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Multiple Case Study Analysis on the Consequences of Mandatory Sustainability Reporting in Private German Family Firms

Ralf Ebner

Technical University of Munich

Abstract

This study explores the consequences of the Corporate Social Responsibility Reporting Directive (CSRD) on family firms. The European Commission (EC) extends under the CSRD the number of reporting companies from approximately 12,000 to 50,000, with the greatest increase in Germany. For 2025, around 13,000 German private family firms must disclose a sustainability report for the first time. Preparing a sustainability report that meets the requirements of the CSRD involves its own consequences. Based on a multiple case study of ten private German family firms, I develop a framework that illustrates implementation challenges and provides guidance to unlock business opportunities. Building on family business research, I contribute to the literature by differentiating family firms based on their sustainability strategy and maturity of sustainability reporting. This allows us to derive three archetypes facing varying implementation challenges. The analysis reveals direct and indirect opportunities along a firm's value chain. After introducing a reporting process, all archetypes can benefit from direct opportunities, whereas a proactive sustainability strategy needs to unlock indirect opportunities.

Keywords: corporate sustainability; corporate sustainability reporting directive; family firms; mandatory sustainability reporting; socioemotional wealth

1. Introduction

> "*Without a sense of purpose, no company, either public or private, can achieve its full potential. It will ultimately lose the license to operate from key stakeholders.*"
> Larry Fink, CEO of BlackRock (Forbes, 2018)

The continuous rise and record high of global carbon dioxide (CO_2) emissions in 2022 (World Economic Forum, 2022), the growing development of social inequality across countries (The Economist, 2022) or the increased fossil-fuel extraction due to the invasion of Ukraine has accelerated the importance of how to improve sustainable performance among corporate stakeholders (Pérez et al., 2022). Companies' actions and their linked externalities have considerable effects on sustainability issues, governments impose rules and use regulatory instruments like reporting directives to modify economic behavior (Christensen et al., 2021; Pérez et al., 2022). Organizations that fail to comply will face penalties (DiMaggio & Powell, 1983) or may even lose their license to operate (Gunningham et al., 2003).

The regulatory landscape on sustainability led to a "wave of regulation" in the European Union (EU) (Lykkesfeldt & Kjaergaard, 2022). The membership of all EU Member States (MS) in the United Nations influences the development of sustainability legislation in the EU (United Nations, 2007). Several cooperations arise from this alliance, including the field of sustainable development. Especially the binding 2030 Agenda for Sustainable Development and the Paris Agreement transformed the sense of purpose for sustainable change and climate action around the globe (Bauer et al.,

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2021; Olsen et al., 2019). To implement the agreed goals of the United Nations and transmit this purpose to the EU, the European Commission (EC) published the European Green Deal in 2019 (European Commission, 2019). Its implementation and, thus EU's sustainability transition requires one trillion euros (European Commission, 2020). To facilitate financing and direct investment decisions into sustainable funds, the EU taxonomy calls for the disclosure of sustainability information from public companies that fall under the Non-Financial Reporting Directive (NFRD) (Action 9, COM (2018) 97 final) (European Commission, 2018). In 2018, the NFRD was the EU's starting point for mandatory sustainability reporting[1] (Hummel & Jobst, 2021). In 2022, the Corporate Sustainability Reporting Directive (CSRD) succeeds the NFRD (European Commission, 2022). The most drastic change relates to the extended company scope, which will apply from 2025 (Art. 5, CSRD) (European Union, 2022) and increases the number of reporting companies regardless of their capital market orientation from 12,000 to 50,000, with a much larger increase in Germany (Baumüller & Grbenic, 2021).

German reporting companies increased from 500 to 15,000 (DIHK, 2023). The resulting delta of 14,500 corresponds to the number of companies required to disclose a sustainability report according to EU guidelines for the first time. Among them, around 88% are private family firms since this is the share of companies privately owned by families in Germany (Stiftung Familienunternehmen, 2023). The former German Federal Minister for Economic Affairs and Climate Action further underlines the importance of family firms: "*Our economic model is based on medium-sized, family-owned firms. Quite appropriately, they are described as the "engine" of our national economy*" (Handelsblatt, 2019).

Research on mandatory sustainability reporting has shown that first-time reporting companies (Hoffmann et al., 2018; Pedersen et al., 2013) and private small and medium-sized enterprises (SMEs) (Campopiano & De Massis, 2015; Parker et al., 2009) have difficulties in implementing a sustainability reporting mandate. Hoffmann et al. (2018) analyzed the change from voluntary to mandatory non-financial reporting in German companies based on the NFRD. They concluded that introducing a reporting mandate led to decreased reporting quality due to the number of new reporters, indicating implementation challenges.

Private SMEs have obstacles to coping with a reporting mandate, as they have little experience with norm-based sustainability reporting due to missing pressure from financial markets (Campopiano & De Massis, 2015) or limited financial resources (Parker et al., 2009). Specifically, family firms differ in their sustainability disclosure behavior due to their socioemotional wealth (SEW) (Arena & Michelon, 2018; Aureli et al., 2020; Biswas et al., 2019; Campopiano & De Massis, 2015; Gavana et al., 2017; Terlaak et al., 2018; Venturelli et al., 2021). Losing the license to operate for a family firm would hurt its SEW, as one key goal of families is passing the business to future generations (Berrone et al., 2012; Zellweger et al., 2010). However, research on voluntary sustainability reporting has shown that such a report and the underlying processes can also serve as an opportunity.

It is difficult for those firms to learn from research or previous lessons learned since the consequences of integrating a sustainability reporting mandate are highly context specific (Gulenko, 2018). Both in terms of institutions' motivation to impose a sustainability reporting mandate (Christensen et al., 2021) and the firm-specific context (De Micco et al., 2021). Thus, it is not useful to extrapolate the findings on the research of listed companies under the NFRD (Fiechter et al., 2022; Ottenstein et al., 2022) to the effects of the new CSRD. Beyond that, research on family firms' sustainability reporting refers only to voluntary reporting in listed firms (Arena & Michelon, 2018; Gavana et al., 2017; Terlaak et al., 2018).

Given the importance of family firms for the German economy, the motivation of my study is to build an inductive framework for German private family firms (PFF) that shows the potential challenges and opportunities of implementing a sustainability reporting mandate based on the new CSRD. Thus, my study analyzes the following research question: *What challenges do private family firms face regarding the introduction of a sustainability reporting mandate, and how can a standard framework provide guidance to meet or even exceed the legal requirements and unlock business opportunities?*

To answer the research question, I conducted an exploratory, inductive qualitative study with multiple cases (Eisenhardt, 1989; Yin, 2018). My study is based on the theoretical sampling approach by Glaser and Strauss (1967). The sample selection criteria include (1) German PFF, (2) family ownership of at least 50%, and (3) the firm's operation in the business-to-business (B2B) market. The final sample consists of ten PFF from seven industries. As a primary data source, I interviewed one sustainability expert or board member in each case of the sample. The data analysis relied on the inductive method of Gioia et al. (2013). The resulting data structure of the within- and cross-case analysis formed the basis for creating an inductive framework. I confirmed my findings by a sustainability expert from a leading advisory firm. The study refers to the status quo of family firms' heterogeneous sustainability strategies as a theoretical basis. Thus, my analysis relies on the SEW concept (Gómez-Mejia et al., 2007) to explain the unique behavior of family firms, in addition to Lee's (2011) theoretical framework combining institutional and stakeholder theory. Lee's configurational concept, which is also a proven approach in family business research (Hsueh et al., 2023), helps to classify the cases according to their sustainability strategy as a response to a sustainability reporting mandate.

My findings and the derived framework show theoretical and practical relevance. First, I contribute to research of family firm's heterogenous sustainability strategy (Cam-

[1] This study refers to the term "sustainability reporting", which aligns with the CSRD. Previous studies often use the term "non-financial reporting", which refers to the predecessor, the NFRD. Due to the vagueness of the term "non-financial," the EC changed the name with the amendment of the new directive (Baumüller & Grbenic, 2021).

popiano & De Massis, 2015; Cennamo et al., 2012; Hsueh et al., 2023; Sharma & Sharma, 2011) and reporting behavior (Arena & Michelon, 2018; Aureli et al., 2020; Biswas et al., 2019; Campopiano & De Massis, 2015; Gavana et al., 2017; Terlaak et al., 2018; Venturelli et al., 2021). Going beyond existing findings, I differentiate family firms based on their sustainability strategy and maturity of sustainability reporting. This allowed me to derive three PFF archetypes (i.e., *conservative sustainability denier*, *cautious first-time reporter*, *visionary early adopter*) that face varying degrees of the identified sustainability reporting implementation challenges. Regarding the second part of my research question, I identified direct and indirect or "locked" opportunities in different business functions. Irrespective of the archetype, all firms can benefit from direct opportunities (e.g., process transparency) that arise after the introduction of a reporting process. In contrast, the indirect opportunities (e.g., product innovation) need to be unlocked through a proactive sustainability strategy. Hence, my study contributes to the knowledge about how configurations of SEW and external influences (i.e., the imposition of a sustainability reporting mandate, including stakeholders' expectations for meeting these legal requirements), shape family firms' sustainability strategy. I show that PFFs' sustainability strategy indicates the type and degree of reporting challenges and the possibility of gaining a more comprehensive set of opportunities.

Second, I extend the literature on the impact of mandatory sustainability reporting in general (Christensen et al., 2021; Ioannou & Serafeim, 2017) and on the EU's disclosure directives in particular (Fiechter et al., 2022; Ottenstein et al., 2022), as my findings contribute to the sparse research on the CSRD. The framework highlights the challenges and opportunities associated with the new directive. Therefore, my framework also highlights practical implications for family and non-family firms by supporting them on their path to preparing for one of the most pivotal milestones of sustainability reporting in the EU.

My study encompasses five further chapters, starting with the theoretical background. I provide a brief overview of research on family firms' sustainability strategy and reporting behavior, followed by the theory of Lee (2011). An outline of the EU sustainability disclosure directives, including the status quo on their impact, continues stressing the need for building theory in this field. Chapter three explains the methodological approach for my inductive framework, which is illustrated and described in chapter four. The fifth chapter discusses my results, which will be concluded in chapter six.

2. Theoretical background

2.1. Definitional dilemma and family firms' heterogeneous behavior

Academia's interest in family businesses is constantly increasing (Pieper, 2010), which is underlined by the fact that over 70% of the world's gross domestic product is generated by family firms (UNCTAD, 2021). Despite this high momentum, the ambiguity of the term "family firm" confronts researchers with a definitional dilemma (Brockhaus, 2004; Lansberg, 1988). There is no consensus among the concepts to define family firms (Harms, 2014). For this reason, Chrisman et al. (2005) recommend focusing on a particular definition before proceeding with research. Although a family's involvement in the firm through management or ownership appears to be the most evident characteristic, the real essence of a family firm is rather captured by its specific behavior and corresponding vision (Chua et al., 1999). Hence, Chua et al. (1999, p. 25) developed a definition that considers both the family's involvement and the family firm's essence:

> *"The family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families."*

The dominant coalition of a family firm is composed of family members or a mix of family and non-family members nominated by the controlling family, ensuring the family's influence in determining members' composition and the business strategy (Chua et al., 1999; Sharma & Sharma, 2011). Therefore, family members mostly hold top management positions or sit on the board (Chen et al., 2008). As I analyze family firm-specific consequences induced by a sustainability reporting mandate that aims to change a firm's behavior (Christensen et al., 2021), it was reasonable for this study to choose a definition based on a behavioral approach. In this vein, the SEW concept (Gómez-Mejia et al., 2007), which extends the behavioral agency theory (Gómez-Mejia et al., 2000; Wiseman & Gomez-Mejia, 1998), has become the key differentiating factor for family firms (Berrone et al., 2012). The initial behavioral agency theory assumes that a firm's dominant principals make choices based on their reference point to preserve accumulated endowment. In contrast, the SEW concept is based on the notion that family principals instead care about their socioemotional endowment or wealth, which captures non-economic utilities like the enjoyment of family influence (Berrone et al., 2010, 2012; Gómez-Mejia et al., 2007). Hence, for any issue that could negatively impact the SEW, such as introducing a sustainability reporting mandate, a family principal is even willing to bear financial losses or put the business at risk to preserve its SEW (Berrone et al., 2010, 2012; Gómez-Mejia et al., 2007). Consequently, family firms pursue a set of economic and non-economic goals (Berrone et al., 2010; Kotlar & De Massis, 2013) with a higher risk aversion to SEW (Berrone et al., 2012).

However, as emotions vary within the family of the controlling firm (Berrone et al., 2012; Hoy & Sharma, 2010), SEW as a psychologically anchored concept (Berrone et al., 2010) implies heterogeneity in family principals' reference frames and therefore, also in family firms' behavior (Cennamo et al., 2012). Going one step further, as emotions emerge from situation-specific activity (Pugh et al., 2022), looking from a socioemotional lens would therefore mean that family firms' behavior also depends on its specific context (Lumpkin et al., 2011; Wright et al., 2014). Within family business research, Wright et al. (2014) distinguish between an organizational context, which refers to internal firm factors like goals or governance, and an institutional context, which refers to external political and legal institutions. Given the fact that stakeholders are defined as "*any group or individual who can affect or is affected by the achievement of the organization's objectives*" (Freeman, 1984), including governmental officials (Gómez-Mejia et al., 2011), these external institutions (Wright et al., 2014) can be attributed to family firms' major stakeholder group. Family firms are more responsive to external stakeholders (Cennamo et al., 2012; Gómez-Mejia et al., 2011), especially regarding sustainability demands (Vardaman & Gondo, 2014). Therefore, how would PFFs respond to an external demand from an institution such as the EC to disclose a sustainability report?

