

How are family businesses approaching the double materiality principle? A multiple case study

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Abstract

Purpose – Considering the new regulations on corporate sustainability reporting in Europe, the paper offers insights concerning the approach of family businesses to the double materiality principle. Specifically, the aim is to understand if such companies are embracing both perspectives of impact materiality and financial materiality and developing the same awareness and confidence for both.

Design/methodology/approach – To realize the research aim, after delving into the double materiality principle, qualitative research based on a multiple case study is carried out, examining two large Italian family businesses that are working to meet the Corporate Sustainability Reporting Directive requirements.

Findings – The main findings suggest that the family businesses analyzed are more focused on financial materiality than on impact materiality. The approach to the double materiality principle could be interpreted in light of the relationship between the company and its stakeholders: as the company's role toward its stakeholders evolves from agent to steward, the awareness of the double materiality principle will also likely grow.

Originality/value – This paper offers an original contribution to the understanding of the approach to the double materiality principle of early adopters in the unique context of family businesses, a topic on which the literature is very poor, mainly because most of them have not yet undertaken the relevant analysis, except those that have done so voluntarily.

Keywords Family business, Sustainability reporting, Double materiality, Multiple case study

Paper type Research paper

1. Introduction

Sustainability has become an essential factor for businesses seeking long-term success and resilience. As global awareness of environmental issues and social responsibility intensifies, companies are now expected to integrate sustainable practices into their activities and strategic planning as well as non-financial information into their disclosures. This shift is not merely a trend but a fundamental transformation driven by stakeholders' growing demands for transparency, ethical conduct and environmental stewardship (Gu *et al.*, 2024; Gangi *et al.*, 2024; Nicolò *et al.*, 2024a; Aftab *et al.*, 2022).

In response to this evolving landscape, regulatory frameworks have also progressed. In Europe, the introduction of the Corporate Sustainability Reporting Directive (CSRD) marked a pivotal development. This directive aims to enhance and standardize sustainability reporting across the European Union, ensuring that companies provide comprehensive and comparable information on environmental, social and governance (ESG) matters through the adoption of the European Sustainability Reporting Standards (ESRS), issued by European Financial Reporting Advisory Group (EFRAG). The directive seeks to improve corporate accountability and support the transition toward a more sustainable economy by mandating rigorous disclosure requirements (Hristov and Searcy, 2024).

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The CSRD has adopted the concept of double materiality, which encompasses two key dimensions: impact materiality (inside-out) and financial materiality (outside-in). Impact materiality requires companies to evaluate how their operations, products and services affect broader societal and environmental contexts, addressing issues such as carbon emissions, labor practices and community impacts. Meanwhile, the financial materiality perspective requires consideration of the financial effects of sustainability matters (CSRD: art. 1(4)): in other words, how issues such as climate change, resource scarcity and social needs might affect a business's ability to generate economic value.

In this sense, the CSRD represents a significant advancement from the Non-Financial Reporting Directive (NFRD) by mandating a more comprehensive and integrated approach to sustainability reporting. While the NFRD required companies to disclose non-financial information, the CSRD emphasizes the interconnection between sustainability impacts and financial performance, compelling companies to provide a double perspective on materiality. This shift underscores the increasing recognition that long-term corporate success is intrinsically linked to sustainable practices.

To deepen this aspect, this article focuses on family businesses (FBs), a peculiar kind of companies that can be characterized by a significant level of heterogeneity in terms of size, governance structure, financial and non-financial goals, family involvement in ownership, boards and management and generational issues, as shown by the growing number of studies recently dedicated to this topic (Brunelli *et al.*, 2024; Samara *et al.*, 2023; Daspit *et al.*, 2021; Santulli *et al.*, 2019; Memili and Dibrell, 2018; Jaskiewicz and Dyer, 2017).

Although the sustainable development issues concern a wide variety of business contexts, FBs represent an area of particular interest because of their fundamental role in many economies and, thus, the strong impact they exert on the achievement of sustainable development objectives. In fact, two-thirds of companies worldwide are FBs, contributing over 70% of global GDP (UNCTAD, 2021). Furthermore, certain distinctive characteristics of FBs make them a compelling research context for examining their approach to sustainability reporting. The assessment of double materiality will become crucial for the disclosure of many FBs, including large FBs and even smaller ones operating in supply chains influenced by the presence of larger companies' subject to the reporting obligations. This offers an interesting opportunity to examine how FBs approach the principle of double materiality, particularly given their unique attributes stemming, directly or indirectly, from family involvement in ownership and management. FBs typically exhibit a more informal organizational structure, management practices that rely more heavily on trust than on codified procedures and a more centralized decision-making, influenced by the personal values of family members in control (Brammer *et al.*, 2012). In addition, the intersection of the family system and the business system results in FBs simultaneously pursuing both financial and family-oriented goals, which must be combined through a unified approach (Vazquez and Rocha, 2018; Gómez-Mejía *et al.*, 2007; Anderson and Reeb, 2004). These distinctive characteristics, collectively considered, are likely to influence the approach to sustainability reporting, which may be less formalized and "neutral" compared to non-family businesses, being more significantly shaped by the values, goals and operational practices of family owners and managers (Hemingway and Maclagan, 2004).

