

The relevance of corporate purpose for family business

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*IESE-ECGI Corporate Governance
Conference*

Madrid, Spain, March 16, 2026



Corporate purpose: A paradigm shift

“The social responsibility of business is to increase its profits”

-- Milton Friedman, NYT 1970



The purpose of business is to produce profitable solutions to problems of people and planet

-- Colin Mayer, “Prosperity” 2019



The relevance of owners for corporate purpose

Owners play a key role in making their firms (more) purposeful / environmentally or socially responsible, b/c they have the right—and the responsibility to:

- Define that purpose at the time of incorporation
- Shape strategy in the firms they own, via
 - The board or top management team (which they can appoint or be part of)
 - Submitting shareholder proposals
 - Voting at annual shareholder meetings
- * Most visible role of owners in strategy is in companies that combine business with an environmental/social purpose

What role do other stakeholders play?

- Other stakeholders can also play a role in doing business responsibly, e.g: boards of directors, managers, other employees, customers, local communities, governments...
- The extent to which owners are able to implement their preferences and shape their firms' strategies depends on their power (control) relative to those stakeholders
- However, owners' rights typically include their ability to choose those stakeholders (which board members to appoint, which employees (incl. managers) to hire and fire, which customers and suppliers to do or stop doing business with, which locations to operate on...)

The role of owners (shareholders v stakeholders)

Owners play a pivotal role in making businesses (more) environmentally / socially responsible because:

- Some E&S problems may require coordination not just within teams or firms, but across firms in the industry
 - Common ownership of those firms may help (Serafeim, 2018)
 - If responsible behavior comes at the expense of financial returns on a firm's capital, they are the ones who have to decide whether they want to make that sacrifice or not
- ⇒ Making a company more ES-responsible may result in a transfer of value from owners to other stakeholders, and owners hold the key to that transfer

The special relevance of family owners for purpose

- Broad range of ways in which for-profit companies can create shared value for multiple stakeholders:
 - Having a social purpose embedded in their business model by design since the company's inception (e.g., B-corps)
 - Radical transformation of traditional (for-profit-only) model
 - Incremental transformation (incorporating CSR practices to existing strategy)
 - Cosmetic changes (greenwashing, policies/practices not implemented or monitored)
 - Mutual dependency: purpose (& other firm characteristics) are chosen by their founders, but once in place they can attract/repel other investors—if founders/families let them in
- ⇒ Founding family owners are the root of it all

How do family owners perform (non-financially)?

- It depends... on where along this spectrum we are:
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- Most benefit corporations and B-corps remain under the control of founders or their families
- (Re-incorporating an existing C-corp. as a benefit corp. requires supermajority vote—typically 2/3—which is hard to achieve otherwise)

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- Lots of anecdotal evidence of family companies doing great
- But, large-scale empirical evidence suggests otherwise

Villalonga, Tufano, Wang (JCF, 2025) – “Corporate Ownership & ESG Performance”

- Empirical study on sample of 3,083 publicly listed companies over 18 years (2002-2019), 62 countries and 30 industries
- In an earlier (unpublished) version of the study, we focused only on the relation between family ownership and ESG, and found it to be negative across the board
- Most damning criticism: who are we comparing family-owned businesses to? (e.g. widely held firms in the US, state-owned firms in China and other economies)
- To address it, we looked at various owner types (families, governments, managers, employees, institutions...) and their shareholdings and asked the more general question of “does ownership matter for ESG performance?” (and how?)

