


## RESEARCH ARTICLE

# ESG Performance and Institutional Quality: Can Virtuous Institutional Leadership Lead to a More Sustainable Economic Environment? An Exploratory Study of the Most Capitalized European Family-Listed Companies

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## ABSTRACT

National institutions are widely assumed to foster corporate sustainability, yet their effects on ESG engagement can vary across contexts and firm types. Drawing on institutional theory and the socioemotional wealth (SEW) perspective, we examine how national institutional quality relates to ESG performance among large listed European family firms. Using ESG scores from Refinitiv and governance indicators from the Worldwide Governance Indicators, we find that higher government effectiveness, regulatory quality, and rule of law are associated with lower ESG performance, while voice and accountability, political stability, and control of corruption show no significant relationship. We interpret this pattern as a substitution mechanism: when institutions credibly enforce baseline standards and confer legitimacy, the marginal strategic value of additional voluntary ESG engagement declines—especially for family firms attentive to autonomy, control, and reputational preservation. The study contributes to institutional theory by specifying a boundary condition to institutional complementarity and to family business research by explaining how SEW-consistent priorities shape the strategic meaning of ESG under different institutional configurations. From a policy perspective, the findings suggest that, alongside stringent reporting and compliance regimes, complementary incentive-based instruments and targeted support may be needed to sustain proactive ESG strategies beyond compliance among European family firms.

## 1 | Introduction

The interplay between environmental, social, and governance (ESG) performance and national institutional quality has become central to debates on how firms contribute to sustainable development. ESG performance, an increasingly important metric for stakeholders, not only reflects corporate commitment to sustainability but also provides insight into how external pressures, such as institutional quality, shape organizational behaviors. Regulators, investors, and other stakeholders increasingly

rely on ESG metrics to assess corporate behavior, while supranational bodies, especially in Europe, are strengthening disclosure requirements and sustainability-related regulations. Prior research generally suggests that companies embedded in stronger institutional environments tend to engage in better ESG practices, as regulatory and ethical frameworks align corporate goals with broader societal values (Ioannou and Serafeim 2012; Scholtens and Dam 2007). At the same time, more recent work on institutional voids, comparative regulatory approaches and the evolving measurement of ESG performance highlights that

institutional effects can be heterogeneous across contexts and firm types (e.g., Lopez-de-Silanes et al. 2024; Miroshnychenko et al. 2024; Pinheiro, Dos Santos, et al. 2024).

Family firms add another layer of complexity to this phenomenon. These enterprises, characterized by a long-term orientation and the prioritization of socioemotional wealth (SEW), often engage differently with ESG imperatives. The SEW perspective argue that family firms prioritize preserving nonfinancial objectives such as reputation, identity, and legacy, which can influence their responsiveness to institutional pressures (Berrone et al. 2010; Berrone et al. 2012; Songini et al. 2022). Prior evidence suggests that, particularly in strong institutional contexts, family firms tend to disclose more about their sustainability practices and align their strategies with environmental and social standards, using ESG reporting to protect and enhance their reputational capital (e.g., Michelon and Parbonetti 2012). At the same time, heterogeneity in governance structures, generational involvement, and ownership concentration leads family firms not to respond uniformly to institutional demands and to adopt distinct ESG strategies compared to nonfamily firms.

Despite advances in understanding the relationship between ESG and institutional quality in the family business context, existing studies have predominantly focused on non-European or less-regulated contexts, or on mixed samples that do not isolate the behavior of family firms. The European Union's stringent regulatory framework—most notably the Non-Financial Reporting Directive (NFRD)—has acted as a significant catalyst for sustainable business practices, reshaping corporate transparency and accountability standards. Europe thus offers a unique research context: it combines relatively high institutional quality and advanced ESG regulation with a strong prevalence of family-owned enterprises, which play a central role in national economies. Recent evidence on institutional quality suggests that several European countries rank among the global leaders in dimensions such as rule of law, regulatory quality, and control of corruption (Eurofound 2022). In such an environment, tight regulations create both opportunities and challenges for family businesses, which tend to rely on unique governance mechanisms and SEW-driven priorities in shaping their ESG commitments.

Theoretically, we adopt an institutional perspective that conceptualizes institutional quality as a set of formal governance dimensions—such as government effectiveness, regulatory quality, and rule of law—that structure firms' opportunities and constraints (North 1991; Scott 2008), and we combine it with the SEW lens on family firms, which emphasizes nonfinancial goals tied to identity, reputation, and control (Berrone et al. 2012; De Massis et al. 2014). This combined framework allows us to consider two potentially competing mechanisms. On the one hand, higher institutional quality may complement family firms' SEW-driven inclination to act responsibly by reinforcing expectations of transparency and ethical conduct and providing credible enforcement of ESG standards (Ioannou and Serafeim 2012; Pinheiro, Dos Santos, et al. 2024). On the other hand, in a densely regulated context, strong institutions and detailed ESG prescriptions may substitute for voluntary ESG initiatives, effectively crowding

out additional efforts by lowering the marginal reputational benefit of going beyond compliance and by constraining managerial discretion over idiosyncratic, values-driven projects (Matten and Moon 2008; Michelon and Parbonetti 2012). For family firms—which are particularly sensitive to control and autonomy (De Massis et al. 2014)—this substitution or crowding-out effect may be especially pronounced. As a result, the net effect of institutional quality on ESG performance in European family firms is theoretically ambiguous *ex ante*. Against this backdrop, we address a single overarching research question:

- RQ. How does national institutional quality influence the ESG performance of large listed European family firms, and does this effect vary across different dimensions of institutional quality in ways consistent with SEW-driven governance?

Empirically, we assemble a panel dataset of the most capitalized listed European family firms for the period 2017–2023, drawing on the Family Business Index (FBI) to identify family firms and combining this information with ESG scores from Refinitiv and the six Worldwide Governance Indicators (WGI) provided by the World Bank. Using fixed-effects panel regressions, we estimate the impact of each institutional-quality dimension on firms' ESG performance, controlling for financial characteristics and family-specific governance variables. Our results reveal an intriguing and counter-intuitive pattern: three dimensions of institutional quality—government effectiveness, regulatory quality, and rule of law—are negatively associated with the ESG performance of European family firms, while the remaining dimensions show no significant relationship. We interpret these findings through the complementarity–substitution framework outlined above, arguing that, in the European context, institutional prescriptions may reduce the marginal benefits of additional voluntary ESG engagement for family firms and encourage a more compliance-oriented posture.

By uncovering this negative association in a setting widely regarded as a leader in both institutional quality and ESG regulation, our study makes three main contributions. First, it adds nuances to institutional theory by showing that “better” institutions do not automatically lead to stronger voluntary ESG engagement; in highly regulated contexts, institutional prescriptions may partially crowd out firms' intrinsic motivations to invest in ESG (Matten and Moon 2008; Ioannou and Serafeim 2012). Second, it advances family business research by demonstrating how SEW-driven governance interacts with institutional contexts in shaping ESG strategies, thereby clarifying the contextual boundaries of the often-assumed ESG advantages of family firms and extending recent comparative work on institutional quality and family-firm outcomes (Miroshnychenko et al. 2024; Pinheiro, Dos Santos, et al. 2024). Third, it informs policy and managerial debates in Europe by suggesting that strong institutional frameworks and mandatory ESG requirements, while necessary, may not be sufficient to mobilize family firms as proactive agents of the sustainable transition; complementary incentive-based and advisory tools may be needed to support family firms in moving from a compliance-driven to a more proactive ESG

strategy, in line with their long-term orientation and reputational concerns.

## 2 | Theoretical Framework

### 2.1 | ESG Performance and Institutional Quality

In the last decades, Corporate Social Responsibility (CSR)—that is, the firm's “considerations of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm to accomplish social [and environmental] benefits along with the traditional economic gains which the firm seeks” (Davis 1973, 312)—has increasingly become a key strategic direction for firms. CSR practices help companies mitigate risk (e.g., Kim et al. 2014; Lee and Faff 2009), gain a competitive edge, enhance performance, and overcome economic and financial downturns (Hooghiemstra 2000; Flammer 2015). By investing time and resources into social and environmental projects, firms can build moral capital and a good reputation within their communities, which facilitates the creation of networks with key stakeholders and ultimately supports long-term survival (Gamerschlag et al. 2011; Andersson et al. 2002).

Building on these foundations, the concept of ESG has emerged as a more standardized approach to assessing firms' social and environmental responsibilities. While CSR emphasizes voluntary initiatives, ESG provides a comprehensive framework that integrates ESG factors into firms' decision-making processes and performance evaluations (Eccles et al. 2014; Friede et al. 2015; Gillan et al. 2021). The growing demand from investors, policymakers, and stakeholders for nonfinancial information has made ESG scores a central tool for assessing firms' sustainability profiles (Drempetic et al. 2020; Gjergji et al. 2021).