However, despite the fact that FBs represent a unique context for examining sustainability reporting, considering their worldwide presence and relevance (Brunelli *et al.*, 2024; Campopiano and De Massis, 2015; Stutz *et al.*, 2022), the literature on their approach to double materiality is very poor, mainly because most of them have not yet undertaken the relevant analysis, except those that have done so voluntarily. In this regard, Caccialanza (2024) shows how the double materiality perspective and the integration of sustainability principles into FBs are interrelated and interdependent, as well as scientifically relevant from a research perspective. This paper aims to contribute to filling this gap trying to answer the following research questions: in light of the new regulations on corporate sustainability reporting, how are FBs approaching the concept of double materiality? Are they embracing the perspectives of impact materiality and financial materiality and developing the same awareness and confidence for both?

To realize this aim, after delving into the double materiality principle, qualitative research based on a multiple case study was carried out, examining two large Italian manufacturing FBs that are working to meet the sustainability disclosure requirements. Early adopters, in fact, are important because they contribute to institutionalizing new practices and represent a reference point for other companies (Correa-Mejía *et al.*, 2024).

The research findings are interpreted through the lens of agency theory and stewardship theory, widely used in the literature to explain several peculiar aspects of FBs from a behavioral perspective (Löhde *et al.*, 2021). These two theories have been used to investigate the relationships between companies' owners and managers, but there are a number of studies that have used such theories in a different and broader way in order to deepen and interpret the relationship between the company and its stakeholders, particularly external ones (Nicolò and Andrades-Peña, 2024; Verbeke and Kano, 2012; Madison *et al.*, 2016).

The rest of the paper is structured as follows: Section 2 reviews the literature on the topics of interest; data sources and details and methodology are described in Section 3; Section 4 presents the main results, and Section 5 contains their discussion; the last section provides conclusions and future research directions.

2. Literature review

2.1 Sustainability reporting in family businesses

The demand for sustainability issues disclosure has become increasingly relevant in recent years for all kinds of companies, including for FBs, where the interaction of two social systems – the family and the firm – often bring particular attention to social and environmental issues and reputation, as such companies are normally strictly linked to their reference territories and communities. They have a strong interest in not only realizing good financial performance but also in being perceived as valuable by society and their stakeholders, because enhancing the reputation of the company is closely related to the improvement of the owning family's image (Stock *et al.*, 2024; Hsueh, 2018; Campopiano and De Massis, 2015).

The literature highlights that non-financial and sustainability reporting can be conditioned by family influence, which is represented by both the status of the family firm and the level of commitment of the family in ownership and management (König *et al.*, 2013). However, the results are rather contradictory. As for ownership, some authors argue that FBs tend to disclose more non-financial information compared to non-family businesses because they are long-term oriented and they try to strengthen their reputation and legitimization among their stakeholders (Campopiano and De Massis, 2015; Maughan, 2023). Other articles, however, give account of a different position, which considers the FB status as a deterrence factor for the quality of sustainability reporting, mainly due to the worry of losing control of the business (Biswas *et al.*, 2019; Cabeza-García *et al.*, 2017; Venturelli *et al.*, 2020). Finally, in some cases, either an absence of influence of family ownership on non-financial reporting or a non-linear relationship have been found (Fuadah *et al.*, 2022). In terms of family commitment to firm management, studies have mainly addressed the figure of the CEO. Results are quite convergent on the fact that a CEO belonging to the owning family is more prone to disclose social and environmental information in order to protect and enhance the company's reputation and image (Gavana *et al.*, 2017).

Considering the significantly conflicting results, the literature analysis reveals a need for a further understanding of approaches that can influence family firms' sustainability reporting. In particular, there is a lack of studies on the approach to the double materiality principle by FBs, given the relevance of this principle in light of the new regulations on corporate sustainability reporting.

2.2 Double materiality principle

External and internal pressures toward sustainable production, the involvement of stakeholders, the exchange of information with them and the need for companies to engage

in sustainability reporting (Correa-Mejía *et al.*, 2024) make materiality one of fundamental principles of accounting and disclosure that has attracted the attention of practitioners, researchers and standards setting in the last few decades (Bean and Thomas, 1990; Deegan and Rankin, 1997; Heitzman *et al.*, 2010; Edgley, 2014).

Academics have started to focus their research on the concept of materiality in the context of voluntary sustainability and integrated reporting in order to address the question of what corporate social responsibility should be and, especially, how it should be disclosed by companies (Hsu *et al.*, 2013; Calabrese *et al.*, 2015; Eccles *et al.*, 2012). Volunteer adopters play an important role in initiating and establishing practices that, often based on explanations provided by regulatory bodies, can be replicated by other companies (Cooper and Michelon, 2022; Jain *et al.*, 2022). Early adopters turn out to be more social responsibility-oriented than late adopters in terms of their non-financial reporting practices (Pizzi *et al.*, 2023). They disclose sustainability information using accountability tools, such as reports, social media and corporate websites (Carroll, 2021; Lodhia *et al.*, 2020).

