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Faculteit Bedrijfseconomische Wetenschappen

master handelsingenieur

Masterthesis

The impact of family firm characteristics on corporate social responsibility performance and the moderating role of the external auditor

Alessia Urbini

Scriptie ingediend tot het behalen van de graad van master handelsingenieur, afstudeerrichting accountancy en financiering

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Abstract

This study examines the impact of family firm characteristics on corporate social responsibility (CSR) performance and the moderating role of the external auditor. This is done by using a sample of 935 audited family firms located in the United States, collected by NRG metrics. To measure the family firm's CSR performance, the Tomson Reuters ESG score (TRESGS) was used. Family ownership, the fraction of independent directors present in the board and the descent of the CEO were used as family firm characteristics whereas the type of audit firm (big 4 vs non big 4) was used to examine the moderating effect. The effects were analyzed through an OLS regression model which showed a negative relationship between family ownership and CSR performance. The relationship between the fraction of independent directors present on the board and CSR performance was found to be positive. The analysis of the descent of the CEO showed a positive relationship with CSR performance when the CEO is a founder. Regarding the moderating effect of the external auditor, the results remained insignificant. Nevertheless, this study contributes to the literature by examining family firm characteristics on CSR performance, in this way accounting for the heterogeneity of family firms instead of only comparing them to non-family firms.

Key words: corporate social responsibility, CSR reporting, family firms, family ownership, CEO, independent directors, external audit, big 4

Introduction

For many years, maximizing shareholder's value has been the primary duty of most corporations. Shareholders and potential investors used to solely rely on financial statements as they were one of the most important sources of information disclosed to external parties. However, the goal of corporations as well as their view on reporting has changed (Palepu, Healy & Peek, 2022). What used to be a report mentioning mainly financial information now consists of environmental (E), social (S) and governance (G) aspects as well. One of the reasons is investor's changing profile, being more drawn to sustainable investments as they have been proven to be more profitable in the long term (Cho et al., 2019). Corporate social responsibility (CSR) reporting is therefore a concept that has gained a lot of attention over the past few years. Even governments developed their own definitions and legislation with the goals of improving transparency towards all stakeholders rather than shareholders only (European commission, 2022).

Therefore, it is important to identify the drivers of CSR reporting. Previous research showed several firm-specific drivers such as firm size and ownership structure in relation to CSR performance (Christensen et al. 2021; Dienes, Sassen & Fischer, 2016). However, research concerning family firms has received relatively limited attention. It is crucial to recognize the importance of studying family firms since they exhibit significant variations. While they are often perceived as a homogeneous group, this perception does not accurately reflect the reality. Family firms are, in fact, a heterogeneous group, with varying levels of family involvement that result in distinct perspectives and approaches toward CSR reporting (Lamb & Butler, 2018).

Therefore, this study will examine family-specific drivers and their impact on CSR performance. First, the influence of family ownership is discussed. According to the socioemotional wealth (SEW) theory, family members have an incentive to prioritize non-financial values. As a consequence, there is a positive relationship between family ownership and CSR performance (Parra-dominguéz et al., 2021). Second, the discussion of the fraction of independent directors present on the board leads to a positive association with CSR reporting. Due to family members being rather internally focused and less familiar with CSR metrics, external board members are likely to have more expertise on this matter since they are often also part of other companies and boards (Gonzalez-Bustos et al., 2017). Third, the descent of the CEO is expected to have a positive influence on CSR performance when a family CEO is selected. Since family CEOs are more likely to have a long-term view, they will invest in CSR to preserve the reputation of the firm (Lamb & Butler, 2018). Lastly, the moderating effect of the external auditor was discussed. Due to external auditor's changing role from a controller to a supportive coach, it is expected to have a strengthening effect on all previous relationships(Jaya et al., 2017).

Based on a sample of 935 US family firms, our results show a negative relationship between family ownership and CSR performance. This indicates that stronger family power negatively affects family firm's commitment to CSR, which contrasts our expectations. In line with our expectations, a positive relationship is found between the fraction of independent directors and CSR performance, confirming the positive effects of knowledge heterogeneity in a family firm's board. The third family driver, descent of the CEO, was not found to have a significant effect. Finally, the moderating effect of the external auditor was not found to be significant either.

This paper contributes to the existing literature on CSR performance of family firms by providing additional research concerning the relationship between family firm characteristics and CSR performance and thus by also considering their heterogeneity. Further, it addresses family firms in the context of both voluntary and mandatory CSR engagement and considers the relationship with external auditors who may also play a crucial role in enhancing the compliance and credibility of CSR reports.

The remainder of this paper is organized as follows. First, the theoretical and conceptual model will be explained through a literature study building upon family firm characteristics and their link with CSR to develop the hypotheses. Then, the data and statistical models will be explained. In the results section, the descriptives, the correlations, the results of the main analyses as well as the additional analyses will be presented. Finally, the last section discusses the results, describes the study's limitations, and outlines its possibilities for future research.

Literature study and hypothesis formation

The concept of corporate social responsibility

Corporate social responsibility (CSR) has been defined in many ways across the academic literature. According to Christensen et al. (2021), CSR is a broad range of corporate activities and policies aimed at assessing, managing, and governing a firm's responsibilities and impacts on society and the environment. Another perspective characterizes CSR as instances where a company goes beyond mere compliance and undertakes actions that contribute to social welfare, surpassing its own interests and legal obligations (Al-Shammari et al., 2021). CSR is also defined as "the gateway for corporations to combine business with ethics and is needed to expand the focus of a corporation beyond merely its own profit line" (Sharma, 2019, p. 712). Even the European Union (EU) developed its own definition, defining CSR as "a concept whereby companies integrate social and environmental concerns in their firm operations and in their interaction with their stakeholders on a voluntary basis" (Marqués, Presas & Simon, 2014, p. 207). Although they all offer their own definitions of CSR, they generally revolve around the idea that companies adopt internal policies and activities reflecting their intrinsic motivation to conscientiously consider their positive impact on the world (Tocchini & Cafagna, 2022).