Institutional quality is a pivotal determinant of how ESG practices develop and are reported. High-quality institutions foster transparency, accountability, and ethical practices, thereby encouraging firms to align their operations with societal and environmental goals. For instance, Ioannou and Serafeim (2012) demonstrate that firms in countries with robust institutional frameworks exhibit superior social performance due to regulatory pressures and societal norms. Similarly, Scholtens and Dam (2007) and Coluccia et al. (2018) show that ethical corporate behavior and CSR disclosure are more prevalent in institutional environments characterized by strong governance, anticorruption measures, and coherent enforcement. More recent work links institutional quality to ESG outcomes, suggesting that factors such as rule of law, regulatory quality, and government effectiveness shape firms' propensity to engage in sustainability practices (Sun et al. 2019; Zakaria and Bibi 2019; Haldar and Sethi 2021; Al-Mamun and Seamer 2022; Pinheiro, Dos Santos, et al. 2024).

Taken together, these contributions support the widespread expectation that stronger institutions should foster better ESG performance, by raising minimum standards, improving enforcement, and aligning firms' incentives with broader societal objectives. However, they also point to substantial cross-country heterogeneity, which raises the question of how institutional

quality operates in specific contexts and for specific types of firms.

### 2.2 | Family Firms, SEW, and ESG Performance

Family firms represent a distinctive organizational form in which ownership, control, and identity are closely intertwined (Miller and Le Breton-Miller 2006; Yu et al. 2012). The SEW perspective emphasizes that family firms prioritize nonfinancial objectives such as family control, reputation, and legacy, which can significantly influence strategic decision-making (Berrone et al. 2010; Berrone et al. 2012). This long-term, reputation-driven orientation may make family firms particularly responsive to ESG issues when these are perceived as instrumental for protecting the family name, securing continuity, and nurturing relationships with key stakeholders (Pan et al. 2018; Songini et al. 2022).

Several studies show that family firms can exhibit higher levels of environmental and social responsibility than nonfamily firms. Berrone et al. (2010), for instance, find that family firms pollute less than nonfamily firms, especially when institutional frameworks impose environmental pressure. Block and Wagner (2014) show that family ownership is positively related to several CSR dimensions, and Gjergji et al. (2021) document that ESG disclosure can reduce the cost of capital in family small and medium-sized enterprises. Recent reviews indicate that family control shapes the extent and nature of nonfinancial reporting (Brunelli et al. 2024) and that family firms have been early adopters of sustainability and nonfinancial disclosure in some European contexts (Manzi et al. 2024).

At the same time, family firms are heterogeneous in their ESG strategies. Variations in governance structures, generational involvement, and ownership concentration lead to differences in how these firms approach sustainability (Minichilli et al. 2010; Cirillo et al. 2017). Multigenerational family firms often embed sustainability more deeply into their strategic vision compared to first-generation firms, where financial objectives may still dominate (Block and Wagner 2014). The interplay between family involvement and managerial professionalization further shapes ESG priorities: Family-dominated boards may prioritize community-oriented goals, whereas more professionalized governance can introduce additional stakeholder demands and monitoring mechanisms (Hussain et al. 2018; Miller and Le Breton-Miller 2006). Overall, existing work suggests that family firms can be particularly important actors in the sustainability landscape, but their behavior is contingent on both internal governance features and the external institutional environment (Botero et al. 2015; Adjei et al. 2025).

### 2.3 | Institutional Quality and Family Firms: Toward Our Hypotheses

The intersection of family firms, ESG performance and institutional quality reveals a multifaceted relationship. From an institutional theory perspective, institutions can be understood as the formal and informal rules that structure social interactions and shape organizational behavior (North 1991; Scott 2008;

DiMaggio and Powell 1983). The World Bank Group (WBG) operationalizes institutional quality through the following six WGI: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law and control of corruption (Adusei and Sarpong-Danquah 2021; Sun et al. 2019; Zakaria and Bibi 2019). Prior studies show that these dimensions influence corporate social and environmental practices by shaping enforcement, incentives, and stakeholder expectations (Haldar and Sethi 2021; Al-Mamun and Seamer 2022; Forgiione et al. 2020).

Family business research has begun to explore how such institutional conditions interact with family involvement. Miroshnychenko et al. (2024) show that national institutional environments shape the mechanisms through which family involvement affects firm performance across countries. Coluccia et al. (2018) and El Khoury et al. (2021) document that institutional context affects CSR and ESG disclosure in European firms, while Brunelli et al. (2024) and Manzi et al. (2024) highlight the specific patterns of nonfinancial reporting in family firms. These contributions collectively suggest that institutional quality conditions the way family firms articulate and communicate their ESG engagement.

Two broad mechanisms can be derived from this literature. On the one hand, higher institutional quality may complement family firms' SEW-driven inclination to act responsibly. Strong institutions, clear regulations, and credible enforcement can reinforce expectations of transparency and ethical conduct, making ESG investments a natural extension of family firms' desire to build and protect reputational capital (Ioannou and Serafeim 2012; Pinheiro, Dos Santos, et al. 2024). In this view, virtuous institutions and SEW-driven governance work in the same direction, leading to higher ESG performance.

On the other hand, especially in highly regulated contexts such as Europe, institutional quality may also have a substitution or crowding-out effect on voluntary ESG initiatives. Matten and Moon (2008) argue that in "explicit" CSR regimes, detailed regulations and standards can shift responsibility for social and environmental outcomes from firms' intrinsic commitments to formalized legal requirements. Similarly, studies on sustainability disclosure suggest that when reporting practices are strongly shaped by regulation, firms may adopt a more compliance-oriented approach, limiting the space for idiosyncratic, values-driven initiatives (Michelon and Parbonetti 2012; Coluccia et al. 2018). In such settings, strong institutions can make adherence to codified ESG requirements sufficient to secure legitimacy, thereby reducing the marginal reputational benefits of going beyond compliance. For family firms, whose SEW is tied to maintaining control and discretion over strategic choices, dense institutional prescriptions may be perceived as constraining and may attenuate their intrinsic motivation to engage in additional voluntary ESG actions.

The European context offers a particularly relevant setting in which to examine which of these mechanisms prevails. The European Union's regulatory framework—for instance, the NFRD—has reshaped corporate reporting practices and raised minimum standards for ESG disclosure, while many European countries score relatively high on several governance

dimensions (Alfano et al. 2020). At the same time, Europe is characterized by a high prevalence of family-owned enterprises that play a central role in national economies (Botero et al. 2015; Adjei et al. 2025). However, empirical evidence on how institutional quality affects the ESG performance of European family firms remains limited.

By integrating institutional theory with family business research, this study seeks to elucidate the mechanisms through which institutional quality shapes the ESG performance of family firms in this context. Building on the WGI dimensions, we focus on the six core indicators identified by Adusei and Sarpong-Danquah (2021) and others, and we examine their association with ESG scores in a sample of large listed European family firms. In line with the dominant view in prior work, we derive baseline hypotheses that posit a positive relationship between institutional quality and the ESG performance of family firms. At the same time, the preceding discussion highlights that, in a highly regulated European setting, a substitution or crowding-out mechanism is also theoretically plausible, making the overall sign of the relationship an empirical question.

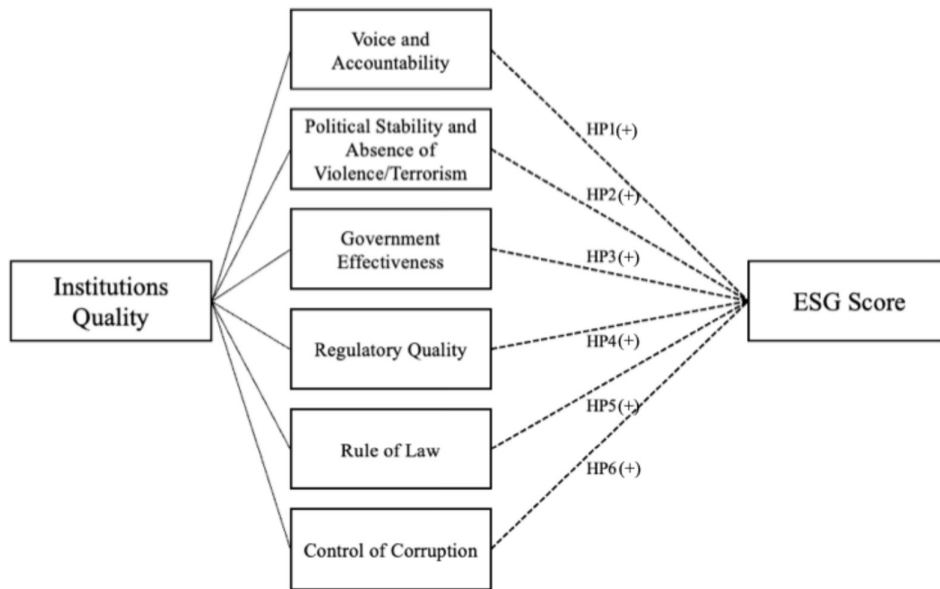
Given the coexistence of both complementarity and substitution mechanisms, the expected sign of the relationship between institutional quality and ESG performance cannot be determined *ex ante*. For this reason, we formulate nondirectional hypotheses:

### 3 | Hypotheses Development

Institutions play a crucial role in regulating organizational behaviors and shaping firms' contributions to broader societal frameworks. Following North (1991) and Scott (2008), we conceptualize institutions as the formal and informal rules that structure interactions between individuals and organizations, and we rely on the WBG's six Worldwide Governance Indicators to operationalize institutional quality (Adusei and Sarpong-Danquah 2021; Sun et al. 2019; Zakaria and Bibi 2019). In line with the dominant view in prior literature, we expect higher institutional quality to encourage the adoption of ESG practices by family firms, by providing clear rules, enforcement, and incentives that are consistent with their long-term, reputation-driven orientation (Berrone et al. 2012; Pinheiro, Dos Santos, et al. 2024). At the same time, as discussed in the previous section, in a highly regulated European context, institutional prescriptions may also substitute for voluntary ESG engagement, potentially weakening the marginal impact of intrinsic SEW motives. Against this background, and considering the breakdown of institutional quality provided by the WBG, we propose the following six hypotheses to explore the influence of institutional quality on the ESG performance of family businesses (see Figure 1).