Considering this context-affected and heterogeneous behavior within the SEW framework, researchers developed sub-dimensions of SEW (Berrone et al., 2012; Venturelli et al., 2021). These dimensions serve as instruments to measure and validate the belief that non-economic goals can lead to positive performance outcomes (Berrone et al., 2012). Berrone et al. (2012) refer in their model to five dimensions which were condensed into the FIBER acronym that includes (1) ***f****amily control and influence*, (2) ***i****dentification of family members with the firm*, (3) ***b****inding social ties*, (4) ***e****motional attachment,* and the (5) ***r****enewal of family bonds to the firm through dynastic succession*. Family firms prioritize these dimensions differently, which results in company-specific behavior (Berrone et al., 2012). The isolated consideration of these dimensions allows to derive characteristics of family firms. For instance, (1) *family control and influence* are exerted over the dominant family coalition (Berrone et al., 2012) and desired by family members (Zellweger et al., 2012). The main derived attribute is family members' preservation of control over strategic decisions (Chua et al., 1999) and day-to-day operations (Vardaman & Gondo, 2014). (2) *Identification of family members with the firm* describes the strong connection between the family and the firm (Berrone et al., 2012) that results in one unique identity (Berrone et al., 2010). This is mainly due to the frequent coincidence of family and firm names, which is also a reason why stakeholders perceive the family and the firm as one entity (Berrone et al., 2012). (3) *Binding social ties* refer to a family firm's social relationships (Berrone et al., 2012). The existing social bonds and inclusion within the family can also extend to non-family members and thus promote commitments to the firm (Miller & Le Breton-Miller, 2005). (4) *Emotional attachment* between the family and the firm is vital due to familial intergenerational relationships and the underlying history (Felden et al., 2016). (5) *Family bonds to the firm through dynastic succession* emphasize the goal of passing the business to future generations (Zellweger et al., 2012). This sense of dynasty implies a long-term planning horizon (Berrone et al., 2012; Miller & Le Breton-Miller, 2006).

Another multidimensional model that supports the approach of Berrone et al. (2012) was developed by Vardaman and Gondo (2014). Their model is based on the hypothesis that family firms face conflicts or trade-offs between different SEW dimensions. They cluster SEW into an internal dimension, the desire to retain control and influence, and into an external dimension, the preservation of the firm's image and reputation. The key between those elements is that family principals use internal SEW as the default reference point but switch to external SEW if an event harms the firm's reputation or identity (Vardaman & Gondo, 2014).

In conclusion, my study focuses on the upcoming CSRD imposed by the EC. Translated into a theoretical context, this would correspond to sustainability demands from external stakeholders in an institutional context. The aim is to analyze PFF's potential challenges and opportunities when pushed into this setting. As combinations of SEW dimensions together with specific contexts are responsible for family firms' heterogeneous behavior, Agostino and Ruberto (2021) call for empirical evidence, as these heterogeneous behaviors make it ambiguous how family firms would respond to sustainability regulations. Also, Gómez-Mejia et al. (2011) support further research in this area, as references to stakeholders in family business research are often indirect and simplistic. Finally, to provide nuanced considerations, the following chapters refer to the FIBER model (Berrone et al., 2012) and the internal and external SEW perspectives of Vardaman and Gondo (2014).

2.2. Family firms' heterogenous sustainability strategy and reporting behavior

2.2.1. Family firms' proactive and reactive sustainability strategy

A sustainability strategy helps me to determine how family firms behave towards external demands (e.g., sustainability reporting mandate) because a sustainability strategy is a construct in response to external influences, which consists of stakeholders including institutions (Lee, 2011). In the case of family firms, decision makers' interpretation of external influences is guided by salience (Vardaman & Gondo, 2014) or configurations (Hsueh et al., 2023) of SEW dimensions. At this point, it is essential to consider Vardaman and Gondo's (2014) reasoning about the family firm's default script. According to their concept, family firms prioritize preserving SEW dimensions related to external stakeholders. In this vein, the literature refers to the second (*identification of family members with the firm),* third (*binding social ties*), and fifth (*renewal of family bonds to the firm through dynastic succession*) SEW dimension (Cennamo et al., 2012; Hsueh et al., 2023; Vardaman & Gondo, 2014). Nevertheless, Cennamo et al. (2012) add that the rationale for prioritizing external stakeholders is only valid when family firm decision-makers consider at least one of the dimensions mentioned above as their primary reference point. If this is the case, family firms respond to their external stakeholders proactively (Cennamo et al., 2012) and in the context of sustainability with a formalized sustainability strategy (Hsueh et al., 2023). If not, family firms respond reactively to incoming (sustainability) demands (Cennamo et al., 2012). The motivation behind family firms' proactive stakeholder engagement and the underlying prioritization of SEW dimensions are manifold.

First, the strong *(2) identification of family members with the firm,* and stakeholders' perception of the family and the firm as a single entity increases the family's concern about their externally perceived image (Micelotta & Raynard, 2011). Thus, family members' identity with the firm links the family's reputation with the company's survival (Anderson et al., 2002). Consequently, reputational threats to the family are perceived as a risk to the identity and the existence of the family itself (Zellweger et al., 2010). Therefore, a proactive stakeholder approach serves not only as a preservation but also as an improvement of reputation combined with the gain of legitimacy, i.e., seeking social acceptance and credibility (Cennamo et al., 2012; Gómez-Mejia et al., 2011; Hsueh et al., 2023; Suchman, 1995).

Second, family firms with a reference point dominated by (3) *binding social ties* engage proactively with stakeholders to develop social capital (Carney, 2005; Cennamo et al., 2012). Social capital relates to stakeholder management (Cennamo et al., 2012; Rowley, 1997) and is a source of wealth for the family (Gavana et al., 2017). Hence, family firms seek social capital to enhance their relationship with external stakeholders (Sirmon & Hitt, 2003), to enable partnerships with different sectors (Boehm, 2005), or facilitate the implementation of external norms (Meyer & Rowan, 1977).

Third, instead of a single salient SEW dimension, the copresence of the (2) *identification of family members with the firm* and the (5) *renewal of family bonds to the firm through dynastic succession* leads to a formalized sustainability strategy (Hsueh et al., 2023). It relates to a proactive sustainability strategy in family business research (Campopiano & De Massis, 2015; de la Cruz Déniz Déniz & Cabrera Suárez, 2005; Hsueh et al., 2023; Sharma & Sharma, 2011). Families with a configuration of both dimensions are forward-looking, as they want to transfer their business to the next generations (Berrone et al., 2012) and develop a positive identity in the future (Hsueh et al., 2023). Hence, family firms pursue a proactive sustainability strategy to reduce information asymmetries with external stakeholders by formally communicating sustainability information (Campopiano & De Massis, 2015; Terlaak et al., 2018).

As a result, in case of external sustainability demands, family firms either respond with a proactive or reactive sustainability strategy (Campopiano & De Massis, 2015; de la Cruz Déniz Déniz & Cabrera Suárez, 2005; Hsueh et al., 2023; Sharma & Sharma, 2011). There is no consensus on which type of strategy is more prevalent (Hsueh et al., 2023). The nomenclature of a proactive or reactive sustainability strategy is not consistent within family business literature, but the definitions of both strategies share common features.

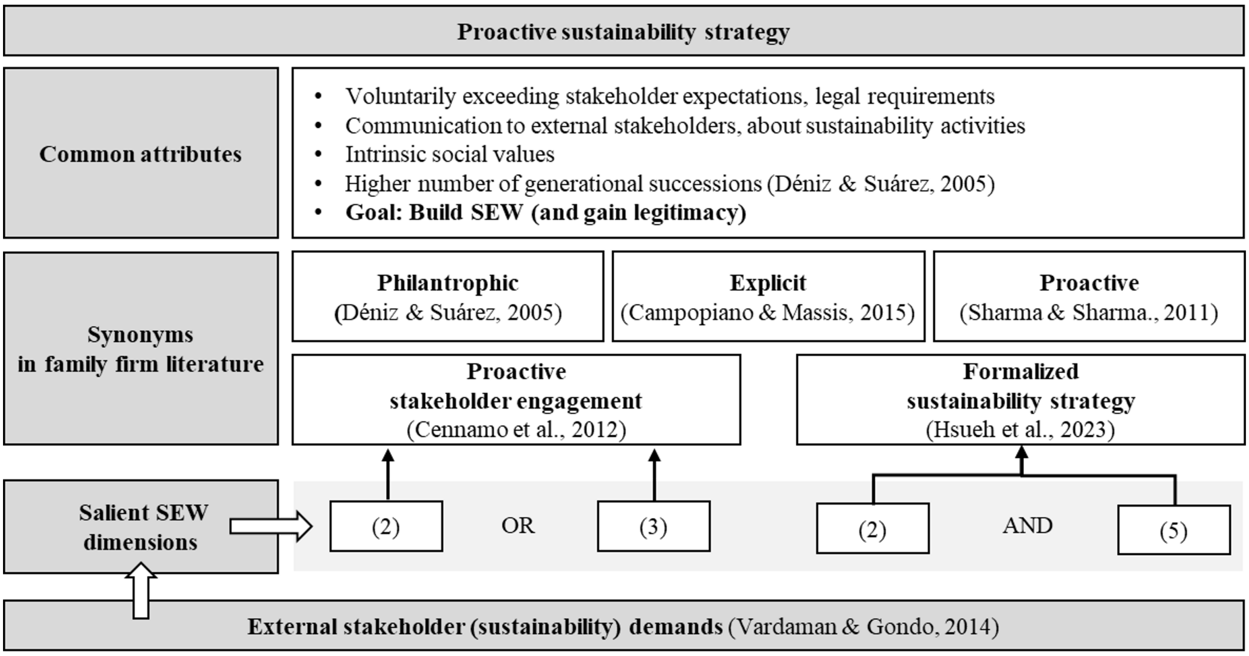
In family business research, a sustainability strategy that is proactive, as Sharma and Sharma (2011) call it, is also defined as formal (Hsueh et al., 2023), philanthropic (de la Cruz Déniz Déniz & Cabrera Suárez, 2005), or explicit (Campopiano & De Massis, 2015) (see Figure 1). Independently of its specific name, pursuing such a strategic approach is a voluntary decision by the family. Therefore, it captures the characteristic of going beyond expectations or regulatory requirements (Campopiano & De Massis, 2015; de la Cruz Déniz Déniz & Cabrera Suárez, 2005; Hsueh et al., 2023; Sharma & Sharma, 2011). Further common features include the firm's communication of its sustainability activities to stakeholders in addition to intrinsic social values by the family firm's management (Campopiano & De Massis, 2015; de la Cruz Déniz Déniz & Cabrera Suárez, 2005; Hsueh et al., 2023; Sharma & Sharma, 2011). Moreover, de la Cruz Déniz Déniz and Cabrera Suárez (2005) figured out that a higher number of generational successions characterize family firms in the philanthropic group. This finding is in line with the observation of Hsueh et al. (2023) to follow a proactive sustainability approach.

In contrast, a sustainability strategy that is reactive (Sharma & Sharma, 2011) is described as informal (Hsueh et al., 2023), socioeconomic (de la Cruz Déniz Déniz & Cabrera Suárez, 2005), or implicit (Campopiano & De Massis, 2015) (see Figure 2). The main commonality is to comply with the legal requirements and thus to stay within the "rules of the game" (de la Cruz Déniz Déniz & Cabrera Suárez, 2005; North, 1990). Another shared characteristic of all reactive typologies is the family firm owner's limited sustainability knowledge (Fassin et al., 2011). Beyond that, de la Cruz Déniz Déniz and Cabrera Suárez (2005) conclude that family firms in the socioeconomic group have a limited commitment to sustainability due to their smaller size (i.e., turnover and headcount) and resulting limited access to resources. Ultimately, family firms that react reactively to external demands have the central premise of gaining legitimacy and thus preserving their SEW (Berrone et al., 2010; Gómez-Mejia et al., 2011).

As illustrated in Figure 1 and 2, family firms' sustainability strategies are heterogeneous due to different priorities (Cennamo et al., 2012; Vardaman & Gondo, 2014) or configurations (Hsueh et al., 2023) of SEW dimensions. The critical differentiator between a proactive and reactive approaches lies in the fact that family firms with a proactive strategy are more likely to build SEW instead of maintaining it. In contrast, the main commonality lies in the achievement of legitimacy.