Apart from their intrinsic motivation, companies can also be extrinsically motivated to engage in CSR activities. This due to both shareholder's and stakeholder's growing interest in sustainable business models. From a shareholder perspective, research has shown a positive relationship between CSR and financial performance (Cho et al., 2019). As investors increasingly prioritize sustainable investments, they seek to capitalize on financial opportunities related to environmental and social matters (Chatzitheodorou et al., 2019). Consequently, companies that engage in environmental (E), social (S), and governance (G) practices acquire a competitive advantage, leading to higher returns for investors (Rjiiba et al., 2020). On the other hand, Christensen et al. (2021) argue that shareholders could have non-monetary preferences as well, hence, care about a company's (negative) impact on the environment or society even when this impact does not have (immediate) financial consequences. Therefore, companies can be externally driven by shareholders in both monetary and non-monetary terms. From a stakeholder perspective, evidence shows that stakeholders prefer to associate with firms that are committed to socially responsible behaviors because they see firms that actively support CSR as more reliable. As a result, they have higher expectations regarding the quality of their products (Voinea et al., 2019).

Since external parties do not have direct access to internal activities, companies can share their CSR engagement through CSR reporting. This involves the measurement, disclosure, and communication of information about CSR and sustainability topics, including a firm's CSR activities, risks and policies (Christensen et al., 2021). Alternatively, CSR reporting can be viewed as a means of communication and may be used to portray the corporation as "committed". From this standpoint, CSR reporting offers firms a way to influence external perceptions, enhance their legitimacy, or safeguard their public image by masking certain corporate activities (Michelon, Pilonato & Ricceri, 2015).

While the previous paragraphs indicate the voluntary nature of CSR (reporting), it is crucial to recognize that its growing importance has prompted not only companies but also governments to act. Consequently, CSR cannot be viewed as a merely voluntary engagement anymore. In the United States, the US securities and exchange (SEC) maintains a comply-or-explain regime with some mandatory features regarding sustainability reporting. Listed companies must, for example, disclose how a company's board considers diversity in identifying director nominees (SEC, 2021). Even the New York Stock Exchange (NYSE) developed rules which require US listed companies to publish codes of corporate behavior and ethics. However, as of June 2021, the House of Representatives passed landmark legislation titled "the ESG Disclosure Simplification Act". This Act mandates disclosure of standardized ESG metrics among American public companies (Wang, Hu & Zhong, 2023). In the European context, sustainability practices are being imposed through the Non-Financial Reporting Directive (NFRD). Here, large (public interest) companies with more than 500 employees must publish information related to, for example, their non-financial key performance indicators (KPI's) relevant for specific business activities (European commission, 2021). However, as of November 2022, the EU approved the corporate sustainability reporting directive (CSRD) which aims to facilitate the transformation of the EU into a more carbon-neutral and equitable society by requiring firms to report on their environmental (E), social (S) and governance (G) practices (European council, 2022). This guideline applies to all listed companies which already have to comply with the NFRD, as well as those that meet at least two of the following three criteria: a balance sheet total of €20 million, net sales of €40 million, or at least 250 employees (BECI, 2023). Thus, following the CSRD and ESG Disclosure Simplification Act, the obligation to report on company's ESG topics will expand both in terms of the number of companies affected and the factors to be addressed.

Thus, due to increased government CSR initiatives and legislation, and due to the attention of stakeholders for sustainability that only continues to increase, many companies will face more pressure to disclose their environmental, societal, and governance (ESG) aspects and pursue sustainable economic activities, compelling them to shift their focus towards sustainable economic activities (Kamp-Roelands, Looijenga, & Orij, 2021). To achieve maximal effectiveness on ESG reporting, it is important to learn from companies who are already engaging in ESG reporting. After all, by mapping the drivers of (good) ESG reporting, we can identify which types of companies are generally more ready for sustainability reporting. Further, best practices can be collected, and supporting measures can be taken for (types of) companies for which ESG reporting is difficult.

Drivers of corporate social responsibility reporting

Besides companies' motivation for engaging in CSR reporting, it is also important to identify the specific elements that act as drivers for CSR reporting. This can be viewed from both a stakeholder and shareholder perspective. When taking on the shareholder perspective, firm-specific elements such as firm size and ownership structure play a role. Multiple researchers have shown that there is a positive association between firm size and CSR reporting. Because larger firms are faced with greater public scrutiny, they are exposed to greater pressure to publish CSR information and meet shareholders' informational needs (Dienes, Sassen & Fischer, 2016). In addition, their prominent public profile makes it more likely for governments to detect any inaccurate or misleading CSR reports, potentially resulting in sanctions (Donelson, McInnis, Mergenthaler, & Yu, 2012; Rogers, Van Buskirk, & Zechman, 2011). Further, a firm's ownership structure is found to impact CSR reporting as well. Here, research makes a distinction between dispersed (large set of shareholders) and concentrated (smaller set of shareholders) ownership. This latter has been found to be associated with less environmental disclosure which means that when information asymmetry is high or when firms must communicate with a larger set of shareholders, CSR seems to be more prevalent (Christensen et al. 2021).

From a stakeholder perspective, CSR reporting incentives can be driven by employee, customer, or supplier expectations. From an employee perspective, firm's need to attract and retain talent, as well as ensure fair treatment, can serve as a driver for CSR reporting. This is because a company's CSR performance has a significant impact on how potential and current employees perceive and evaluate the firm. According to Zientara (2015), companies who pay less attention to their employees, risk seeing some of their employees leave or engage insufficiently in their work. As a consequence, it is likely to see its competitiveness decrease due to a negative reputation or decreased performance. Further, it is argued that customer's increasing demand of green products, processes and services incentivizes more companies to engage in environmental practices (Yadav et al., 2018). Similarly, from a suppliers' perspective, their attention to green supply chains has increased as well. On the one hand, this led to improved social or environmental performance and motivation towards sustainable practices. On the other hand, companies may find themselves indirectly obligated to align with their suppliers' sustainability vision (Yadav et al., 2018). Consequently, CSR must become an integral part of companies' strategies, wherein they set targets not only for their internal stakeholders but also for the people they work with and sell to (Zientara, 2015).

Besides, effective CSR practices can be seen as a driver for CSR reporting as well. This can be discussed from both the signaling and stakeholder theory. According to the signaling theory, companies with stronger CSR performance are economically motivated to disclose more information, allowing stakeholders to distinguish their performance from that of their competitors. Previous studies further assert that firms excelling in CSR tend to disclose more CSR information as a means to enhance their reputation and market value. In contrast, poor CSR performers lack access to the same level of information or may find it too costly to imitate, leading them to provide limited or no voluntary disclosure of CSR information beyond what is required by governmental regulations. Moreover, the stakeholder theory suggests that companies should consider the interests of all stakeholders, including employees, customers, communities, and the environment. Consequently, firms with better CSR performance may disclose more CSR information not only to enhance their reputation and market value but also to demonstrate their commitment to meeting stakeholder expectations. In turn, their firm value is enhanced (Koh, Li & H. Tong, 2022; Wang, Hu & Zhong, 2023). In this context, effective CSR practices contribute to both ethical considerations and financial outcomes, aligning the interests of stakeholders and shareholders. By integrating CSR practices and reporting them, companies can enhance their positive impact on society and promote long-term sustainable development while transparently communicating their progress and performance to stakeholders.

