Corporate Social Responsibility and Environmental Management

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RESEARCH ARTICLE OPEN ACCESS

Family Ownership and ESG Performance: The Moderating Role of Sustainability Committee and ESG-Linked Executive Compensation

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Received: 31 July 2025 | **Revised:** 16 March 2026 | **Accepted:** 23 March 2026

Keywords: ESG performance | ESG-linked executive compensation | family firms | family ownership | sustainability committee

ABSTRACT

Grounded in agency theory, this article examines the relationship between family ownership concentration and environmental, social, and governance (ESG) performance, and analyzes the moderating role of sustainable governance mechanisms. Specifically, it assesses whether sustainability committees and ESG-linked executive compensation moderate the relationship between family ownership concentration and ESG performance. The empirical setting comprises 150 publicly listed European family firms observed over the period 2010–2021. Using panel data regressions with multiple fixed effects to control for unobserved heterogeneity, the results show that higher levels of family ownership are negatively associated with ESG performance. However, this effect is significantly weakened in firms that adopt sustainability committees and ESG-linked executive compensation schemes. These findings indicate that the impact of family ownership on sustainability is contingent upon the governance architecture that shapes the exercise of ownership power. From a theoretical perspective, the results contribute to agency theory by demonstrating that monitoring and incentive alignment mechanisms can mitigate Type II agency tensions between controlling families and minority shareholders in ESG-related domains. From a practical standpoint, the findings suggest that in contexts of highly concentrated family ownership, the introduction of formal ESG-oriented monitoring and incentive mechanisms can reduce discretionary decision-making in ESG-related domains and foster greater alignment between family objectives and broader stakeholder expectations, thereby supporting a more balanced and long-term sustainability orientation.

1 | Introduction

In recent years, both academic research and business practice have increasingly focused on environmental, social, and governance (ESG) performance, recognizing its crucial role in promoting long-term resilience, stakeholder trust, and sustainable value creation (Latella and Veltri 2024). Regulatory developments such as the Corporate Sustainability Reporting Directive (CSRD), growing financial market scrutiny (Porenta and Rant 2025), and increasing investor sensitivity to ESG-related risks and opportunities (Jeong et al. 2025) have significantly reshaped the governance landscape. ESG considerations are no longer confined to voluntary corporate initiatives but increasingly embedded within formal governance architectures and strategic decision-making processes (Bolognesi et al. 2025; Cambrea et al. 2025). As emphasized by recent studies, ownership structure plays a pivotal role in shaping firms' ESG engagement, since different ownership configurations entail distinct incentive structures, monitoring mechanisms, and strategic priorities (Ghosh and Sahu 2024; Villalonga et al. 2025).

Within this broader debate, family firms represent a particularly salient and theoretically complex ownership form. Characterized by concentrated equity stakes, overlapping ownership and control, and transgenerational aspirations, family-controlled firms occupy a distinctive position in the corporate governance landscape (De Massis et al. 2018). The socioemotional wealth (SEW) perspective suggests that family owners pursue not only financial returns but also noneconomic goals, such as preserving family legacy, maintaining control, and safeguarding reputation across generations (Berrone et al. 2010, 2012). In the context of sustainability, this long-term orientation may encourage family firms to engage in responsible practices to protect their image and ensure continuity (López-González et al. 2019).

At the same time, concentrated family ownership increases the discretion of controlling shareholders over strategic resource allocation, including ESG-related investments. While family involvement may reduce classical Type I agency conflicts between managers and owners, it may amplify Type II agency problems between controlling and minority shareholders (El Ghoul et al. 2016). When ESG initiatives involve long-term horizons, uncertain payoffs, and redistributive implications across stakeholder groups, dominant family owners may face trade-offs between preserving control benefits and responding to broader stakeholder expectations (Labelle et al. 2018; Yu et al. 2021). This governance tension has generated inconclusive empirical evidence regarding the impact of family ownership on ESG performance (Waldau 2024).

Indeed, prior research on the relationship between family involvement and sustainability outcomes has produced mixed findings. On the one hand, family control has been linked to stronger ESG engagement due to reputational concerns and transgenerational commitments (Sun et al. 2024; Gómez-Mejía et al. 2025; Zhao and Wang 2025; Mariani et al. 2023; García-Sánchez et al. 2021). On the other hand, several studies document weaker environmental and social (ES) performance in contexts characterized by highly concentrated ownership and limited governance counterbalances (Miroshnychenko et al. 2022; Dal Maso et al. 2020; Yang et al. 2025; Labelle et al. 2018; El Ghoul et al. 2016; Miroshnychenko and De Massis 2022; Rees and Rodionova 2015). Such heterogeneity suggests that the effect of family ownership on ESG outcomes is unlikely to be uniform. Rather than asking whether family firms are inherently more or less sustainable, a more fruitful line of inquiry concerns the governance conditions under which concentrated ownership translates into either stakeholder alignment or strategic entrenchment.

Despite the growing interest in ESG practices within family firms, the extant literature remains conceptually fragmented. Prior studies have examined ownership structure (Villalonga et al. 2025; El Ghoul et al. 2016), ESG governance mechanisms (Burke et al. 2019; Orazalin 2020), or executive incentives (Cohen et al. 2023; Haque and Ntim 2020; Veltri et al. 2025) largely in isolation, without systematically integrating these dimensions into a unified analytical framework. More recent contributions have started to explore how internal family arrangements and control structures shape ESG outcomes (Jin et al. 2025; Zhu et al. 2025), yet the interaction between ownership concentration and formal sustainability-oriented governance mechanisms remains underexplored, particularly in the European listed context.

From an agency-theoretic perspective, this gap is especially relevant. Family-controlled firms may adopt a more selective or constrained approach to ESG investments, reflecting unique governance dynamics and agency problems (Jin et al. 2025). While the typical ownership concentration of family firms may reduce classical agency conflicts between managers and owners, controlling shareholders may internalize a significant portion of the costs associated with ESG initiatives, while the benefits—such as reputational gains, improved stakeholder relationships, or reduced regulatory risk—are more broadly diffused. This asymmetry can intensify Type II agency conflicts between dominant family owners and minority shareholders (El Ghoul et al. 2016; Purkayastha et al. 2022), particularly when sustainability initiatives are perceived as constraining family discretion or threatening private control benefits (Labelle et al. 2018; Borsuk et al. 2024; Tenuta and Cambrea 2022). Thus, while family ownership may mitigate managerial opportunism, it may simultaneously increase the risk of entrenchment and discretionary resource allocation in sustainability-related domains.

Accordingly, higher levels of family ownership may increase the capacity of controlling families to steer ESG-related decisions in line with family-centered objectives. In the absence of counterbalancing governance mechanisms, this concentration of power may facilitate strategic choices that privilege capital preservation, control retention, or intra-family priorities over broader stakeholder engagement. However, agency theory also suggests that appropriate governance devices can mitigate such conflicts by constraining discretion and enhancing transparency.

