What drives sustainability performance? Lessons from family firms

Family firms are often assumed to hold a natural edge on sustainable business practices, but the reality is more complex. Here's how all firms can raise their game.

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Family businesses are powerful economic engines, representing a substantial share of businesses and job creation worldwide. They are generally characterized by majority family control and the active involvement of at least one family member in the company's leadership or governance bodies. Longer time horizons are another trademark of family firms, which often measure success in decades or even generations, while placing strong emphasis on socioemotional wealth — nonfinancial assets such as family status, identity, reputation and legacy that business families seek to protect. Safeguarding this "emotional currency" may lead family firms to preserve jobs during downturns and maintain operations in their home regions despite lower-cost alternatives abroad.

Yet an important question remains: Do these socially minded commitments translate into superior performance on environmental, social and governance (ESG) factors? While conventional wisdom would suggest they do, research reveals a more nuanced reality. This article explores what family firms — and organizations more broadly — can learn about ESG performance, stewardship and leadership.

Testing the sustainability advantage

At the 2026 IESE-ECGI Conference, "Family Firms: Purpose, Economic Performance and Social Impact," held on IESE's Madrid campus, NYU Stern Professor Belen Villalonga presented research conducted with Peter Tufano (Harvard Business School) and Boya Wang (University of Cambridge). They examined the ESG performance of 3,083 public companies in 62 countries and 30 industries over an 18-year period (2002-2019). They specifically analyzed the ownership structures of these public companies, whether they were family-owned or the shareholders were individuals, government-affiliated entities, employee groups, managers or institutional investors.

Contrary to expectations, the professors found that listed companies with family owners among their top shareholders scored lower on environmental, social and governance measures than companies with other ownership structures, not only on aggregate ESG scores but also across each of the three dimensions.

This echoes other research by Jessenia Davila (Comillas Pontifical University) together with IESE professors Marta Elvira, Igor Kadach and Gaizka Ormazabal, who found family businesses were also less inclined to link CEO pay to ESG criteria. The professors studied 3,587 listed companies, including 1,084 family-owned firms, between 2012 and 2020, to assess how ownership and governance structures affected ESG-pay adoption. Their surprise finding was that family firms scored even lower on social metrics than environmental ones. Again, opposite to the popular perception of family firms.

However, both studies made some important distinctions. In Villalonga's study, family firms with active ownership (meaning family members held top leadership positions rather than remaining passive shareholders), as well as those with family founder or descendant CEOs, recorded strikingly positive ESG outcomes. When these two elements converged, listed family firms notably outperformed all other ownership models. One possible explanation is that this combination may enable faster decision-making, stronger stewardship and greater consistency between ownership values and corporate strategy.

In the IESE study, the probability of ESG-linked pay increased with a higher proportion of independent board directors and with CEO-board chair duality (when the CEO also chairs the board). CEOs with family ties were also more likely to receive ESG-linked compensation, possibly due to their greater focus on socioemotional wealth preservation.

Two caveats about these findings. First, researchers are reliant on publicly reported data for listed companies, which makes it harder to say how privately held family firms as a whole actually behave. Second, as Villalonga noted during the conference, one possible explanation for family firms' lower ESG ratings could be that they are less inclined to publicize or disclose that information, not necessarily that their social or environmental impact is really that much less. More broadly, she argued that understanding the impact of business families requires looking beyond the operating company, as many families create social and environmental value through family foundations, family offices and other investment vehicles.

Lessons to create greater stakeholder value

Against this backdrop, four insights stand out for organizations seeking to enhance their performance and create greater stakeholder value, regardless of ownership structure.

1. Ensure alignment between ownership and management

A key takeaway is the role of ownership, and the close alignment between owners and management. Environmental sustainability outcomes tend to be stronger when major shareholders and senior leaders share the same vision and are aligned on its implementation.

This finding is especially salient in family businesses, where variations in leadership structures, governance models and internal dynamics can shape how effectively strategic priorities are executed.

"A long-term outlook, a stewardship mindset and the desire to protect socioemotional wealth are often cited as defining characteristics of family businesses, yet each business is as unique as its founding family and ownership model," notes IESE Prof. Alvaro San Martin, holder of the Chair of Family-Owned Business. "Those that remain wholly family-owned face very different challenges from publicly listed companies or those backed by external investors."

This may help explain the preference for family CEOs in family firms, which becomes more pronounced among later generations. With relatives at the helm, family businesses may feel better equipped to preserve their foundational values and stewardship culture long after the founder steps aside.

2. Assess your sustainability performance

Recent regulatory, social and environmental shifts have prompted many firms to look beyond profit maximization and shareholder returns toward building a more sustainable and regenerative economy. That said, companies diverge considerably in both their approaches and commitment to creating stakeholder value.