Family related drivers of corporate social responsibility

While prior literature already identified several drivers of CSR reporting, they have mostly been researched in a general context whereas research findings concerning drivers among family firms are still scarce. It is therefore crucial to pay more attention to the specific family firm characteristics which influence the motivation towards CSR practices. More specifically, when looking at family firms, there is a notable difference in their approach to CSR compared to non-family firms. This is primarily due to the critical role that family members play in the business processes at many levels (Howorth et al., 2010). One significant difference already lies in the ownership structure. Non-family firms generally have a strong separation between management and ownership. According to the agency theory, this may lead to conflicts of interests between owners (principals) and managers (agents). Managers may prioritize their own interests, potentially diverging from the objectives of the owner. Therefore, reporting is required for owners to assess the behavior of managers, and for managers to signal good behavior to the owners. However, due to the importance of reporting to reduce agency conflicts, there also arises a risk of misreporting, both within the financial statements (e.g., earnings management), as well as for CSR-reporting (e.g., greenwashing) (Parra-dominguéz et al., 2021).

In contrast, family firms operate differently as they typically do not have a clear separation between ownership and management (Marqués et al., 2014). Therefore, the agency theory will be less applicable. Instead, family firms tend to behave more according to the socioemotional wealth (SEW) theory, which states that owners base their decisions on non-financial aspects of the firm that meet the family's affective needs, such as identity, the ability to exercise family influence and the perpetuity of the family dynasty (Parra-dominguéz et al., 2021). Family owners prioritize these SEW considerations, sometimes even at the expense of the firm's financial performance. Consequently, family firms often face a tradeoff between sacrificing short-term performance to fulfill their family-related objectives and values (Craig & Newbert, 2020).

The prevalence of SEW dimensions in the decision-making process is also reflected in the decoupling of CSR. Decoupling refers to the gap between social responsibility performance (internal) and disclosure (external). Family firms present a less wide gap between performance and disclosure since they care more about other aspects than financial ones to perpetuate the dynasty and the family's influence within their company. Decisions are made with an eye on protecting their SEW, finding in CSR a sustainable growth strategy that favors the image and reputation of the company and the family. Because of the more accurate disclosures of family firms, it can help reduce the information gap between what companies talk and make in terms of CSR (Parra-dominguéz et al., 2021).

When we look at the empirical literature, the study of Campopiano and De Massis (2015) finds that, when talking about legitimacy and long-term sustainability goals, family firms perform better in terms of CSR performance than non-family firms. On the other hand, non-family firms actually outperform family firms on this matter when talking about compliance with CSR norms. Therefore, prior research has primarily focused on comparing family firms to non-family firms, rather than treating family firms as a diverse group. However, family firms cannot be considered as a homogeneous group. The differences among family firms might be at least as large as the differences between family and non-family firms (Lamb & Butler, 2018). It is, therefore, important to account for family firm heterogeneity when examining the drivers of CSR performance. This is especially the case since heterogeneity in terms of family involvement is already found to influence the family firms' competitive strategies (Lamb & Butler, 2018), including their perspectives on CSR (Marqués et al., 2014). However, research on the family related drivers of CSR performance remains very limited in the academic literature. In this study, we will fill this gap by further examining the role of family ownership, the composition of the board, and the type of CEO (family or non-family) as drivers of CSR performance.

Family ownership

Family businesses are characterized by the ownership held by family members within the company. The greater the family ownership share, the more pronounced the influence of family values on business operations, primarily due to the overlap between ownership and management roles within these firms. Among the key family values, long-term reputation holds significant importance, and CSR reporting plays a vital role in enhancing it. Consequently, companies with a substantial family ownership stake are considered to prioritize CSR as a core element of their business strategy, fostering a stronger commitment to CSR among managers (Laguir & Elbaz, 2014). A study by Marqués et al. (2014) supports this by revealing that family firms with higher levels of family ownership tend to engage in more CSR activities. This can be attributed to the emotional attachment family members have towards the firm, leading them to exhibit greater social concern. When family ownership is high, decision-making processes align with the family logic, making CSR actions more effective for these family firms (Marqués et al., 2014).

Relatedly, family firm owners and managers are considered to be stewards of the firm. According to the stewardship theory, predominantly family-owned firms are more likely to behave as stewards of the firm and pursue long-term goals (Lamb & Butler, 2018). Family owners are generally considered to have a long-term perspective and to be particularly concerned about the relationships with stakeholders to ensure firm survival and wellbeing (Rees & Rodionova, 2015). Therefore, they engage in CSR with an eye on the transfer of the firm to future generations and the reinforcement of the success and image of the company. As stated before, they find in CSR the sustainable growth strategy that favors the image and reputation of the company and the family (Parra-Dominguéz et al., 2021). This reduces the risk of greenwashing or other untrustworthy activities because it may harm their reputation (Parra-Dominguéz et al., 2021).

On the other hand, however, the socioemotional selectivity theory also states that family firms are more selective about how to spend time and with whom to maintain relationships such that the preference becomes maximizing the opportunities for positive interactions with familiar people. This can be interpreted in two ways. On the one hand, Madden et al. (2020) argues that, while long-term reputation remains important to them, maintaining a strong reputation within a trusted network becomes even more crucial. Consequently, family firms with a high family ownership stake are considered to be more selective in choosing the individuals and firms they engage with. Therefore, such firms may also reduce their CSR investment (especially regarding CSR reporting) when they do not need this to maintain their relationships, leading to a decline in (perceived) CSR performance. On the other hand, given the growing importance concerning CSR investments from an employee, customer or supplier point of view, CSR investments may even strengthen their relationship with stakeholders. As a result, they may be drawn to invest more in CSR (Madden et al., 2020; Zientara, 2015; Yadav et al., 2018).