Unerman and Zappettini (2014) argue that materiality represents a contested arena in which meanings are constructed from both stakeholder and organizational perspectives and, thus, are open to negotiation of discourses. In fact, in the literature there is no commonly accepted definition of materiality, which means that companies may practice discretion that can compromise the completeness and comparability of the information provided (Brennan and Gray, 2005; Luque-Vílchez *et al.*, 2023; Di Leo *et al.*, 2023). However, it is believed that mandatory reporting that introduces minimum disclosure requirements can be useful to improve uniformity in reporting practices (Lombardi *et al.*, 2021). Furthermore, sustainability reporting regulation can help overcome the shortcomings of voluntary disclosure guidelines and standards and, hence, the opportunistic behavior of managers and the resulting information asymmetry (Fortanier *et al.*, 2011), although some argue that mandatory disclosures do not always imply greater accountability and responsibility (Cooper and Owen, 2007; Luque-Vílchez and Larrinaga, 2016).

Materiality definitions can be connected with three main topics: impact materiality, financial materiality and double materiality (Abhayawansa, 2022; Buscarini *et al.*, 2021). A sustainability matter is material from an impact perspective when it pertains to the undertaking's material actual or potential positive or negative impacts on people or the environment over the short, medium or long-term (ESRS 1, par. 43). The GRI standards had already placed a strong emphasis on this kind of materiality, helping companies to identify the economic, environmental and social impacts to be reported. Announcing an inside-out approach, their standards highlight the relevance of those impacts that substantially influence the assessments and decisions of stakeholders (Raith, 2023). The assessment of financial materiality corresponds to the identification of information about the impact that climate change and society may have on the company, information that is considered relevant to the primary users of the financial statements for general purposes in making decisions about the provision of resources to the entity. In particular, the omission, misstatement or obscuring of such outside-in information could reasonably influence the decisions they make based on the entity's sustainability financial statements (ESRS 1, par. 48). Double materiality is the embodiment of both impact materiality (inside-out) and financial materiality (outside-in) (ESRS 1, par. 38). The European Commission promotes double materiality first through the NFRD and later, strengthening the scope, the CSRD.

According to European directives, information on sustainability issues that are relevant from one or both perspectives is essential for all stakeholders who need to understand the sustainability performance of the company. Cho *et al.* (2020) and Dhaliwal *et al.* (2011) highlight the benefits of sustainability disclosure on stakeholders' evaluation of companies and capital market reactions, also in terms of reducing the related costs. Furthermore, Frias-Aceituno *et al.* (2014) highlight that non-financial reporting increases investors' confidence, optimizes financing costs and increases the value of the firm. Aureli *et al.* (2020) find that positive changes in corporate practices are driven by the shift from voluntary to mandatory

non-financial information, showing that the new reporting requirements can improve the relationships with those external stakeholders who have key resources (Aureli *et al.*, 2020, p. 2400).

Researchers have observed that, despite the positive effects of disclosure of sustainability information, increased reporting obligations do not necessarily lead to greater transparency for stakeholders. In this vein, Caputo *et al.* (2021) and Pizzi *et al.* (2020) describe the rather widespread inclination of avoiding disclosure of information especially when it is not positive and can damage the company's image. Sustainability performance claims in reports can be vague in order to present the report in the most favorable way possible (Baumüller and Sopp, 2022; Correa-Mejía *et al.*, 2024; Patten, 2005). Unerman and Zappettini (2014) highlight that the process of determining materiality can derive from management choices to disclose specific information, deciding what to explicitly include and what to exclude from the report. In this sense, the authors point out that companies can misuse the concept of materiality to overshadow unfavorable information. On the other hand, it is important to highlight that by correctly applying the principle of double materiality, companies can seize the opportunity to be more transparent toward relevant stakeholders for accountability, reporting their materiality analysis and results (La Torre *et al.*, 2020) in order to improve readability and assurance (Bakry *et al.*, 2023).

The lack of information can be an obstacle in relation to the materiality assessment process (Dragomir *et al.*, 2024; Garst *et al.*, 2022) and knowledge of material issues (Adams *et al.*, 2021). In fact, it is likely that many companies will rely on new external experts for new assessment methodologies, trying not to draw only on internal expertise. Some scholars propose quantitative and feedback-based processes to lessen the difficulty in evaluating materiality. These studies are founded on the principle of stakeholder involvement to assess materiality objectively, including the more relevant issues in order to guarantee completeness of sustainability reports (Stocker *et al.*, 2020; Calabrese *et al.*, 2015). According to ESRS, the sustainability report should address the material interests of all relevant stakeholders (Torelli *et al.*, 2020), not just those of financial capital providers (Beske *et al.*, 2019).

Materiality assessment is informed by dialog with affected stakeholders that plays a role in helping companies to identify material issues in social and environmental aspects (Fiandrino *et al.*, 2022; Fasan and Mio, 2017). Critical opinions of stakeholders on sustainability aspects can efficiently influence the decision-making process (La Torre *et al.*, 2020), decreasing the distance between the company's and stakeholders' interests, enhancing the legitimacy and quality of the materiality assessment process (Torelli *et al.*, 2020). Continuous engagement of interested stakeholders and also of users of sustainability reporting and other experts is central to the undertaking's ongoing due diligence process and sustainability materiality assessment (ESRS 1, par. 24). In this regard, the Due Diligence Directive (Directive 2024/1760) is mentioned, which aims to promote sustainable and responsible corporate behavior in companies' operations and along their global value chains. The availability of technical and human resources is essential to identify stakeholders and interact fruitfully with them in order to correctly evaluate the social, environmental and economic relevance of the impacts produced and to which the company is subject in the interaction with the social and environmental context (Correa-Mejía *et al.*, 2024).