2.2.2. Family firms' sustainability reporting behavior

Regardless of whether a family firm is pursuing a reactive or proactive sustainability strategy, external stakeholders should recognize that their sustainability demands have been implemented (Gavana et al., 2017). Therefore, firms go into a dialog with their stakeholders (Gray et al., 1995) and use the governance practice of sustainability reporting (Venturelli et al., 2021) as a tool to communicate their sustainable actions (Campbell, 2004). In this context, communication is the key to recognizing a firm's legitimacy by its stakeholders (Gavana et al., 2017). At this point, it is essential to mention that the current literature on sustainability reporting in



Note: SEW dimensions (2) identification of family members with the firm; (3) binding social ties; (5) renewal of family bonds to the firm through dynastic succession

Figure 1: Family firms' proactive sustainability strategy (Source: Own figure)

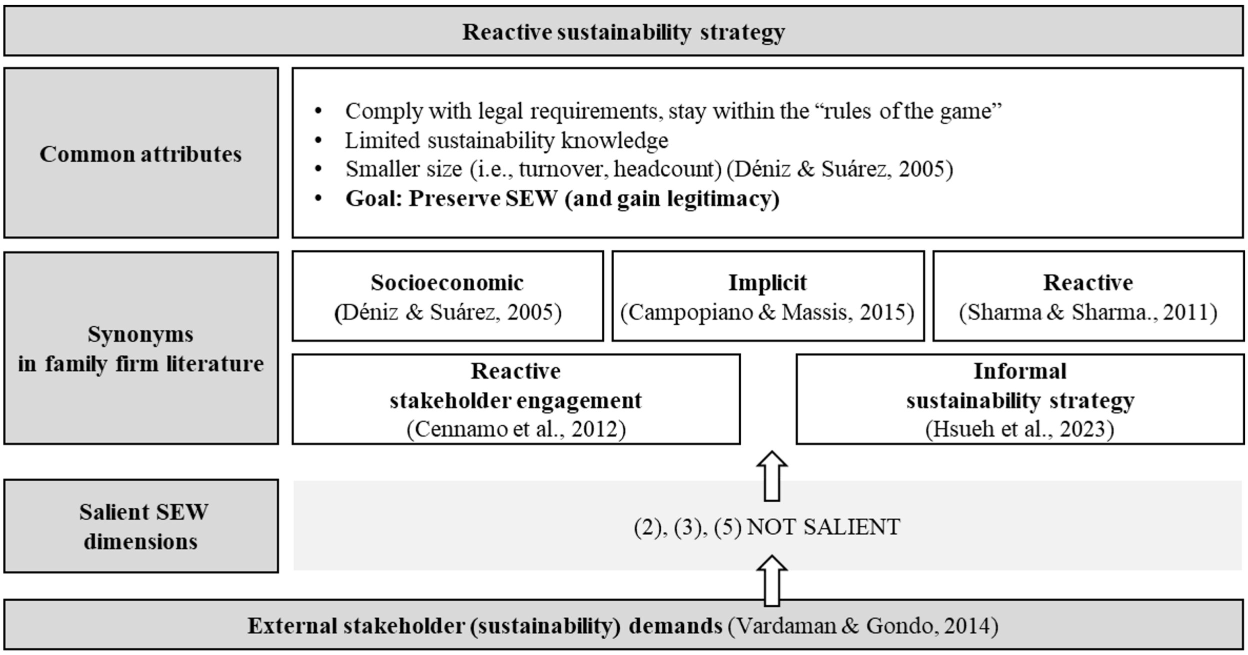


Figure 2: Family firms' reactive sustainability strategy (Source: Own figure)

family firms refers either to voluntary reporting (Campopiano & De Massis, 2015; Venturelli et al., 2021), to publicly listed firms (Aureli et al., 2020; Biswas et al., 2019), or to both (Arena & Michelon, 2018; Gavana et al., 2017; Terlaak et al., 2018). Internationally, the regulations on mandatory sustainability reporting have referred so far to publicly listed companies (Jiang et al., 2023). In the EU, for example, private companies are only affected by a sustainability reporting mandate through the extension of the company scope by the CSRD in 2025 (Lange-Snijders, 2023). Hence, for my research purpose, it is not ideal to derive characteristics of the behavior of voluntary sustainability reporting from publicly listed family firms for three reasons. First, the public status of listed family firms leads to pressure from capital markets, impacting governance practices (Carney et al., 2015). Shareholders' demand for high short-term returns and risk-taking distances public firms from family values such as non-economic goals (Kotlar & De Massis, 2013) or long-term orientation, which usually implies sustainable behavior (Miller et al., 2009). Second, according to Jiang et al. (2023), almost all publicly listed firms publish sustainability reports besides their financial reports. In contrast, first-time reporting companies show a lower reporting quality, indicating implementation challenges (Hoffmann et al., 2018). Hence, considering reporting characteristics of more experienced publicly listed companies would not be beneficial either. Third, it is unfavorable to derive best practices from voluntary sustainability reporting due to its specific firm context (Arena & Michelon, 2018). This variability is particularly strong for family firms, as the decision on the reporting content lies at the discretion of family managers (Arena & Michelon, 2018).

However, three of the mentioned studies (Aureli et al., 2020; Campopiano & De Massis, 2015; Venturelli et al., 2021) overlap with the use case of mandatory sustainability reporting in PFF. Aureli et al. (2020) indicate that introducing a sustainability reporting mandate encompasses both challenges and opportunities, supporting the necessity to further research both consequences. In their single case study, the authors conclude that the firm perceived the legal obligation of sustainability reporting as a requirement from multiple stakeholders (e.g., employees, local communities, family). However, within a year, the company changed its attitude towards sustainability reporting. Further opportunities were recognized from the initial pressure to comply with regulations and to gain legitimacy. Contrarily, Campopiano and De Massis (2015) do not focus on mandatory sustainability reporting but examine the differences in voluntary disclosure of sustainable actions between family and non-family firms but also between private and listed companies. According to their analysis, the listing status and family's influence significantly impact the reporting behavior. For example, private, and listed family firms are less compliant with reporting standards and disclose less information on employee-related topics, but more on environmental issues than their non-family counterparts. Only private family firms tend to report more on their philanthropic activities (e.g., engagement with the local community, donations, sponsorship). Their findings underline the importance of distinguishing between family, and non-family-owned, but also between private and listed companies when analyzing corporate sustainability reporting. Also, Venturelli et al. (2021) indicate the specificity of sustainability reporting within private family firms. They investigated the impact of the first SEW dimension on voluntary sustainability communication and practices in predominantly private SMEs. According to them, family involvement has a negative impact on voluntary sustainability communication due to the family's fear of disclosing confidential information that could harm their SEW. Thus, the authors support the argument that voluntary sustainability communication is less prevalent in (mainly private) family-run SMEs because of their lower regulatory and stakeholder pressure.

2.3. Sustainability strategy - a configuration of external demands

A relevant theory for my research is Lee's (2011) framework, which uses a configurational approach and combines institutional with stakeholder theory. Specifically, family business research supports Lee's approach as a configurational perspective enriching the understanding of family firms' heterogeneous behavior (Hsueh et al., 2023). Lee (2011) states that a firm's sustainability strategy is a construct in response to the intensity and coherence of external influences that consists of institutions and stakeholders (Lee, 2011). The essence of his framework is that only the configuration of the two external influences can explain the intensity and coherence and, thus a firm's chosen sustainability strategy (Lee, 2011). This rationale also applies to family firms, as the absence of regulatory and stakeholder pressure reduces the motivation to communicate sustainability information (Venturelli et al., 2021) or use sustainability standards (Dyer & Whetten, 2006).

On the one hand, institutional theory assumes that institutions exert pressure on organizations to behave in certain ways and to achieve desired outcomes (DiMaggio & Powell, 1983). Hence, institutions are the "rules of the game" comprising formal written rules and informal, unwritten codes of conduct (North, 1990). In particular, formal institutions have the authority to monitor and enforce compliance (Webb et al., 2015), such as the EC with its CSRD. Compliance with rules leads to legitimacy (Suchman, 1995), which enables access to market opportunities (DiMaggio & Powell, 1983). Organizations that fail to comply face penalties (DiMaggio & Powell, 1983) or even lose their license to operate (Gunningham et al., 2003).

On the other hand, the stakeholder theory by Freeman (1984) embeds firms in a broad spectrum of social relations. Freeman (1984) characterizes it as "*groups and individuals who can affect the organization, and is about managerial behavior taken in response to those groups and individuals*" (p. 48). Therefore, firms must balance the interests of different stakeholders and manage their influences (Lee, 2011). Overall, both theories are interdependent and drive companies to respond to social demands (Lee, 2011). Consequently, Lee (2011) justifies his configurational approach with the fact that "*[. . .] stakeholders can mediate institutional effects by acting as either buffers or amplifiers of institutional influences. Institutions can also mediate stakeholder effects by legitimating or de-legitimating a stakeholder group's claim*" (p. 282). Firms scan their environment and pay attention to the external signal with the most vigorous intensity and coherence, leading to different responses and variable sustainability strategies (Lee, 2011). Lee (2011) differentiates between four strategic responses (see Figure 3).

Obstructionist ("Reactive") sustainability strategy. A strategy that results from a configuration of weak external influences. Companies see no incentive to engage in sustainability matters. Moreover, today's markets often force companies to compete on cost, preventing companies from engaging in costly social activities (Lee, 2011). The literature

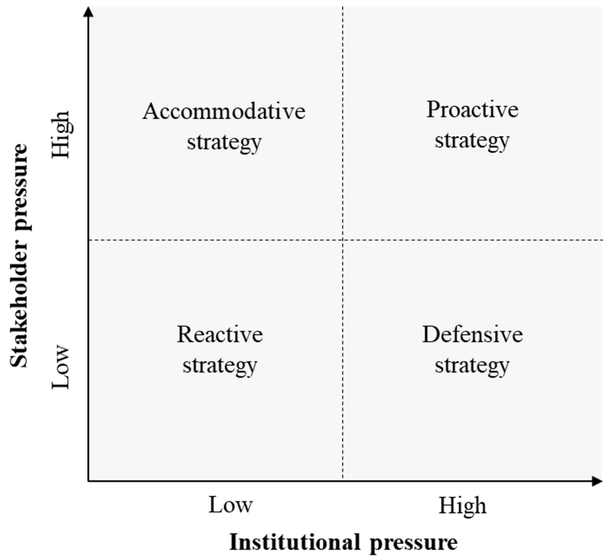


Figure 3: Configuration of external pressures and sustainability strategies (Source: Lee (2011))

calls this approach also a reactive sustainability strategy (Bini & Bellucci, 2020).

Defensive sustainability strategy. Firms follow a defensive approach when facing intense institutional but low stakeholder pressure. They will meet the legal requirements but not go beyond compliance. Hence, firms show no real commitment to sustainability (Lee, 2011).

Accommodative sustainability strategy. A combination of weak institutional and high stakeholder pressure leads to an accommodative strategy. Companies are motivated to respond to specific stakeholders' sustainability demands to protect economic interests (Lee, 2011).

Proactive sustainability strategy. The joint presence of high institutional and stakeholder pressure results in a proactive strategy (Lee, 2011). Firms surpass the minimum requirements and often integrate sustainability into the value-creation process (Bini & Bellucci, 2020). According to Lee (2011), the main incentive for companies is to be prepared for uncertain demands and to ensure continued legitimacy.

2.4. Mandatory sustainability reporting and its consequences

2.4.1. Regulatory overview of sustainability reporting directives

Researchers complains about the unspecified reporting requirements by the NFRD (La Torre et al., 2018; Mittelbach-Hörmanseder et al., 2021) and the limited comparability of disclosed sustainability information (Hummel & Jobst, 2021) led to an amendment of the NFRD. The succeeding CSRD was adopted in November 2022 (Hummel & Jobst, 2021) and entails more guidelines that increase the institutional pressure on reporting companies.

Starting in 2018, the NFRD requires public-interest entities (PIEs) with more than 500 employees and an annual net turnover of at least EUR 40 million or a balance-sheet sum higher than EUR 20 million to disclose a sustainability report (Art. 1, 3, 4, NFRD) (European Union, 2014). EU MS had to transpose the NFRD into national law (Art. 4, NFRD) (European Union, 2014). The directive consists of five key reporting aspects, i.e., *(1) definition of PIE*, *(2) reporting content*, *(3) reporting framework*, *(4) disclosure format*, *(5) external audit*, that each MS can adapt (CSR Europe, Global Reporting Initiative, 2017). Germany almost identically transposed the NFRD by the Corporate Social Responsibility Directive Implementation Act (CSR-RUG) into commercial and corporate law in 2017 (Uwer & Schramm, 2018). The adjustments refer to the *(1) definition of PIE*, which in Germany corresponds to capital market-oriented companies (§ 264d HGB) in addition to insurance and credit institutions, and *(5) the external audit*, which remains voluntary (CSR Europe, Global Reporting Initiative, 2017). Regarding the (2) *reporting content* that aligns with the NFRD, German public firms must disclose general information about their business model and policies, including their outcomes, risks, and key performance indicators (KPIs) in relation to the environment, social and labor issues, human rights, anti-corruption, and bribery matters (Art., 1, NFRD) (European Union, 2014). The information should follow the "double materiality" principle. Thus, the report includes information that is of significance for an understanding of the firm's performance (outside-in) and the impact of its activities on the environment and society (inside-out) (European Parliament, 2021). The directive does not mandate a (3) *reporting framework* but recommends for instance the Global Reporting Initiative (GRI) standards (Recital 9, NFRD) (European Union, 2014). A comparable framework is the Deutscher Nachhaltigkeitskodex (DNK). The (4) *disclosure format* provides for integration into a company's management report or a publication in a separate report (Recital 6, NFRD) (European Union, 2014).