As CSR investments are generally considered to play a significant role in strengthening a firm's relationships with stakeholders, we believe the argument indicating a negative impact of family ownership on CSR performance will not outweigh the other arguments mentioned, and therefore we hypothesize family ownership to have a positive impact on CSR performance. This leads to the following hypothesis:

> *Hypothesis 1: Family ownership has a positive influence on the CSR performance of family firms.*

Independent directors

The composition of the board of directors in family-owned businesses is influenced by the unique family cultures and aspirations related to power and control (Luan et al., 2017). Living by the preservation of their SEW, family firms may choose a family member when appointing a new director since the appointment of an outsider may lead to SEW losses. More specifically, hiring an external member who is an expert in specialized knowledge areas beyond the comprehension of family owners may dilute family power and influence in the firm (Firfiray et al., 2018). Even in cases where an external director is chosen, it is likely that personal friendships or family ties influenced the selection process. In other words, even independent directors often have close connections to family members. These close relationships may compromise the independence of these external directors, potentially resulting in a tendency to support decisions made by family members rather than exercising impartial judgment (Cuadrado-Ballesteros et al., 2015).

On the other hand, however, independent directors can also serve as a safeguard for the interests of non-family shareholders (Srivastava & Bahria, 2020). Their presence on the board can mitigate conflicts of interest and reduce agency costs associated with family altruism (Gonzalez-Bustos et al., 2017). More specifically, due to the high levels of altruism between parent, child and other family members, family members are likely to prioritize loyalty to one another. Consequently, it can incentivize family members to take actions that can threaten the welfare of non-family shareholders and even the business. By having independent directors, the divergence of interests can be better managed, ensuring a more balanced decision-making process and protecting the interests of all stakeholders (Schulze et al., 2003).

While hiring independent directors is thus not always a straightforward decision for family members, it might be easier when accounting for their expected impact on CSR performance. More specifically, if the family firm considers CSR important or as a strategic opportunity (Ahlberg, 2021), appointing an external director who has a broad knowledge about social and environmental issues can be very helpful (Fernandez-Gago et al., 2018). The heterogeneity of backgrounds and experiences brought by external members can foster knowledge exchange within the board, consequently enhancing the company's capacity for innovation (Gonzalez-Bustos et al., 2017). Such directors can also provide valuable insights by leveraging their involvement in multiple directorships, which grants them access to information about environmental initiatives pursued by other firms (Beji et al., 2020).

Thus, we can state that bringing independent directors into the board of family firms can positively influence the CSR performance of the firm due to more heterogeneity in the decision-making process. This leads to the following hypothesis:

> *Hypothesis 2: The fraction of independent directors in the board of directors has a positive impact on the CSR performance of family firms.*

(Non-)Family CEO

When looking for a suitable CEO for a family firm, the board of directors can choose between a family member and an external hire. Generally, this choice is influenced by both the family needs and the business requirements. The reasons for an insider succession decision include an increase in employee loyalty and the board of directors' acquaintance with the candidates. However, family CEOs are generally selected from a limited pool of talent. Therefore, they may not always have the needed capabilities to lead the firm (Daspit et al., 2016). On the other hand, the decision for an external hire may also be driven by the intention to introduce a new leadership style within the company (Luan et al., 2017).

The CEO-decision is also likely to influence family firms' CSR performance. When the CEO is a descendant of the family, he or she may be more inclined to exercise influence towards investing in CSR activities (Lamb & Butler, 2018). This behavior relates to their role as a steward of the firm, where they place a strong emphasis on the socioemotional wealth (SEW) that is derived from CSR initiatives. In their pursuit of protecting the family's interests, family CEOs may seek to mitigate potential threats and minimize CSR concerns (Lamb & Butler, 2018). This demonstrates their moral and emotional responsibility towards other family members, fostering a sense of protection for future generations (Meier & Schier, 2020). Hence, prioritizing CSR will strengthen the family's relationship with society and further enhance their SEW.

When the CEO is a hire, the stewardship theory states that CEOs (stewards) who have similar values to those of their firms are more likely to be more involved and to behave more responsibly in a family firm. This is a result of identification, where managers define themselves in terms of their membership inside the organization by accepting the organization's mission and vision. From a SEW point of view, it is the sense of belonging, the personal attribution of the firm's success, and the pride of participating in the firm (Marqués et al., 2014). Given that family firms are generally more drawn to engage in CSR practices as part of preserving their SEW, having an external CEO whose values align with those of the family firm will only be beneficial to their CSR performance. However, the external CEO's values do not always align with those of the family firm. According to the agency theory, external CEOs are less likely to be concerned with CSR activities for the sake of improving shareholder returns, given that most agents are more concerned with their own personal financial gains (Lamb & Butler, 2018). Besides, the objective of maintaining the family SEW can be considered as a contingent loss because of its ambiguous impact on short-term financial performance (Meier & Schier, 2020).

In summary, the CEO's familial ties and their commitment to preserving the family's interests are likely to play a crucial role in shaping the CSR focus and behavior of family firms. Their dedication to CSR can enhance the family's relationship with society and generate socioemotional wealth. This leads to the following hypothesis:

> *Hypothesis 3: Having a family CEO has a positive impact on the CSR performance of family firms.*

The moderating role of the external auditor

An external auditor may have a moderating role on the aforementioned relationships. An external auditor verifies the financial statements of a company and provides an opinion about their reliability (Krishnan & Peytcheva, 2019), in this way providing an important signal to the firm's investors. The external auditor is, therefore, not directly related to the CSR reports of companies. Jaya et al. (2017) argue that, due to their role being limited to mandatory disclosures, external auditors even do not influence the disclosure of the company's voluntary information at all. Since the reporting of most ESG information is still voluntary, this would imply that auditors are not able to support businesses who are intrinsically motivated to share a broader set of their CSR practices (Jaya et al., 2017).

However, while the role of the external auditor is mainly related to the financial statements, they may also be involved in the CSR reporting process, especially since the auditor can also provide advisory services next to their audit services (Krishnan & Peytcheva, 2019). In addition, nonfinancial measures bring value to both the firm that is disclosing them and the stakeholders that are using them to better understand the firm. Reports that contain nonfinancial information could be further clarified by auditors to show the degree of completeness and objectivity since research argues that firms can use CSR reporting as a legitimacy tool to influence stakeholders' perceptions (Murphy & Hogan, 2016; Michelon et al., 2015). If we apply the logic of the socioemotional selectivity theory (Madden et al. 2020) to this additional role of the external auditor as a coach rather than as a controller, family firms may ask for support regarding their CSR reports. The auditors may give them advice that aligns with their culture, values, and profession (Dzankovic & Celami, 2022). Thus, in addition to its signaling role, an external auditor can also serve as a supportive partner. This influences a firm's CSR performance in a positive way since it brings more knowledge to the family firm.