2.3 Theoretical background: agency theory and stewardship theory

To better understand the approach of FB to the double materiality principle and all that it entails in the sustainability reporting processes, the lens of agency theory and stewardship theory are used (Verbeke and Kano, 2012; Madison *et al.*, 2016).

Agency theory stems from an economics-based paradigm that views humans as rational actors who seek to maximize their self-interest (Jensen and Meckling, 1976; Eisenhardt, 1989). Applying this paradigm within companies, the agency literature suggests that the separation between ownership ("principal") and management ("agent") generates a conflict of

interest: managers will exploit their informational advantage to make decisions that will maximize their own utility, regardless of the consequences for shareholders wealth (Cerbioni and Parbonetti, 2007). The disparity in information availability between agent and principal, commonly referred to as “information asymmetry”, hinders the principal’s capacity to effectively monitor opportunistic behaviors of managers, thereby giving rise to the so-called agency costs (Rathnayaka Mudiyansele, 2018; Jensen and Meckling, 1976). In order to manage these costs, control mechanisms are required, such as governance structure or disclosure (Nicolò and Andrades-Peña, 2024; Cerbioni and Parbonetti, 2007), to ensure the alignment of the interests of agents and principals.

Stewardship theory, instead, offers a different view in which individuals see greater long-term utility in pro-social behavior focused on others than in short-term, self-serving behavior (Davis *et al.*, 1997; Hernandez, 2012). Within this paradigm, managers do not act as opportunistic agents seeking their own interest, but as “stewards” of the company’s interest. In other words, the manager’s objective is assumed to be aligned with that of their principals, that is to create long-term value for the company. According to the stewardship literature, managers are intrinsically motivated, for example by a sense of responsibility, loyalty to the company and personal fulfillment in contributing to the company’s success (Donaldson, 2008). The relationship between ownership and management is seen as a partnership, based on trust, collaboration and shared goals. Accordingly, since there is no conflict of interest, control mechanisms are not necessary.

Even if these two theories rely on different behavioral assumptions concerning individuals, they should not necessarily be considered as alternatives (Madison *et al.*, 2016), but rather how the two ends of a continuum of theoretical propositions concerning the relationships between individuals within organizations (Löhde *et al.*, 2021). Since the individuals involved in the management are neither opportunistic nor steward by nature (Samara *et al.*, 2023), many scholars argue that relationships within organizations may shift from the agency paradigm to the stewardship paradigm depending on whether individuals, particularly managers, develop a greater collective awareness and focus on long-term organizational welfare (Davis *et al.*, 1997; Hernandez, 2012).

The same dynamics can be observed if the two theories are also extended to the external relations between the company and its stakeholders, not just the internal ones between management and ownership. As regards agency theory, several studies have shown that the traditional principal-agent framework can be extended to the relationships between company and its broader set of stakeholders: managers with direct control over company’s decision-making would act as agents of various principals, namely resources providers who are legitimately concerned with the social and environmental impacts of company initiatives (Hill and Jones, 1992; Kock *et al.*, 2012). Within this extended perspective, agency theory recognizes a conflict of interest between the company’s managers, typically focused on short-term investments and financial performance, and stakeholders who prioritize long-term sustainability investments to improve the well-being of the whole community (Nicolò and Andrades-Peña, 2024). The company tends to maximize its own interests, such as profit or competitive advantage, even at the expense of external needs. Thus, the relationship with stakeholders seems more instrumental and reactive and, since it is not based on trust, requires controls in the form of regulation, disclosure and reputational pressures.

According to an extended perspective, stewardship theory instead sees the company as a steward of the collective interests of stakeholders, including environmental and social sustainability concerns (Hernandez, 2012). In this view, the company assumes a fiduciary role towards the interests, needs and values of stakeholders, who, in a broad sense, become the new principals – that is “beneficiaries” of the company’s actions. The company acts proactively, ethically, transparently, even in the absence of formal constraints and external controls, because it considers stakeholders as relational partners to be listened to and engaged with over the long term.

Investigating FB with the lens of these two theoretical approaches is particularly interesting because when family members are involved in company's management, peculiar situations may arise (McGivern, 1978). Managers can be or not be family members, and then they can differently act and behave as agents or stewards. A single theory and, thus, approach, will hardly be able to describe the specific context of an FB. The two approaches may coexist in the same firm, and they also may change over time due to different concentrations of family ownership and generations' orientation (Chua *et al.*, 1999; Löhde *et al.*, 2021).

3. Methodology

To answer the research questions an inductive approach based on a multiple case study was used (Yin, 1994). The multiple case study is a well-established qualitative research method allowing to gain a deeper understanding of a relatively unknown phenomenon (Eisenhardt, 1989). The lack of comprehensive literature on FBs' approach toward double materiality, due to the few studies conducted, made such a method suitable for the research aims. Indeed, the main objective of multiple case study is not to quantify but rather to qualify the phenomenon analyzed, answering "how" and/or "why" questions.

The research focused on a specific subset within the heterogeneous landscape of FBs, namely "longer-term and more family-centered" (Daspit *et al.*, 2021), because they most prominently present those distinctive attributes of FBs highlighted in the introduction that can influence sustainability reporting and the approach to the principle of double materiality. Two case companies headquartered in Italy were included in the research, in order to enable comparisons and to evaluate if the findings can be replicated (Eisenhardt, 1989). In this sense, the research attempts to achieve "literal replication", which can strengthen the (external) validity of research and requires the selection of 2–3 cases that are similar in certain characteristics and, thus, expected to lead to similar results (Yin, 2003).