The amendments of the CSRD relate to all five reporting aspects, including a scope expansion of the covered companies. The expansion occurs in several phases, starting in 2024 for companies already subject to the NFRD (Art. 5, CSRD) (European Union, 2022). For research on private firms, it is essential to note that for the financial year 2025, large companies, regardless of their capital-market orientation, must disclose a sustainability report in 2026 (Art. 5, CSRD) (European Union, 2022). On top, the CSRD adjusts the definition of large companies, lowering the employee threshold to 250 (Art. 5, CSRD) (European Union, 2022). In comparison to the NFRD, the (2) *reporting content* (Recitals 30-36; Art. 1, CSRD) (European Union, 2022) must be structured according to the compulsory (3) *reporting framework*, i.e., European Sustainability Reporting Standards (ESRS). The ESRS is based on delegated acts adopted in several sequences (Hummel & Jobst, 2021). The final draft in November 2022 comprises two of three categories, i.e., cross-cutting standards (ESRS 1-2), topical standards regarding the environment (ESRS E1-E5), social (ESRS S1-S4), and governance (ESRS G1-G2), in addition to sector-specific standards, while the third standards are under development (EFRAG, 2022d). A mandatory sustainability report under the CSRD must report on ESRS 2 (general disclosures, strategy, governance, materiality), ESRS E1 (climate change), and ESRS S1 (own workforce). The concretized double materiality principle and the measurement of scope 3 emissions are noticeable. According to the current ESRS draft, a topic is identified as material if it fulfills one of the two conditions, i.e., outside-in or inside-out (EFRAG, 2022a). Thus, the amount of information classified as material increases. ESRS E1 refers to the classification of greenhouse gas (GHG) emissions by the Greenhouse-Gas-Protocol and demands to disclose emission data on scope 1 (i.e., direct emissions from firm-owned and controlled resources), scope 2 (i.e., indirect emissions from the generation of purchased energy) and, scope 3 (all indirect emissions along firm's value chain and not included in scope 2 (EFRAG, 2022c). Especially the data collection for scope 3 emissions, which requires the involvement of suppliers, could be challenging (PwC, 2022). CSRD's *(4) disclosure format* requires the inclusion of sustainability information in the management report in an electronic format (Art. 1, CSRD) (European Union, 2022). Lastly, an (5) *external audit* also becomes mandatory (Recital 60, CSRD) (European Union, 2022). The transposition of the CSRD into German law is expected to last until mid-2024 (Ebner Stolz, 2022) (see Table 1). Thus, what might be the consequences for German PFF?

2.4.2. Twofold hierarchy on the consequences of mandatory sustainability reporting

Introducing a sustainability reporting mandate aims to drive change (Christensen et al., 2021). The EC used the disclosure directives to initiate a change process that should result in higher transparency for investors (Ottenstein et al., 2022). In addition to lower firm externalities given the increased importance of double materiality (Christensen et al., 2021; Fiechter et al., 2022). As a result, firms make real changes to their business operations (Christensen et al., 2021). Thus, mandatory sustainability reporting drives organizational change (Garcia-Torea et al., 2023; Ioannou & Serafeim, 2017), which is challenging to manage (Kotter, 1996).

Nevertheless, if challenges are adequately addressed, they can turn into opportunities (Schaltegger et al., 2017). Particularly studies on voluntary sustainability reporting provide insights that companies experience benefits from producing a sustainability report (Gamerschlag et al., 2011; Ryou et al., 2022). However, this dual mission of creating sophisticated accountability mechanisms for sustainability reporting and deriving benefits from it is not straightforward (Nigri & Del Baldo, 2018). It is essential to distinguish between the challenges of integrating voluntary or mandatory sustainability reporting. Due to the induced external pressure, these real changes or "real effects" are more likely to result from a reporting mandate than voluntary disclosure (Christensen et al., 2021). After the financial crisis in 2007-09, many countries started to mandate the disclosure of sustainability information (Ioannou & Serafeim, 2017). In Germany, sustainability reporting only became binding ten years later through the CSR-RUG (Gulenko, 2018). Considering the national and institutional context when analyzing a sustainability reporting mandate's challenges and opportunities is crucial for two reasons (Christensen et al., 2021; Ferri, 2017; Gulenko, 2018).

First, institutions' motivation to force companies to publish sustainability reports varies. Thus, Christensen et al. (2021) distinguish between the narrow and broad regulatory approach, while the first aims to meet investors' need for sustainability information. Firms must disclose sustainability information showing the financial impact of sustainability issues on their business and are thus material to investors. In contrast, the broad approach follows the double materiality principle and aims to target the need for sustainability information of society as a whole. Therefore, disclosing a sustainability report based on the double materiality principle is even more challenging due to its diverse target group and varying sustainability knowledge (Christensen et al., 2021). It can be difficult for a company to write a report that is both easy to understand and sufficiently informative.

Second, the disclosure of sustainability information depends on the institution's domestic policy, culture, and religion (Ferri, 2017). Specifically, German society has developed an increased awareness of sustainability, marked by the rise of the Green Party. Besides the external context, the internal context also plays an important role. A few studies addressed Italian companies' challenges in implementing the NFRD but also stressed their high firm-specificity as a limitation (Aureli et al., 2020; De Micco et al., 2021).

As a result, it is not ideal to extrapolate the consequences of implementing a sustainability reporting mandate from previous research. Due to the high specificity of my research context (i.e., German PFF), I searched for a context-independent systematization for the consequences of a sustainability reporting mandate. In this vein, I refer to the classification of first- and second-order consequences (Gulenko, 2018; Ioannou & Serafeim, 2017). Gulenko (2018) established a liter-

Table 1: NFRD and CSRD in comparison (Source: Own table)

<table>
<tr><th>Reporting aspects</th><th>NFRD
(EU directive)</th><th>CSR-RUG
(German transposition)</th><th>CSRD
(EU directive)</th><th>CSR-RUG 2.0
(German transposition)</th></tr>
<tr><td>Definition of PIE / Company scope</td><td>Large PIEs with
> 500 employees
and
> EUR 40m net turnover
or
> EUR 20m balance sheet sum

+ Credit/insurance institutions</td><td>Large public firms, with
> 500 employees
and
> EUR 40m net turnover
or
> EUR 20m balance sheet sum

+ Credit/insurance institutions</td><td>Applies progressively
Category 2: Large (incl. private) undertakings meeting min. 2 criteria:
> 250 employees
> EUR 40m net turnover
> EUR 20m balance sheet sum</td><td rowspan="5">Pending
(Release mid 2024)</td></tr>
<tr><td>Reporting content</td><td colspan="2">Report on dimensions about matters
Dimensions:
• Business model
• Policies
• Outcomes of policy
• Risks
• KPIs
Matters:
• Environment
• Social & labor issues
• Human rights
• Anti-corruption & bribery</td><td>Reporting content according to ESRS
• ESRS 2 (General disclosures, strategy, governance, (double) materiality
• ESRS E1 (Climate change)
• ESRS S1 (Own workforce)</td></tr>
<tr><td>Reporting framework</td><td colspan="2">Voluntary choice (e.g., GRI, DNK)</td><td>ESRS</td></tr>
<tr><td>Disclosure format</td><td colspan="2">Annual report or separate report</td><td>Annual report in electronic format</td></tr>
<tr><td>External audit</td><td>Member states' decision</td><td>Voluntary</td><td>Mandatory</td></tr>
<tr><td>Estimated number of reporting firms</td><td>~12,000</td><td>~500</td><td>~50,000</td><td>~15,000</td></tr>
</table>

ature review on the consequences of mandatory sustainability reporting and sorted the studies according to the concept of first-and second-order consequences by Ioannou and Serafeim (2017). First-order consequences (FOC) refer to the direct results of a reporting mandate. In contrast, second-order consequences (SOC) include the results of changes in firms' reporting practices (Gulenko, 2018). In my study, these direct results, i.e., FOC, refer to the challenges a PFF must face due to a reporting mandate. Given that SOC are themselves consequences of FOC, I use the term SOC for opportunities that may arise from implementing a sustainability report.

2.5. Research gap and question

The research stream on the effects of a sustainability reporting mandate for companies in general (Christensen et al., 2021; Ioannou & Serafeim, 2017) and in particular with a focus on the NFRD (Aureli et al., 2020; De Micco et al., 2021; Fiechter et al., 2022; Ottenstein et al., 2022), is evolving. In contrast, research on the effects of the new CSRD and its extended target group (i.e., private firms) is relatively scarce. Hence, Ottenstein et al. (2022) and Fiechter et al. (2022) call for research on the effects of the CSRD. Given the relevance of internal and external context combined with the reduced reporting quality in Germany due to the NFRD (Hoffmann et al., 2018), underlines the importance of focusing on the effects and, more specifically, on the challenges (i.e., FOC) and opportunities (i.e., SOC) in German PFFs.

Beyond this, Gulenko (2018) concludes that research on SOC, and especially on the link between FOC and SOC, are missing. She highlights that research on mandatory sustainability reporting could benefit from analyzing a firm's decision to adopt sustainability reporting in response to new regulations due to individuals' decision-making processes, organizational level, and external forces. This call builds the bridge to my second research stream on the organization of PFFs and their socioemotionally influenced decision to report on sustainability.

Current research on sustainability reporting in family firms focuses on voluntary reporting in listed companies (Arena & Michelon, 2018; Gavana et al., 2017; Terlaak et al., 2018). All mentioned studies focus on SEW dimensions that are easily accessible such as family ownership and control. Therefore, Arena and Michelon (2018) or Venturelli et al. (2021) call for research on sustainability reporting in private family firms that consider different SEW dimensions. For this purpose, Gavana et al. (2017) recommend using case studies.

Building on the heterogeneity of sustainability strategies at family firms (Campopiano & De Massis, 2015; de la Cruz Déniz Déniz & Cabrera Suárez, 2005; Hsueh et al., 2023; Sharma & Sharma, 2011) and Lee's (2011) model as a theoretical basis, I investigate PFF-specific challenges and opportunities. My study focuses on the link between the effects of a sustainability reporting mandate and the theories on family firms' sustainability strategy. As a result, I explore the following research question: *What challenges do private family firms face regarding the introduction of a sustainability reporting mandate, and how can a standard framework provide guidance to meet or even exceed the legal requirements and unlock business opportunities?*

3. Methodology

3.1. Research design and sample selection

I conducted an exploratory, inductive qualitative study with multiple cases to uncover the challenges and opportunities of German PFF caused by the CSRD and thus to answer the research question and build theory (Eisenhardt, 1989; Yin, 2018). The units of analysis (i.e., German PFF) and the observation unit (i.e., the implementation process of a sustainability reporting mandate including its consequences) gave reason for a qualitative research method. Since family firms exhibit SEW configurations that lead to heterogeneous sustainability reporting (Hsueh et al., 2023), experts recommend using qualitative methods for family firm research (De Massis & Kammerlander, 2021; Fletcher et al., 2016). In addition, a qualitative approach is suitable for research with changing study conditions (Merriam & Tisdell, 2015), which are also given within the field of sustainability reporting due to the continuous amendments in reporting regulations (Baret & Helfrich, 2019). Another purpose of qualitative research is reflected by its inductive nature and the fact that researchers use qualitative methods for theory-building (Merriam & Tisdell, 2015). Furthermore, the case study format can be justified by context-specific challenges arising from sustainability reporting (De Micco et al., 2021) and the type of research question (Yin, 2018). Exploratory case studies are suitable for theory-building and the combination of "what" and "how" questions, which is consistent with the research question of my study (Eisenhardt, 1989; Yin, 2018). Nonetheless, using multiple cases increases the robustness of the developed theory (Eisenhardt & Graebner, 2007).

The population of my study focuses on German PFF due to the extended company scope of the CSRD and several research calls (Arena & Michelon, 2018; Fiechter et al., 2022; Ottenstein et al., 2022). To capture the population of German PFF facing the consequences of the upcoming directive and thus to extend existing theory and replicate previous cases (Eisenhardt, 1989), this study follows the theoretical sampling approach (Glaser & Strauss, 1967). The sample selection within qualitative research is usually purposeful (Merriam & Tisdell, 2015). Hence, Glaser and Strauss (1967) used guided selection criteria in their research. In my study, the selection of German PFF is guided by an ownership threshold and the firm's market focus. As I choose the definition of a family firm according to Chua et al. (1999), I additionally consider minimum family ownership of 50%. This threshold still justifies a dominant coalition and facilitates an extraction from the population (Chua et al., 1999). Beyond that, all firms must operate in the business-to-business (B2B) market to avoid any distortion due to the market focus. This is because the disclosure behavior regarding sustainability information differs between B2B and business-to-customer (B2C) companies (Johnson et al., 2018). According to the selection criteria, potential companies were randomly selected on the business networking platform LinkedIn. After creating a long list of German PFFs active in the B2B market, I searched for potential interview partners (e.g., sustainability experts) within this pre-selection and contacted them.

The final sample consists of ten family firms with an average founding year of 1926 (see Table 1). Hence, every firm was passed on to at least the second or up to the eighth generation, indicating that the sample considers the family firm's typical intergenerational succession within the SEW concept (Gómez-Mejia et al., 2007) and its importance in sustainability (Berrone et al., 2010; García-Sánchez et al., 2021; Labelle et al., 2018). Seven firms have already published a sustainability report, one firm is in the process of creating one at the time of this study, and two firms do not have a sustainability report. The firms have, on average, a headcount of ∼6,750 employees and a revenue of ∼EUR 1,600 million in 2021 and act in seven different industry clusters.

3.2. Data collection

In case study research for theory building, Eisenhardt (1989) recommends using multiple data collection methods to triangulate and thus substantiate the results, whereas interviews have become the most common primary data source (Eisenhardt & Graebner, 2007). In addition, Yin (2018) proposes maintaining a chain of evidence in case study research. As this explorative multiple case study relies on the research advice of both authors, the database consists of primary and secondary data, according to Eisenhardt (1989), and is supported by Yin's (2018) chain of evidence.