Whether external auditors will support and strengthen the family firm's intention towards CSR performance, may depend on the type of auditor the firm appointed. The literature generally distinguishes big 4 from non-big 4 firms, in which big 4 firms are generally considered to provide more advisory services. This may also extend towards CSR support, which is confirmed by Handayati et al. (2022), who found that big 4 audit firms commit to improving their client's CSR information to maintain their reputation. They tend to demand even further disclosure to avoid lawsuits that may tarnish their status. Additionally, big 4 auditors are more likely to provide quality and reliable information and assurance compared to non-big 4 auditors due to their ongoing investments in the development and provision of sustainability services (Dzankovic & Celami, 2022). In turn, this positively affects a company's CSR performance since the assurance by an independent auditor has the capability of improving the quality of the information in sustainability reports (Handayati et al., 2022; Dzankovic & Celami, 2022).

Therefore, we hypothesize that especially big 4 audit firms will strengthen the aforementioned relationships between the family related drivers of CSR and actual CSR performance.

This leads to the following hypotheses:

Hypothesis 4a: The appointment of a big 4 auditor strengthens the positive relationship between family ownership and the CSR performance of family firms.

Hypothesis 4b: The appointment of a big 4 auditor strengthens the positive relationship between the fraction of independent directors in the board and the CSR performance of family firms.

Hypothesis 4c: The appointment of a big 4 auditor strengthens the positive relationship between having a family CEO and the CSR performance of family firms.

Methodology

Data

In order to test the developed hypotheses, a dataset by NRG metrics of audited family firms listed in the United States was used. The dataset contains information about the family firm's board composition, family ownership, ESG scores, auditors as well as financial information. As not every variable is measured every year, only the variables measured in 2019 were included in the sample. The final sample consists of 935 family firms.

Variables

Dependent variable

The Thomson Reuters ESG score (*TRESGS*) is used as a measure for a company's CSR performance. This variable is an overall company score based on the self-reported information in the environmental (E), social (S) and corporate governance (G) pillars (Table 1). Each category consists of a different number of measures. The count of measures per category determines the weight of the respective category. These weights are then used to calculate the overall ESG score.

Table 1: ESG score pillars

Pillar	**Category**	**Indicators in rating**	**Weights**
Environmental	Resource use	20	11%
	Emissions	22	12%
	Innovation	19	11%
Social	Workforce	29	16%
	Human rights	8	4.50%
	Community	14	8%
Governance	Management	12	7%
	Shareholders	34	19%
	CSR strategy	8	4.50%
Total		**178**	**100%**

Independent variables

The independent variables will be the family firm characteristics that influence CSR performance. The first variable, *family ownership* contains information about the degree of family ownership within the family firm. It is a dummy variable which takes the value of one if the family is the largest shareholder and zero otherwise. The second variable, *independent directors*, measures the fraction of independent directors present in the board. This variable is computed by dividing the number of independent directors by the board size. The last variable, *family CEO*, contains information about the descent of the CEO and is also a dummy variable which takes the value of one if the CEO is a family member and zero if the CEO is an external hire.

Moderator variable

The dataset consists of audited family firms only. Here, a distinction is made between family firms audited by big 4 auditors and non-big 4 auditors. The variable *BIG 4* is a dummy variable which takes the value of one if the family firm is audited by a big 4 audit firm, zero otherwise.

Control variables

To control for other effects, several control variables were added in the OLS regression model. Firstly, research has shown that larger firms are more likely to engage in CSR practices because of the resources they have (Lamb & butler, 2018). Therefore, we control for firm size by the firm's total assets. To account for the skewed distribution, the natural logarithm (*LN_TotalAssets*) was taken (Lamb & butler, 2018). Another control variable for firm size is *revenue* as bigger firms usually generate more revenue and consequently have the means to invest more in CSR. Due to the positive relationship between financial performance and CSR, the financial performance control variable return on assets (*ROA*) was taken (Cho et al., 2019). Moreover, as firms age, their relationship with stakeholders changes as well as their view on CSR. Therefore, the company age (*firm age*) is included as a control variable (Madden et al., 2020). Other control variables that are found by prior studies to have an effect on CSR are the level of debt (*leverage*) calculated by dividing total assets by total debt and the liquidity level (*liquidity*) calculated by dividing current assets by current liabilities (Dienes, Sassen & Fischer, 2016). To account for the industry effect, the variable *industry* is included. This is a dummy variable that takes the value of one when the family firm's activity sector is sensitive to CSR (basic materials, industrial and energy) and zero otherwise (communication and information technology, consumer goods, health care and finance) (Laguir & Elbaz, 2014).

Analysis

To test the hypotheses, multiple OLS regressions will be run using the program SPSS. The hierarchical regression analysis methodology will be used. The first regression is to capture the general effect of the control variables on CSR. In the second phase, the different independent variables will be added one by one to test the first set of hypotheses. In the third phase, a regression will be run on the moderating models where the Wald test is used to determine whether the moderation is useful (Castaneda, 2022). Using this approach allows us to visualize the additional effect of every independent variable.

Results

Descriptive statistics and correlations

Table 2 and 3 show the descriptive statistics for the CSR scores and main variables used in this study. The means and medians show no remarkable differences which indicate a low likelihood of presence of outliers. Further, there were no absent values, and the sample consists of 935 companies. The dependent variable *TRESGS* ranges from 0 to 88 with a mean of 28.953. This indicates that the sample consists of firms with a large variety of CSR scores, making it possible to observe the effects of the independent variables across different levels of CSR performance. The averages of the control variables are 5.9311 for *LN_TotalAssets*, 3,802,446.02 for *revenue*, -0.156 for *ROA*, 4.502 for *leverage*, 3.996 for *liquidity* and 27.72 for *firm age*. When looking at the dummy control variable, 19.30% of the family firms are in a sector sensitive to CSR. Based on this information, the average firm in the dataset a large family firm in an industry that is less likely to be sensitive to CSR.

When looking at the independent variables, the variable *independent directors* has a mean of 0.735. The independent dummy variable *family ownership* shows that in 37.20% of the family firms contained in the dataset, the family is the largest shareholder. Further, in 71.60% of the family firms, the CEO is a family member. Lastly, 76.30% of the family firms were audited by a big 4 audit firm.