#### 3.1 | Accountability

Accountability systems usually promote transparency, stakeholder engagement, and social responsibility (Sun et al. 2019). Countries with greater accountability are more likely to encourage companies to adopt sustainable practices (Haldar and Sethi 2021). In these environments, companies face stronger



**FIGURE 1** | Hypothesis development.

normative and regulatory pressures to engage in sustainable practices and disclose ESG information (Haldar and Sethi 2021). For family businesses, accountability extends beyond economic performance to encompass the preservation of SEW and the enhancement of reputation (Berrone et al. 2012). The intrinsic desire of family firms to maintain their reputation and legacy motivates them to adopt higher ESG standards, as high-accountability contexts amplify the reputational consequences of corporate behavior, making it even more valuable for family firms to align with ESG expectations. Furthermore, family firms, known for their relational orientation and long-term engagement with stakeholders such as employees, suppliers, customers, and local communities, can leverage these institutional conditions to build more participatory and transparent ties in environments with high accountability (Zellweger et al. 2013). This alignment between institutional expectations and family firms' relational capabilities further encourages them to pursue ESG initiatives more proactively. In essence, higher country-level accountability strengthens both the external pressures and the internal motivations for family firms to enhance their ESG performance.

**H1.** *The level of accountability in a country is associated with the ESG performance of family firms.*

### 3.2 | Political Stability and Absence of Violence

Political stability creates an institutional environment where companies can operate with greater predictability and reduced exposure to external shocks. Stable political environments reduce uncertainty, allowing firms to plan beyond short-term survival and make long-term sustainable investments (Zakaria and Bibi 2019). In such environments, firms are more prone to engage in ESG activities, such as reducing environmental impact, improving social practices, and strengthening governance mechanisms, as the expected returns from these investments are more certain and less likely to be influenced by political or social instability. Furthermore,

political stability fosters trust and collaboration among stakeholders, improving the adoption of ESG practices (Ajide and Osinubi 2022).

Family firms are susceptible to instability due to their defining need to preserve SEW. Their emphasis on continuity, reputation, and transgenerational succession leads them to favor stability, long-term decision horizons (Miller and Le Breton-Miller 2006). Political instability can put the continuity of these firms at risk, jeopardize their assets, and undermine their stakeholder relationships. Stable political environments, on the other hand, enable family firms to invest in ESG initiatives that align with their long-term objectives (Calabrò et al. 2019). Such contexts reduce perceived risks and create conditions in which sustainable investments are both feasible and strategically advantageous. This condition reinforces continuity, strengthens reputation, and supports the family's legacy (Calabrò et al. 2019), making ESG engagement a natural extension of family firms' strategic behavior in stable political settings. To sum up, political stability not only lowers uncertainty but also complements the long-term orientation of family firms, enabling them to invest more fully in ESG practices.

**H2.** *Political stability and the absence of violence or terrorism are associated with the ESG performance of family firms.*

### 3.3 | Government Effectiveness

Effective governments implement policies and regulations that promote sustainability, providing clear guidance for firms (Adusei and Sarpong-Danquah 2021). When governments are effective, they are better able to enforce sustainability-related policies, offering firms clear guidelines on expected ESG standards (Adusei and Sarpong-Danquah 2021). Such guidelines reduce ambiguity around compliance and create predictable conditions for long-term strategic planning. Furthermore, an efficient public administration reduces transaction costs and fosters a business environment conducive to ESG initiatives (Sun

et al. 2019). Firms operating in these environments face not only regulatory incentives but also normative expectations to behave responsibly, thereby strengthening their commitment to ESG practices.

Family firms benefit significantly from clear and consistent government policies due to their reliance on trust-based relationships and a desire to protect the family legacy. When the government provides clear, stable, and credible policies, family firms perceive lower risks in investing in sustainability initiatives that have long payback horizons. These conditions complement their SEW objectives, especially those related to reputation, community relationships, and transgenerational continuity (Chrisman et al. 2005). Effective governments that promote sustainability align with family firms' focus on building social and emotional capital (Chrisman et al. 2005). Such alignment facilitates ESG adoption in family firms by reducing uncertainties and encouraging compliance (Amore et al. 2014). Moreover, effective governance systems tend to reward responsible corporate behaviors through public recognition, regulatory incentives, or greater legitimacy. Family firms, which are deeply embedded in their local communities and motivated to preserve family image and legacy, are especially responsive to these institutional rewards. For the above-mentioned reasons, effective governments provide the clarity, stability, and support mechanisms that enable family firms to adopt ESG practices more confidently and comprehensively.

**H3.** *Government effectiveness is associated with the ESG performance of family firms.*

### 3.4 | Regulatory Quality

High regulatory quality reflects the ability of governments to formulate and enforce regulations that guide economic activities in ways that support public welfare and environmental stewardship. In institutional environments where regulations are clear, consistent, and aligned with international standards, companies receive strong incentives to invest in sustainable practices (Haldar and Sethi 2021). Clear regulatory frameworks give companies the necessary incentives and guarantees to engage in sustainable practices (Haldar and Sethi 2021). Regulatory quality also ensures that companies comply with international ESG standards, improving global competitiveness (Al-Mamun and Seamer 2022). These institutional rewards amplify the value of ESG engagement, making compliance not only a regulatory obligation but also a strategic lever.

For family firms, regulatory quality plays an especially important role. Family firms, due to their long-term orientation and emphasis on legacy, often comply with regulatory standards as a means of safeguarding their reputation (De Massis et al. 2014). High regulatory quality fosters a stable environment that encourages family businesses to adopt ESG practices in line with both external expectations and internal values. The level of performance and regulatory quality in a country positively influences the ESG performance of family firms. Additionally, high regulatory quality also creates a more predictable environment in which family firms can make long-term investments. As many ESG-related initiatives require multiyear commitments,

family firms benefit from regulatory consistency and enforcement, which reduces uncertainty. In such environments, family businesses can align their intrinsic values (such as stewardship, community engagement, and continuity) with external pressures and opportunities for sustainable development. In sum, regulatory quality supports the long-term and reputation-sensitive orientation of family firms toward responsible behaviors, reinforcing the likelihood that they will adopt and enhance ESG practices.

**H4.** *High regulatory quality is associated with the ESG performance of family firms.*

### 3.5 | Rule of Law

The rule of law protects property rights, enforces contracts, and ensures accountability, which is essential for long-term sustainable investments (Pinheiro, Panza, et al. 2024). When the rule of law is robust, firms can operate in a predictable environment, safeguarded from arbitrary interference or corruption. This institutional stability is essential for long-term strategic commitments such as ESG investments, which often require substantial stability (Pinheiro, Panza, et al. 2024). Knowing that their investments will be protected encourages firms to pursue sustainability initiatives rather than focusing solely on short-term survival or defensive strategies. Furthermore, respect for the rule of law reduces corruption risks and promotes ethical business practices (Zakaria and Bibi 2019). In contexts where legal systems operate effectively, companies comply with higher expectations of transparency and integrity. Such conditions increase the importance of ESG practices as firms seek legitimacy and avoid penalties for unethical or noncompliant behavior. Strong legal institutions reinforce both the normative and coercive power that drive ESG performance across industries.

Family firms are particularly sensitive to the rule of law because their organizational goals extend beyond financial performance and the rule of law protects their SEW and ensures fair competition (Berrone et al. 2010). When the legal environment assures that contracts will be honored and property rights protected, family firms are more willing to engage in ESG practices. A stable legal environment further increases the reputational benefits of ESG investments, reinforcing family firms' motivation to act responsibly and visibly contribute to social and environmental well-being. On the other hand, weak legal environments increase the likelihood of corruption, unfair competition, or expropriation, all of which can directly jeopardize the long-term stability and reputation of a family business. Because of this, family businesses that operate in areas where the rule of law is weak may become more cautious and steer clear of long-term ESG commitments that could expose them to legal uncertainty or competitive opportunism. In essence, the rule of law strengthens both the external institutional pressures and the internal family-driven motivations to engage in ESG activities, leading to higher ESG performance among family firms operating in countries with strong legal institutions.