In the sustainability domain, two governance instruments have gained increasing prominence: the establishment of board-level sustainability committees and the integration of ESG criteria into executive compensation schemes. The establishment of sustainability committees enhances board-level oversight, institutionalizes ESG priorities, and signals to stakeholders the firm's commitment to sustainable governance (Eccles et al. 2014). From an agency-theoretic perspective, sustainability committees strengthen internal monitoring and reduce information asymmetry between controlling and minority shareholders by providing an independent forum for evaluating ESG strategies and outcomes (Li et al. 2023). These committees introduce specialized expertise and accountability mechanisms that help monitor and guide ESG performance, potentially mitigating the risks of underinvestment linked to family control and shifting the strategic focus from family-centered objectives to broader stakeholder-oriented goals (García-Sánchez et al. 2021; Filatotchev et al. 2005). Their establishment sends a clear external signal of the firm's commitment to sustainability, reinforcing transparency in the eyes of the other stakeholders (Moisello et al. 2026).

Similarly, within a traditional agency framework where shareholders are primarily concerned with maximizing financial performance (Jensen and Meckling 1976), ESG indicators can be incorporated into executive compensation when they are recognized as predictors of long-term financial performance and risk. Agency theory supports the idea that tying executive pay to

ESG goals can encourage managers to implement sustainability-oriented actions (Berrone and Gomez-Mejia 2009; Cohen et al. 2023; Flammer et al. 2019; Maas 2018; Veltri et al. 2025). Rewarding executives, including family executives, through measurable and transparent sustainability targets can help limit the controlling family's discretion in defining strategic priorities. This may increase managerial accountability and encourage the pursuit of long-term sustainability-oriented objectives, reducing the likelihood that large family owners prioritize family wealth over broader stakeholder interests (Conyon and Peck 1998; Dohrmann et al. 2025; Zhang et al. 2024). ESG-linked compensation may therefore act as a commitment mechanism aligning the interests of controlling family shareholders and minority investors by promoting accountability and long-term value creation through improved sustainability and corporate reputation. However, in the specific context of family firms, limited attention has been devoted to analyzing its moderating role in the relationship between family ownership and ESG performance.

Building on these considerations, this study aims to explore how sustainable governance can condition the relationship between family ownership and ESG performance. Accordingly, we address the following research questions:

RQ1. *How does the level of family ownership influence ESG performance*?

RQ2. *To what extent does the presence of a sustainability committee moderate this relationship*?

RQ3. *How does ESG-linked executive compensation moderate the association between family ownership and ESG performance*?

To address these research questions, we conduct an empirical analysis based on a panel of 150 publicly listed European family firms observed over the period 2010–2021. Grounded in agency theory (Jensen and Meckling 1976), our empirical design explicitly models ESG performance as a function of ownership concentration and its interaction with formal sustainability-oriented governance mechanisms. First, we examine the direct relationship between the degree of family ownership and ESG performance (RQ1), assessing whether higher ownership concentration in the hands of family shareholders is associated with distinct sustainability outcomes. This baseline relationship captures the extent to which concentrated family control, in the absence of specific governance counterbalances, shapes ESG engagement. Second, we investigate whether the presence of a sustainability committee moderates this relationship (RQ2). Rather than treating sustainability committees as independent determinants of ESG performance, we conceptualize them as governance devices that condition how ownership concentration translates into strategic sustainability choices. In this framework, the effectiveness of family ownership in shaping ESG outcomes depends on whether board-level monitoring structures are in place to institutionalize ESG priorities and reduce discretionary resource allocation. Third, we analyze the moderating role of ESG-linked executive compensation (RQ3). By tying managerial incentives to sustainability targets, such compensation schemes may constrain the ability of controlling shareholders to deprioritize ESG initiatives. Accordingly, we examine whether incentive alignment mechanisms attenuate the potential negative implications of concentrated family ownership for ESG performance.

By modeling these interaction effects, our analysis moves beyond assessing the standalone impact of ownership or governance tools. Agency theory provides a valuable lens to interpret these dynamics, highlighting the tension between family owners' preference for control retention and the increasing need to respond to diverse stakeholder expectations regarding sustainability. Thus, the main goal of this paper is to uncover how family ownership influences ESG performance and under what conditions this relationship varies, offering a more context-sensitive understanding of the interplay between family ownership and ESG behavior. In doing so, it contributes to ongoing debates in corporate governance and sustainability.

The remainder of the paper is organized as follows. Section 2 reviews the relevant literature and develops the research hypotheses. Section 3 describes the data and empirical methodology. Section 4 presents the empirical results. Section 5 discusses the findings and outlines theoretical and practical implications. Section 6 concludes the article.

2 | Literature Review and Research Hypotheses

2.1 | Theoretical Framework

Agency theory typically concerns the conflicts of interest that arise between owners and managers, particularly when ownership and control are separated. In such contexts, managers may pursue objectives that diverge from shareholders' best interests, leading to agency costs (Jensen and Meckling 1976). In family-controlled firms, however, concentrated ownership often reduces classical Type I agency conflicts between shareholders and managers, especially when management positions are held by family members. Large ownership stakes provide controlling families with strong monitoring incentives and direct influence over strategic decisions, thereby limiting managerial opportunism.

Nevertheless, ownership concentration also alters the nature of agency conflicts. Family-controlled firms may still be prone to agency problems between controlling and minority shareholders (i.e., Type II agency problems), as dominant families may exercise their control in ways that disproportionately reflect family-centered priorities (El Ghoul et al. 2016; Purkayastha et al. 2022). In such settings, the decision-making process may be strongly guided by the interests of the owning family, particularly when strategic initiatives affect control retention, wealth preservation, or the protection of family-specific benefits (Arduino et al. 2024; Yu et al. 2021).

In this context, two mechanisms are particularly relevant. First, controlling owners may prioritize strategic initiatives that reinforce private control benefits or financial stability over projects characterized by long-term uncertainty, especially when such initiatives are perceived as affecting the family's strategic autonomy (Le Breton-Miller and Miller 2016). Second, ESG investments may be perceived as potentially value-ambiguous initiatives, particularly when their financial returns are uncertain or when they increase transparency and external scrutiny (Rees and Rodionova 2015). While ESG engagement may generate reputational and long-term strategic benefits, it may also entail short-term costs and constrain discretionary control over corporate resources. These characteristics make sustainability investments particularly sensitive to the internal distribution of power within the firm.

Within the sustainability literature on family firms (Block and Wagner 2014; Cui et al. 2018; López-González et al. 2019), the SEW perspective provides an important complementary lens. The preservation of the socioemotional endowment leads family actors to pursue both financial and nonfinancial goals, such as family reputation, legacy, and control (Berrone et al. 2012). These objectives may, under certain conditions, foster proactive engagement in socially responsible initiatives. However, SEW preservation remains centered on the protection of family-specific endowments (Astrachan Binz et al. 2017) and may not always fully align with the broader interests of minority shareholders or non-shareholding stakeholders (Purkayastha et al. 2022; Mariani et al. 2023).

However, the central question of this study does not concern whether family firms are intrinsically more or less socially responsible, but rather to examine how increasing ownership concentration affects the distribution of decision-making power and the allocation of corporate resources in ESG-related domains. In this respect, agency theory offers a particularly suitable analytical lens. While SEW highlights the motivational drivers underlying family behavior, agency theory enables the examination of how those motivations translate into potential conflicts of interest when control is highly concentrated (El Ghoul et al. 2016; Purkayastha et al. 2022). Specifically, it provides a framework for analyzing how family-centered objectives—whether financial or socioemotional—may generate distributional consequences between controlling and minority shareholders, particularly in strategic areas characterized by long-term uncertainty and discretionary resource allocation, such as ESG investments (Labelle et al. 2018; Rees and Rodionova 2015). For these reasons, agency theory constitutes the primary theoretical foundation of our analysis, while the SEW perspective complements it by enriching the interpretation of family-specific goals and long-term orientations.