Table 2: descriptive statistics (numerical variables)

Variable	**Mean**	**Min.**	**Max.**	**Median**	**SD**
TRESGS	28.953	0.00	88.00	27.380	19.567
LN_TotalAssets	5.931	2.89	8.59	5.9311	0.871
Revenue	3802446.02	0.000	523964000	405177.000	23257120.0
ROA	-0.156	-5.240	0.819	0.002	0.486
Leverage	4.503	0.000	350.800000	2.012	13.877
Liquidity	3.966	0.000	132.761	1.911	8.047
Firm age	27.72	1	212	20.00	26.397
Independent directors	0.735	0.222	1.000	0.750	0.127

N = 935

Table 3: descriptive statistics (dummy variables)

Variable	**0**	**1**
Industry	80.70%	19.30%
Family ownership	62.80%	37.20%
Family CEO	27.20%	72.8%
Big 4	23.70%	76.30%

N = 935

Table 4 shows the Pearson correlations of the variables. The significant positive correlation ($p<0.01$) between the fraction of independent directors and CSR performance is in line with the second hypothesis which also states a positive relationship. While we also expect a positive relationship between both family ownership and family CEO and CSR performance, their correlations are not significant.

Moreover, the moderate correlation among the variables excludes the possibility of any multicollinearity problem in the data since none of the correlations exceed the absolute value of 0.8 (Sekaran & Bougie, 2016). Proceeding to alternative checks, the variance inflation factors (VIFs) were calculated for all models. Since all VIF values are below 2, the absence of multicollinearity is confirmed.

Table 4: Pearson correlations

Variable	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**
TRESGS											
Family ownership	-0.022										
Independent directors	-0.097**	-0.230**									
Family CEO	-0.043	-0.107**	-0.003								
Big 4	0.212**	-0.101**	0.059	-0.012							
LN_TotalAssets	0.588**	0.051	-0.054	-0.116**	0.318**						
Revenue	0.260**	0.069*	-0.004	-0.035	0.075*	0.324**					
ROA	0.288**	0.039	-0.042	-0.052	0.085**	0.554**	0.069*				
Leverage	-0.146**	-0.054	0.019	-0.003	-0.090**	-0.147**	-0.032	0.006			
Liquidity	-0.160**	-0.100**	0.045	0.068*	-0.017	-0.250**	-0.051	-0.081*	0.450**		
Firm age	0.336**	0.223**	-0.040	-0.092**	0.056	0.348**	0.103**	0.265*	-0.104**	-0.177**	
Industry	0.030	0.118**	-0.065*	0.075*	-0.062	0.110**	-0.015	0.175**	0.026	-0.093**	0.237**

** $p<0.01$, *$p<0.05$

Regression analysis

Tables 5 a and b analyze the influence of family ownership, the fraction of independent directors and the CEO being a hire on CSR performance as well as the moderating role of big 4 external auditors. As there are multiple independent variables that will be discussed, a hierarchical approach was used. The first step implements the OLS regression with control variables only (Model 0). Next, the independent variables to test the first three hypotheses are added one by one (Model 1, 2, 3). Model 4 shows them all together. In the third step, the moderating variable is added to the general model (Model 5) followed by the three moderating models to test hypotheses 4a, 4b and 4c (Model 6, 7 and 8). These models each contain all control variables, independent variables, moderating variable (Big 4), and corresponding interaction term (*BIG 4 * family ownership*, *BIG 4*independent directors* or *BIG4*CEO hire*). Further, to allow for interpretation, all models are statistically significant at the 1% level, with an F-test > 51.157 and p-value < 0.001.

Model 0 shows a positive and significant relationship between a firm's total assets, age and CSR performance ($p<0.001$). When looking at the standardized coefficients, *revenue* also has a positive and significant relationship with CSR performance ($p<0.001$). This indicates that larger and older firms have higher CSR scores. The leverage level and industry are both negatively associated with CSR performance ($p<0.05$). This means that more leverage relates to lower CSR performance and industries who are sensitive to CSR perform worse in terms of CSR than other industries.

Model 1 is related to hypothesis 1. The coefficient of family ownership indicates a negative relationship between family ownership and CSR performance ($p<0.001$) which contradicts the first hypothesis which expected a positive relationship between family ownership and CSR performance. This means that family firms where the family is the largest shareholder, perform worse in terms of CSR. This could be due to the argument that when the family is the largest shareholder, there are fewer external influences that incentivize CSR activities.

Model 2 indicates a strong positive relationship between the fraction of independent directors present in the board and CSR performance ($p<0.001$). This result provides strong support for hypothesis 2 and is also represented in models 4 and 5 ($p<0.001$) where the variable remains positive and significant when other independent variables are added. Independent directors are therefore found to have a positive impact on CSR performance.

Model 3 represents the testing of the third hypothesis. Here, no judgement can be made since the hypothesis cannot be rejected at a minimum significance level of 10%. Thus, no relationship is found between the CEO being a family member and CSR performance.

Models 6, 7 and 8 relate to hypotheses 4a, 4b and 4c respectively. Here, the p-value of the Wald test is significant at 1% significance level for all three models. This means that adding the moderator as well as the interaction term is meaningful. In other words, there is evidence of a significant overall effect of the moderator or interaction term on CSR performance. However, in all cases, neither the moderator nor the interaction term is significant which makes it impossible to interpret.

Table 5a: OLS-regression

Variables	**Model 0**	**Model 1**	**Model 2**	**Model 3**	**Model 4**
Constant	**-44.936*** **	**-43.125*** **	**-60.155*** **	**-45.577*** **	**-57.852*** **
	(4.766)	**(4.767)**	**(5.586)**	**(4.819)**	**(5.769)**
LN(Total Assets)	**11.945*** **	**11.800*** **	**12.050*** **	**12.000*** **	**11.984*** **
	(0.785)	**(0.781)**	**(0.775)**	**(0.787)**	**(0.777)**
Revenue	**6.090E-8*** **	**6.612E-8*** **	**5.987E-8*** **	**6.085E-8*** **	**6.353E-8*** **
	(0.000)	**(0.000)**	**(0.000)**	**(0.000)**	**(0.000)**
ROA	-1.613	-1.618	-1.566	-1.642	-1.599
	(1.279)	(1.271)	(1.262)	(1.279)	(1.260)
Leverage	**-0.081** **	**-0.83** **	**-0.081** **	**-0.080** **	**-0.082** **
	(0.041)	**(0.041)**	**(0.040)**	**(0.041)**	**(0.040)**
Liquidity	0.049	0.035	0.040	0.046	0.029
	(0.072)	(0.072)	(0.071)	(0.072)	(0.071)
Firm age	**0.120*** **	**0.134*** **	**0.121*** **	**0.121*** **	**0.131*** **
	(0.021)	**(0.021)**	**(0.021)**	**(0.021)**	**(0.021)**
Industry	**-2.704** **	**-2.383* **	**-2.314* **	**-2.645** **	-2.084
	(1.347)	**(1.342)**	**(1.331)**	**(1.348)**	(1.332)
Family ownership		**-3.687*** **			**-2.544** **
		(1.074)			**(1.096)**
Independent directors			**19.822*** **		**17.776*** **
			(3.925)		**(4.018)**
Family CEO				1.031	0.833
				(1.148)	(1.136)
Big 4					
Big 4 * family CEO					
Big 4 * Family ownership					
Big 4 * Independent directors					
R-squared	0.379	0.387	0.395	0.379	0.400
R2-adjusted	0.374	0.381	0.390	0.374	0.393
F-test	**80.756*** **	**72.955*** **	**75.717*** **	**70.747*** **	**61.487*** **
Wald test					