**H5.** *The rule of law is associated with the ESG performance of family firms.*

### 3.6 | Control on Corruption

Low corruption levels mean that public institutions operate with integrity, fairness, and transparency. In such environments, firms are more likely to behave ethically and competitively because bribery, favoritism, and illicit practices are not tolerated. Countries with low levels of corruption create environments where firms can operate transparently and ethically, in line with ESG principles (Adusei and Sarpong-Danquah 2021). When corruption is effectively controlled, firms operate under consistent and predictable rules, making it easier to implement sustainability-oriented practices without fear of arbitrary enforcement or unfair competition. Corruption-free environments also improve investor confidence, allowing firms to obtain resources for sustainability initiatives (Ajide and Osinubi 2022). Investors are more willing to invest their capital in countries perceived as transparent and well-governed, enabling firms to access financial resources for long-term sustainability initiatives. These resources can include green financing, social impact funds, and sustainability-linked loans, mechanisms that become more accessible in jurisdictions where corruption risks are low and legal protections are strong.

For family firms, the control of corruption is crucial because these firms' legitimacy and performance are deeply embedded in family reputation, values, and long-term continuity. Family businesses often prioritize ethical behavior as part of their legacy and reputation, and corruption undermines the trust and values that family firms seek to maintain. Thus, a corruption-free environment allows family firms to operate in a manner that is consistent with their ethical aspirations, relational orientation, and commitment to community stakeholders, eventually conducting to their ESG efforts (Van Gils et al. 2014). It enables them to differentiate themselves through transparent governance and responsible behavior without being undermined by unfair or illicit practices by competitors. Their incentive to invest in ESG projects is then strengthened by this congruence between internal family values and external institutional integrity, which reinforces their identity as accountable, reliable, and long-term-focused actors. All things considered, successful corruption control improves institutional integrity and lowers ethical risks, allowing family businesses to fully capitalize on their innate dedication to accountability, reputation, and heritage through more active ESG involvement.

**H6.** *Control of corruption is associated with the ESG performance of family firms.*

## 4 | Methodology

### 4.1 | Sample Description

To develop the proposed analysis model, we constructed a sample of the primary listed European family businesses for 2017–2023. The choice of this timeframe is due to the aim to consider as the starting year in which the European economies implemented the European Directive 95/2014, the so-called NFRD, which extended the scope of the nonfinancial statement to all listed and large companies by requesting a set of information

that can be included in the management report or published in a separate nonfinancial statement.

The family businesses in this sample were selected from the FBI published every 2 years by EY and the University of St. Gallen. This list contains the main 500 family businesses in the world. These are growing much faster than the global economy, generating approximately 8.02 trillion dollars in revenue and employing 24.5 million people.<sup>1</sup>

In accordance with the methodology provided by FBI, for a firm to be considered a family firm, the second generation or greater must control the firm. One or more family members are involved in managing the business, either by serving on the board of directors or holding positions in management. Additionally, the family must possess a significant ownership stake in the company (over 50% of the shares and voting rights in private firms, or at least 32% of the shares and voting rights in public firms).

Most of the family businesses in the sample of FBI are located in Europe (almost half), while North America and Asia-Pacific host 30% and 16% of them, respectively. In the sample of family businesses, the consumer sector is the most represented one, followed by advanced manufacturing and mobility. The companies in the sample are long-lived as a distinctive and representative characteristic of the sample to which they belong. More than 76% are over 50 years old, and 30.8% are over 100 years old. From the point of view of corporate governance, analyzing the entire sample, we observe that 19% of the companies have boards of directors, in which the directors are under 40 years old, and women occupy 23% of management roles.

The selection criteria adopted by the FBI are consistent with the main definitions of family-controlled firms in the academic literature (Manzi et al. 2024), where family firms are generally identified as those in which the same family owns at least 30% of the shares (Minichilli et al. 2010) and one or more family members are involved in the top management team (Cirillo et al. 2017).

The exclusive focus on European family firms is motivated not only by the fact that the European context remains relatively less explored compared to the North American one (Botero et al. 2015), but also by the specific economic and institutional relevance of European family businesses. Moreover, Adjei et al. (2025) highlight that family firms are embedded in highly heterogeneous territorial and institutional contexts, making Europe a fruitful laboratory for comparative and context-sensitive investigations. For the purposes of this study, which examines the sustainable performance of family firms, it is also noteworthy that several systematic reviews on nonfinancial reporting practices in family businesses reveal an increasing importance of disclosure requirements within European contexts (Brunelli et al. 2024), further justifying our specific sample selection.

### 4.2 | Selected Variables

The dependent variable is the ESG score, ranging from 0 to 100, that is a measure for companies' sustainable performance, which incorporates the performance of the three different pillars (environment, social, and governance) and is calculated

using 120 qualitative and quantitative measures derived from publicly available information (Eccles et al. 2014).

The explanatory variables are related to the quality of the institutions. These were selected through the WBG, the international organization that assesses the performance of the institution's policies, projects, processes (accountability), and works (learning).<sup>2</sup>

In particular, the database provided by WBG offers aggregate and individual governance indicators for the following six key dimensions: democratic participation and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, and control of corruption.

Their composition is described below:

- Democratic participation and accountability measures the degree to which citizens can participate in selecting their government, as well as freedom of expression, association, and the press;
- Political stability and absence of violence/terrorism assesses the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including terrorism, and internal conflict;
- Government effectiveness reflects the quality of public services, the competence of public administration, independence from political power, and the credibility of government policies;
- Regulatory quality measures the government's ability to formulate and implement policies and regulations that foster private sector development;
- Rule of law assesses the degree of trust in society's rules, the quality of the judicial system, and the likelihood that contracts will be honored and property rights protected.
- Control of corruption measures the extent to which public power is exercised for private gain, including corruption, favoritism, or misappropriation of public resources.

Through the Refinitiv Workspace database (Refinitiv Workspace), sustainable performance indicators (ESG score), and some financial data were extracted, such as total assets and number of employees widely used as a proxy for company size (Murphy et al. 1996), the degree of financing (D/E), return on equity (ROE), sales revenues, return on net operating invested capital (ROI), return on assets (ROA), and operating income (EBIT) (Drempetic et al. 2020). Furthermore, in order to consider specific elements of family businesses, we included in the analysis: the number of family members present on the Board of Directors, the cases in which the CEO is a family member (these 2 variables were extracted from the Family Business Index), the presence of philanthropic activities, the correspondence between the name of the company and the name of the owning family, and the stability of the personnel employed by the company (these last 3 data were collected manually).

Table 1 provides the description of the aforementioned variables.

Below are the descriptive statistics (Table 2) and the correlation matrix of the variables considered in the analysis (Table 3).

### 4.3 | Econometric Model

As already illustrated, this paper aims to verify whether the ESG score in family businesses is influenced by variables related to the quality of the institutional context in which the company operates.

To this end, the following regression was developed:

$$ESG_{it} = \alpha_0 + \alpha_1 IQ_{it} + \alpha_2 X_{it} + \mu_i + \lambda_t + \epsilon_{it}$$

ESG represents companies' sustainability performance, IQ indicates the chosen measure for the quality of the institutions to be tested, and finally, the letter X represents the vector of control variables, while  $\epsilon$  is the error term.

A unique database of observations over multiple periods (cross-sectional time series data) was created to test our hypotheses. These data are analyzed using the ordinary least squares (OLS) technique for panel data, which could produce biased and inaccurate estimates of the analyzed phenomenon due to problems related to the heterogeneity of the variables. This problem is addressed by conducting the Hausman test (1978). This test showed that the best model for the available data is a fixed effects model (because the chi-square of the regression of the Hausman test is significant). The regression analysis is performed using the "fixed effects" command in Stata with the "fe" option, which is used to estimate fixed effects models (Afuah 2002).

Fixed effects are applied when analyzing the impact of independent variables, which vary within an entity (e.g., country or continent), on the dependent variable, which changes over time. Fixed effects work well with data characterized by high temporal variability of the dependent variable within an entity/unit (e.g., state/country). By applying fixed effects, it is possible to neutralize the effect of time-invariant characteristics to evaluate the net effect of predictors on the outcome variable (Blackwell et al. 2009).

To prevent heteroskedasticity problems, the Breusch–Pagan test was conducted. Because the  $p$  value ( $\text{Prob} > \chi^2$ ) is much higher than an ordinary significance level (e.g., 0.05), it is not possible to reject the null hypothesis (Pagan and Pak 1993). This means that, based on the data and the specified significance level, there is insufficient evidence to reject the null hypothesis ( $H_0$ ) of constant variance in the residuals of the regression model. In other words, the test does not detect significant evidence of heteroskedasticity in the model residuals. Therefore, the assumption of constant variance of the residuals is satisfied.