The case selection criteria, which represent the conditions under which the phenomenon should be analyzed and which should produce more compelling evidence (Yin, 2003), arose from theoretical considerations based on the FBs literature described above. Specifically, the companies were selected for the following reasons:

- (1) family-owned businesses with family members involved in management, because the role of the family is central in these firms;
- (2) large FBs, as these firms will soon fall within the scope of the CSRD because of their size;
- (3) long-established FBs that have a leadership position in the market, because these firms are interested in preserving their reputation, including in terms of environmental and social communication;
- (4) FBs operating in the manufacturing sector, where the environmental impact of business activities is significant;
- (5) FBs with production units primarily located in the local area, employing local residents, because these firms have a significant social impact and
- (6) FBs that have either voluntarily produced a sustainability report or have initiated the process of preparing one, in order to assess their approach to the principle of double materiality.

These criteria make the selected companies very similar to each other for the purposes of this research, as evidenced by the data summarized in Table 1 (anonymity was guaranteed, using the names "Alpha" and "Beta"). The selection process was also carried out with the aim of introducing minimal variations in experimental conditions considered non-critical for the research findings, in line with the logic of "literal replication", as recommended to enhance the

Table 1. Description of the companies analyzed

	Alpha	Beta
Year founded	1967	1936
Turnover - year 2023	300 million EUR	110 million EUR
Market share (ranking position) - year 2023	12% (1)	10% (3)
Sector	Manufacturing (NACE = furniture)	Manufacturing (NACE = machinery and equipment n.e.c.)
Environmental impact in ESG rating* (scale from 1 to 7)	3.66	3.67
Local employees (% of total)	88%	75%
Report in accordance with double materiality principle	0	1
Environmental and social certifications	ISO 140001; ISO 45001	ISO 140001; ISO 45001
Note(s): *CreditSafe source		
Source(s): Authors' own work		

robustness of results (Yin, 2003). These variations are observable in the slight differences between the two companies in Table 1. The companies have different absolute turnover but similar market shares, which place them among the top three ranking positions of their respective industries (Nicolò *et al.*, 2024b). While operating in different sectors of the manufacturing industry, the companies have a comparable environmental impact, as evidenced by their metrics in respective ESG ratings. Lastly, both companies have recently approached the principle of double materiality: the Beta company has already produced a report in accordance with this principle, whereas the Alpha will produce its first report in 2025 (based on 2024 data). Nonetheless, both companies have already addressed the complexities inherent in producing sustainability information, such as those related to environmental protection and occupational health and safety, having also obtained ISO 14001 and ISO 45001 certifications.

Alpha was founded in 1967 in central Italy, where it still has its headquarters today. Over time it increased in size, becoming a group and achieving a leading position within its production sector, both nationally and internationally. It is present in Italy with more than 1,600 points of sale and in continuous expansion in the international market.

Beta is a manufacturing company that has been based in central Italy since its inception in 1936. It has grown over time, becoming a group and has established its presence in its home territory but also nationally and internationally. It currently exports its products to 130 countries through a sales network of more than a thousand entities including distributors, dealers, importers and specialized retailers, present in every part of the world.

The data were primarily collected through semi-structured interviews with the sustainability team. It was decided to use a group interview in order to capture the company's orientation toward the principle of double materiality, and thus the "common held" approach rather than individual's unique perspectives. For this purpose, group interviews with the sustainability teams offered significant advantages. In both companies, the team is chaired by the Chief Executive Officer (CEO), a member of the owning family and consists of both family and non-family managers working according to a participatory atmosphere, reflecting the flat organizational structure of both companies that minimize possible hierarchical dynamics. In this context, group interviews represent a particularly suitable methodological technique, which can take the form of a "natural" dialogue, in which each participant can elicit information from another or inject opinions or thoughts into the other's responses, allowing for a more complete picture that would not be formed by individual interviews (Reczek, 2014).

In detail, in Alpha, the team includes, in addition to the CEO, the Chief Operating Officer (COO) and the Chief Marketing Officer (CMO), who belong to the owning family and non-family managers, namely the Chief Financial Officer (CFO), who is also responsible for all management control and reporting activities, and the Health, Safety and Environment (HSE) Manager, who has overseen the processes for obtaining environmental and social certifications. The team at Beta is also composed of both family and non-family managers. The CEO and the Social Sustainability Manager, who coordinates the company's social impact activities, are members of the owning family. The other managers, who are not family members, include the COO, the CFO and the CMO. Thus, both teams, despite being composed of non-family managers, are characterized by direct involvement of family members belonging to two different generations. As such, being also chaired and coordinated by the CEO, who is a family member, they reflect the family's orientation toward sustainability reporting.

The questions were brainstormed among the authors taking into account the above mentioned literature on double materiality topic and the recent EFRAG's ESRS principles, with the aim of highlighting the different approach on both impact materiality and financial materiality. The resulting interview protocol comprised a set of open-ended questions about the following main topics: (1) potential changes to sustainability reporting brought about by the new directive, (2) the stakeholder engagement process in the double materiality analysis, (3) the process of prioritizing material topics and assessing their actual relevance and (4) the costs and non-financial resources required for the double materiality assessment.