The primary data comprise semi-structured interviews conducted with sustainability experts of all family firms of the sample. My study followed the rules of the case study protocol, which can be found in the Appendix 4 (Yin, 2018). To further support qualitative research guidelines, I used mainly open-ended questions (Merriam & Tisdell, 2015) clustered into three thematic fields. The first field contained general questions related to the interviewee's professional position, the family firm structure, and sustainability. The goal was to gain some descriptive firm-specific information and motivational insights into sustainability. The topic of the

Table 2: Case overview (Source: Own table)

Company	Industry	Founding year	Family generation	Family's role	Turnover[a] [EUR M]	Headcount[a] [#]	Sustainability report
Alpha	Forest products, paper & packaging	1895	5	Executive management	1,050	3,700	Yes
Beta	Forest products, paper & packaging	1807	8	Executive management	950	2,100	Yes
Gamma	Metals	1967	2	Executive management	90	850	No
Delta	Automotive & mobility	1901	6	Supervisory board	3,700	15,700	Yes
Epsilon	Automotive & mobility	1908	4	Executive management	5,300	25,000	Yes
Zeta	Industrial goods	1974	2	Executive management	65	750	In progress
Eta	Transportation & logistics	1946	3	Executive management	1,300	6,400	Yes
Theta	Forest products, paper & packaging	1961	2	Executive management	1.400	7,000	Yes
Iota	Machinery & Equipment	1906	4	Supervisory board	2,200	5,400	Yes
Kappa	Software	1988	2	Executive management	101	600	No

[a] Rounded figures

second cluster was consciously selected concerning the concept of Ioannou and Serafeim (2017) and Gulenko (2018) on FOC and SOC. Therefore, the questions in the second field targeted possible reporting challenges and emerging opportunities or synergies that may result from a sustainability reporting mandate. On the one hand, those thematic fields represented Eisenhardt's suggested predetermined constructs in the interview protocol, which can be adapted over the research process (Eisenhardt, 1989). If these constructs prove essential, they should ground the built theory. On the other hand, this procedure allowed me to create links to the existing literature, which enhanced the internal validity of my study (Eisenhardt, 1989). The third field referred to the outlook regarding introducing a sustainability reporting process. Lastly, the interview questions were overviewed by colleagues to ensure an easy understanding.

The interviews were conducted between February and March 2023 with sustainability representatives, as Eisenhardt and Graebner (2007) recommend interviewing highly experienced informants who can assess the unit of observation from different perspectives. If the firm did not have a sustainability-related job position in place at the time of the study, I instead interviewed board members, as they significantly impact sustainability reporting (Michelon & Parbonetti, 2012). Since the workplaces of the interviewees are spread across Germany, the interviews were conducted via video conferencing platforms. Each interview was prepared in advance by reviewing the company's website to collect additional clarifying questions. At the beginning of each interview, I assured the anonymization of the interview data and asked permission to record the conversation to facilitate the interview guidance (Eisenhardt, 1989). All interviews were subsequently transcribed to increase familiarity with the database and to facilitate data analysis (Merriam & Tisdell, 2015). After the tenth interview, the increase of new insights became smaller as the information began to be repeated. According to Eisenhardt (1989), I stopped adding new cases because theoretical saturation seemed to be reached (Glaser & Strauss, 1967). I recorded 395 minutes and collected 108 single-spaced pages of transcripts. The Appendix 3 includes the breakdown of the interview data.

As the unit of observation relates to the disclosure of sustainability information, I intuitively included secondary data from available sustainability reports of the family firms (e.g., applied reporting standard) and supplemented that data with information from their websites. Here I included information about accreditations by the International Organization for Standardization (ISO) or EcoVadis (EcoVadis, 2023). The most important standards for sustainability are ISO 14001 (environmental management), ISO 26000 (social responsibility), and ISO 50001 (energy management) (ISO, 2023). I chose these criteria to have nuanced indicators that help me justify the identified reporting challenges and facilitate the archetype classification for users of my framework.

Yin (2018) emphasizes the chain of evidence as it increases the validity of information in the case study. This method allows readers to follow the development of my results by tracing evidence for and backward between the research question and the derived findings (Yin, 2018) (see Figure 4). In my study, the chain of evidence is maintained by covering all five chain elements (see Figure 4) and by ensuring a clear link through consistent wording between those elements. This rationale is also in line with my coding approach, according to Gioia et al. (2013), where the reader can see data-to-theory connections.

3.3. Data analysis

Eisenhardt (1989) emphasizes that data analysis is at the core of theory building from case studies. Therefore, I looked at comparable case studies in family business research to build on best practices. Strike and Rerup (2016) published a case study on family firms in the renowned Academy of Management Journal using the inductive case analysis method of Gioia et al. (2013) in the context of multiple cases (Eisenhardt, 1989). My data analysis is based on a similar approach that can be summarized in three phases.

In the first phase, I conducted a within-case analysis (Eisenhardt, 1989) based on case data from several sources (i.e., transcribed interviews, sustainability reports, company websites) to better understand each case as a standalone entity. First, I highlighted the main challenges and opportunities of mandatory sustainability reporting in the transcript of each case. Consequently, I synthesized the highlighted quotes into 57 first-order categories while preserving mostly the terms used by the informants (Gioia et al., 2013). The summarized categories and the corresponding quotes were presented in a table (see Appendix 2) to provide evidence regarding the created constructs (Strike & Rerup, 2016). Moreover, I added missing descriptive information (e.g., sustainability norms, founding year, family generation) to the cases from the other data sources.

The second phase focused on the cross-case analysis that builds on the categories and patterns of the previous phase (Eisenhardt, 1989; Yin, 2018). The analysis of similarities and differences between categories (Gioia et al., 2013) and their comparison across cases (Eisenhardt, 1989) enabled me to explore relationships and replicate my findings (Yin, 2018). Thus, I grouped the categories into 23 second-order themes (Gioia et al., 2013). The first 10 themes refer to the reporting challenges and thus to the “what” part of the research question, while the remaining themes refer to the opportunities and thus to the “how” part. Beyond that, based on the synthesis of categories to themes and the descriptive firm information, I was able to group and categorize the cases (Eisenhardt, 1989) into three firm archetypes that will be explained in chapter four.

In the third phase, like Strike and Rerup (2016), I analyzed the second-order themes at a higher theoretical level of abstraction and developed aggregate dimensions (Gioia et al., 2013). I built a data structure after creating first-order categories, second-order themes, and aggregated dimensions (see Appendix 1). It connects and graphically illustrates these three levels and thus also addresses the previously mentioned data-to-theory link (Gioia et al., 2013). The data structure was the basis for building an inductive framework grounded in data and connecting informants’ experiences in theoretical terms (Gioia et al., 2013).

4. Results - mandatory sustainability reporting framework

Based on the within- and cross-case analysis and applying Lee’s (2011) theory, I build an inductive framework that illustrates PFF-specific challenges due to a sustainability reporting mandate and provides guidance to unlock business opportunities. The framework consists of three phases (see Figure 5), with phase 1.1 describing the assignment of any PFF to one of the three archetypes, which depend on PFF’s individual configuration of external forces (Phase 1.2). Phase 2 depicts which challenges, i.e., FOC, each archetype faces through the implementation of a sustainability reporting mandate. A PFF must face up to four challenge cluster depending on its archetype. Lastly, phase 3 elaborates on how the reporting mandate can be used as an opportunity, i.e., SOC, in different business functions. Accordingly, I recommend that companies applying my framework follow these three phases. My findings show that the nature and extent of the challenges depend on the archetype, while the direct benefits of the opportunities are archetype independent.

4.1. Archetypes and sustainability strategy - know your starting point

Family firm archetypes. The first phase of my framework refers to identifying PFF’s archetype and its corresponding sustainability strategy. I started by identifying similarities and differences between the cases regarding PFF’s market and sustainability characteristics. From this segmentation, I derived three archetypes (i.e., *conservative sustainability denier, cautious first-time reporter, visionary early adopter*). Of my sample, two cases (i.e., *Gamma, Kappa*) belong to the *conservative sustainability denier*, two further falls under the *cautious first-time reporter* (i.e., *Zeta, Iota*), and the remaining (i.e., *Alpha, Beta, Delta, Epsilon, Eta, Theta*) to *the visionary early adopter* (see Figure 6).

The market characteristics consist of macro (i.e., institutional sustainability pressure) and micro factors (i.e., stakeholder sustainability pressure) according to the theoretical framework of Lee (2011). The micro and macro factors are industry-specific and can be either low or high. I determined the level of external pressure based on the interview data. The sustainability characteristics refer to the firm’s sustainability mission or vision, its maturity of sustainability reporting, including the use of standards (e.g., GRI, DNK), and accreditations by ISO or EcoVadis. Both accreditations are not mandatory but demonstrate a firm’s proactive behavior toward quality, safety, and sustainability.

Ultimately, the assigned sustainability strategy per archetype depends on the configuration of the macro and micro factors. The sustainability characteristics are descriptive information

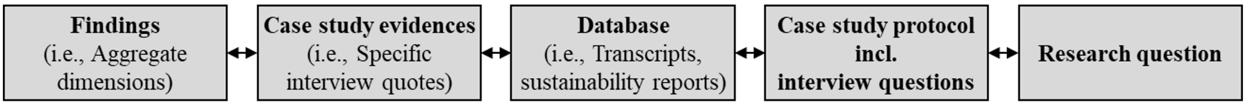


Figure 4: Chain of evidence (Source: Own figure adapted from Yin (2018))

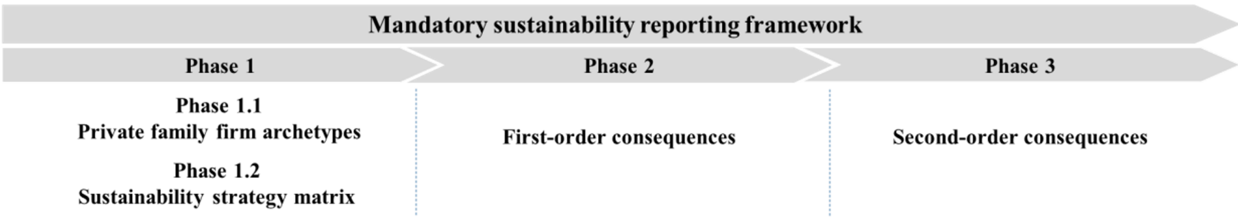


Figure 5: Sequence of phases for the mandatory sustainability reporting framework (Source: Own figure)

of the archetypes and side effects of the respective sustainability strategy. They are not included in the determination of the strategy. In the following, I will describe one representative case study per archetype illustrating the driving factors of the institutional and stakeholder pressure that result in the assigned strategy, but also to give an understanding of the underlying PFF-specific sustainability characteristics.

Conservative sustainability denier. *Gamma* is run by the second generation and operates in the metal processing industry. Its firm size (i.e., headcount, turnover) ranks in the lower quartile of the sample. The interviewee was a non-family board member. To date, *Gamma* has not received any request for a sustainability report from its stakeholders. It seems to be an industry-wide phenomenon. "*I have never seen a [sustainability] report from any of our competitors.*" Therefore, *Gamma* shows low external pressure in both categories. Regarding *Gamma's* sustainability focus, it does not embed sustainability in its mission or vision. No information on that could be found in the interview data or on the company's website. It appears that the intrinsic values for sustainability are missing. Accordingly, the firm does not have a sustainability department or representative. Therefore, typical for a *conservative sustainability denier* is its missing sustainability report and thus its lack of experience about reporting standards or the upcoming CSRD. Lastly, *Gamma* has no ISO 14001, 26000, 50001, or EcoVadis accreditation. In summary, *Gamma's* current weak external sustainability pressure and conservative attitude suggest that this archetype would respond to a sustainability reporting mandate with a reactive sustainability strategy. Those firms see no incentive to go beyond legal requirements and want to stay within the "rules of the game" and thus maintain their legitimacy.

Cautious first-time reporter. *Iota* is owned by the fourth family generation. The company sells agricultural machinery; its turnover is slightly above the sample's average, and its headcount slightly below. The interview was held with *Iota's* sustainability manager. In contrast to the first archetype, the industry-related stakeholder pressure is high. "*We received requests from customers, especially banks and insurance companies, and they often asked for a sustainability report.*" Also, *Iota's* sustainability focus is more pronounced "*[. . .] Sustainability is part of every family firm's DNA. This applies to us as well [. . .].*" *Iota* included sustainability in its mission, which indicates a strong identification of the family with the firm. They care about their externally perceived image by sustainability-oriented stakeholders. *Iota* holds close ties to its local community through social investments or school projects, which allows them to build social capital. *Iota* has a sustainability manager but no sustainability department. Furthermore, the sustainability manager is not yet fully integrated into corporate governance. "*There is not a separate sustainability department yet. I spend 100% of my hours on the topic of sustainability in my role as a sustainability manager. Personally, however, I am part of the Construction and Investments department.*" Nevertheless, the topic of sustainability reporting is already evolving. To communicate *Iota's* philanthropic activities, "*[. . .] in 2019/20, [. . .] [Iota] published [its] first sustainability report, but it was not based on a reporting standard. [Iota] collected all the sustainability activities [it is] involved and summarized them in the report.*" Thus, PFFs that belong to the archetype of the *cautious first-time reporter* have already published one sustainability report or are in the process of doing so, like *Zeta*, but without considering any reporting standard. Due to their voluntary interest in sustainability reporting, these firms know upcoming mandatory reporting regulations such as the CSRD. Another common feature of this archetype is the accreditation by at least one of the ISO standards for sustainability. *Iota* holds ISO 14001 and 50001 certifications. In conclusion, *Iota's* high stakeholder demands for sustainability led to a proactive sustainability behavior influenced by philanthropy. This archetype wants to be visible in local communities and communicate its activities to specific stakeholder groups (e.g., banks, insurance companies) to increase social capital and reputation. Hence, *cautious first-time reporting* companies pursue an accommodative sustainability strategy.

