement a model for the valuation of publicly traded companies in which the company market value is determined considering both company financial and non-financial information. The original purpose of the model is to capture any changes in share prices due not only to economic contingencies, but also to phenomena relating to the area of non-financial performance. The Ohlson model, therefore, tries to understand the influence of financial and sustainable variables on the share price Miralles-Quirós et al. (2018). Since Ohlson did not provide details regarding the non-financial information to be considered in his model, scholars have begun to use the model including information on ESG factors (De Klerk et al., 2015). The Ohlson model reveals a long-term relationship between company share price and the fundamental company value and has a good aptitude to forecast future share price for several time horizons (Lee, Chen, & Tsa, 2014). We considered the following regression:

$$P_{it+1} = \alpha_0 + \alpha_1 ESG_t + \alpha_2 X_{it} + \varepsilon_{it} \quad (1)$$

Where P_{it+1} is our dependent variable, the share price at the end of year $t+1$. ESG is the ESG Score variable of each company (i.e., a value close to 100 if the ESG score is high and close to 0 otherwise), in year t . X_{it} is the vector of control variables, which includes total assets (in natural logarithm), Book Value per Share, EBIT, ROE, EPS and ε_{it} is the error term. The coefficient of interest is β , which measures the effect of the ESG Score on company's share price.

In order to show under what conditions this hypothesized relationship is stronger or weaker, we identify another mechanism – the existence of a FF – that could influence this relationship. To study the effect of ESG Score considering jointly the FF existence on company's share price, we estimate the following model:

$$P_{it+1} = \alpha_0 + \theta_1 * ESG_t * FF + \alpha_2 X_{it} + \varepsilon_{it} \quad (2)$$

where FF is a dummy variable equal to 1 if the firm i is a FF, and 0 otherwise. The coefficient of interest is θ , which measures the combined effect of the ESG and of FF existence on company's share price.

We use a panel data methodology that consists of the combination of time series and cross-sectional data in a joint test. This allows us to control the individual unobservable heterogeneity (company effect) as well as the endogenous nature of the explanatory variables (Baltagi & Baltagi, 2008).

Since implementing ordinary least squares to estimate panel data can generate biased estimations because of undetected heterogeneity, we executed a Hausman (1978) specification test of the null hypotheses of a random-effects model in comparison to the other hypothesis of a fixed-effects model to define the recommended model for the study. The resultant chi-square value is significant, implying that the fixed-effects model effectively explains the relations of the hypotheses. To assess the relations, we used the STATA function "xtreg", which can estimate cross-sectional time-series regression models and, with "fe r" option, estimates random-effects model with a generalized least squares estimator that generates a matrix-weighted average of the between and within effects (Afuah, 2002).

The effects technique analyzes the relationship between predictor and outcome variables within an entity

(company, country, person, etc.). Fixed effects are applied when we want to analyze the impact of independent variables, which vary across an entity (i.e. country or continent), on the dependent variable, which in turn changes over time.

After all, to avoid multicollinearity problems, especially between the independent variable and the control variables, we calculated the VIFs of the regressions. The analysis showed that there are no VIFs higher than 5. This result, according to the reference literature (Hair et al., 1995), indicates that there is no multicollinearity among the variables used in the analysis.

4. Results

4.1 Regression Analysis

The following table reports the results for hypothesis 1.

Table 3. Hypothesis 1

	(1) PriceToSalesPerShareDaily
ESGScore	0.130 (1.12)
ReturnOnEquityMean	-2.358 (-0.92)
EarningsPerShareMean	-0.0131 (-0.18)
TotalAssetsln	6.169 (0.84)
BookValueperShare	-0.000403 (-0.35)
EBIT	-9.45e-11 (-0.68)
_cons	-139.6 (-0.82)
<i>N</i>	405

The following table reports the results for hypothesis 2.

Table 4. Hypothesis 2

	(1) PriceToSalesPerShareDaily
ESGScore	0.0166 (0.81)
ReturnOnEquityMean	-1.122 (-0.96)
EarningsPerShareMean	-0.168 (-1.16)
TotalAssetsln	-0.177 (-0.33)
BookValueperShare	-0.165* (-2.03)
EBIT	2.11e-09 (1.51)
_cons	6.716 (0.62)
<i>N</i>	104

In both regressions, it can be seen that the relationship between ESG performance and company value is positive but not significant.

To corroborate our findings, we performed some robustness checks. The additional checks provide evidence that our findings are robust to different specifications.

As a first robustness check, we restricted the sample considering a 5% percentage of censoring.

As a second robustness check, we excluded, one at a time, each control variables.

Therefore, we perform the analysis considering the robustness check.

The following tables show the estimated effect of ESG Score on company share price (also contemplating the existence of the FF) considering a change in the sample size due to a censoring of 5% and considering the sensitivity to the exclusion of the control variables.