### 4.4 | Variables

The dependent variable in this study is the ESG score, developed by Refinitiv Workspace, which serves as a synthetic judgment

**TABLE 1** | Variables.

Type of variable	Variable	Definition	Data source
Dependent variable	ESG Score	The performance of the three different pillars Environment, Social, and Governance (Eccles et al. 2014)	Refinitiv Workspace
Independent variable	Quality of the institutions	Democratic participation and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law and control of corruption.	World Bank Group
Control variable	Revenues (ln)	Reported revenues expressed in logarithmic form	Refinitiv Workspace
	EBIT (ln)	Difference between revenues and operating costs expressed in logarithmic form	Refinitiv Workspace
	Return On Investment (ROI)	The profitability of an investment by relating it to its cost (Drempetic et al. 2020)	Refinitiv Workspace
	Return On Equity (ROE)	The profitability ratio expresses the remuneration of the shareholders (Drempetic et al. 2020)	Refinitiv Workspace
	Return On Asset (ROA)	Company's efficiency in generating profits from its total assets (Drempetic et al. 2020)	Refinitiv Workspace
	D/E	Measurement of financial structure	Refinitiv Workspace
	Total Asset (ln)	Total of the assets reported in the balance sheet expressed in logarithmic form (Murphy et al. 1996)	Refinitiv Workspace
	Number of Employees (ln)	Number of employees expressed in logarithmic form	Refinitiv Workspace
	BoD Family members	The number of family members present on the board of directors	Family Business Index
	CEO Family member	The cases in which the CEO is a family member	Family Business Index
	Brand Name	The correspondence between the name of the company and the name of the owning family	Hand collected
	Employees stability	The stability of the personnel employed by the company	Hand collected
	Philanthropic activities	The presence of philanthropic activities	Hand collected

measuring a company's performance across ESG dimensions. The ESG score is calculated using subindices for each pillar, capturing various dimensions of a company's ESG quality. For the environmental pillar, the score considers the use of resources, inputs, and the innovation process, including eco-sustainable production and responses to climate change. Social factors are assessed based on the workforce, human rights, community engagement, and responsibility in the production process. Governance factors evaluate the structure and composition of management, shareholder dynamics, and the company's CSR strategy. The ESG score ranges from a minimum of 0, indicating the lowest ESG quality, to a maximum of 100, representing the highest ESG quality.

The independent variable is institutional quality at the national scale, reflecting the effectiveness of a country's institutions in promoting economic and social development. This quality is measured using six key dimensions of governance as assessed by the World Bank. Voice and accountability measures citizen

participation in political processes, freedom of expression, freedom of association, and the presence of free and independent media. Political stability and absence of violence/terrorism evaluates the likelihood of government destabilization due to political or violent events, including terrorism. Government effectiveness focuses on the quality of public services, bureaucratic competence, civil service independence, and the government's credibility in implementing policies. Regulatory quality assesses the government's ability to formulate and implement sound policies and regulations that facilitate private sector development. Rule of law examines trust in and adherence to societal rules, such as contract enforcement, property rights, and the reliability of police and judicial systems. Control of corruption measures the extent to which public power is exercised for private gain, encompassing both petty and state-level corruption. These dimensions, integral to the WGI developed by the World Bank, provide a comprehensive governance assessment for over 200 countries. Notably, these dimensions have recently been applied in family business research, such as the study by Miroshnychenko et al. (2024).

**TABLE 2** | Descriptive statistics of the variables adopted in the analysis.

Variable	Obs	Mean	Std. dev.	Min	Max
ESGScore	560	54.29821	25.78407	0	95.05164
ControlofC~l	560	88.10631	10.14129	53.33333	100
Government~n	560	87.50297	8.671758	57.54717	99.52831
PoliticalS~e	560	67.59323	13.07789	41.42857	99.52831
Regulatory~R	560	88.22481	8.085237	62.38095	99.52381
RuleofLawP~k	560	88.00784	9.826955	55.71429	100
VoiceandAc~n	560	90.45984	6.909167	68.11594	100
R	558	9.918233	0.471466	7.316766	11.22833
EBITActualIn	492	8.912225	0.586977	6.963839	10.4894
ReturnOnIn~t	560	0.116798	0.161581	-0.29	1.33639
ReturnOnEq~l	560	0.131058	0.141388	-0.6244	0.9062
ReturnOnAs~l	560	0.046189	0.054495	-0.09439	0.3519
TotalDebtP~E	560	0.757455	0.857701	0	12.40191
TotalAsset~n	558	10.06854	0.503386	9.064878	11.4226
NumberofEm~n	493	4.403724	0.606412	1.278754	5.672317
BoDFamilym~s	438	2.187215	1.504112	0	7
CEOFamilyd~y	438	0.363014	0.481419	0	1
BrandName1~o	560	0.2625	0.440386	0	1
Employeees~o	525	0.906667	0.291176	0	1
Philanthro~s	539	0.649351	0.477617	0	1

Control variables are included to account for firm-level heterogeneity. Models 1 and 2 are estimated using fixed effects, which test for heteroskedasticity and control for time-varying firm characteristics, including the country of operation and industry. Annual fixed effects are also incorporated to adjust for aggregate shocks specific to each year. Firm size is controlled for through total assets and the number of employees, both in natural logarithmic form, as these factors influence the resources available for sustainability investments (Waddock and Graves 1997; Tojeiro-Rivero and Moreno 2019). Additionally, operating revenues and EBIT, also in logarithmic form, along with ROE, ROA, and ROI, are included as measures of profitability (Agmon 1972; Gjergji et al. 2021; Yu et al. 2012).

Corporate debt is accounted for using the debt-to-equity (D/E) ratio (Dong et al. 2022). Given the family nature of the analyzed firms, specific family-related variables are considered. These include the number of family members on the Board of Directors and the presence of a family CEO, sourced partly from the Family Business Index. Information on philanthropic activities, the correspondence between the company's name and the owning family's name, and employee stability is manually collected. Employee stability is assessed based on the annual variation in personnel, calculated in percentage terms. A variation within the range of -10% to +10% is deemed physiological and indicative of stable employment, while higher turnover rates suggest a lack of employee loyalty, a phenomenon less typical in family businesses.

## 5 | Results

The results of this study provide valuable insights into the relationship between institutional quality and the ESG performance of firms, with a specific focus on family businesses. We investigated each variable related to institutional quality and its influence on the ESG score. The analyses revealed a significant negative relationship between the ESG score and the following three key institutional dimensions: government effectiveness, regulatory quality, and rule of law. In contrast, the other variables, including democratic participation and accountability, political stability and absence of violence/terrorism, and control of corruption, showed no significant relationship with ESG performance.

The negative association between ESG scores and government effectiveness, regulatory quality, and rule of law is intriguing and warrants deeper examination. While institutional quality is often considered a driver of improved corporate performance, these results suggest that in the context of ESG, stringent government policies and regulations might introduce constraints or inefficiencies that hinder firms' ability to achieve higher ESG performance. These findings challenge traditional assumptions and highlight the complexity of institutional influence on sustainability practices. Family businesses, with their long-term orientation and SEW considerations, may experience greater challenges in adapting to rigid institutional frameworks, which could partially explain these results.

TABLE 3 | Correlation matrix.

Variable	ESGScore	ControlofC~l	Government~n	PoliticalS~e	Regulatory~R	RuleofLawP~k	VoiceandAc~n	R	EBITActualIn	ReturnOnIn~t
ESGScore	1									
ControlofC~l	-0.0893	1								
Government~n	-0.0522	0.8837	1							
PoliticalS~e	-0.0578	0.5783	0.7339	1						
Regulatory~R	-0.1309	0.9393	0.8947	0.6122	1					
RuleofLawP~k	-0.0232	0.9326	0.9368	0.6292	0.904	1				
VoiceandAc~n	-0.1396	0.8776	0.835	0.7663	0.8698	0.8287	1			
R	0.4681	0.2008	0.2772	0.2146	0.2195	0.2376	0.1676	1		
EBITActualIn	0.2983	0.2495	0.2735	0.145	0.2726	0.2424	0.1973	0.7379	1	
ReturnOnIn~t	0.0799	0.1124	0.2083	0.1779	0.125	0.1573	0.1266	0.2009	0.2988	1
ReturnOnEq~l	0.1073	0.0184	0.0932	0.1443	0.0624	0.039	0.0948	0.2667	0.3949	0.5858
ReturnOnAs~l	0.0763	0.1444	0.1457	0.149	0.15	0.137	0.1554	0.2284	0.4485	0.6302
TotalDebtP~E	0.1828	-0.2787	-0.2404	-0.2264	-0.2886	-0.223	-0.2647	-0.0527	-0.2769	-0.1917
TotalAsset~n	0.2785	0.2549	0.2752	0.1334	0.2645	0.2487	0.1903	0.7475	0.8082	-0.0072
NumberofEm~n	0.5229	0.15	0.2426	0.1543	0.1267	0.2273	0.0661	0.6591	0.3941	0.1341
BoDFamilym~s	-0.1857	-0.2573	-0.1804	-0.1328	-0.242	-0.222	-0.2294	-0.0829	0.0235	0.1638
CEOFamilyd~y	-0.0663	-0.3625	-0.294	0.0335	-0.3427	-0.3304	-0.1954	-0.0734	-0.086	0.0385
BrandNameI~o	-0.0807	-0.0583	-0.1929	-0.1705	-0.0834	-0.1516	-0.0637	-0.1672	-0.0083	-0.0112
Employeeess~o	0.2775	-0.096	-0.0183	0.0542	-0.0675	-0.055	-0.0566	0.1318	0.1132	0.109
Philanthro~s	0.1076	0.092	0.0455	0.0394	0.0633	0.0484	0.0707	0.2136	0.2393	0.1642
Variable	ReturnOnEq~l	ReturnOnAs~l	TotalDebtP~E	TotalAsset~n	NumberofEm~n	BoDFamilym~s	CEOFamilyd~y	BrandNameI~o	Employeeess~o	Philanthro~s
ESGScore										
ControlofC~l										
Government~n										
PoliticalS~e										
Regulatory~R										
RuleofLawP~k										
VoiceandAc~n										