From a governance perspective, systems that incorporate the interests of a broader range of financial and nonfinancial stakeholders may reduce the concentration of decision-making power and enhance accountability (Aguilera et al. 2006; Spitzeck 2009). When governance systems are robust, managers are better positioned to consider the interests of a broader set of financial and nonfinancial stakeholders. At the same time, the dominant influence of large shareholders tends to diminish, fostering more balanced decision-making. This, in turn, can help reduce the potential negative implications that closely held ownership structures, such as concentrated family ownership, may have on ES performance (Rees and Rodionova 2015).

In the presence of potential conflicts between controlling and minority shareholders, especially in family-controlled firms, the establishment of an ESG committee can serve as an effective governance mechanism to mitigate agency costs. By promoting independent oversight of sustainability-related decisions, such committees may reduce the risk that corporate resources are allocated primarily according to family-centered objectives (Heubeck and Ahrens 2025). ESG committees can institutionalize sustainability priorities within board processes, strengthen monitoring functions, and enhance transparency toward external stakeholders.

Similarly, CEOs with stronger long-term incentive structures—particularly when tied to ESG performance metrics—are more likely to invest in sustainability initiatives that foster long-term value creation (Veltri et al. 2025). Within family-controlled firms, where agency conflicts often arise between controlling families and minority shareholders, incentive-based mechanisms can constrain executive discretion and align managerial behavior with firm-wide ESG goals (Cui et al. 2018). For family CEOs, ESG-linked incentives may reduce the likelihood that strategic decisions prioritize exclusively family-centered objectives. For nonfamily CEOs, these incentives can mitigate the classical agency problem between managers and owners while simultaneously reinforcing stakeholder-oriented strategies.

2.2 | Family Ownership and ESG Performance

The relationship between family ownership and the ES performance of family firms is complex and highly contingent upon contextual and governance-related factors (Waldau 2024). Previous conflicting evidence shows both positive (e.g., Gómez-Mejía et al. 2025) and negative effects (e.g., Miroshnychenko et al. 2022) of family influence on ESG outcomes, highlighting that the sustainability behavior of family firms is shaped by a specific configuration of internal factors—such as ownership concentration, governance mechanisms, and managerial involvement—as well as by external institutional pressures (Zhu et al. 2025). Among these factors, the level of family ownership represents a particularly salient contextual dimension (Yu et al. 2021), as it shapes both the incentives and the discretion of family owners in directing strategic priorities, including the firm's approach to sustainability.

High family ownership concentration, in the absence of counterbalancing mechanisms, may increase the likelihood of strategic decisions that privilege control retention, financial stability, or private benefits over stakeholder-oriented ESG investment. Conversely, in other contexts, family ownership may support long-term thinking and reputational commitment. This heterogeneity underscores the need to unpack how variations in family ownership levels interact with governance structures to influence ESG performance.

A growing body of empirical research reports that high levels of family ownership are frequently associated with weaker ES outcomes, particularly when such ownership is highly concentrated and not accompanied by effective governance mechanisms or strong institutional pressures (Miroshnychenko et al. 2022; Dal Maso et al. 2020; Yang et al. 2025; Labelle et al. 2018; El Ghoul et al. 2016; Miroshnychenko and De Massis 2022; Rees and Rodionova 2015). In these settings, dominant family shareholders may prioritize financial stability, control preservation, or SEW protection over long-term sustainability objectives, resulting in suboptimal ES performance (Rees and Rodionova 2015).

When ownership is concentrated, family members tend to exert closer monitoring over management, which generally reduces managerial myopia and supports longer-term orientations. However, this same ownership concentration introduces a different set of agency problems (El Ghoul et al. 2016). According to agency theory, family firms with high ownership concentration are particularly exposed to Type II agency problems, whereby controlling family shareholders may pursue family-centered interests in ways that generate distributional tensions with minority shareholders and other stakeholders (Borsuk et al. 2024). In these settings, power entrenchment may occur, allowing dominant family members to exert disproportionate influence over strategic decisions (Jin et al. 2025).

Given that ESG investments are typically characterized by long-term horizons, uncertain payoffs, and increased transparency requirements, they may be perceived as costly or misaligned with immediate family priorities when ownership concentration is high. This does not imply that family firms systematically neglect sustainability, but rather that higher ownership concentration may increase the probability that ESG initiatives are selectively adopted, strategically constrained, or subordinated to family-centered objectives. Such dynamics may ultimately be reflected in lower levels of observable ESG performance. Given the considerations outlined above, we argue that:

H1. *The higher the percentage of shares held by family owners in a family firm, the lower the company's ESG performance tends to be.*

2.3 | Sustainability Committee, Family Ownership and ESG Performance

While high family ownership concentration may lead to weaker ESG performance, this effect is not inevitable, but rather contingent on the presence, or absence of governance mechanisms that promote accountability and stakeholder alignment (El Ghoul et al. 2016). Indeed, the lack of formalized sustainability-oriented structures can exacerbate Type II agency problems, enabling dominant family members to pursue narrow financial or control-driven objectives without effective checks and balances. In such cases, ESG issues may remain marginal in strategic decision-making, resulting in symbolic or minimal compliance with sustainability standards.

Among the mechanisms that can counteract this tendency, sustainability committees have emerged as a relevant governance innovation, capable of reinforcing board oversight and embedding ESG priorities into corporate strategy. Although most prior research has focused on general corporate settings, a substantial body of evidence confirms that such committees typically exert a positive influence on ESG outcomes by improving the coordination and implementation of sustainability initiatives, enhancing ESG disclosure quality, and fostering innovation in sustainability practices (Orazalin 2020; Li et al. 2023; Biswas et al. 2018; Burke et al. 2019; García Martín and Herrero 2020; Alodat and Hao 2025).

However, the effectiveness of sustainability committees is not automatic. It depends on various contextual and structural factors, including committee composition, regulatory environment, and the broader governance setting, many of which are particularly salient in family firms (Yang et al. 2025; Miroshnychenko et al. 2022; Labelle et al. 2018; Abeysekera and Fernando 2020). In family-controlled firms, where ownership is highly concentrated and the risk of agency conflicts between controlling and minority shareholders is more pronounced, sustainability committees may play a pivotal role in constraining discretionary resource allocation by controlling shareholders and in strengthening oversight over sustainability-related strategic choices.

From an agency theory perspective, the establishment of a specialized ESG committee enhances the board's monitoring capacity and helps align the interests of principals and agents (Pisano et al. 2025). In this context, ESG committees function as formal governance instruments that institutionalize responsibility over sustainability matters and reduce the risk that family-specific goals override broader stakeholder concerns (Gull et al. 2023). By increasing transparency, reinforcing internal accountability, and embedding ESG considerations into board-level deliberations, these committees are expected to condition how ownership concentration translates into observable ESG outcomes rather than simply exerting an independent direct effect.