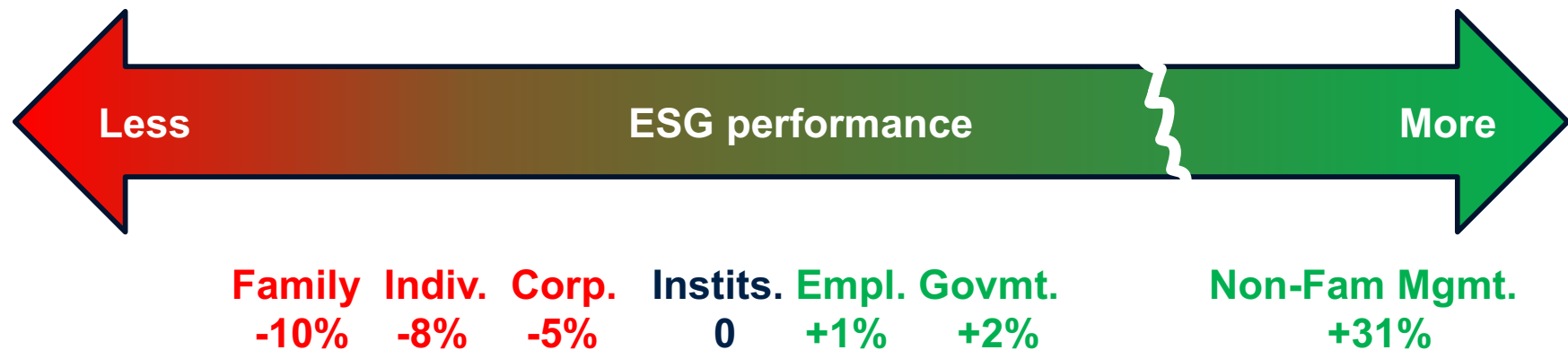
Our study's contribution

Our study improves on existing ones in various ways:

- Better data and measures (larger sample, ownership data & measures, various ESG data sources)
- Accounts for coexistence/interaction among different owners
- Better methods (controls for more alternative explanations):
 - Firm characteristics: size, age, dual-class stock, no. of founders, profitability, valuation, leverage, liquidity, volatility
 - Time trend (yearly control)
 - National standards and norms (country controls)
 - Industry standards and norms (industry controls)
 - Self-selection bias in reporting (Heckman), heterogeneity within owner types (quantile regression), endogeneity of ownership (shocks analysis and propensity scores)