(Continues)

TABLE 3 | (Continued)

Variable	ReturnOnEq-l	ReturnOnAs-l	TotalDebtP-E	TotalAsset-n	NumberofEm-n	BoDFamilym-s	CEOFamilyd-y	BrandName1~o	Employeeess~o	Philanthro~s
R										
EBITActualIn										
ReturnOnIn~t										
ReturnOnEq-l	1									
ReturnOnAs-l	0.5874	1								
TotalDebtP-E	-0.1693	-0.3208	1							
TotalAsset-n	0.0441	0.0433	-0.0373	1						
NumberofEm-n	0.04	0.016	0.0714	0.4265	1					
BoDFamilym-s	-0.0209	0.13	-0.0134	-0.0027	-0.1219	1				
CEOFamilyd-y	0.0531	0.1745	-0.0035	-0.1924	-0.009	0.2449	1			
BrandName1~o	-0.0995	0.1369	-0.2047	-0.0486	-0.1994	0.1175	0.0805	1		
Employeeess~o	0.1084	0.0323	0.0323	0.0601	0.3811	0.0217	0.083	-0.1174	1	
Philanthro~s	0.0488	0.1927	-0.1175	0.192	0.1511	0.0214	-0.2134	0.2027	0.1828	1

The results presented in Tables 4–6 indicate that H3–H5, which posit a positive relationship between these institutional dimensions and ESG performance, are not supported. Table 4 illustrates the negative impact of government effectiveness, with a coefficient of  $-0.586^{**}$ . Similarly, Table 5 shows a significant negative relationship between regulatory quality and ESG score ( $-0.769^*$ ), while Table 6 highlights the negative association with rule of law ( $-0.484^{**}$ ). Despite these unexpected findings, the robustness of the econometric model is confirmed through various checks.

A potential explanation for the negative relationship observed between institutional quality and ESG performance in family firms lies in the particular sensitivity of these organizations to the loss of decision-making autonomy. The family business literature emphasizes that family control constitutes a cornerstone of governance and managerial logic in such firms, which tend to prioritize internal, discretionary, and trust-based decision-making processes over formalized mechanisms (De Massis et al. 2014; Miller and Le Breton-Miller 2006).

In institutional environments characterized by high regulatory quality, effective government, and strong legal protection, the introduction of stringent ESG standards, formal procedures, and reporting obligations may be perceived by family firms as an external interference with their control structures and established managerial practices. This perception may trigger a defensive response aimed at preserving organizational autonomy and, more broadly, SEW (Berrone et al. 2012).

Faced with increasingly complex and pervasive environmental and social regulations, family firms may therefore favor a minimum-compliance approach rather than adopting a proactive ESG orientation.

In addition to the previous considerations regarding statistically significant relationships, it is both interesting and appropriate to examine the relationships among the other variables that capture institutional quality and ESG performance for European family firms (Tables 7–9).

The relationship between the level of accountability and ESG performance in family firms is positive, although not statistically significant. The direction of the relationship supports the argument made by Zellweger et al. (2013), namely, that in contexts where accountability is high, ESG performance also tends to improve. Indeed, family firms are able to leverage their unique capacity to build long-term relationships with stakeholders. Moreover, the intrinsic nature of family firms is to preserve their reputation and traditions, distinguishing themselves from the broader economic environment; this is achieved through stronger economic and sustainability performance (Berrone et al. 2012). Such motivations therefore lead family firms to autonomously adopt self-imposed and highly rigorous reporting standards, to the point that additional external institutional pressures—such as a high level of accountability—contribute only marginally to increasing ESG performance, which is already elevated for the aforementioned reasons. This assumption explains why the relationship between accountability and ESG performance in family firms is positive but not statistically significant.

TABLE 4 | Government effectiveness.

	(1) ESGScore
GovernmentEffectivenessPercen	-0.586** (0.232)
R	8.249 (6.198)
EBITActualIn	-1.083 (2.713)
ReturnOnInvestedCapitalAct	-5.923 (3.947)
ReturnOnEquityActual	-1.391 (4.669)
ReturnOnAssetsActual	-4.089 (16.99)
TotalDebtPercentageofTotalE	-0.518 (0.619)
TotalAssetsIn	30.49*** (6.936)
NumberOfEmployeesIn	0.0228 (3.118)
BoDFamilymembers	-0.991 (0.655)
CEOFamilydummy	0.615 (2.501)
BrandName1yes0no	0 (.)
Employeesstability1yes0no	0 (.)
Philanthropicactivities1yes	-4.171 (2.536)
_cons	-260.8*** (75.42)
N	358

Note: Robust standard errors in brackets.

\*\*\* $p < 0.01$ .

\*\* $p < 0.05$ .

\* $p < 0.1$ .

The relationship between political stability and the ESG performance of family firms is negative, though only weakly significant. As noted by Calabrò et al. (2019), in politically stable environments, family firms should be in a position to invest in ESG initiatives aligned with their long-term objectives. However, our analysis focuses on firms operating within the

TABLE 5 | Regulatory quality.

	(1) ESGScore
RuleofLawPercentileRank	-0.769* (0.404)
R	10.57* (6.217)
EBITActualIn	-1.240 (2.726)
ReturnOnInvestedCapitalAct	-7.123* (3.964)
ReturnOnEquityActual	-2.061 (4.712)
ReturnOnAssetsActual	-2.990 (17.16)
TotalDebtPercentageofTotalE	-0.632 (0.629)
TotalAssetsIn	34.31*** (6.690)
NumberOfEmployeesIn	-0.427 (3.127)
BoDFamilymembers	-0.839 (0.671)
CEOFamilydummy	0.466 (2.512)
BrandName1yes0no	0 (.)
Employeesstability1yes0no	0 (.)
Philanthropicactivities1yes	-3.874 (2.547)
_cons	-302.9*** (71.67)
N	358

Note: Robust standard errors in brackets.

\*\*\* $p < 0.01$ .

\*\* $p < 0.05$ .

\* $p < 0.1$ .

European context, which is characterized by high political stability. Indeed, as discussed by Alfano et al. (2020), European countries exhibit institutional quality above the global average. In such a context, family firms seek to mitigate the negative effects associated with political instability, compensating for this inefficiency through higher ESG performance.

TABLE 6 | Rule of law.

	(1) ESGScore
RegulatoryQualityPercentileR	-0.484** (0.211)
R	10.24* (6.186)
EBITActualIn	-1.195 (2.718)
ReturnOnInvestedCapitalAct	-6.508 (3.945)
ReturnOnEquityActual	-1.788 (4.684)
ReturnOnAssetsActual	-3.258 (17.06)
TotalDebtPercentageofTotalE	-0.614 (0.624)
TotalAssetsIn	33.91*** (6.676)
NumberOfEmployeesIn	-0.345 (3.118)
BoDFamilymembers	-1.011 (0.656)
CEOFamilydummy	0.333 (2.505)
BrandName1yes0no	0 (.)
Employeesstability1yes0no	0 (.)
Philanthropicactivities1yes	-3.774 (2.522)
_cons	-321.3*** (64.61)
N	358

Note: Robust standard errors in brackets.

\*\*\* $p < 0.01$ .

\*\* $p < 0.05$ .

\* $p < 0.1$ .

Similar considerations apply to the relationship between control of corruption and ESG performance. Van Gils et al. (2014) show that a high level of corruption control encourages family firms, which prioritize ethical conduct, to achieve higher sustainability performance. As with the variable described previously, in this case, the analysis is also conducted in a context where

TABLE 7 | Voice and accountability.

	(1) ESGScore
VoiceandAccountabilityPercen	0.335 (0.267)
R	9.296 (6.233)
EBITActualIn	-1.496 (2.742)
ReturnOnInvestedCapitalAct	-6.772* (3.972)
ReturnOnEquityActual	-1.480 (4.713)
ReturnOnAssetsActual	-5.361 (17.14)
TotalDebtPercentageofTotalE	-0.574 (0.633)
TotalAssetsIn	35.54*** (6.672)
NumberOfEmployeesIn	-0.444 (3.139)
BoDFamilymembers	-1.143* (0.660)
CEOFamilydummy	0.368 (2.521)
BrandName1yes0no	0 (.)
Employeesstability1yes0no	0 (.)
Philanthropicactivities1yes	-3.239 (2.524)
_cons	-399.4*** (62.62)
N	358

Note: Robust standard errors in brackets.