Accordingly, when sustainability committees are present, the discretionary influence of concentrated family ownership over ESG strategy may be attenuated, as monitoring and institutionalized oversight reduce the scope for selective or constrained sustainability engagement. While much of the literature has examined the direct impact of ESG committees on disclosure and performance outcomes, our study specifically conceptualizes them as a moderating governance mechanism within the relationship between family ownership and ESG performance, in the distinctive context of family-controlled firms. Thus, we can argue that:

H2. *The establishment of an ESG committee moderates the negative relationship between family ownership concentration and ESG performance, such that the negative relationship between family controlling stake and ESG performance is weakened when a sustainability committee is in place.*

2.4 | ESG-Linked Executive Compensation, Family Ownership and ESG Performance

Extant empirical research robustly demonstrates that executive pay schemes tied to ESG performance metrics generally yield positive impacts on overall ESG outcomes, including enhanced green innovation, improved sustainability disclosures, and strengthened internal controls (Dohrmann et al. 2025; Dsouza et al. 2025; Zhang et al. 2024; Zhu et al. 2024; Zeng et al. 2023; Cohen et al. 2023; Homroy et al. 2023; Baraibar-Diez et al. 2019; Haque and Ntim 2020; Deshui et al. 2024; Cucari et al. 2023; Nguyen et al. 2023).

Nonetheless, the literature also highlights significant challenges and limitations. The potential for symbolic adoption or greenwashing remains a critical concern, particularly in contexts characterized by insufficient transparency or ambiguous ESG targets (Ammel et al. 2024; Li et al. 2024; Cucari et al. 2023; Li and Chen 2024). Additionally, poorly calibrated incentive schemes, including overcompensation or excessive complexity, may not only fail to improve ESG performance but could also undermine it, contributing to a deterioration in ESG ratings and possibly impeding financial performance (Zhu et al. 2024; Burkert et al. 2024). What emerges from this evidence is that the effectiveness of ESG-linked compensation largely depends on how it is implemented: schemes tend to be more impactful when they are anchored to clear and measurable targets and are embedded within broader governance structures that support accountability and long-term strategic alignment.

In a traditional agency-theoretic framework, corporate owners are primarily concerned with maximizing financial returns, with limited regard for broader societal objectives such as those captured by ESG dimensions (Cohen et al. 2023). In this logic, nonfinancial performance measures, such as ESG criteria, are incorporated into executive compensation systems to promote alignment not only between managers and shareholders, but also between the firm and its wider set of stakeholders, including employees, customers, and the environment (Velte 2024; Veltri et al. 2025; Winschel and Stawinoga 2019). This perspective is particularly relevant in family-controlled firms, where the main agency conflict does not concern the separation of ownership and control, but rather the potential misalignment between the interests of dominant family shareholders and those of minority shareholders and non-shareholding stakeholders.

Family owners, especially when holding large equity stakes, may prioritize financial conservatism or family-specific objectives in ways that influence the allocation of corporate resources. In such contexts, ESG-linked compensation may function as a governance mechanism that constrains discretionary strategic choices by linking managerial rewards to measurable sustainability targets. By embedding ESG goals into the incentive system, the firm creates formal accountability structures that can limit the scope for selective or constrained sustainability engagement. Rather than assuming that compensation schemes automatically improve ESG outcomes, we conceptualize them as mechanisms that condition how ownership concentration translates into ESG performance.

Accordingly, when executive compensation is explicitly tied to ESG performance metrics, the influence of concentrated family ownership on sustainability-related decisions may be attenuated. Incentive alignment can reduce the likelihood that ESG initiatives are deprioritized in favor of narrow family-centered objectives, particularly in contexts where ownership concentration increases discretionary control. In this sense, ESG-linked compensation operates as a moderating governance mechanism that mitigates the agency risks associated with concentrated family ownership. Therefore, we argue that:

H3. *The implementation of an executive compensation policy linked to ESG criteria moderates the negative relationship between family ownership concentration and ESG performance, such that the negative relationship between family controlling stake and ESG performance is weakened when executive compensation is linked to ESG criteria.*

Building on the insights from the literature review, this study proposes the following conceptual model. Grounded in agency theory, the model posits that higher levels of family ownership may negatively affect ESG performance due to the potential emergence of Type II agency conflicts between controlling family shareholders and minority shareholders and other stakeholders. These conflicts may arise when concentrated ownership increases discretionary control over strategic resource allocation in domains characterized by long-term uncertainty, such as ESG investments. The model further introduces two sustainable governance mechanisms that are expected to moderate this relationship: the presence of a sustainability committee and the implementation of executive compensation policies linked to ESG criteria. These mechanisms are theorized to mitigate agency tensions by institutionalizing ESG oversight within the governance structure and by aligning managerial incentives with sustainability-oriented objectives. In this way, they are expected to condition how ownership concentration translates into observable ESG outcomes.

Figure 1 visually summarizes this framework, illustrating the hypothesized relationship between the level of family ownership and ESG outcomes, as well as the moderating roles of sustainability committees and ESG-linked executive compensation.

3 | Data and Empirical Model

3.1 | Sample

We construct a panel dataset of 150 unique family firms listed on European Euronext markets, covering a 12-year period up to the end of 2021. In line with previous studies (Battisti et al. 2023), family firms are defined as those in which a family owns at least 20% of the equity. Starting from the full population of publicly listed European firms, we applied this ownership criterion to identify family-controlled businesses. To ensure accuracy, ownership information was manually collected from Orbis.

The dataset combines detailed and up-to-date information from three main sources. ESG performance data were obtained from Refinitiv Eikon. Board characteristics were matched using BoardEx, and financial variables were drawn from Compustat. This integrated approach allows for a comprehensive analysis of family firms in the European context.

Europe is a relevant context for sustainability studies due to strong institutional commitment to sustainable development, enhanced regulatory frameworks like the CSRD, and cross-country differences that allow for meaningful comparative analysis (Gavana et al. 2023). Moreover, the central role that family owners play in the decision-making processes of many European firms positions them strategically to either accelerate or hinder the green transition of the European economy (Bergmann et al. 2025).

3.2 | Variable Description

The dependent variable is the *ES score*, which captures firms' ES sustainability outcomes. We retrieved the ES pillar scores from

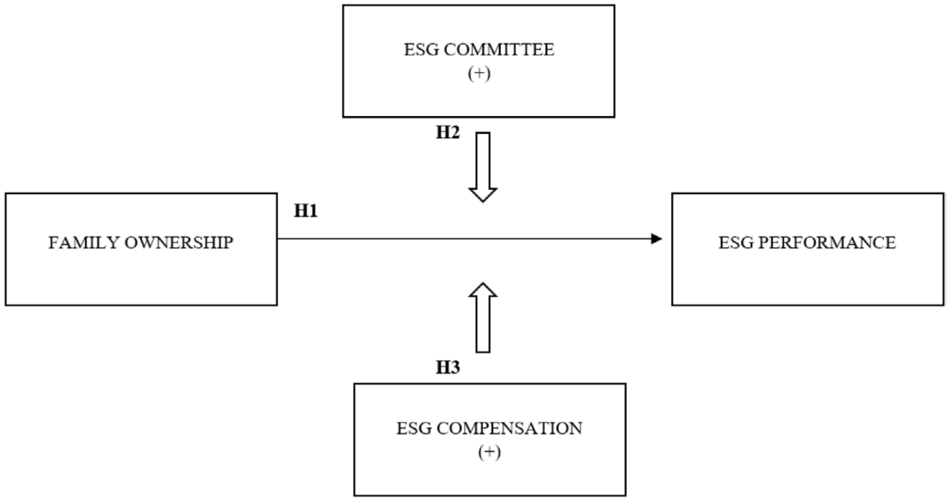

FIGURE 1 | Research framework.

the Thomson Reuters ESG database and calculated their equally weighted average for each firm-year observation (Ioannou and Serafeim 2012). These scores, ranging from 0 to 100, are based on publicly available information and represent a widely accepted measure of corporate ES performance (Latella and Veltri 2025). For consistency and comparability, we standardized the resulting *ES score* to a 0–1 scale by dividing each value by 100.