Visionary early adopter. *Theta* was founded in 1961 and is managed and owned by the second generation. Its company size (i.e., turnover, headcount) is close to the average firm size of the sample. The product portfolio includes pack-

	Market characteristics		Company specific sustainability characteristics						
	Macro and micro factors		Sustainability focus		Sustainability reporting			Sustainability norms/ratings	
Family firm archetypes [Company]	**Industry-related institutional sustainability pressure**	**Industry-related stakeholder sustainability pressure**	**Sustainability embedded in mission and/or vision**	**Sustainability department or representative**	**Sustainability report**	**Application of reporting standards (e.g., GRI, DNK)**	**Familiarity with mandatory CSRD regulation**	**Sustainability ISO norms and/or Ecovadis**	**Strategic approach to sustainability**
Conservative sustainability denier [Gamma, Kappa]	**Low**	**Low**	**No**	**No**	**No**	**No**	**No**	**No**	**Reactive strategy**
Cautious first-time reporter [Zeta, Iota]	**Low**	**High**	**Yes**	**Yes,** without direct link to board	**Yes,** or currently in progress	**No**	**Yes**	**Yes,** only ISO	**Accommodative strategy**
Visionary early adopter [Alpha, Beta, Delta, Epsilon, Eta, Theta]	**High**	**High**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes,** ISO and partly Ecovadis	**Proactive strategy**

Figure 6: Private family firm archetypes (Phase 1.1) (Source: Own figure)

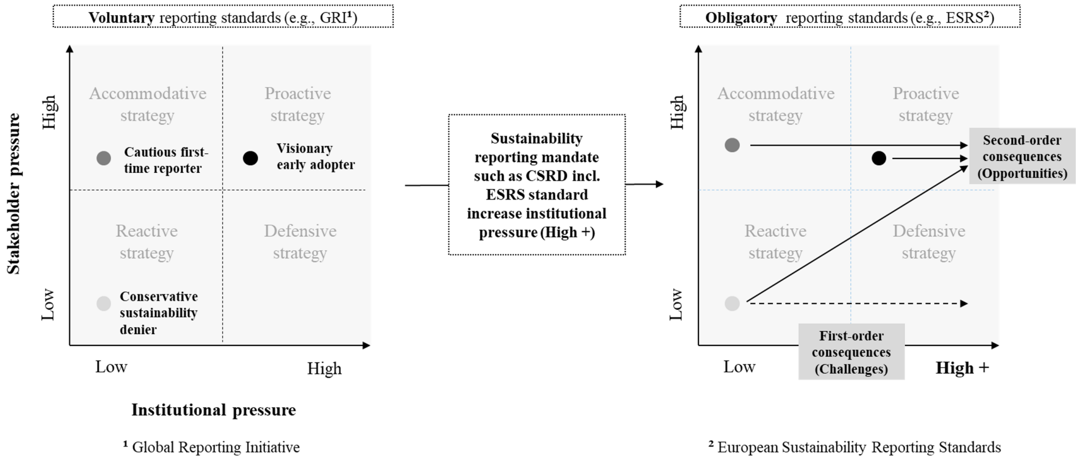


Figure 7: Sustainability strategy matrix (Phase 1.2) (Source: Own figure)

aging machinery and packaging materials for fast-moving consumer goods (e.g., food). I interviewed *Theta's* project manager for corporate strategy and sustainability. *Theta* must face high multi-stakeholder (i.e., end customers, direct customers, applicants) and formal institutional sustainability pressure. An increased sustainability awareness among end customers increased the pressure on *Theta's* direct customers. "*[We] noticed that the end consumers of our packages, the people who buy sausage and cheese in the supermarket [...] put pressure on our direct customers, and that, of course, comes back to us.*" Some customers even contact them directly. „*We are busy responding to customer requests [regarding sustainability].*" The human resources department gets sustainability questions from applicants. "*[...] even if we want to hire new staff, young people always ask for [sustainability].*" In contrast to the industries of the first two archetypes, high regulations apply to food packaging, which results in high institutional pressure. "*In the packaging sector in particular, the issue of sustainability, depending on the packaging segment [...] has risen considerably in recent years, and we are also quite strongly influenced by regulators, especially when it comes to the food sector.*" *Theta's* sustainability focus includes a sustainability vision, social initiatives (e.g., support of social grocery shops) and a sustainability representative. Its motivational drivers toward sustainability are comparable to the second archetype. The main difference is the integration of sustainability and its representative into the management and governance processes. *Theta* has a formalized sustainability strategy and four strategic fields (i.e., infrastructure, products, governance, social engagement) in which sustainability is anchored, implemented, and tracked. "*[Sustainability] is part of the management process. We have a sustainability steering committee, which consists of the management and me.*" Hence, besides the family's strong identity with the firm, *Theta* cares about its dynastic succession. "*[...] we see it as our responsibility to preserve an environment in which future generations can live.*" The family is forward-looking and wants to develop a positive family identity for future generations. To communicate its social activities and values, *Theta* has voluntarily published a sustainability report for several years. In contrast to the *first-time reporter*, the *visionary early adopter* uses reporting standards. *Theta* used for its sustainability reports the DNK standard. Two additional upgrades in contrast to the last archetype are first, the knowledge about the CSRD and its concrete preparation. Second, all PFF in the sample belonging to the visionary archetype have at least the bronze EcoVadis in addition to sustainability-related ISO certifications. In summary, *Theta's* joint high institutional and stakeholder pressure, including its transgenerational values, led to a formalized strategy and communication. This enables external stakeholders to monitor and evaluate the firm's status quo toward sustainability. Consequently, a PFF within this archetype follows a proactive sustainability strategy beyond minimum requirements.

Sustainability strategy matrix. According to my framework, each PFF can be assigned to one of the archetypes and its corresponding sustainability strategy. The mapping between archetype and sustainability strategy can be determined through the sustainability strategy matrix (see left side Figure 7).

My sample does not include a case with a configuration of low stakeholder and high institutional pressure. One explanation could be the recognized "trickle-down" effect by Ottenstein et al. (2022). This effect states that some non-listed companies might be indirectly affected by a sustainability reporting mandate (e.g., NFRD) of listed companies in the same supply chain. Thus, I assume that due to the trickle-down effect, listed corporate customers in a B2B market will also demand sustainability from their (non-listed) suppliers. Thus, high institutional pressure through norms and regulations in a B2B market would lead to increased stakeholder pressure (i.e., sustainability pressure from customers) in its supplier market. A supplier's defensive sustainability strategy that consists of low stakeholder and high institutional pressure would become obsolete.

However, introducing a sustainability reporting mandate leads to FOC and SOC (Gulenko, 2018) for the *conservative sustainability denier* and the *cautious firm-time reporter*. The

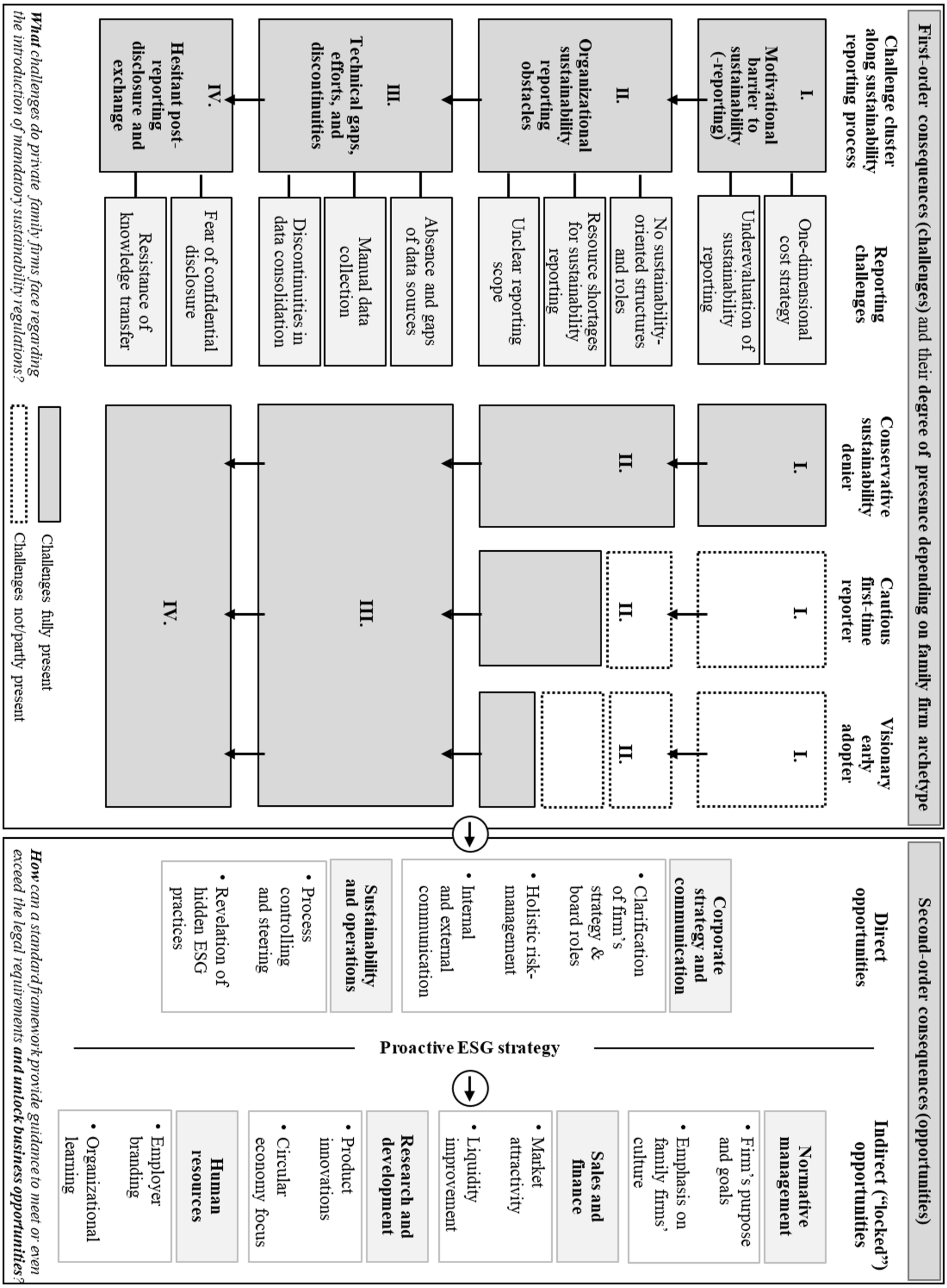


Figure 8: First- and second-order consequences (Phase 2, Phase 3) (Source: Own figure)

CSRD regulation will further increase the intensity of formal institutional pressure through additional rules (e.g., ESRS standards), indicated by "high+" (see right side Figure 7). Companies thus have much less flexibility in disclosing their sustainability information than before the CSRD. This is why even the *visionary early adopter* will face FOC and SOC. As depicted in the following chapter, it would be beneficial for the *conservative sustainability denier* not to follow a defensive strategy (see dotted line right side Figure 7) but rather a proactive strategy to benefit from SOC.

4.2. Challenges - be aware of obstacles

The second phase of my framework illustrates archetype-specific challenges (i.e., FOC) along the implementation process of a sustainability reporting mandate (see left side Figure 8). My analysis revealed that the type and degree of challenge a PFF faces depend on its archetype and the corresponding sustainability strategy. Thus, users of my framework can guide through the process according to their assigned archetype. I identified four challenge clusters (i.e., I. Motivational barrier to sustainability (-reporting), II. Organizational sustainability reporting obstacles, III., Technical gaps, efforts, and discontinuities, IV. Hesitant post-reporting disclosure and exchange) that represent the aggregate dimensions of my data structure. The clusters are further subdivided into granular challenges reflecting the second-order themes.

Two attributes distinguish the clusters and their associated challenges. The first and partly fourth cluster refers to intrinsic barriers to sustainability and its reporting, while the other clusters exhibit operational reporting barriers. PFFs that belong to the *conservative sustainability denier* face the highest obstacle in adopting the reporting requirements, as they must overcome all four challenge clusters. Instead, most *cautious first-time reporters* and *visionary early adopters* can skip the first cluster because of their intrinsic motivation and progress in sustainability reporting. Nevertheless, as reporting challenges depend on their context (De Micco et al., 2021; Gulenko, 2018), the first challenge cluster might still partially occur for those two archetypes (see dotted boxes in Figure 8). Without considering the status quo of a user of my framework, the *cautious first-time reporter* and *visionary early adopter* show only minor differences in the extent of operational challenges. Continuing the implementation process, given the precise requirements of the new CSRD, the status quo of an archetype becomes irrelevant. Thus, my results show that regardless of the archetype, all PFFs face the same challenges after overcoming the second challenge cluster.

In the following paragraph, I provide illustrative evidence of each challenge cluster and describe how each challenge impedes the implementation process of a sustainability reporting mandate in the related archetype. I also include best practices of the *cautious first-time reporters* and *visionary early adopters* that justify omitting the first and partly the second challenge cluster. Those examples could also be an inspiration for improvement to the *conservative sustainability deniers*. To make use of my rich data, I include representative quotes for each challenge cluster.

I. Motivational barrier to sustainability reporting.

The first implementation challenge is an intrinsic motivational barrier to sustainability and its reporting. I observed strong evidence for this attitude among the *conservative sustainability denier* and weak to no evidence among the other archetypes. The rejection of reporting is based not only on the reporting itself but also on a fundamental aversion to sustainability. I found two behavioral reasons that need to be overcome in the case of a sustainability reporting mandate.

First, a one-dimensional cost strategy. "*The typical entrepreneurial approach in SMEs is, what does it cost and what are the benefits*" (*Gamma*). This mindset prevents seeing meaning in sustainability and reporting. Atypical for family firms, but these companies' management focuses on costs and prioritizes economic utility. They perceive any sustainable measure as a costly burden. The lack of external pressure makes them less concerned about reputational damage due to a missing commitment to sustainability. Although this archetype tends to be the smallest, this does not mean these PFFs lack financial resources. They are rather unwilling to release a budget for sustainability. "*[. . .] there is a budget for certain things [. . .]. As long as this budget is not dedicated to sustainability, this topic will not be pursued further*" (*Gamma*). For example, *Gamma* invested in a carbon-efficient nitrogen generation plant to avoid transportation costs from nitrogen suppliers. *Kappa,* a software provider, renewed isolation in all its offices to save energy costs. Thus, a *conservative sustainability denier* would invest in a sustainable project when it reduces costs. This rationale builds the bridge to the second driver.