Contemplating the different specifications, the effect with different size of censoring and exclusion of the control variables remains the same of the baseline hypotheses.

Hypotesis 1

Censoring 5%

	(1) PriceToSalesPerShareDaily
ESGScore	0.00503 (0.67)
ReturnOnEquityMean	-2.468 (-1.94)
EarningsPerShareMean	0.0238 (1.47)
TotalAssetsln	-0.452 (-1.15)
BookValueperShare	0.000255 (1.18)
EBIT	2.48e-11 (1.55)
_cons	12.13 (1.42)
<i>N</i>	381

Note. *t* statistics in parentheses; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

Exclusion of control variables

	(1) PriceToSalesPerShareDaily
ESGScore	0.0199 (0.20)
EarningsPerShareMean	-0.0651 (-0.13)
TotalAssetsln	0.230 (0.19)
BookValueperShare	-0.00125 (-0.14)
EBIT	-2.35e-10 (-0.32)
_cons	-0.920 (-0.04)
<i>N</i>	417

Note. *t* statistics in parentheses; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

	(1)
	PriceToSalesPerShareDaily
ESGScore	0.0195 (0.20)
ReturnOnEquityMean	-4.141 (-0.54)
TotalAssetsln	0.223 (0.18)
BookValueperShare	-0.000416 (-0.12)
EBIT	-2.26e-10 (-0.31)
_cons	-0.414 (-0.02)
<i>N</i>	407

Note. *t* statistics in parentheses; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

	(1)
	PriceToSalesPerShareDaily
ESGScore	0.0284 (0.32)
ReturnOnEquityMean	-4.253 (-0.54)
EarningsPerShareMean	0.00847 (0.02)
BookValueperShare	-0.000256 (-0.03)
EBIT	-1.90e-10 (-0.27)
_cons	3.915 (0.72)
<i>N</i>	405

Note. *t* statistics in parentheses; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

	(1)
	PriceToSalesPerShareDaily
ESGScore	0.0187 (0.19)
ReturnOnEquityMean	-4.216 (-0.54)
EarningsPerShareMean	0.0223 (0.11)
TotalAssetsln	0.220 (0.17)
EBIT	-2.21e-10 (-0.30)
_cons	-0.328 (-0.01)
<i>N</i>	405

Note. *t* statistics in parentheses; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

	(1)
	PriceToSalesPerShareDaily
ESGScore	0.0178 (0.18)
ReturnOnEquityMean	-4.251 (-0.54)
EarningsPerShareMean	0.0211 (0.04)
TotalAssetsln	0.115 (0.09)
BookValueperShare	0.00000716 (0.00)
_cons	1.859 (0.08)
<i>N</i>	405

Note. *t* statistics in parentheses; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

Hypotesis 2

Censoring 5%

	(1)
	PriceToSalesPerShareDaily
ESGScore	0.0101 (0.43)
ReturnOnEquityMean	-0.199 (-0.25)
EarningsPerShareMean	-0.147 (-1.87)
TotalAssetsln	0.0138 (0.01)
BookValueperShare	-0.0743 (-0.91)
EBIT	2.08e-09 (1.73)
_cons	1.391 (0.08)
<i>N</i>	85

Note. *t* statistics in parentheses; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

Exclusion of control variables

	(1)
	PriceToSalesPerShareDaily
ESGScore	0.0221 (1.10)
EarningsPerShareMean	-0.232 (-1.52)
TotalAssetsln	-0.489 (-1.11)
BookValueperShare	-0.141 (-1.50)
EBIT	1.81e-09 (1.27)
_cons	12.85 (1.46)
<i>N</i>	110

Note. *t* statistics in parentheses; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

	(1) PriceToSalesPerShareDaily
ESGScore	0.0212 (1.14)
ReturnOnEquityMean	-1.599 (-1.37)
TotalAssetsln	-0.176 (-0.34)
BookValueperShare	-0.200 (-1.91)
EBIT	2.02e-09 (1.50)
_cons	6.648 (0.65)
<i>N</i>	102

Note. *t* statistics in parentheses; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

	(1) PriceToSalesPerShareDaily
ESGScore	0.0155 (0.77)
ReturnOnEquityMean	-0.932 (-0.77)
EarningsPerShareMean	-0.189 (-1.28)
BookValueperShare	-0.166* (-2.20)
EBIT	2.04e-09 (1.48)
_cons	3.050** (2.92)
<i>N</i>	102

Note. *t* statistics in parentheses; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

	(1) PriceToSalesPerShareDaily
ESGScore	0.0101 (0.56)
ReturnOnEquityMean	-1.105 (-0.89)
EarningsPerShareMean	-0.293 (-1.41)
TotalAssetsln	-0.542 (-1.29)
EBIT	1.86e-09 (1.40)
_cons	13.64 (1.59)
<i>N</i>	102