3.3 | Independent and Moderating Variables

Our main independent variable, labeled *Family Controlling Stake*, measures the percentage of capital ownership held by the controlling family (Sun et al. 2024). This variable ranges from 0.20 (the minimum threshold for defining a firm as family-controlled) to 0.97 and captures the degree of ownership concentration within the firm. To test the second and third research hypotheses, we include two moderating variables: the presence of a sustainability committee (*ESG Committee*) and the adoption of ESG-linked executive compensation (*ESG Compensation*).

As in previous studies (e.g., Heubeck and Ahrens 2025), we coded the first moderator as a dummy variable equal to 1 if the firm has established a dedicated sustainability committee or a team responsible for addressing ESG-related matters. In line with prior research highlighting the monitoring and advisory roles of ESG committees in managing the risks and opportunities associated with corporate social responsibility (Abweny et al. 2025), we assess whether their presence can mitigate the opportunistic behaviors often associated with family-controlled firms, where decision-making may reflect family interests over those of external stakeholders.

Following previous studies (e.g., Radu and Smaili 2022), the second moderator is a dummy variable that equals 1 when executive compensation is explicitly linked to ESG performance metrics. This variable does not account for the relative weighting of such metrics within pay structures; rather, it captures whether the company adopts an extra-financial performance–oriented compensation policy, whereby senior managers' remuneration is tied to ESG or sustainability factors. Drawing on the view that ESG-linked incentives can serve as an effective governance tool (Veltri et al. 2025), we examine whether such compensation structures help align managerial objectives with broader stakeholder interests, particularly in family-controlled firms, where the risk of prioritizing familial goals over long-term ESG commitments may be more pronounced.

3.4 | Control Variables

The empirical regressions include several control variables. Specifically, we consider some firm-level characteristics such as firm size, leverage, ROA, family CEO, and firm age. Specifically, firm size (*Total Assets*) is measured as the natural logarithm of total assets (Latella et al. 2025). *Leverage* is calculated as the ratio between the total debt and equity (Nandi et al. 2023). *ROA* is computed as operating income divided by total assets (Quarato et al. 2025). *Family CEO* is a dummy variable equal to 1 when the CEO belongs to the owning family, 0 otherwise (Miller et al. 2022). *Firm Age* is calculated as the logarithmic transformation of the years since the company was established (Pareek et al. 2025).

4 | Results

4.1 | Descriptive Statistics and Correlation Analysis

Table 1 presents the descriptive statistics for the sample of firms, including the mean, standard deviation, minimum, and maximum values for each variable. The dependent variable, the *ES score*, has an average value of approximately 0.6. With regard to the main independent variables, family ownership accounts for an average of 43% of the share capital. In terms of ESG governance mechanisms, 67% of the firms in the sample have established a dedicated sustainability committee, while 33% have linked executive compensation to ESG-related criteria.

Table 2 reports the correlation matrix. The results indicate acceptable levels of correlation among all variables included in the empirical models, suggesting no concerns related to multicollinearity. Variance Inflation Factors (VIFs) are below conventional thresholds, further indicating that multicollinearity does not pose a significant concern in our estimations.

TABLE 1 | Descriptive statistics.

	Variable	Mean	SD	Min	Max
1	ES score	0.57	0.23	0.08	0.95
2	Family Controlling Stake	0.43	0.18	0.2	0.97
3	ESG Committee	0.67	0.47	0	1
4	ESG Compensation	0.33	0.47	0	1
5	Total Assets	3.94	0.93	1.89	17.61
6	Leverage	0.97	1.07	0	4.26
7	ROA	0.08	0.08	−0.21	0.62
8	Family CEO	0.23	0.42	0	1
9	Firm Age	3.87	0.9	1.39	5.90

4.2 | Main Analysis

To test our research hypotheses, we estimate a linear regression model which incorporates multiple types of fixed effects. In particular, each regression incorporates country, year and industry dummies to control for unobserved heterogeneity. This methodology was required as the family ownership concentration exhibits limited within-firm variation over time (Zona et al. 2025). The dependent variable, that is, *ES score*, is winsorized at the 1% level to mitigate the influence of outliers.

Table 3 presents the results of our regression analyses. Column 1 reports the baseline model including only control variables. *Total Assets* and *ROA* are positively and significantly associated with *ES score*, suggesting that larger and more profitable firms tend to display stronger ES performance. *Firm Age* also shows a positive and significant coefficient, indicating that more established firms may be better positioned to implement sustainability practices. In contrast, *Leverage* does not display a statistically significant effect, while the presence of a family CEO is negatively and significantly associated with *ES score* ($\beta = -0.096$, $p < 0.01$), suggesting that direct family managerial involvement may be linked to more conservative ESG engagement. In Column 2, we introduce the main independent variable—*Family Controlling Stake—to* examine its direct effect on *ES score*. The coefficient is negative and statistically significant

TABLE 2 | Correlation matrix.

	1	2	3	4	5
ES score	1				
Family Controlling Stake	−0.12***	1			
ESG Committee	0.59***	−0.09***	1		
ESG Compensation	0.31***	−0.19***	0.25***	1	
Total Assets	0.33***	−0.08***	0.22***	0.13***	1
Leverage	0.02	0.05**	0.01	−0.01	0.009
ROA	−0.07***	0.13***	−0.001	−0.06**	−0.14***
Family CEO	−0.12***	0.21***	−0.15***	−0.1***	0.02
Firm Age	0.26***	0.05**	0.09***	0.10***	0.18***

	6	7	8	9
ES score				
Family Controlling Stake				
ESG Committee				
ESG Compensation				
Total Assets				
Leverage	1			
ROA	−0.04*	1		
Family CEO	−0.01	0.07***	1	
Firm Age	0.02	−0.15***	−0.02	1

Note: *, ** and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

TABLE 3 | Main analyses.