At one end of the spectrum are founder-driven firms such as Ben & Jerry's, The Body Shop, Rituals and Tony's Chocolonely, which have embedded social purpose into their business models from their inception. Family businesses are prominently represented in this category of top sustainability performers, although outcomes become more uneven further down the scale.

Next are organizations including Mars Inc., Nestlé and Unilever — traditional for-profit companies that have significantly reshaped their operations around social responsibility — followed by firms that have adopted a more incremental approach through targeted CSR initiatives.

At the other extreme are companies whose sustainability efforts remain largely cosmetic, marked by greenwashing, and sustainability measures that exist on paper but are never fully implemented or rigorously monitored.

This diversity of approaches raises an obvious question: How can organizations assess and improve their sustainability performance? ESG disclosure has become particularly polarizing, and building trust and credibility in standards requires coordinated global action. The absence of universally accepted sustainability standards complicates efforts to evaluate corporate behavior consistently across firms.

To address this challenge, models have emerged to help define and evaluate performance. Among the most prominent is the nonprofit B Lab, which sets rigorous environmental, social and governance standards, and certifies companies that meet them. Established in 2006, B Lab has certified more than 10,000 B Corporations in 100-plus countries and over 160 industries. In addition to its B Corp certification, it offers an online tool to enable companies to benchmark their performance against the latest version of the B Lab Standards.

Here, the CEO can play an important role. Linking executive pay to ESG criteria has been shown to be an effective tool for lowering companies' carbon emissions in publicly traded firms. Although family firms have generally lagged behind the trend to adopt ESG pay for CEOs, the IESE study revealed the conditions that made it work.

Where does your business fall on this spectrum? How well do you measure and benchmark corporate behaviors such as emissions, energy consumption, diversity metrics or board independence? Focusing on specific factors like these can provide meaningful bases for comparison, more than composite ESG ratings alone.

For family firms that score lower on sustainability metrics, the issue may not be weaker performance, but rather a lack of rigor in capturing data and reporting it systematically, which brings us to the next point.

3. Prioritize transparency and public disclosure

While reporting requirements vary considerably around the world, most organizations could improve their reputation among customers, investors, and current and prospective employees by better communicating their sustainability efforts.

This recommendation is particularly relevant for family-owned firms, many of which prefer to "let their actions speak for themselves" rather than publicly promote their efforts. But in today's information age, impact that remains invisible rarely receives the recognition it deserves.

As highlighted by the previously mentioned studies, more robust reporting of firms' social and environmental activities would make their contributions more visible to stakeholders and lend them greater legitimacy. Businesses cannot simply hope that stakeholders will assume the best and give them the benefit of the doubt.

4. Align stakeholders around a mission beyond profit

Besides ownership structure and close alignment between owners and managers, there is another key driver of sustainability, highlighted by participants at the IESE-ECGI Conference: stakeholder relations, stemming from the broader shift in business thinking from the shareholder primacy doctrine of the 1970s toward a more stakeholder-centric view of the firm.

As Oxford scholar Colin Mayer has argued, the purpose of business is not just to produce profits. The purpose of business is "to provide profitable solutions to the problems of people or the planet, and not create problems for people or the planet." Companies that unite stakeholders around a purpose beyond profit can create a virtuous circle that ultimately enhances performance by attracting high-quality investors, suppliers, partners and employees aligned with the organization's broader mission.

Paul Polman, former CEO of Unilever, is currently a leader of The B Team and a member of IESE's International Advisory Board. He has spoken frequently about the importance of managing for "other stakeholders, besides shareholders." One way of ensuring that purpose beyond profit remains front and center of corporate governance is "to start measuring what we treasure — not just measuring ROI but measuring returns on environmental and social capital," he told IESE Insight. He calls for new kinds of leaders "who can think multigenerationally."

In this regard, family firms have an inbuilt advantage. But all firms can foment this long-term, stakeholder perspective. As the IESE-ECGI Conference made clear, sustainable impact depends not only on who owns the company, but also on how owners, managers and stakeholders work together to create long-term value.

MORE INFO:

"Family Firms: Purpose, Economic Performance and Social Impact" was organized by IESE's Center for Corporate Governance and the European Corporate Governance Institute (ECGI) in association with the Social Trends Institute and the Chair of Family-Owned Business.

Find more articles on issues like those raised in this article at the Chair of Family-Owned Business blog site.

Also, subscribe to the newsletter of the Center for Corporate Governance by clicking here. And read "Family Firms: Some New Governance Perspectives" by Jordi Canals, a special post on the ECGI Blog.

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