Note. *t* statistics in parentheses; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

	(1)
	PriceToSalesPerShareDaily
ESGScore	0.0149 (0.75)
ReturnOnEquityMean	-0.250 (-0.30)
EarningsPerShareMean	-0.181 (-1.14)
TotalAssetsln	-0.171 (-0.33)
BookValueperShare	-0.117 (-1.40)
_cons	6.496 (0.62)
<i>N</i>	102

Note. *t* statistics in parentheses; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

5. Limitations and Future Implication

Our study presents some limitations. First of all, the study is conducted exclusively in Italy and considered only companies listed in the FTSE MIB stock market. In this case, the sample size is limited, and the specific characteristics of the investigated area can influence and generalize the results of the analysis. Future studies, therefore, could investigate the same hypotheses but in different contexts (Europe, USA and China) in which different regulations also apply concerning ESG disclosure and the composition of boards of directors.

Furthermore, our study does not consider any governance variable which could influence the analysis.

These further components of the research could outline a more exhaustive analysis capable of investigating our hypotheses differently.

In the end, our contribution, having Italy as its object, enriches the studies on the relevance of non-financial performance in European countries and has some interesting implications also for policy-makers. Indeed, the results of our study show the inability of current regulations to increase non-financial disclosure with the same consequences, in a transverse manner, also on non-financial performance.

6. Conclusion

The results of the analyzes demonstrate that there is no significant relationship between non-financial performance (ESG performance) and the value of companies. Indeed, for both the hypotheses there is just a positive but non-significant correlation. This evidence was verified for both FF and NFF panel.

In our view, this evidence is driven by the low number of companies for which non-financial performance information is available. In fact, for NFF data are available for about 20% of the sample while for FF data are available only for 22% of the sample. The lack of data regarding the main independent variable does not allow the model used to be able to verify whether the changes in the share price (and, therefore, in the value of the companies) can be explained by the different non-financial performance of the Italian listed companies.

This data highlights how non-financial disclosure is not a priority for Italian companies and this phenomenon does not surprise us.

In theory, the effects of European Directive 95/2014 should have been an increase in the non-financial information shared by the companies and, consequently, a better non-financial performance of the same. Companies, once obliged to provide information on their non-financial performance, should have dedicated more time and more resources (including economic ones) in order to show their constant and growing commitment to sustainable issues.

This information, provided in compliance with the Decree, should have allowed over time to be able to compare the sustainable performance of the same companies respect to themselves and, above all, respect to their competitors.

The main reason for the limited effects of the Decree lies in the fact that it requires companies to have a minimum number of information to disclose and this does not improve, from a qualitative point of view, non-financial disclosure with the same effects on performance.

Legislative Decree 254/2016 did not oblige companies to adopt specific principles of non-financial disclosure

and, therefore, many companies have not changed their practice, on the contrary, some scholars (Cordazzo et al., 2020) have noted that companies that already shared non-financial information before the Decree 254/2016, have reduced non-financial disclosure limited to what is required by the new legislation.

The effects of the European Directive 95/2014 in Italy were almost nil. In fact, Cordazzo et al. (2020) demonstrated how after the introduction of Decree 254/2016, Italian listed companies have not increased their non-financial disclosure from a qualitative point of view, limiting themselves to providing only minimal information in compliance with the new law. In particular, scholars have ascertained the total absence of relationship between the non-financial disclosure and the value of the shares of Italian listed companies both before and after the introduction of Decree 254/2016. This aspect, according to the authors, highlights the scarce relevance of the value of the non-financial, environmental and social information shared by the post-Decree listed companies.

On this point, it is particularly interesting to note the new regulatory provisions, according to which directive 95/2014 will give way, starting from 2024, to the Corporate Sustainability Reporting Directive (CSRD).

In particular, the CSRD introduces new and more detailed communication obligations (among other things, towards a larger number of companies) and – above all – presents particularly relevant profiles of diversity and innovation with respect to Directive no. 94/2014.

For indicative purposes only, therefore, it is possible to highlight at least three elements of particular interest and novelty of the CSRD: (a) the disappearance of the expression “non-financial information” and the introduction of the term “sustainability reporting” which replaces the previous reference to “non-financial reporting”; (b) the provision of the obligation to apply reporting standards issued by the European Union on ESG issues; (c) the provision of the so-called “limited assurance” for all sustainability reports, with a view to achieving “reasonable assurance” (i.e. that typical of the economic-financial report) in a limited time frame.

In this context, therefore, the issues of non-financial reporting, sustainability and value creation are gaining more and more importance, requiring companies to change the systems and logics for measuring and reporting company results.

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