	(1) ES score	(2) ES score	(3) ES score	(4) ES score	(5) ES score	(6) ES score	(7) ES score
Family Controlling Stake		−0.152***	−0.122***	−0.175***	−0.123***	−0.199***	−0.191***
		(0.026)	(0.022)	(0.032)	(0.026)	(0.029)	(0.032)
ESG Committee			0.202***	0.162***			0.159***
			(0.009)	(0.020)			(0.020)
Family Controlling Stake × ESG Committee				0.094**			0.079*
				(0.041)			(0.042)
ESG Compensation					0.068***	−0.041*	−0.013
					(0.010)	(0.023)	(0.021)
Family Controlling Stake × ESG Compensation						0.273***	0.136***
						(0.052)	(0.048)
Total Assets	0.068***	0.065***	0.043***	0.043***	0.060***	0.063***	0.042***
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Leverage	−0.000	−0.000	−0.000	−0.000	−0.000	−0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
ROA	0.260***	0.283***	0.195***	0.190***	0.300***	0.283***	0.190***
	(0.060)	(0.059)	(0.051)	(0.051)	(0.058)	(0.058)	(0.051)
Family CEO	−0.096***	−0.086***	−0.051***	−0.049***	−0.077***	−0.079***	−0.046***
	(0.011)	(0.011)	(0.009)	(0.009)	(0.010)	(0.010)	(0.009)
Firm Age	0.040***	0.044***	0.040***	0.039***	0.040***	0.040***	0.038***
	(0.006)	(0.006)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Constant	0.145***	0.204***	0.156***	0.182***	0.199***	0.223***	0.190***
	(0.028)	(0.030)	(0.026)	(0.028)	(0.029)	(0.029)	(0.028)
Observations	1692	1692	1689	1689	1689	1689	1689
R-Squared	0.496	0.506	0.633	0.634	0.522	0.530	0.641
Industry, year and country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Note: Standard errors in parentheses. *, ** and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.
*$p < 0.1$.
**$p < 0.05$.
***$p < 0.01$.

($\beta = -0.152$, $p < 0.01$), supporting H1 and suggesting that higher levels of family ownership are associated with lower *ES score* in family firms.

Column 3 introduces the first moderating variable, namely the presence of an ESG committee. In Column 4, the interaction term between *Family Controlling Stake* and *ESG Committee* is positive and statistically significant ($\beta = 0.094$, $p < 0.05$). This indicates that the negative association between family ownership concentration and *ES score* is positively moderated by the presence of a sustainability committee. Although the effect of ownership remains negative, the magnitude of this negative relationship is reduced when a sustainability committee is in place.

Columns 5 and 6 examine *ESG Compensation*, our second moderating variable. In Column 6, the interaction term is positive and statistically significant ($\beta = 0.273$, $p < 0.01$), indicating that ESG-linked compensation positively moderates the relationship between family ownership and *ES score*. In the full model (Column 7), the interaction term remains positive and significant ($\beta = 0.136$, $p < 0.01$), confirming that incentive alignment mechanisms reduce the strength of the negative association between concentrated family ownership and *ES score*.

To gain better insights into these moderating relationships, we plotted two figures, showing that the presence of an ESG committee (Figure 2) and ESG compensation (Figure 3) positively moderate the link between family ownership and *ES score*.

4.3 | Robustness Checks

To verify the robustness of our main findings, we performed a series of additional analyses, summarized in Table 4. First, we disaggregated the *ES score* into its two pillars, Environmental (*E score*) and Social (*S score*) performance, to assess whether the moderating effects of ESG governance mechanisms are consistent across both dimensions. The results show that both interaction terms (i.e., *Family Controlling Stake × ESG Committee* and *Family Controlling Stake × ESG Compensation*) remain positive and statistically significant when environmental performance is used as the dependent variable (Column 1). However, when focusing on the social pillar, only the interaction involving ESG-linked compensation retains significance, suggesting that incentive-based mechanisms may be more effective than structural ones (such as committees) in promoting socially responsible behavior (Column 2). In Column 3, to mitigate concerns of reverse causality, we re-estimated our models using one-year lagged independent and moderating variables. The results remain qualitatively unchanged, strengthening confidence in the directionality of the observed relationships. Finally, in Column 4, we employed an alternative proxy for family influence, as represented by *Family Voting Rights*. The results obtained using this proxy are consistent with those based on equity ownership: family control, as measured by voting power, continues to exhibit a negative relationship with *ES score*, while the moderating effects of ESG governance mechanisms remain robust. This suggests that our conclusions are not sensitive to how family influence is operationalized, further reinforcing the reliability and generalizability of our findings.

5 | Discussion

The interplay between diverse ownership configurations and governance mechanisms within family firms, together with the dynamic and evolving nature of ESG performance, presents a complex and fertile ground for scholarly investigation (Zhu et al. 2025). The results of our analysis consistently support the formulated hypotheses and offer interesting insights into the

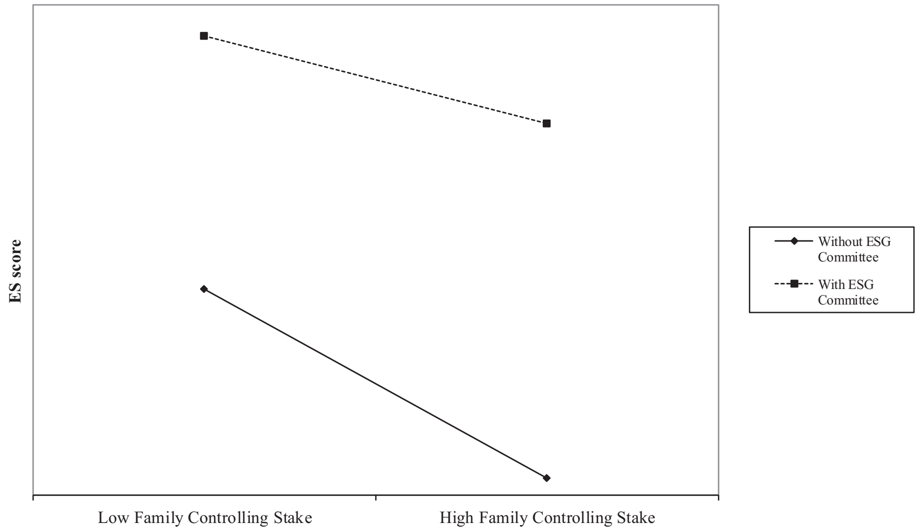

FIGURE 2 | Moderating effect of ESG Committee on the relationship between Family Controlling Stake and ES score.

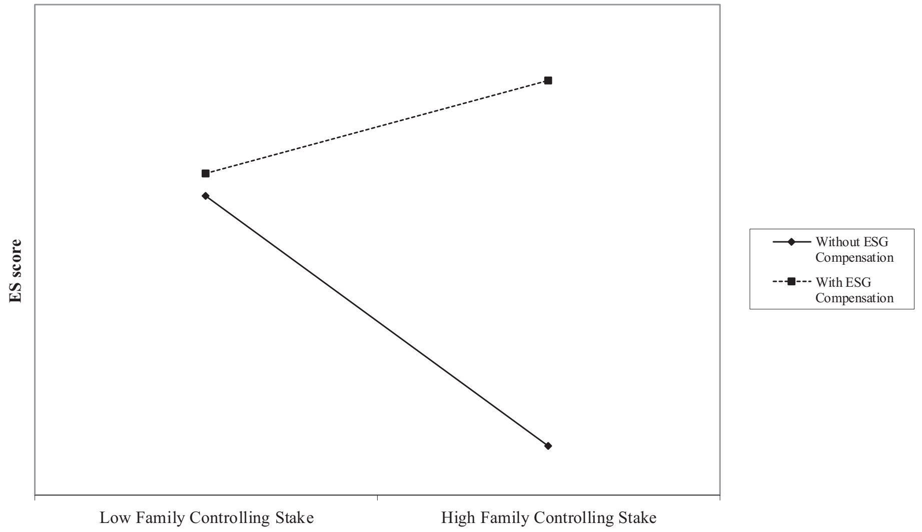

FIGURE 3 | Moderating effect of ESG compensation on the relationship between Family Controlling Stake and ES score.