\*\*\* $p < 0.01$ .

\*\* $p < 0.05$ .

\* $p < 0.1$ .

corruption control is historically strong (Alfano et al. 2020). Therefore, although efforts to combat corruption create an environment in which firms are better able to focus on social issues, the context of this study (characterized by the absence of relevant opposing phenomena) does not generate any significant effect of this variable on the dependent one.

**TABLE 8** | Political stability and absence of violence/terrorism.

	(1) ESGScore
PoliticalStabilityandAbsence	-0.193 (0.133)
R	9.600 (6.218)
EBITActualIn	-1.618 (2.744)
ReturnOnInvestedCapitalAct	-6.834* (3.969)
ReturnOnEquityActual	-1.282 (4.704)
ReturnOnAssetsActual	-6.060 (17.10)
TotalDebtPercentageofTotalE	-0.518 (0.625)
TotalAssetsIn	35.57*** (6.665)
NumberOfEmployeesIn	-0.247 (3.141)
BoDFamilymembers	-1.154* (0.659)
CEOFamilydummy	-0.135 (2.544)
BrandName1yes0no	0 (.)
Employeesstability1yes0no	0 (.)
Philanthropicactivities1yes	-2.902 (2.520)
_cons	-358.6*** (61.52)
N	358

Note: Robust standard errors in brackets.

\*\*\* $p < 0.01$ .

\*\* $p < 0.05$ .

\* $p < 0.1$ .

To ensure the reliability of these results, we conducted multi-collinearity diagnostics by calculating variance inflation factors (VIFs). The analysis revealed no VIFs exceeding the threshold of 5, confirming that multicollinearity is not a concern. Furthermore, correlation coefficients were examined and found

**TABLE 9** | Control of corruption.

	(1) ESGScore
ControlofCorruptionPercentil	0.202 (0.269)
R	9.791 (6.236)
EBITActualIn	-1.108 (2.750)
ReturnOnInvestedCapitalAct	-6.589* (3.979)
ReturnOnEquityActual	-0.903 (4.739)
ReturnOnAssetsActual	-7.707 (17.21)
TotalDebtPercentageofTotalE	-0.424 (0.625)
TotalAssetsIn	35.40*** (6.702)
NumberOfEmployeesIn	-0.570 (3.145)
BoDFamilymembers	-1.115* (0.660)
CEOFamilydummy	0.255 (2.532)
BrandName1yes0no	0 (.)
Employeesstability1yes0no	0 (.)
Philanthropicactivities1yes	-2.972 (2.527)
_cons	-393.5*** (63.89)
N	358

Note: Robust standard errors in brackets.

\*\*\* $p < 0.01$ .

\*\* $p < 0.05$ .

\* $p < 0.1$ .

to be within acceptable limits, as per the standards established by Gujarati (2009).

Robustness checks were also performed to validate the findings. First, we restricted the sample by eliminating extreme values

through 5% censoring. Even with this reduction in sample size, the results remained consistent, confirming the robustness of the observed relationships. Second, sensitivity analyses were conducted by excluding all control variables to assess their potential influence on the results. The exclusion of control variables did not alter the core findings, further supporting the stability of the model.

Additionally, specific checks were performed to evaluate the influence of family business characteristics on the results. These analyses included variables such as the presence of family members on the board of directors, a family CEO, philanthropic activities, and employee stability. Notably, the stability of employment, a hallmark of family businesses, was estimated based on annual personnel variation. Firms with stable personnel (annual changes within  $-10\%$  to  $+10\%$ ) demonstrated characteristics consistent with traditional family business values, such as loyalty and long-term commitment.

Overall, while the results do not align with the hypothesized positive relationships for government effectiveness, regulatory quality, and rule of law, they open new avenues for understanding the nuanced interactions between institutional quality and ESG performance. These findings underscore the need for further research to unravel the complexities of how family businesses navigate institutional pressures in their pursuit of sustainability goals.

## 6 | Discussion

This study explores the intricate relationship between institutional quality, ESG performance, and the unique governance structures of family firms in the European context. By leveraging panel data and focusing on institutional dimensions such as government effectiveness, regulatory quality, and rule of law, the research reveals nuanced dynamics that challenge conventional assumptions about institutional quality as a uniform driver of ESG practices. The analysis revealed a significant and negative relationship between the ESG performance of family firms and some specific dimensions of institutional quality, namely, government effectiveness, regulatory quality, and rule of law. Because our hypotheses were intentionally nondirectional, the negative associations observed for some institutional dimensions indicate that the substitution mechanism tends to prevail.

These findings suggest that in contexts where institutions are highly developed and regulatory frameworks are stringent, family firms may face increased compliance burdens, heightened scrutiny, and complex bureaucratic processes that could negatively influence their ability or willingness to enhance ESG performance. These results are particularly relevant in the European context, characterized by an advanced legislative framework and strong institutions that influence business dynamics and the management of ESG issues. In environments with high institutional quality, such as the European ones, stringent regulations and efficiency in applying laws create a context that promotes sustainability and corporate social responsibility. However, as Ioannou and Serafeim (2012) suggested, these characteristics can attenuate companies' incentive to adopt voluntary ESG initiatives because the institutional context already

guarantees high standards. The presence of an effective and politically stable government leads companies to focus more on competitiveness and production efficiency, often relegating ESG practices to a secondary role, as they are perceived as less urgent or highly costly. Family firms, which typically value autonomy and legacy preservation, may perceive these institutional pressures as constraints that limit their strategic flexibility in ESG implementation.

Moreover, adequate stakeholder protection and trust in a country's institutions are indicators of the rule of law (Forgione et al. 2020). Coluccia et al. (2018) highlight that governments with a high rule of law are transparent and foster business ethics. Pinheiro et al. (2022) confirm that companies reflect the institutional context: In countries where citizens trust institutions, ESG performance improves. Furthermore, a favorable institutional environment pushes companies to adopt ESG practices (El Khoury et al. 2021), especially when the rule of law is high (Dau et al. 2021). On the other hand, in contexts with weak institutions, companies have to adopt a more active role in social and environmental governance to fill institutional gaps, improve their reputation, and mitigate risks. This behavior has also been observed in studies such as Matten and Moon (2008), which highlight how companies tend to invest in social responsibility to gain legitimacy and support in less effective institutional environments.

The focus on family businesses in this study enabled us to capture unique nuances that distinguish them from nonfamily businesses. Family businesses, strongly oriented toward long-term survival and the preservation of socioemotional capital, exhibit distinctive behaviors regarding ESG performance and institutional quality (Berrone et al. 2010). In European contexts with strong institutions, these companies perceive a lower need to invest in autonomous ESG initiatives because the public system already adequately manages social and environmental functions. This is consistent with the conservative tendency typical of family businesses, which favor the optimization of internal resources and rigorous control of expenses. As highlighted by Michelin and Parbonetti (2012), the adoption of more transparent ESG practices by these companies is often linked to stringent regulatory requirements, rather than voluntary initiatives.

Our study highlights that, even in institutionally sound environments, family firms can adopt relevant ESG strategies driven to preserve their reputation and connection with the territory. This behavior is particularly evident in firms that consider sustainability a corporate goal and an integral part of the family legacy for future generations (Berrone et al. 2012; Miller and Le Breton-Miller 2006). On the other hand, in contexts with weak institutions, family firms' ESG commitment intensifies further. The lack of strong institutional support pushes these firms to play a substitutive role, compensating for structural deficiencies to protect their reputation and ensure business continuity (Matten and Moon 2008; Miroshnychenko et al. 2024). This phenomenon is consistent with the observations of Berrone et al. (2010), who highlight how family firms tend to pollute less than nonfamily firms, especially in the presence of strong regulatory pressures.

Empirical analysis shows that three dimensions of institutional quality (government effectiveness, regulatory quality, and rule

of law) show a negative and significant relationship with the ESG performance of European family businesses. This seemingly counter-intuitive result is coherently explained when interpreted through the lens of SEW, which focuses on preserving family control, identity, and intergenerational reputation (Berrone et al. 2012). In contexts characterized by strong and effective institutions, public rules, legal certainty, and regulatory quality already provide businesses with a high level of external legitimacy (North 1991; Scott 2008). For family businesses, which traditionally place great value on stability and decision-making autonomy, these conditions reduce the need to further engage in voluntary ESG initiatives to gain recognition or trust from stakeholders (Michelon and Parbonetti 2012). In other words, when legitimacy is “guaranteed” by institutions, investing in sustainability may be perceived as less strategic or even as a potential source of reputational risk if not perfectly managed (Matten and Moon 2008).