N = 935

Dependent variable: TRESGS

Unstandardized β coefficients; standard deviation in parenthesis

*** p<0.01, **p<0.05, *p<0.

Table 5b: OLS-regression

Variables	Model 5	Model 6	Model 7	Model 8
Constant	**-57.628*** **	**-57.872*** **	**-58.042*** **	**-61.648*** **
	(5.790)	**(5.832)**	**(5.948)**	**(7.903)**
LN(Total Assets)	**11.902*** **	**11.881*** **	**11.923*** **	**11.868*** **
	(0.822)	**(0.823)**	**(0.824)**	**(0.823)**
Revenue	**6.386E-8*** **	**6.390E-8*** **	**6.390E-8*** **	**6.434E-8*** **
	(0.000)	**(0.000)**	**(0.000)**	**(0.000)**
ROA	-1.558	-1.607	-1.547	-1.585
	(1.267)	(1.270)	(1.268)	(1.268)
Leverage	**-0.081** **	**-0.079** **	**-0.080** **	**-0.081** **
	(0.040)	**(0.040)**	**(0.040)**	**(0.040)**
Liquidity	0.027	0.026	0.027	0.028
	(0.072)	(0.072)	(0.072)	(0.072)
Firm age	**0.131*** **	**0.131*** **	**0.131*** **	**0.132*** **
	(0.021)	**(0.021)**	**(0.021)**	**(0.021)**
Industry	-2.059	-2.079	-2.041	-2.002
	(1.335)	(1.336)	(1.337)	(1.337)
Family ownership	**-2.515** **	**-2.477** **	-1.910	**-2.501** **
	(1.101)	**(1.103)**	(2.105)	**(1.102)**
Independent directors	**17.713*** **	**17.688*** **	**17.732*** **	**23.535*** **
	(4.025)	**(4.042)**	**(4.027)**	**(8.676)**
Family CEO	0.831	2.082	0.854	0.818
	(1.137)	(2.303)	(1.139)	(1.137)
Big 4	0.389	0.875	0.725	5.740
	(1.267)	(1.487)	(1.613)	(7.169)
Big 4 * family CEO		-1.653		
		(2.644)		
Big 4 * Family ownership			-0.812	
			(2.409)	
Big 4 * Independent directors				-7.347
				(9.687)
R-squared	0.400	0.400	0.399	0.400
R2-adjusted	0.392	0.392	0.392	0.392
F-test	**55.851*** **	**51.195*** **	**51.157*** **	**51.221*** **
Wald test		**0.400*** **	**0.400*** **	**0.400*** **

N = 935

Dependent variable: TRESGS

Unstandardized β coefficients; standard deviation in parenthesis

*** p<0.01, **p<0.05, *p<0.

Additional analysis

The content of the dataset allowed for additional analyses in the context of the three different independent variables. These tests are run in the same manner as the main regressions, using the same dependent and control variables.

Additional independent variables

As an alternative to test the first hypothesis, the variable family ownership was replaced by the variable family votes which is a dummy variable that takes the value of one when the family is the largest shareholder and contains more than 20% of the votes and zero otherwise. This variable is stricter than family ownership since it eliminates the family firms with major shareholding and less than 20% of the votes.

The second hypothesis can be tested by using the variable *board size* instead of the fraction of independent directors (independent directors). A larger board has more agency costs and as the board becomes larger, issues such as coordination and communication costs will increase thus influencing CSR performance (Cao, Yang & Liang, 2021). To account for a possible non-linear relationship between CSR and the fraction of independent directors, the quadratic term *independent directors*^{2} was added.

Finally, as an alternative to test the third hypothesis, the variable *family CEO* is replaced by the variable *CEO founder*. In contrast to *family CEO*, this variable does not contain family firms with founders as their CEO. Further, the variable *CEO tenure* was added together with the interaction term *CEO tenure*CEO founder* since the CEO's tenure often goes hand in hand with the descent of the CEO.

Additional regression analyses

Table 6 summarizes the results for the additional analyses to measure the impact of family firm characteristics on CSR performance. All models are statistically significant at the 1% level, with an F-test > 64.552 and p-value < 0.001 which allows for interpretation of the model.

Model 1 uses an alternative measure of *family ownership*, namely *family votes*. The results of the regression show a significant ($p<0.001$) and strong negative relationship between the variable *family votes* and CSR performance. The direction of the relationship is in line with the previous findings which reject the first hypothesis.

Model 2 relates to hypothesis 2. Here, the *board size* is used as an alternative for the fraction of independent directors in the firm. However, this variable is not significant and thus cannot be further interpreted. Model 3, however, shows an alternative view on the relationship between *independent*