TABLE 4 | Robustness analyses.

	(1) E score	(2) S score	(3) ES score	(4) ES score
Family Controlling Stake	−0.199***	−0.186***	−0.195***	
	(0.040)	(0.035)	(0.034)	
ESG Committee	0.180***	0.138***	0.159***	0.116***
	(0.025)	(0.021)	(0.021)	(0.020)
Family Controlling Stake × ESG committee	0.116**	0.044	0.072*	
	(0.052)	(0.045)	(0.043)	
Family Voting Rights				−0.272***
				(0.031)
Family Voting Rights × ESG Committee				0.166***
				(0.041)
Family Voting Rights × ESG Compensation				0.129***
				(0.044)
ESG Compensation	−0.040	0.013	−0.018	−0.014
	(0.026)	(0.022)	(0.021)	(0.020)
Family Controlling Stake × ESG Compensation	0.185***	0.091*	0.149***	
	(0.059)	(0.051)	(0.048)	
Total Assets	0.040***	0.045***	0.046***	0.043***
	(0.006)	(0.005)	(0.005)	(0.005)
Leverage	−0.000	0.000	−0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)
ROA	0.116*	0.272***	0.221***	0.194***
	(0.063)	(0.055)	(0.054)	(0.050)
Family CEO	−0.036***	−0.059***	−0.048***	−0.038***
	(0.011)	(0.010)	(0.009)	(0.009)
Firm Age	0.042***	0.033***	0.037***	0.039***
	(0.006)	(0.005)	(0.005)	(0.005)
Constant	0.149***	0.232***	0.196***	0.226***
	(0.034)	(0.030)	(0.062)	(0.027)
Observations	1689	1689	1558	1689
R-Squared	0.562	0.615	0.643	0.650
Industry, Year and country fixed effects	Yes	Yes	Yes	Yes

Note: Standard errors in parentheses.
*$p < 0.1$.
**$p < 0.05$.
***$p < 0.01$.

relationship between family firms and ESG performance. Our results align with previous studies rooted in agency theory (Ab Aziz et al. 2025; Rees and Rodionova 2015), which suggest that, under conditions of high ownership concentration, family firms may exhibit lower ESG performance due to agency problems not between managers and owners (i.e., Type I agency problems), as these are often mitigated in family-controlled firms, but between controlling family shareholders and minority shareholders (i.e., Type II agency problems). This finding supports H1 and suggests that, under conditions of high ownership concentration, family firms may exhibit a more cautious ESG orientation, due to a greater focus on capital preservation or a more traditional view of business. These results highlight that higher level of family ownership is associated with a reluctance to engage in proactive ESG initiatives when such actions are perceived to compromise control, increase exposure to external pressures, or entail uncertain financial returns (Berrone et al. 2010; Labelle et al. 2018).

Our findings are consistent with prior studies conducted on large multinational datasets, which generally document a cautious or negative attitude of family firms toward ESG engagement (e.g., Rees and Rodionova 2015; Dal Maso et al. 2020; Labelle et al. 2018; Borsuk et al. 2024). However, they appear to diverge from evidence reported in other regions such as the USA (Lamb et al. 2017) and several Asian countries (Zhou 2014), where family ownership has sometimes been associated with more proactive ESG behaviors. This contrast highlights how regional institutional frameworks and cultural factors may shape the relationship between family influence and ESG performance.

At the same time, our results align with prior research suggesting that specific governance mechanisms can positively steer this relationship. We find that both the presence of a sustainability committee and the adoption of ESG-linked executive pay mitigate the generally cautious ESG stance of family firms. In particular, we document that the establishment of an ESG committee attenuates the typically conservative ESG orientation of family firms (Lee et al. 2025; Moisello et al. 2026). Functionally, these committees institutionalize the firms' commitment towards sustainability matters and reduce the risk that family-specific goals prevail over broader stakeholder concerns (Gull et al. 2023). In parallel, we find evidence consistent that long-term incentive structures, such as those tied to CSR or ESG targets, can motivate CEOs in family firms to enhance firms' sustainability performance (Cui et al. 2018). Overall, these findings suggest that while family firms may adopt a more cautious ESG orientation when ownership concentration is high and governance counterbalances are weak, well-designed governance mechanisms can play a crucial moderating role by aligning managerial incentives with broader sustainability goals.

5.1 | Theoretical Contributions

Our findings highlight several theoretical contributions. First, we advance the ESG literature by demonstrating that the governance dimension ("G") plays a foundational role in conditioning the ES ("E" and "S") performance of firms, particularly when ownership is highly concentrated in the hands of controlling families. While ESG frameworks often treat governance as a distinct and self-contained pillar, our research emphasizes its foundational role in shaping a firm's overall sustainability orientation. In particular, we explore how the governance dynamics typical of family firms, such as concentrated ownership and potential agency conflicts, interact with sustainable governance mechanisms, including sustainability committees and ESG-linked executive compensation.

Although prior studies have documented the beneficial role of sustainability committees in enhancing ESG performance and corporate accountability (Orazalin 2020; Biswas et al. 2018; Burke et al. 2019), only a few recent works have explored these mechanisms in the specific context of family firms (Lee et al. 2025; Moisello et al. 2026). Our findings extend this literature by showing that in family-controlled firms, these committees play a particularly important role in addressing Type II agency problems. By institutionalizing oversight of ESG-related matters, sustainability committees can balance the influence of dominant family members, enhance board-level accountability, and embed stakeholder-oriented logic into strategic decisions, thereby moderating the adverse effect of concentrated family ownership on ESG outcomes.

The presence of ESG-linked compensation also proves to be a relevant factor due to the fact that its interaction with family ownership is positive and significant. We thus extend the literature on ESG-linked compensation (Haque 2017; Haque and Ntim 2020; Radu and Smaili 2022) by showing that, within family firms, it helps to improve sustainability performance, mitigating agency conflicts, particularly in settings where concentrated ownership may limit stakeholder orientation. This result is particularly relevant in the context of family-controlled firms, where dominant shareholders often exert strong influence over strategic priorities. In such settings, ESG-linked incentives appear to function as a corrective mechanism, ensuring that the decision-making process remains aligned with broader ES goals, rather than being driven solely by private family interests. Overall, this evidence underscores the importance of well-designed governance tools that embed sustainability into the firm's internal incentive structures, enabling a better alignment between ownership concentration and long-term ESG objectives.

Our findings extend prior research emphasizing the limited effectiveness of traditional governance mechanisms in promoting socially responsible behavior in family firms. Previous studies have shown that independent directors, rather than curbing opportunistic behaviors, often conform to the preferences of controlling family members, who tend to prioritize financial outcomes over broader stakeholder concerns (Cuadrado-Ballesteros et al. 2015). In contrast, our evidence highlights that sustainability-oriented governance mechanisms, such as the establishment of a sustainability committee and the adoption of ESG-linked executive compensation, can effectively realign the objectives of family owners toward the collective interests of all stakeholders. The former fosters a deeper understanding of stakeholder expectations and institutionalizes the firm's sustainability commitment within governance structures, while the latter directs managerial attention toward sustainability-related goals, enhancing the alignment between corporate strategy and ES issues.