Given the semi-structured nature of the interviews, questions were clarified and further explored, when necessary, to obtain more accurate responses and a deeper understanding of the subject matter. Interviews were conducted face-to-face, in a conversational style, between May and September 2024. During this period, two interview meetings, lasting 60–90 min each, were organized in both companies. To ensure the trustworthiness of the findings, a third meeting was held in September in which the respondents were asked to review the interview transcripts and provide feedback on any potential misunderstandings.

Additional (secondary) sources of data, such as sustainability reports, websites and documents for environmental and social certifications, were considered to ensure data triangulation and to develop a converging line of inquiry (Yin, 1994).

4. Results

First, the interviewees were asked how the introduction of the new regulation, and thus the principle of double materiality, has changed sustainability reporting. The team from "Alpha" company reported that, starting in the early months of 2023, work began to prepare a sustainability report, and the framework adopted was the GRI standards. According to the team, the new ESRSs share several areas of overlap with the GRI framework; therefore, as the company has not yet produced a sustainability report, the introduction of the directive has not led to significant changes in the preparation process. The principle of financial materiality had already been implicitly adopted, although until now not specifically for sustainability reporting, as the company had taken it into account in risk assessments required by the environmental and social certifications, obtained over the years, as well as in the evaluation for the opportunities offered by environmental investments:

In evaluating the opportunity to invest in the photovoltaic plant, not only the reduction of CO₂ emissions but also the potential savings in energy costs were considered. The same applies to the assessment of risks, such as seismic risk, which resulted in the determination of both the insurance premium paid by the company and the savings on the premium resulting from the attainment of ISO 45001 certification (CEO - "Alpha" company).

The team from "Beta" company stated that the 2023 sustainability report, published on a voluntary basis, was the first among the company's reports to include double materiality

analysis. The report was prepared with reference to the GRI standards, along with a selection of ESRs. This resulted, first and foremost, in a partial reorganization of the report's content compared to previous editions, in order to structure an index more aligned with the disclosure requirements introduced by the CSRD. The impact materiality topics essentially remained the same as in previous reports, but the terminology was standardized, leading to changes in the wording of some topics. On the other hand, the introduction of the financial materiality assessment required the integration of some topics that were not included in previous reports, although for certain topics only the financial perspective (risks or opportunities) was considered, without addressing the potential related impacts, such as in the case of the "geopolitical context" topic:

Compared to the material topics considered in the 2022 report, the assessment of financial materiality led to the inclusion of additional topics to provide a more comprehensive overview. For example, the geopolitical context was included in the financial materiality analysis because the effects of politics and international relations are those with the potential for the highest impact on our business and the market in which our company operates (COO - "Beta" company).

The interviewees were asked to describe the process of stakeholder engagement in the double materiality analysis, specifying which stakeholders were identified, their relevance and the main channels of interaction. In both companies, the focus remained largely on primary stakeholders, those more directly involved in the company's activities and capable of exerting direct influence on corporate decisions and strategies, such as owners, managers, customers and suppliers. The relevance of these stakeholders emerged from the greater number and specificity of the interactions and dialog channels activated with them. The interviews revealed that both companies maintain constant engagement with these stakeholders, in the form of "two-way communication" (Correa-Mejía *et al.*, 2024), primarily aimed at assessing how the risks and opportunities related to interactions with these stakeholders may generate significant financial effects for the company (and thus with a focus on the relevant topics of financial materiality).

Understanding the needs of primary stakeholders is of fundamental importance for anticipating and managing potential critical effects on the company (CEO - "Beta" company).

Secondary stakeholders were more marginally engaged. The team from "Alpha" company stated that they considered the needs of these stakeholders in the materiality analysis only indirectly, for instance, by reviewing reports published by environmental regulators. In contrast, the team from "Beta" company employed a more direct approach by sending a brief questionnaire to these stakeholders, achieving a response rate of approximately 40%. For both companies, the most frequently mentioned channel of interaction with secondary stakeholders was participation in events and conferences, which entails a form of indirect involvement in defining material topics.

To understand the needs of external stakeholders other than customers and suppliers, we utilize less direct channels; for instance, we participate in fairs, events, and conferences, from which the orientations of institutions and the community at large clearly emerge. We then take these into account when defining material topics (COO - "Alpha" company).

The next set of questions addressed how the identified material topics were prioritized and subsequently assessed for their actual relevance. The team from "Alpha" company stated that the priorities were established in line with the process initiated in previous years to obtain environmental and social certifications, which allowed the company to assign a financial value to each topic. The actual relevance of the topics to be included in the materiality matrix was defined based on this financial assessment. The acquisition of certifications, in fact, entailed the implementation of certain initiatives whose environmental or social impacts, according to the team, are difficult to rank in terms of importance, meaning that it is challenging to make a precise distinction in relevance among them. Point 45 of Section 3.4 of the CSRD has been

deemed challenging to apply, given the difficulty often encountered in differentiating impacts based on their “severity”. For instance, the impacts on human rights protection and environmental preservation arising from actions taken for more responsible supply chain management (such as obtaining FSC certification) have been cited. However, the company is more adept at estimating the potential effect of these same actions on financial performance, which can be evaluated in terms of both the new markets they allow access to (which would otherwise be inaccessible without certification) and the price differential associated with the added value these actions bring to the product:

Social and environmental impacts represent the other side of the risks and opportunities of financial materiality. Since these impacts are more difficult to assess, the order of importance of material topics was determined based on the significance of the effects that risks and opportunities have on company performance. These are the same factors that drove toward obtaining certifications such as ISO 14001 and ISO 45001 (HSE Manager - “Alpha” company).