The *conservative sustainability denier* sees no (economic) value in sustainability reporting. "*I employ someone who takes beautiful photos throughout the year. In the end, we bind [the report] into a book. Then I ask myself what is sustainable about [the report] if, in the end, no one is interested*" (*Gamma*). Reporting is solely perceived as an additional burden unrelated to sustainable activities. In this way, family management's motivational barrier to sustainability reporting also hinders employee empowerment in contributing to sustainability. Management sees no incentive to motivate employees to drive sustainability, including collecting and recording sustainability data. "*[. . .] When I prepare such a report, I must collect data and consolidate them in a report. [. . .] This report has not made my staff more sustainable. [. . .] Why should I motivate them for a report at all?*" (*Kappa*). This would make implementing the mandate even more difficult because sustainability reporting is a holistic process requiring multi-stakeholder support.

To conclude, the practice of sustainability and its reporting contradicts the conservative values of the sustainability denier. A sustainability reporting mandate would force them to change their mindset, at least to the point of meeting the minimum requirements. In other words, a mandate would push sustainability values into PFF decision-makers' reference points; they would typically prioritize less. For example, to avoid this inner conflict of values the *visionary early adopters Delta*, a sixth-generation automotive supplier, and *Eta*, a third-generation logistics service provider, follow different approaches. *Delta* integrated into its formalized sustainability strategy sustainable KPIs that have the same value as financial KPIs. *Eta's* Head of Sustainability sees the CSRD as an opportunity. "*I like the CSRD because it is so much more than a reporting directive. It is such a huge lever*."

II. Organizational sustainability reporting obstacles.

The second challenge cluster starts dealing with the operational reporting process. These obstacles affect all archetypes at this implementation stage but to different degrees. My analysis showed that the main issue is the organization implementing a sustainability reporting process. The issues start with a lack of organizational structures and roles, followed by resource shortages and an unclear reporting scope. The first two of these second-order themes relate to challenges due to internal firm reasons, and the third due to external political reasons outside the company's control.

The *conservative sustainability denier* has difficulties approaching an incoming sustainability reporting requirement due to missing responsibilities and standardized sustainability management systems (e.g., ISO 14001). For example, the strategic advisor to *Kappa's* CEO seemed overwhelmed. "*What does the CSRD look like? What do I have to do to fulfill it? Who can deal with it? How can relevant fields of action be defined and work packages derived?*" In contrast, for the more advanced archetypes, their clear responsibilities and management systems facilitate the development of project structures for a new reporting requirement. For instance, Case *Delta* created several sustainability reports in the past and thus assigned data owners for each chapter in their sustainability report. The sustainability manager of *Iota* confirmed the benefits of ISO sustainability certificates. "*I have the advantage that our sites have existing certifications, for example, in the energy sector, ISO 50001, and in the environmental sector, ISO 14001, [. . .] many things that I need for the CSRD are already documented.*"

Following implementation, resource shortages for sustainability reporting are the next identified challenge. The most frequent resource shortages relate to knowledge and time. At this point, the *cautious first-time reporter* starts to experience the full extent of the challenges. The cases belonging to this archetype just began establishing a reporting process. Thus, reporting resources are not yet properly aligned. In terms of knowledge, the first two archetypes have no to little expertise in sustainability reporting. I found that the first point of contact for these PFFs is the quality department, as this business function is already familiar with the requirements of external authorities through audits. "*[. . .] the topic [of sustainability reporting] was handed over to me because the quality department has no capacity at all [. . .]*" (*Kappa*). The opinion involving external knowledge between those two archetypes is mixed. *Gamma* and *Iota* are unwilling to work with external consultants, while *Kappa* and *Zeta* are not. "*[. . .] One of the biggest challenges is knowledge. [...] but we need support from external consultants who show us what we need to look at*" (*Zeta*). *Gamma's* cost focus can explain its hesitation toward external support. Regarding time constraints, the cases of the first two archetypes worry about the missing time capacities for implementing the reporting process rather than maintaining it. This is due to the lengthy familiarization with the reporting obligations, impeded by an oversupply of training materials. "*[. . .] the very first report under the new standard takes an enormous time to prepare [. . .] I could spend the whole week visiting webinars [. . .] (Iota)*. Followed by the subsequent instruction of the employees in the reporting obligations. "*[. . .] first we have to train the management level, and then transfer it to the whole workforce*" (*Zeta*). This is confirmed by the cases of the *visionary early adopter* that experienced time savings after the first reporting cycle. "*The initial materiality analysis took the most time*" (*Eta*).

The last obstacle within the second challenge cluster relates to the unclear reporting scope due to constant changes in reporting regulations by policymakers. The transposition of the CSRD into national law has not yet taken place. The new CSR-RUG may deviate from the CSRD. "[. . .] *it is currently quite difficult to stay up to date with the latest regulatory changes. It feels like there are always new laws and the 50th draft of a law or standard [. . .]*" (*Delta*). In addition, the new ESRS reporting standards and their changing requirements require firms to conduct several gap analyses on their current reporting standard. "*[. . .] in terms of the CSRD [. . .] we would like to take a closer look what this change from the GRI standard to ESRS means. Thus, we will probably conduct a gap analysis [. . .]*" (*Delta*). This is also an obstacle for the first two archetypes that have never used any standard. "*[. . .] the first sustainability report is an exercise where we want to approach this ESRS standard to the best of our ability. We will see the results of the first sustainability report at the end of this year and then publish the gap analysis [. . .]*" (*Iota*). Thus, regardless of the archetype, any change in regulations means additional effort to understand the new requirements.

To summarize, archetypes' (i.e., PFFs') heterogeneous sustainability strategy still influences the extent of organizational challenges due to an incoming sustainability reporting mandate. The more advanced archetypes can benefit from their proactive sustainability and reporting behavior (e.g., clear responsibilities, ISO certifications, expert knowledge). However, these benefits seem to diminish based on the specific and changing requirements of the new CSRD. In other words, without considering these external reasons (i.e., unclear reporting scope), the *visionary early adopter* could also have skipped the second challenge cluster.

III. Technical gaps, efforts, and discontinuities.

The third challenge cluster relates to the second because of its operational attributes. The challenges of the third cluster are independent of the archetype. Implying that any PFF, either with a proactive or a reactive sustainability strategy, will face similar challenges at this stage. All sub-challenges (i.e., second-order themes) involve hurdles in managing the required data. Difficulties in data management include a lack of relevant data sources, followed by a high manual effort for data collection and inconsistencies in data consolidation. The absence and gaps of data sources pose a twofold challenge. First, all archetypes must identify their specific data sources required for the ESRS 2, ESRS E1, and ESRS S1 standards. If business processes along the value chain are not designed to measure these specific sustainability indicators (e.g., GHG emissions), it is almost impossible to find and obtain the required data at all. "*The challenge is to design the processes in such a way that the information needed can be presented transparently and also in a form in which it can be tracked. For example, with the CO_2 calculation, we need to disclose scope 1, 2, and 3*" (*Theta*). This hurdle is particularly intense for processes beyond a firm's borders, like for the measurement of scope 3 emissions. "*Data management in the supply chain will be one of the biggest challenges in the coming years*" *(Epsilon)*. "*We are now starting to go deeper into scope 3. I feel like I'm running into walls" (Eta). "[. . .] what I find very challenging are the scope 3 emissions" (Beta).* All these quotes are from cases belonging to the *visionary early adopter*, although they have the most experience in sustainability reporting. However, once identified, a suitable and measurable process may still have data gaps that need to be filled subsequently. "*[. . .] trying to get exact figures from your own processes, from the supply chain, to request them [...], these are huge challenges*" (*Epsilon*). Most PFFs collect their data manually, which is a timely process. "*For the CO_2 balance, I have 150 waste invoices in my folder, all of which I have to read through manually*" (*Kappa*). "*[. . .] last year, when we prepared the first carbon footprint [...] we had to adapt certain things to get data more quickly. [...] to get digital data and not manual evaluations [is a challenge]" (Zeta).*

After data collection, the next step is to merge the sustainability information from the different sources and departments, which is challenging due to system discontinuities. "*The departments have their own measurement systems or digital programs. For example, in HR, some programs that use training information, [...] employee structures. In the energy sector, we have an internal digital energy management system, which means that the indicators can also be read out here. And this is how it works in each department, and in the end, we have a [Excel] document, filled out by the respective departments, which we put together with marketing in a sustainability report"* (*Theta*). For companies with international locations, the hurdle of system breaks is even more severe. Here, the technical consolidation is additionally impeded by a cognitive obstacle. Cultures from different countries have diverse sustainability perceptions. Specifically, understanding the social dimension varies across cultures influencing how sustainability is approached, e.g., regarding labor equality or safety. Thus, consolidating inconsistent data collections due to different interpretations of sustainability makes coherent reporting difficult.

Overall, some technical difficulties arise from the specific requirements of the CSRD (e.g., scope 3 emissions). Thus, even more, experienced firms that have already voluntarily prepared a sustainability report face challenges. This is due to the reason that voluntary reports are often summaries of existing sustainability information. "*Through the voluntary report, we have created transparency and simply written down everything that we are already doing in the area of sustainability*" (*Theta*). Therefore, institutions' requests for sustainability data from processes not yet designed to be reported are challenging for any archetype.

IV. Hesitant post-reporting disclosure and exchange.

The last challenge cluster reflects a dilemma that affects every archetype. On the one hand, PFFs hesitate to disclose their data to the public after organizing and collecting relevant data. "*Of course, there are certain topics where you consider whether you want to disclose this information. In particular, sensitive data relating to compensation [. . .]. These topics pose challenges for a family firm, especially if you are locally based*" (*Iota*). This concern is particularly pronounced for the *first-time reporter* due to its accommodative sustainability strategy. These PFFs built strong relationships with external stakeholders, especially to their local communities, where they want to be visible and enjoy a good reputation. Thus, the communication of content that has not been selected by the firm but by a political institution is a concern for those PFFs. On the other hand, PFFs appreciate reading the disclosed reports from industry peers or joining firm associations to learn about best practices. "*[. . .] we are in regular exchange with other companies that are at the same point as we are. [. . .] we look what the others are doing, can we copy anything, what can we do better or how are their processes organized*" (*Theta*). Nevertheless, *Theta* only exchanges with public firms or firms outside their industry due to their fear of disclosing confidential data.

4.3. Opportunities - go beyond legal requirements

The third phase of my framework reveals opportunities (i.e., SOC) that result after the introduction of a sustainability reporting process and reports disclosure (see right side Figure 8). I differentiate between direct and indirect or "locked" opportunities along a firm's value chain. Irrespective of the archetype, all PFFs can benefit from the direct opportunities that arise after meeting the minimum reporting requirements. In contrast, a proactive sustainability strategy needs to unlock indirect opportunities. Two business functions, i.e., (1) corporate strategy and communication and (2) sustainability and operations, can benefit from direct opportunities. The other functions, i.e., (3) normative management, (4) sales and finance, (5) research and development, and (6) human resources, can benefit from indirect opportunities.

Direct opportunities. Business functions (1) and (2) can benefit from the firm's structured disclosures following the ESRS standards by meeting the minimum reporting requirements without additional effort. Regarding business function (1), using the obligatory ESRS standards provides a strategic structure. "*I derived our sustainability strategy from the ESRS, i.e., E, S, and G, and the chapters [. . .]. And I think you can show this nicely with the chapter structure of the ESRS. [...] I perceived it very helpful, the structure, to carry this into the organization*" (*Iota*). More specifically, ESRS 2 standard requires the disclosure of board members' roles and responsibilities (EFRAG, 2022b), which can be helpful for a clear task allocation among family members and corporate governance. In addition, the report provides firms with a holistic overview of their business activities through the double materiality perspective. Thus, improving the firm's risk management. Moreover, the cases experienced improved internal communication through cross-functional collaboration. "*[. . .] before [the report], each department worked separately, and each department had already done something in the area of sustainability, but it was never really communicated. [...] through this report, it has simply become much more structured, and the individual areas could also inform each other*" (*Theta*). But also, external communication as part of the report preparation. "*There are again these synergy effects, such as stakeholder materiality analysis [...]. This [stakeholder] exchange is a positive side effect*" (*Iota*). Regarding business function (2), the holistic view also helps to monitor processes through (sustainability) KPIs and thus to identify inefficiencies more quickly. „*[. . .] KPI is supposed to provide a target and help us to develop certain processes in a certain direction*" (*Beta*). Lastly, sustainability reporting simultaneously leads to recording sustainable activities and uncovers a hidden potential. "*[. . .] we already do a lot but in an uncoordinated way. That means the different departments, environment in development, in materials, in HR. Things are happening everywhere that you can put into this huge topic of sustainability*" (*Epsilon*).

Indirect ("locked") opportunities. The information in the sustainability report and the underlying processes can be further leveraged to derive indirect opportunities. Firms that pursue a proactive strategy can benefit from indirect opportunities because of their attitude to exceed stakeholder requirements. They are willing to make extra efforts to turn the report's information into additional value. Therefore, I recommend for PFFs belonging to the *conservative sustainability denier* respond to a sustainability reporting mandate with a proactive rather than a defensive approach to unlocking business opportunities.