Second, we contribute to the family business literature by offering novel insights into how heterogeneity in family ownership levels influences firms' strategic orientation toward ESG. These insights can be interpreted through the lens of agency theory, which suggests that entrenchment, limited external oversight, or the prioritization of family-centered objectives do not uniformly translate into greater ESG engagement. The adoption of formal governance tools determines increased control and can mitigate agency conflicts between controlling families and minority shareholders. Moreover, by examining the moderating role of formal governance mechanisms, such as ESG committees and incentive-based executive compensation, we extend understanding of how internal structures can shape or counterbalance the influence of dominant family owners on sustainability outcomes. Finally, we refine agency theory by showing that agency conflicts in family firms, often assumed to be reduced, persist in the form of Type II agency problems and can be effectively mitigated through the adoption of formal governance mechanisms.

Our study offers refined implications for understanding how family firms can navigate the growing institutional and market pressure for ESG engagement, without compromising their identity and strategic autonomy. Rather than assuming a binary opposition between family control and sustainability, our findings suggest that the relationship is contingent upon the internal governance architecture and, critically, the degree of ownership concentration. High family ownership, in the absence of sustainability-oriented mechanisms, may entrench priorities that are inward-looking or conservative toward ESG. However, when ESG committees or incentive systems are in place, even highly concentrated ownership structures can be mobilized toward broader societal objectives. This points to the importance of organizational design choices over structural change: family firms can maintain their core characteristics while selectively adopting governance innovations that enhance their responsiveness to ESG challenges.

5.2 | Practical Implications

For practitioners, this underscores a key insight: effective ESG integration does not depend solely on external compliance or reputational concerns but on the proactive and strategic internalization of sustainability principles within governance routines. This requires a fundamental reframing of ESG not as a constraint but as a dynamic and value-creating framework through which family firms can future-proof their legitimacy, strengthen stakeholder trust, ensure alignment with intergenerational goals, and retain access to increasingly sustainability-sensitive capital markets.

Our results suggest that ownership structures characterized by high family concentration tend to prioritize family-centered objectives or control-oriented priorities. This opportunistic orientation can be effectively counterbalanced through the introduction of monitoring and incentive mechanisms based on ESG criteria. These mechanisms enhance awareness among family owners and managers of the strategic relevance of sustainability goals. In doing so, they help realign family interests with those of a wider set of stakeholders and foster a long-term orientation that supports both firm performance and social legitimacy. In this regard, firms should also pay close attention to the design of sustainable governance mechanisms. The composition of sustainability committees is particularly important. Indeed, ensuring the presence of independent and nonfamily members can enhance objectivity, strengthen monitoring, and prevent sustainability governance from becoming another channel for family influence. In addition, to be effective, these committees should meet regularly, be formally integrated into board decision-making processes, and have a clear mandate to oversee ESG strategy implementation. Likewise, ESG-linked compensation schemes should be designed carefully, taking into account whether the CEO is a family or a nonfamily executive, as their impact may vary depending on the nature of leadership and its alignment with family interests. The design of such schemes should also consider the choice of ESG indicators, ensuring an appropriate balance between short-term targets (e.g., reductions in resource use) and long-term objectives (e.g., progress toward decarbonization or social inclusion).

From a public policy perspective, our results highlight the need for targeted institutional interventions that recognize the distinctive governance logic of family firms. Rather than imposing one-size-fits-all regulations, policymakers might focus on designing flexible ESG governance standards or disclosure frameworks that account for ownership structure. For example, incentivizing ESG-linked compensation or offering regulatory recognition for firms that establish independent sustainability committees could enhance ESG accountability without eroding family autonomy.

5.3 | Limitations and Future Research Directions

Our work is not exempt from limitations which opens up interesting avenues for future research. First, we focus on the level of family ownership, while it could be valuable to investigate the internal dynamics of family firms, for example by exploring differences between firms led by first, second, or third-generation family members, or by analyzing the impact of different leadership configurations (e.g., family CEO vs. external CEO or female vs. male CEO) on ESG performance (D'Angelo et al. 2025). Second, our operationalization of sustainable governance mechanisms relies on dichotomous indicators capturing the presence of sustainability committees and ESG-linked executive compensation. While this approach is consistent with prior archival research and allows for cross-country comparability, it may not fully capture variation in the depth or effectiveness of these mechanisms. Future research could employ more granular measures—such as committee composition, frequency of meetings, or the specific weight assigned to ESG metrics in executive pay—to provide a more refined assessment of how governance design shapes ESG outcomes. Moreover, we focus on European firms. It could be as well relevant to test the validity of these findings in different geographical contexts (such as the United States), as institutions, regulations, and stakeholder pressures can vary significantly across countries, influencing how family firms approach sustainability practices. Finally, qualitative or mixed-method approaches may offer deeper insights into the internal decision-making logics behind ESG adoption in family businesses, capturing the interplay between economic goals, legacy concerns, and socioemotional motivations that are difficult to observe in purely quantitative designs.

6 | Conclusion

This paper adopts agency theory (Jensen and Meckling 1976) to investigate the complex and often debated relationship between the level of family ownership and ESG performance in family firms. We show that higher levels of family ownership are negatively correlated with ESG outcomes. However, we provide evidence that this effect depends upon specific sustainable governance contingencies. Specifically, its negative impact is moderated by the presence of a sustainability committee and the adoption of executive compensation linked to ESG criteria.

These findings contribute to a more nuanced understanding of heterogeneity within family firms, highlighting that ownership concentration alone does not predetermine ESG outcomes. Instead, the presence of targeted governance mechanisms can moderate agency dynamics and foster more responsible corporate behavior, even in contexts characterized by strong family control.

From a theoretical perspective, this study extends agency theory by applying it to nonfinancial performance domains, showing how Type II agency conflicts extend beyond financial outcomes and manifest in ESG-related decisions, and how they may be mitigated through formal governance mechanisms that constrain the discretionary power of controlling shareholders. Empirically, it advances current literature by modeling the interaction between family ownership concentration and sustainable governance mechanisms in a longitudinal panel of European listed family firms, capturing both the direct and moderated effects of family ownership on ESG performance.

In practical terms, the results underscore the importance of internal governance design in aligning family firm behavior with broader sustainability goals. For family businesses, introducing formal ESG-related structures may serve not only to improve stakeholder trust and legitimacy but also to overcome internal frictions that hinder sustainable strategies. For policymakers and investors, the findings suggest that encouraging ESG-aligned governance practices (such as board-level sustainability oversight and incentive-based mechanisms) can help unlock the sustainability potential of family-owned firms.

Overall, this paper underscores that the relationship between family ownership and sustainability is not inherently negative, but contingent on the governance mechanisms that shape the exercise of ownership discretion. By highlighting the moderating role of sustainable governance structures, our findings contribute to a more nuanced understanding of how concentrated family control can either constrain or support ESG performance depending on the institutionalization of monitoring and incentive alignment mechanisms.

Acknowledgments

Open access publishing facilitated by Universita Bocconi, as part of the Wiley - CRUI-CARE agreement.

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