In the “Beta” company, the prioritization of material topics resulted from a more formalized approach, based on combining the findings from both the impact materiality and financial materiality analyses. However, interviews with the “Beta” company team also revealed that impact materiality, although already considered in previous reports, is more difficult to assess compared to financial materiality. When evaluating the priority of impact materiality topics, the team, rather than explicitly referring to the “severity” and “likelihood of the impact” discussed in the CSRD, made a more concise distinction between relevance for internal stakeholders and relevance for external stakeholders. In contrast, with regard to the topics of financial materiality, explicit reference was made to point 51 of Section 3.5 of the CSRD, distinguishing between the “magnitude” and the “likelihood of occurrence” of risks and opportunities. These two elements, which determine the financial materiality assessment, were considered easier to estimate, as they are more aligned with the “logic” of business process management.

For the 2023 sustainability report, the company focused more on financial materiality, as this aspect had not been included in previous reports. Even though it is a ‘new aspect to report on,’ it was easier to implement compared to impact materiality, which is sometimes more ‘abstract’ to assess. Financial materiality, on the other hand, is immediately understandable, since the proper assessment and management of risks and opportunities have always been part of good management practices (CFO - “Beta” company).

Finally, the interviewees were asked whether the assessment process for double materiality incurs significant costs and whether the associated critical non-financial resources (i.e. skills and tools) are already present within the company. Both teams stated that the company already possesses the necessary resources to deal with the sustainability reporting process, given also the existing collaborative relationships with expert consultants that represent a previously explored opportunity to share technical solutions and also obtain important training for internal staff. In this regard, it is important to recall that the Alpha company, that is initiating the sustainability reporting process, has years of collaboration with these consultants in the production of sustainability information for the purpose of the ISO certifications. In addition, the high costs that these consulting and training activities require can still be borne by companies. Thus, the interviews suggest that the two FBs are already “technically” prepared, as they can rely on a combination of internal and external resources that provide the necessary expertise and tools for preparing the sustainability report.

5. Discussion

The companies analyzed in this study have already demonstrated attention to the issue of sustainability reporting by acting in advance and preparing sustainability information to be included in the “management report” of financial statements. The “Alpha” company has started the process for drafting its first sustainability report, with the aim of adopting the

principle of double materiality; meanwhile, the “Beta” company has been publishing its sustainability report since 2019, and its 2023 report has already been prepared in accordance with double materiality principle. This seems to argue in favor of the thesis that FBs are more “sensitive” to sustainability and its reporting as they seek to preserve both the family’s and the company’s reputation within the community (Campopiano and De Massis, 2015).

Regarding the approach to the principle of double materiality, the CSRD states that: “the starting point is the assessment of impacts, although there may also be material risks and opportunities that are not related to the undertaking’s impacts” (point 38, section 3.3 of the CSRD). Nevertheless, the interviews show that the assessment of impact materiality presents greater challenges in terms of reporting, even if the analyzed companies have already developed some experience with voluntary sustainability disclosure. In fact, in these FBs the assessment of financial materiality appears to be more closely aligned with the reporting practices to which they are accustomed to and, therefore, the CSRD guidelines on financial materiality seem more readily adoptable. Consequently, for the analyzed FBs, the “starting point” appears to be more focused on financial materiality than on impact materiality, reflecting a perspective that prioritizes risks and opportunities for the company over its impacts on the environment and society. Thus, the real challenge for large FBs seems to lie not so much in their “technical” readiness, but rather in the “mental” approach that has been developed toward the principle of double materiality.

This approach of FBs to the principle of double materiality could be interpreted in light of the evolving relationship between the company and its stakeholders, viewed through the lens of agency theory and stewardship theory. Under an extended interpretation of agency theory, the company would tend toward opportunistic behaviors aimed at maximizing its own wealth. This might explain why the family business seems to place greater emphasis on financial materiality and, thus, on the risks and opportunities that environmental and social matters produce on the company’s ability to generate wealth. In this sense, the family business, behaving as an *agent*, would be less engaged in impact materiality. Therefore, the double materiality analysis might be viewed as a mechanism to align the company’s interests with those of the stakeholder community, mitigating conflicts of interest as proposed by agency theory. Applying the double materiality principle should reduce the information asymmetry between the company and its stakeholders regarding the impacts of the company’s current and future decisions on the environment and society.

Conversely, the extended interpretation of stewardship theory suggests considering the company as a *steward* perfectly aligned with the stakeholders’ interests rather than as an *agent*. This approach would be reflected in a greater attention to impact materiality topics in sustainability reporting and in a more relevant engagement of all stakeholders in the materiality analysis. The adoption of *steward*-like behavior results in a greater sensitivity toward sustainability that leads to considering sustainable practices as an integral part of the company’s strategy. This generates a proactive approach to sustainability reporting, demonstrated by the depth of information communicated and by a more accurate and conscious application of the principle of double materiality.