A PFF following a proactive approach would recognize the sustainability purpose behind a sustainability reporting process and could develop further motivation and real values for sustainability. Looking at business function (3), a PFF could integrate these new values into its mission, thus sharpening and questioning its purpose. It would provide transparency to stakeholders on what the company stands for and allow for assessing the "future readiness" of a company's business model. "*[. . .] it is also clearer to everyone what the company is doing. What are the goals? [. . .] Such a report is, of course, an important component. What is the mission? Where do we want to go? It is simply something that is goal-oriented, a positive side effect of such a report*" (*Theta*). "*[. . .] And it's not just about how do we make the products more sustainable but how fit is our business model for the future*" (*Eta*). Beyond that, such a sustainability report and its double materiality perspective can also enhance a family's SEW by building enduring ties to multi-stakeholders, improving the firm's reputation, and thus paving the way for future generations.

Another lever of the sustainability report is the facilitated accreditation of sustainability organizations such as EcoVadis. The process transparency and information created by the report can contribute to obtaining other certificates. However, this requires proactive research by firms to identify eligible certifications. In addition, exceeding legal requirements could create a competitive edge if a sustainability report was not an industry standard before the mandate, as for the *conservative sustainability denier*. Thus, even slightly exceeding the requirements can strengthen the brand and increase sales. Reports' resulting process transparency, e.g., through sustainability KPIs, can also reveal waste and resource inefficiencies. Thus, if a report's content is considered correctly, it serves also as a lever to reduce costs. "*[. . .] especially when I consider the topic of water circuits or energy, then this not only pays off in terms of sustainability but also in terms of profitability [. . .]*" (*Alpha*). Consequently, those revenue and cost-based arguments represent a lever for business function (4).

A multi-stakeholder view along a firm's value chain, e.g., as a requirement of the reporting standard ESRS E1 to track scope 3 emissions, also paves the way for product innovation and therefore an opportunity for business function (5) "*[...] if we think in the direction of circular economy, where product development, customers, and also sales sit together, where perhaps from the product development point of view there are ideas that have not been recognized by the customer yet*" (*Iota*).

Lastly, business function (6) can integrate the sustainability report into its workflows to enhance employer branding and organizational learning. *Theta* and *Beta* mentioned that they get unsolicited applications that refer to their sustainability report, especially from young talents that appreciate working for a sustainable employer. However, internally, the report is a learning tool and increases the sustainability awareness of the workforce. "*Of course, we also have high standards for our people. Our employees are also interested, and they also want to understand the term sustainability in the context of the company*" (*Beta*).

In summary, mastering the dual task of integrating sustainability reporting and deriving opportunities from it is not effortless. According to the more experienced archetypes, especially the first reporting cycle is a resource-intensive process in terms of time, expertise, and stakeholder engagement. Especially the updated double materiality concept, due to its outside-in and inside-out assessment, results in a high initial burden. Ultimately, it is necessary first to build on the foundations for the direct before attempting to exploit any indirect opportunities.

5. Discussion

5.1. Theoretical implications

The results of my analysis contribute to both the research stream of family firms' heterogeneous sustainability strategy and reporting behavior and the research stream on the effects of a sustainability reporting mandate.

Regarding the first research stream, my findings build on the distinction between a family firm's reactive and proactive strategy toward external demands (Campopiano & De Massis, 2015; Cennamo et al., 2012; de la Cruz Déniz Déniz & Cabrera Suárez, 2005; Hsueh et al., 2023; Sharma & Sharma, 2011). I contribute to the literature by deriving three PFF archetypes. Regarding family firms' heterogenous sustainability strategies, the analysis revealed that the attributes of my archetypes and their corresponding sustainability strategy confirm and disconfirm family firm literature in the following aspects.

The PFFs belonging to the *conservative sustainability denier* are cost-driven and subject to low external pressures, leading to a general aversion to sustainability (e.g., no sustainability representative, reporting, vision, ISO accreditation) and a reactive approach. Thus, the cases in my sample showed no motivation to build their SEW, like enhancing reputation or increasing binding social ties with external stakeholders. This is consistent with the findings of Hsueh et al. (2023) and Cennamo et al. (2012), who argue that those family firms place less emphasis on the (2) *family members' identification with the firm*, which is related to reputation, the (3) *binding social ties* and the (5) *renewal of family ties to the firm through dynastic succession* SEW dimension, leading to a reactive approach. Rather untypical for the results of family business research is the *conservative sustainability deniers'* high preference for economic goals (Berrone et al., 2010; Kotlar & De Massis, 2013). Moreover, my findings differ from de la Cruz Déniz Déniz and Cabrera Suárez (2005), who conclude that family firms that adopt a reactive approach do not have sufficient financial resources to engage in sustainability. According to my findings, the problem lies more in the unwillingness to release a budget for sustainability.

The PFFs belonging to the *cautious first-time reporter* and the *visionary early adopter* developed intrinsic sustainability values and are subject to high external pressures resulting in a proactive sustainability strategy. They employ sustainability managers, have a sustainability vision, engage in, and communicate their social activities, are accredited by sustainability organizations, and prepare for the upcoming CSRD. In line with Hsueh et al. (2023) and Cennamo et al. (2012), those family firms care about their externally perceived image, especially in local communities, are forward-looking, develop a positive family identity for future generations, which in sum indicates a salience of the (2), (3) and (5) SEW dimension. Thus, their goal is to build SEW while gaining legitimacy. Beyond that, my analysis revealed that the PFFs in my sample following a proactive approach are larger (i.e., turnover and headcount) and show a higher number of generational successions, following de la Cruz Déniz Déniz and Cabrera Suárez (2005) findings. The difference between the *cautious first-time reporter* and the *visionary early adopter* in their sustainability reporting is the use of standards. PFFs belonging to the *cautious first-time reporter* do not adhere to reporting standards, while the *visionary early adopter* reported for several years according to official standards. This aligns with the findings of Campopiano and De Massis (2015). In contrast, both proactive archetypes are hesitant to disclose sustainability information that they have not purposefully selected or to share insights from reporting practices with industry peers. Venturelli et al. (2021) explain this reluctance with the family's involvement in the firm and the fear of losing their SEW.

Moreover, I contribute to the literature on family firms' heterogeneous sustainability reporting behavior (Arena & Michelon, 2018; Aureli et al., 2020; Biswas et al., 2019; Campopiano & De Massis, 2015; Gavana et al., 2017; Terlaak et al., 2018; Venturelli et al., 2021) via PFF archetypes. My framework shows that the type (i.e., challenge cluster) and degree (i.e., sub-challenges) of challenge regarding implementing a sustainability reporting mandate depend on the archetype and its corresponding sustainability strategy up to a certain implementation stage. This rationale continues with the opportunities. Each archetype can benefit from direct opportunities after meeting the minimum requirements. Only a proactive approach can unlock indirect opportunities. It seems that a major determinant is the type of sustainability strategy, a construct of external forces. Since the prioritization or configuration of SEW dimensions determines how a family firm reacts to external demands, SEW is a preventive lever to mitigate challenges or gain opportunities. This reasoning applies to implementation stages of sustainability reporting influenced by intrinsic motives such as the first and fourth challenge cluster or the gain of indirect opportunities. Beyond that, following the research call from Arena and Michelon (2018) or Venturelli et al. (2021), I extend family business research on sustainability reporting by focusing on PFF. Under the attributes of a multiple case study, I not only relied on easily accessible SEW dimensions such as family control but also family members' identification with the firm or renewal of family bonds through dynastic succession.

Regarding the second research stream, my framework further extends research on the effects of mandatory sustainability reporting (Fiechter et al., 2022; Ioannou & Serafeim, 2017; Ottenstein et al., 2022) in general and on the challenges and opportunities of the CSRD in particular. My framework presents four challenge clusters and opportunities in six business functions along a firm's value chain based on the CSRD in German companies. Thus, I am not only contributing to the current scarcity of studies focusing on the upcoming CSRD (Ottenstein et al., 2022) but also on the link between FOC and SOC (Gulenko, 2018).

5.2. Managerial implications

Managing the dual mission of integrating a sustainability reporting mandate and benefitting from this change process is challenging (Garcia-Torea et al., 2023; Nigri & Del Baldo, 2018). Since the dominant coalition, like the family, is the primary agent for successfully managing such an organizational change (Kotter, 1996), my findings are highly relevant for practitioners. The framework serves as a guide and reveals implementation challenges and opportunities. As my analysis shows, the influence of a family firm's typical SEW is especially relevant for the first and fourth challenge cluster as well as for the shift from direct to indirect opportunities. Nonetheless, apart from those socioemotionally influenced consequences, my framework is also relevant for non-family firms that want to prepare for the upcoming CSRD. Therefore, the following managerial implications are twofold.

First, I recommend that PFFs belonging to the cost-driven *conservative sustainability denier* integrate sustainability KPIs into their decisions and link them to financial data. In addition, they should recognize the potential opportunities that may arise from a sustainability reporting mandate through my framework. Both suggestions could facilitate overcoming the inner obstacle of seeing no value in sustainability and its reporting. Since a family's strong identification with the firm, binding social ties and transgenerational values are drivers for following a proactive sustainability strategy (Cennamo et al., 2012; de la Cruz Déniz Déniz & Cabrera Suárez, 2005; Hsueh et al., 2023; Sharma & Sharma, 2011), a *conservative sustainability denier* could put relevance on these SEW dimensions to be motivated going beyond legal requirements and thus benefiting from indirect opportunities. Concerning the fourth challenge cluster and the dilemma between the hesitation to share information with the public and the appreciation of reading the sustainability reports of industry peers to mimic best practices, I advise the following. Regardless of the archetype, families who identify strongly with their firm and fear their image in local communities or sharing confidential report practices with industry peers might participate in firm associations outside their region and industry (see case *Iota*, *Theta*).

Second, for all firms, irrespective of their family or listing status, integrating a sustainability reporting mandate such as the CSRD requires proper organization and data management. My analysis revealed that firms with standardized sustainability management systems (e.g., ISO 14001) could build on these structures, assigned roles, and data. Therefore, I recommend using any sustainability accreditation as an orientation to facilitate the development of project structures regarding the implementation of a sustainability reporting process. Nevertheless, drawing on the best practices of archetypes with more experience in sustainability reporting, it is evident that the sustainability reporting process becomes much smoother after one reporting cycle, which should serve as a motivation to firms. Lastly, the abundance of regulatory amendments to the reporting requirements is an obstacle outside the company's control. It might be helpful to keep informed via webinars or training material from leading advisory firms.

5.3. Limitations and future research

My study is subject to a few limitations that pave the way for future research. The framework shows limits regarding its internal and external context. The challenges and opportunities of the framework suit mainly German PFFs (i.e., internal context) based on the EU's forthcoming CSRD (i.e., external context). Given the strong influence of the internal and external context in analyzing the consequences of mandatory sustainability reporting (Aureli et al., 2020; Christensen et al., 2021; Gulenko, 2018), future research could address both limitations.

In terms of the internal context, developing and testing hypotheses on the identified consequences would further substantiate my findings. However, regardless of the research method, in family business research, it is essential to cautiously generalize the results due to the heterogeneity of family firms (Chua et al., 2012; Evert et al., 2016). Elaborating further on this argument, I must consider that the SEW dimensions influence my framework (Berrone et al., 2012; Gómez-Mejia et al., 2007). Configurations or salient SEW dimensions affect the type and degree of implementation challenges. As indicated in the previous chapter, non-family firms applying my framework must consider this limitation. Thus, it would be interesting to know how a dominant coalition of a non-family firm implements the CSRD and to what extent the consequences differ from my study. Also, a single longitudinal case study could further deepen the consequences and conclude how exactly a family firm manages the path from FOC to SOC. Furthermore, the findings are limited to the industries in the sample. The framework is susceptible to the influence of industry pressure, which may lead to different assigned sustainability strategies. For example, this limitation is reflected by my sample, not including a case with a defensive sustainability strategy. Although I suspect fewer companies are exposed to low institutional and high stakeholder pressure due to the trickle-down effect, this could also lie in my sample's limited number of industries. Future research could validate the findings in a different industry set up.

Regarding the external context, my study presents early evidence. I identified four challenge clusters based on the forthcoming CSRD and its binding ESRS standards, which are not yet transposed into German law. Although the integration should not deviate as much as in the case of the NFRD, a subsequent check on the conformity between the directive and national law is advisable. Furthermore, it is difficult to extrapolate the identified consequences to firms outside the EU. The motivation of institutions to force companies to produce a sustainability report varies (Christensen et al., 2021), which also indicates different implementation issues. Thus, further research could replicate or extend the findings in different institutional settings.

6. Conclusion

By analyzing interview data from multiple cases on the consequences of mandatory sustainability reporting, I created an inductive framework that illustrates which challenges a company faces when implementing sustainability reporting and how the mandate can turn into business opportunities. The sharp scope expansion of the EU's forthcoming CSRD and the associated first-time imposition of a sustainability reporting mandate on most German private family firms gave reason to focus on this specific context. Building on family business research, my findings contribute to the literature by differentiating PFFs based on their current maturity of sustainability reporting and sustainability strategy that is a construct of external forces. This allowed me to derive three PFF archetypes. The identified implementation challenges entail intrinsic and operational barriers. Thus, family firms psychologically anchored SEW dimensions regarding external demands (e.g., binding social ties) influence the PFF archetype's implementation challenges (i.e., intrinsic barriers). Only a SEW configuration that favors proactive behavior towards external demands enables PFF to benefit from indirect business opportunities. From a practitioner's perspective, the operational obstacles are relevant for all company types that want to prepare for the CSRD. Ultimately, my framework serves as a guide to overcoming the obstacles in meeting the sustainability reporting requirements of the EC, a key stakeholder to European companies. Thus, I can preventively assist in maintaining a company's license to operate and realize its full potential.

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