On the other hand, the dimensions of voice and accountability, political stability, and control of corruption do not show statistically significant relationships with ESG performance. Here too, despite the lack of statistical significance, the SEW perspective offers a coherent interpretative framework (Berrone et al. 2012; Gómez-Mejía et al. 2007). In Europe, these indicators exhibit high average levels and low variability across countries, representing a “given” institutional context in which family businesses operate relatively uniformly. In this scenario, sustainability decisions are driven less by institutional differences than by internal priorities related to generational continuity, reputation, and the preservation of family control (Miller and Le Breton-Miller 2006). In other words, because SEW guides family firms’ strategic choices, their ESG commitment remains predominantly anchored in identity-based and value-based motivations rather than external political and institutional factors. Political stability and low levels of corruption are perceived as neutral contextual factors, which do not require further behavioral adjustment. Sustainability, in this framework, emerges not as a response to institutional pressures but as an expression of a balance between the desire for legitimacy and the need to preserve socioemotional control (Berrone et al. 2012).

The innovative contribution of this work lies in analyzing the link between institutional quality and the ESG performance of family firms in the European context, where the presence of advanced legislation and strong institutions reduces the need for autonomous ESG initiatives (Matten and Moon 2008; Michelin and Parbonetti 2012). This aspect distinguishes our study from existing literature, which predominantly focuses on non-European or less-regulated contexts (Miroshnychenko et al. 2024; Pinheiro, Dos Santos, et al. 2024). The results suggest that, although the European institutional context may attenuate the role of family firms as promoters of sustainability, they continue to show a strong focus on ESG issues, driven by their distinctive governance structure and intrinsic family values (Berrone et al. 2012; Songini et al. 2022).

In sum, our study shows that family firms respond distinctively to institutional incentives thanks to their long-term orientation and focus on reputation (Miller and Le Breton-Miller 2006; Berrone et al. 2012). In contexts of high institutional quality, they

tend to rely on institutions to ensure sustainability and stability, while in less stable contexts, they compensate for institutional shortcomings through more outstanding ESG commitments (Matten and Moon 2008; Miroshnychenko et al. 2024). These findings offer new perspectives to understand the role of family firms in promoting sustainability and managing institutional quality challenges. Additionally, in contexts with lower institutional quality, companies act as a “social balance” capable of developing initiatives related to improving climate conditions and reducing social inequities, mitigating the limitations of institutions (Ioannou and Serafeim 2012; Pinheiro, Dos Santos, et al. 2024).

## 7 | Conclusions, Implications, and Future Research Directions

### 7.1 | Implications for Theory

Our study offers several theoretical contributions. First, the study advances the literature by showing that institutional quality can attenuate the SEW-driven incentives that typically encourage family firms to adopt ESG-oriented strategies (Berrone et al. 2012). Whereas prior research largely portrays strong institutions as catalysts for sustainable behavior (Ioannou and Serafeim 2012), our results propose a contextual boundary: in highly regulated environments, the external enforcement of ESG standards may crowd out intrinsic motivations for proactive sustainability engagement (Matten and Moon 2008; Michelin and Parbonetti 2012).

Second, our findings contribute to institutional theory and family business literature by demonstrating that institutional strength does not uniformly amplify ESG efforts but may instead reduce the marginal perceived value of voluntary ESG engagement, highlighting a critical boundary condition to the dominant view that strong institutions consistently act as catalysts for corporate sustainability (Matten and Moon 2008; Pinheiro, Dos Santos, et al. 2024). This reframes institutional strength not only as an enabling condition but also as a potential constraining force that shapes the form, intensity, and strategic meaning of ESG engagement. This insight adds nuance to existing comparative institutional research by highlighting that the effects of institutional quality on ESG performance are contingent on both firm type and the degree of institutionalization, rather than being universally positive across contexts (Matten and Moon 2008; Pinheiro, Dos Santos, et al. 2024).

Third, this research offers an integrative contribution by combining institutional theory and the SEW perspective to explain ESG strategies in family firms (North 1991; Scott 2008; Berrone et al. 2012). The findings show that external institutional enforcement and internal, SEW-driven motivations interact in shaping strategic behavior, and that this interaction can produce counter-intuitive outcomes. Overall, the study advances our understanding of how formal institutions and family-specific logics jointly and contextually shape sustainability strategies, highlighting the importance of considering their interplay rather than treating them as independent drivers of ESG behavior (Miroshnychenko et al. 2024; Pinheiro, Dos Santos, et al. 2024).

## 7.2 | Implications for Practice

Our findings offer several relevant implications for managers, policymakers, and practitioners.

For family business managers, the findings highlight the importance of aligning ESG strategies with institutional incentives, while maintaining a proactive approach that goes beyond the sterile pursuit of regulatory compliance. ESG engagement in family firms is shaped not only by external institutional pressures but also by SEW-related concerns such as the preservation of autonomy, control, family identity, and intergenerational reputation, particularly in highly regulated environments. Family businesses should leverage their long-term orientation and socioemotional richness to integrate sustainability principles into governance structures, risk management, and succession planning. This is true regardless of the content of the relevant regulations, especially in a context where these are constantly evolving and have not yet found their definitive form. Strengthening internal governance mechanisms, such as independent boards of directors or ESG committees, can improve transparency and promote the integration of environmental and social objectives into strategic decision-making. For family firm leaders, the findings highlight the risk of viewing compliance as sufficient in highly regulated environments. Managers should recognize that stakeholders increasingly reward proactive, innovative, and transparent ESG initiatives. Integrating ESG goals into family governance structures, adopting stakeholder-inclusive board practices, and professionalizing sustainability management systems can enable family firms to strengthen legitimacy, preserve SEW, and enhance long-term competitiveness.

From a policy perspective, evidence suggests that strong institutional frameworks, while essential for ensuring compliance, may inadvertently reduce firms' motivation to voluntarily engage in sustainability practices. Policymakers should therefore consider complementing regulatory requirements with incentive-based tools, such as tax breaks, public recognition programs, or access to green financing, that reward companies that adopt proactive ESG strategies. The results carry relevant implications for policymakers. In Europe, where ESG regulations such as the NFRD and forthcoming CSRD establish stringent reporting frameworks, our findings suggest that regulatory pressure alone may not be sufficient to stimulate voluntary ESG adoption. Policymakers should therefore consider complementing regulation with targeted incentive mechanisms (such as tax benefits, innovation support schemes, or public-private partnerships) to motivate firms to move beyond compliance. Moreover, family firms, given their long-term orientation and reputational sensitivity, may require dedicated policy tools (e.g., advisory platforms, ESG governance training, transition support for multigenerational firms) to foster proactive ESG strategies.

## 7.3 | Limitations and Future Research

This study has some limitations that open avenues for future research. First, the focus on large listed European family firms may not capture the behavior of smaller, not listed family firms,

which could respond differently to institutional pressures (Brunelli et al. 2024). Second, while the study considers institutional dimensions individually, future research could explore interaction effects between institutional mechanisms or incorporate cultural and informal institutional drivers. Third, qualitative analyses could complement these findings by capturing managerial perceptions of regulatory burden and ESG motivations (Berrone et al. 2012).

In conclusion, although strong institutions ensure baseline ESG compliance, our evidence suggests they may unintentionally dampen voluntary sustainability initiatives among family firms. Designing regulatory systems that balance enforcement with incentive-driven engagement represents a promising pathway to mobilize family firms as proactive contributors to Europe's sustainable transition (Matten and Moon 2008; Ioannou and Serafeim 2012).

## 7.4 | Conclusions

Empirical analysis shows that three dimensions of institutional quality (government effectiveness, regulatory quality, and rule of law) have a negative and significant relationship with the ESG performance of European family businesses. This seemingly counter-intuitive result is explained through the lens of SEW, according to which family businesses aim to preserve control, identity, and intergenerational reputation. In contexts characterized by strong and reliable institutions, businesses already enjoy high external legitimacy thanks to clear rules, regulatory stability, and legal certainty. For family businesses, which value autonomy and decision-making stability, this reduces the incentive to further invest in ESG initiatives to gain recognition from stakeholders. In some cases, voluntary commitment to sustainability can even be perceived as a reputational risk if not carefully managed. In contrast, the dimensions of voice and accountability, political stability, and control of corruption show no significant relationship with ESG performance. In Europe, these indicators have high average levels and little variability, representing a uniform institutional context. Consequently, family businesses' ESG choices depend less on institutional differences and more on internal priorities related to generational continuity and the preservation of family control. Sustainability thus emerges as an expression of family identity and values, rather than a response to political or institutional pressures.

### Author Contributions

Carlotta Benedetti and Vittoria Magrelli were responsible for the development of the theoretical framework and research hypotheses. In particular, they authored the introduction, literature review, and hypothesis development (Sections 1–3).

Giuseppe Maria Bifulco and Francesco Paolone jointly conceptualized the study, designed the empirical strategy, conducted the data collection, and econometric analyses. They jointly authored the methodology, results, discussion, and robustness checks (Sections 4–6).

Section 7, including conclusions, implications, and future research directions, was jointly written by all authors. All authors contributed to the interpretation of the findings, critically revised the manuscript, and approved the final version for submission.

## Endnotes

<sup>1</sup> <https://familybusinessindex.com>.

<sup>2</sup> <https://ieg.worldbankgroup.org/methodology>.

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