Therefore, it can be assumed that, as the company’s role toward its whole community of stakeholders evolves from *agent* to *steward*, its awareness of the principle of double materiality will also grow. This should lead to placing greater emphasis on impact materiality as the true “starting point” of the analysis, fostering a more direct engagement of all stakeholders, including secondary ones, in defining material topics.

The extant literature highlights that the shift from *agent* to *steward* behavior depends on the orientation of organizational identity—namely, the way in which an organization perceives itself, either as a sole entity or as part of a broader collective (Brickson, 2007). This orientation can be “individualistic”, when the organization prioritizes its own well-being, or, at the opposite side, “collectivistic”, when the organization seeks to promote and protect the well-being of the wider community, both internal and external to the organization. In this context, leadership plays a crucial role in broadening the organization’s conceptualization of its

stakeholders, by shifting the organizational focus from internal interests toward long-term collective benefits (Hernandez, 2012). In FBs, particularly in “longer-term and more family-centered” ones (Daspit *et al.*, 2021), where ownership and management tend to overlap and organizational structures are typically more informal and influenced by the personal values of family members in control, the shift from agent to steward behavior may be facilitated when the family leaders develop greater sensitivity toward collective well-being.

Some of the responses suggest that family members belonging to the second generation in both companies are more sensitive to social and environmental sustainability issues, particularly the impacts produced in this regard by the activities carried out by their company. This seems to be in line with the aforementioned evolution of the company’s role from agent to steward, in the contexts of intergenerational succession, when new leadership promote a wider view of beneficiaries of company’s actions, including a broader base of stakeholders and longer time frame in which to create and maintain value. However, this point can be deepened with further quantitative analysis involving a bigger number of companies, also focusing on how the characteristics of individuals (e.g. age/generation, gender, education background, etc.) may influence the company’s approach to the double materiality principle and the sustainability reporting as a whole (Brunelli *et al.*, 2024).

Furthermore, the greater sensitivity to impact materiality shown by members of second-generation owner families can offer some insights about a specific profile of the FBs heterogeneity, that is the “categorical heterogeneity” concerning socioemotional wealth (SEW) (Daspit *et al.*, 2021). FBs, in fact, can adopt a different approach about SEW, that concerns the “stock of nonfinancial endowments derived by the family from their business involvement” (Gómez-Mejía *et al.*, 2007): a restricted one, focusing on immediate family members’ needs, and an extended one, pursuing the long-term well-being of family and other stakeholders, and fostering the strengthening of relationships with non-family stakeholders (Miller and Le Breton-Miller, 2014). The research findings show that the inclination of the second generation toward an extended SEW approach tends to confirm the evolution of the company’s role from agent to steward, as outlined above.

6. Conclusions

This paper aims to offer a contribution within the ongoing sustainability reporting debate, in light of the recent disclosure requirements provided by the CSRD. In particular, the approach of FBs to the double materiality principle has been investigated through an explorative analysis based on a multiple case study.

As shown above, the real challenge for the large FBs analyzed seems to lie not so much in their “technical” preparedness but rather in the “mental” approach that has been developed toward the principle of double materiality. In practice, the “starting point” seems to be more focused on the inward perspective than the outward one, reflecting the prioritization of risks and opportunities compared with environmental and social impacts.

These findings can be meaningfully connected to the European Commission’s recent proposal, the so-called “Omnibus package”, to simplify sustainability disclosure requirements. Its main goal is to reduce the administrative compliance burdens so as not to disadvantage companies in their international competitiveness. This proposal reflects the Commission’s intention to encourage a more gradual transition of companies towards sustainability.

In this sense, the observed asymmetric approach in the application of double materiality by FBs may be consistent with the EC intention: the companies still tend to focus on what they are more accustomed to, the financial dimension, rather than on the impact generated on the environment and society, which is perceived as more difficult to assess, thereby neglecting the broader dimension of sustainability performance. Thus, the Commission’s proposal to streamline the reporting framework may be related to the notion that achieving the full potential of sustainability reporting requires a gradual cultural and “mental” shift within

companies. This evolution can lead companies to voluntarily provide information produced observing the principle of double materiality, beyond regulatory requirements. In this sense, companies can seize the opportunity to be more transparent with relevant stakeholders by communicating their materiality analysis and performance to improve readability, assurance and its overall competitiveness (Adams and Mueller, 2022).

This paper contributes to the scarce literature about the impacts of the double materiality principle provided by the CSRD and the ESRS. From a practical viewpoint, this study tries to understand whether FBs are ready to embrace the perspectives of impact materiality and financial materiality, developing the same awareness and confidence for both. Taking into account that these requirements will involve many companies in the next few years, these conclusions may provide useful suggestions for managers and consultants. The role of the early adopters, such as the FBs analyzed in this research, is particularly important as they contribute to institutionalizing new practices and represent a reference point for other companies (Correa-Mejía *et al.*, 2024).

The present research has some limitations and thus there is room for future exploration. Since it is a multiple case study, the results obtained cannot be generalized, so the topic can be further investigated using a combination of qualitative and quantitative methods, like a qualitative comparative analysis approach (Nicolò *et al.*, 2024b). In addition, as highlighted above, by involving more companies, it will be possible to investigate how certain characteristics concerning individuals (such as the presence of younger generations and the involvement of several family members in the company's management, as well as the ownership structure) may influence the company's approach to the principle of double materiality and to sustainability reporting as a whole.

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