Spotlight
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Can family ownership drive companies to adopt non-financial disclosures sooner?

Exploring early non-financial disclosure: why family firms lead the way

MARIA ANGELA MANZI · ALESSANDRO CIRILLO · DONATA MUSSOLINO · TIMUR UMAN

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The trend toward greater corporate transparency has reshaped the business landscape, with non-financial disclosures on topics like environmental impact, social responsibility, and governance practices becoming essential. For family firms, this shift brings unique challenges and opportunities. Often deeply rooted in community values, family businesses face high expectations from stakeholders who view them as accountable stewards of their resources and social commitments. Early adoption of non-financial disclosures can strengthen these ties, but it also comes with costs and requires balancing the firm's private nature with public demands for transparency.

In this study, researchers delve into the factors influencing family firms' decisions to adopt non-financial disclosures before regulatory requirements. By focusing on Italian family firms—a sector known for its strong family governance traditions—the research provides insights into how family ownership, leadership structure, and workforce management influence these decisions. For family business leaders, the findings offer valuable guidance on how to build a transparency strategy that aligns with the unique values of family-owned companies while meeting the rising demands for corporate responsibility.

WHAT WE STUDIED

This study builds on signaling theory, which explains how firms use strategic disclosures to communicate trustworthiness and commitment to stakeholders. Using panel data on 393 family firms listed in Italy from 2013 to 2017, researchers examined the relationship between family ownership and the early adoption of non-financial disclosures, focusing on two key moderating factors: the presence of a founder CEO and the firm's employee growth or reduction.

KEY INSIGHTS

1. Family Ownership and Early Disclosure: The Inverted U-Shaped Curve

One of the study's central findings is the non-linear, or "inverted U-shaped," relationship between family ownership levels and the likelihood of early adoption of non-financial disclosure. This curve suggests that firms with moderate family ownership are more inclined to adopt early disclosures, while firms with either low or high family ownership are less likely to do so.

For firms with moderate family ownership, early non-financial disclosure offers an efficient way to enhance reputation without incurring significant costs. However, when family ownership is very high, the need for additional reputation signaling diminishes, as the family's control itself acts as a strong signal of the firm's values. Conversely, when family ownership is minimal, the benefit of signaling may not justify the cost, as the family's influence is too weak to significantly impact the firm's reputation.

2. The Role of Founder CEOs in Moderating Disclosure Decisions

Another key finding involves the role of founder CEOs in moderating the relationship between family ownership and early non-financial disclosure. The study found that when the CEO is the founder, the likelihood of early disclosure decreases, particularly in firms with high family ownership. This is likely because founder-led firms already have a strong reputation based on the founder's identity and values, which serve as a de facto signal of the company's

reliability and integrity. For these firms, additional disclosures may be viewed as redundant or even costly.

Founder CEOs often bring a personal investment in the firm's long-term success, and their leadership can act as a stabilizing force, reinforcing the firm's values and reputation. This built-in trust among stakeholders reduces the need for voluntary non-financial disclosure, as the founder's role itself serves as a visible and credible signal of the company's commitment to ethical practices.

3. Employee Downsizing as a Compensatory Disclosure Signal

The study also explored how employee reduction, or "employee degrowth," influences early disclosure decisions in family firms. When firms reduce their workforce, they may face reputational risks as stakeholders interpret downsizing as a signal of financial instability or a lack of commitment to employee well-being. The study found that firms experiencing employee degrowth were more likely to engage in early non-financial disclosure, likely as a compensatory measure to counterbalance negative stakeholder perceptions.

For family firms, where reputational stakes are high, voluntary non-financial disclosures following workforce reductions can help manage public perceptions and reinforce a commitment to broader social responsibilities. By disclosing environmental and social initiatives, these firms signal that despite downsizing, they remain dedicated to responsible and sustainable practices.

TAKEAWAYS

For Family Firms: Weigh the Costs and Benefits of Early Disclosure

Family firms considering early non-financial disclosure should evaluate the costs and benefits in relation to their ownership structure. Firms with moderate family ownership can gain significant reputational benefits from early disclosure, while firms with a high degree of family control may find that their family brand alone is sufficient for building stakeholder trust. For founder-led firms, focusing on non-disclosure-based strategies may be equally effective in reinforcing the family's commitment to corporate values.

For Investors and Stakeholders: Consider the Context

Investors and stakeholders evaluating family firms should take a holistic view of the factors influencing disclosure decisions. The presence of a founder CEO, high family ownership, and workforce management strategies can provide context for understanding why a family firm might prioritize—or deprioritize—early non-financial disclosures. Recognizing these factors can help investors assess a firm's commitment to corporate responsibility more accurately.

IMPACT

The findings of this study have important implications for family business leaders and stakeholders alike. For family businesses, early non-financial disclosure serves as a strategic tool to build trust and secure reputational advantages, especially among firms with complex family dynamics. By clarifying when and why these disclosures are most beneficial, the study helps family firms make informed decisions about transparency strategies that align with their unique values and governance structures.

RECOMMENDATIONS

1. **Align Disclosure Strategies with Ownership and Leadership Structure**
   Family firms should consider adopting early non-financial disclosures as a proactive measure to build reputational capital, especially if their ownership structure is highly visible but moderately distributed. Founder-led firms and those with strong family branding may find that other strategies achieve similar outcomes.
2. **Leverage Disclosure to Offset Downsizing Effects**
   For family firms undergoing employee reductions, early non-financial disclosure can help mitigate any negative perceptions. These disclosures allow the firm to communicate ongoing commitments to social and environmental goals, which can reassure stakeholders and enhance corporate credibility even during challenging times.
3. **Strategic Use of Signaling**
   Family firms should use non-financial disclosures strategically, adopting these practices when they offer clear reputational advantages and aligning them with the firm's overall family brand. Founder CEOs, in particular, can leverage their roles to signal trustworthiness and reduce the need for costly, early disclosures.

BROADER IMPLICATIONS

The study's insights extend beyond individual family firms, contributing to a broader understanding of how family-owned enterprises interact with societal expectations around transparency. As global regulatory pressures for non-financial disclosures increase, family firms will need to navigate these requirements strategically, balancing public demands with the distinctive characteristics that define family businesses. Additionally, the study highlights areas for future research, such as the impact of generational

involvement and cultural contexts on disclosure strategies.

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CEFEO AUTHORS



Timur Uman

Professor

Jönköping International Business School

timur.uman@ju.se



Alessandro Cirillo

Affiliated Researcher

University of Naples, Federico II

alessandro.cirillo2@unina.it

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