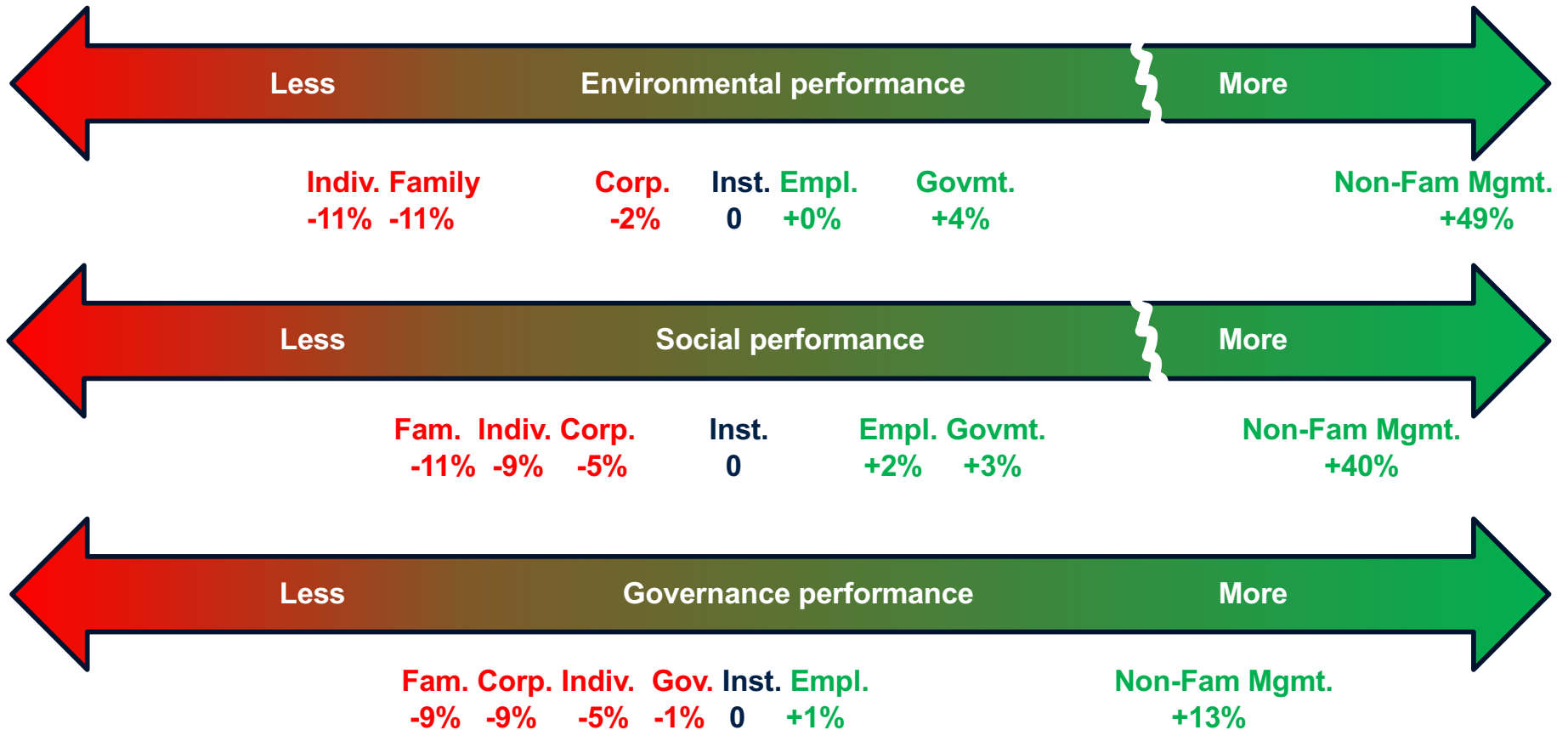
Summary of Results

Which types of material owners have better/worse ESG performance?





- Percentages indicate how much greater or lower than the sample average the ESG score is when a particular owner type is present among the top 10 shareholders
- Relative to companies in which all top 10 shareholders are institutional investors.
- After controlling for all the factors mentioned earlier