Table 6: Additional OLS regression

Variables	**Model 1**	**Model 2**	**Model 3**	**Model 4**	**Model 5**	**Model 6**
Observations	935	935	935	935	935	935
Constant	**-26.757*** **	**-44.631*** **	**-82.631*** **	**-46.264*** **	**-45.385*** **	**-45.830*** **
	(4.832)	**(4.766)**	**(10.451)**	**(4.813)**	**(4.768)**	**(4.800)**
LN(Total Assets)	**9.446*** **	**12.406**	**12.164**	**12.046**	**11.866**	**11.989**
	(0.780)	**(0.839)*** **	**(0.774)*** **	**(0.785)*** **	**(0.785)*** **	**(0.783)*** **
Revenue	**7.872E-8*** **	**6.268E-8** **	**5.833E-8** **	**6.022E-8*** **	**6.289E-8*** **	**6.127E-8*** **
	(0.000)	**(0.000)**	**(0.000)**	**(0.000)**	**(0.000)**	**(0.000)**
ROA	**-2.995** **	-1.826	-1.524	-1.651	-1.799	-1.825
	(1.217)	(1.285)	(1.258)	(1.277)	(1.282)	(1.275)
Leverage	-0.029	**-0.079***	**-0.083** **	**-0.078***	**-0.078***	**-0.080***
	(0.039)	**(0.041)**	**(0.040)**	**(0.041)**	**(0.041)**	**(0.041)**
Liquidity	0.001	0.046	0.038	0.042	0.053	0.049
	(0.068)	(0.072)	(0.071)	(0.072)	(0.072)	(0.072)
Firm age	**0.098*** **	**0.125*** **	**0.118*** **	**0.127*** **	**0.112*** **	**0.124*** **
	(0.020)	**(0.021)**	**(0.021)**	**(0.021)**	**(0.022)**	**(0.021)**
Industry	**-2.712** **	**-2.839** **	**-2.315***	**-2.563***	**-2.729** **	**-2.673** **
	(1.274)	**(1.348)**	**(1.328)**	**(1.347)**	**(1.345)**	**(1.343)**
Family votes	**-13.906*** **					
	(1.329)					
Independent directors			**87.758*** **			
			(27.014)			
Independent directors^2			**-50.385** **			
			(19.824)			

Board size		-0.392				
		(0.254)				
CEO founder				**2.346***		-1.595
				(1.277)		(1.960)
CEO tenure					**0.095***	
					(0.055)	
CEO founder * CEO tenure						**0.371***
						(0.140)
R-squared	0.444	0.380	0.400	0.381	0.381	0.386
R2-adjusted	0.440	0.375	0.394	0.376	0.375	0.380
F-test	**92.611***	**71.066***	**68.418***	**71.275***	**71.183***	**64.552***

N = 935

Dependent variable: TRESGS

Unstandardized β coefficients; standard deviation in parenthesis

*** p<0.01, **p<0.05, *p<0.

owners and CSR performance. This model shows that there is a negative non-linear relationship between the fraction of independent directors and CSR performance since both the independent variable and its squared term are significant at a 1% and 5% significance level respectively. The negative coefficient indicates a convex relationship meaning that as the fraction of independent directors increases, the contribution in terms of CSR performance weakens.

Model 4 uses the variable *CEO founder* instead of *family CEO* tested in hypothesis 3. This model shows a positive relationship between the CEO being a founder and CSR performance ($p<0.10$). CEO tenure is used in model 5. This shows a positive relationship with CSR performance ($p<0.10$). The interaction *CEO founder * CEO tenure* also has a positive relationship ($p<0.05$) with CSR performance. This means that when the CEO is a founder with a long tenure, CSR performance is higher.

Discussion and conclusion

This paper examined different family firm characteristics and their influence on CSR performance together with the moderating role of the external auditor being a big 4 audit firm. The analyses have shown that family firm characteristics such as family ownership and the fraction of independent directors have a significant impact on CSR performance. Even though previous studies have examined CSR performance of family firms, this was done by comparing them to non-family firms. However, family firms should be seen as a separate, heterogenous group.

Our first hypothesis stated a positive relationship between family ownership and CSR performance. The regression results, however, showed a negative relationship between family ownership and CSR performance. Alternatively, when using a stricter measure for family ownership (family votes), the negative relationship becomes even stronger which means that the more family power there exists, the less the firm's CSR performance. This may be due to families viewing stakeholders differently than initially stated and living more by the socioemotional selectivity theory. Having close relationships with stakeholders such as suppliers or customers might lead to lower CSR incentive. This because these relationships are based on trust and reputation rather than the engagement in CSR activities.

In our second hypothesis, we expected a positive relationship between the fraction of independent directors and CSR performance, which was confirmed by our results. Family firms with a higher fraction of independent directors present in their board, thus perform better at CSR. This is probably because of the increased heterogeneity in terms of knowledge that is created among board members. Further, it is important to notice the non-linear relationship. Since it is convex, this means that more independent directors contribute to a higher CSR score, but at a decreasing rate. When there are too much independent directors, this might suppress the family values related to the SEW theory leading to less CSR incentives.

The third hypothesis stating a positive influence between the CEO being a family member and CSR performance could not be accepted nor rejected. However, the additional analysis using the variable CEO founder showed a positive relationship between CEO founder and CSR performance. Adding the interaction term *CEO founder * CEO tenure* to that same regression showed a positive interaction effect. This means that if the CEO is a founder, CSR performance increases even more when the founder has additional years of experience in the firm. Founder CEOs that have had years of experience in the same firm probably know a lot about the processes and dynamics inside the firm which makes it possible to react better to changing environments with an eye on preserving the family dynasty.

Lastly, the fourth hypothesis concerning the moderating effect of the external auditor could not be confirmed either. Statistics showed that the addition of a moderator was useful, but the coefficients were not significant. Therefore, further research is needed to further investigate this effect.

Contributions, limitations and future research directions

This study contributes to current research by examining family firm characteristics such as family ownership, the fraction of independent directors and the descent of the CEO together with the moderating role of the external auditor on CSR performance. This is done by acknowledging the heterogeneity of family firms as well as the CSR-context in which these firms are operating. Given the increased importance of CSR reporting, it is necessary to discuss the role of the external auditor as well. Its changing role from a controller to a supportive figure, plays a crucial role in enhancing the compliance and credibility of CSR reports.

This study also contains some limitations that provide interesting opportunities for future research. First, the decision to focus on US companies was based on the fact that sustainability reporting is not entirely voluntary in the United States, making it an interesting context but also limits the generalizability of our results. This choice provides a foundation for future studies in, for example, a European context, where sustainability reporting is becoming mandatory for many more businesses in the near future. Consequently, the sample can be expanded including smaller firms as well. This way, the result can be more generalizable to all family firms, whether they are small or large.

Additionally, this study utilized data collected in 2019. This means that the effect of the COVID-19 pandemic was not captured by the variables. Including more recent measurement years can be interesting for future research as significant events like the pandemic have profound effects on society and can also shape the mindset of both individuals and companies towards CSR.

Finally, the obtained results can be further deepened by understanding the personal characteristics of the family firm CEO and (independent) directors. This because the willingness to report and its quality will also depend heavily on the company's executives and their expertise, vision and even personal values and standards. Such internal drivers will determine the extent to which CSR also becomes a corporate or even a personal commitment. In smaller family firms, strategic and important operational decisions are still very often fueled from the business leader himself and his/her characteristics. In addition to certain business characteristics this will often have a decisive influence on the willingness to engage in (qualitative) ESG reporting (Yadav et al., 2018).

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