Similar Pecking Order for each ESG Dimension



... and subcategories, and underlying KPIs

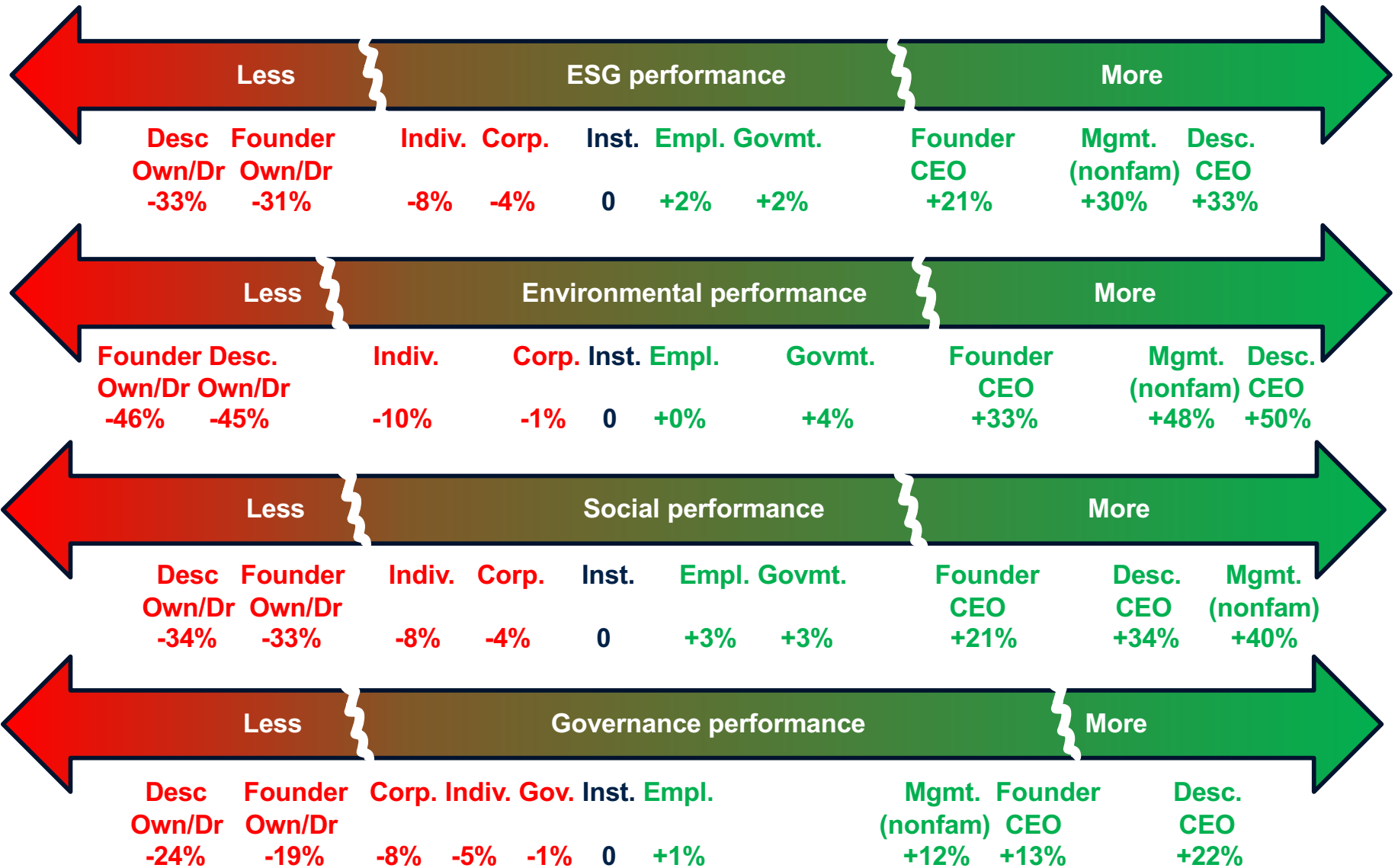
Environment	Resource reduction Emissions reduction Product innovations	
Social	Employment quality Health & safety Training & development Diversity Community Product responsibility	
Governance	Board structure & functions Shareholder rights Compensation policy	

Whether they reflect meaningful transformation of business model or purely cosmetic changes

However, there is hope...

- Drastic differences in results based on whether families are:
 - Passive v. active owners
 - In the hands of founders v. descendants

The Family Effect: Breakdown by Generation & Role



However, there is hope...

- Effects of families, corporations and management are attenuated by firms' ESG disclosures ⇒
 - Family firms may (partly) underperform on ESG metrics because they are modest / bad marketers / opaque
 - Should we even care about ESG ratings? If so, family firms can improve their ratings by disclosing more
- No large-scale evidence on private family firms
- All studies focus on families' operating co, not on the family enterprise (including foundation and family office)

New study (in progress): Family enterprise & impact

- How family enterprises generate large-scale impact through their 3 core pillars: business, philanthropy, and investment
- Collaboration among: María Herrero (Impact Observatory), Consuelo Benito (Advantere), María Sacristán (U. Rey Juan Carlos), Silvia Gómez-Ansón (U. de Oviedo), Colin Mayer (Oxford U.), Belén Villalonga (NYU-Stern)
- Also investigating the relevance of impact and purpose for families and their enterprises
 - Can a coherent impact strategy foster cohesion in the family around a shared mission and purpose?
 - Can it help families overcome challenges like succession, governance, talent retention, or raising outside financing?

⇒ If interested in participating, let us know!

Conclusions: Opportunities ahead

- For academics: extending research
 - From family (operating) business to family enterprise
 - From public to private companies
- For family business owners & managers: maximizing alignment regarding corporate purpose
 - Between owners and managers
 - Across generations
 - Across the entire family enterprise (op biz, family office and foundation or similar philanthropic arm)
 - Without reverting to Friedman's view
 - Between doing good and communicating it (“talking the walk”, as if may help attract and retain talent, increase reputation vis-à-vis customers and external shareholders)
- Mutual collaboration