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Perceptions of Family Firms Vary by Country: Why This Matters

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Research shows that family businesses enjoy numerous reputational benefits in their relationships with stakeholders (Astrachan (denied:applewebdata://EF86AC86-E504-4DEC-A616-8CCE084434F5/(https:/familybusiness.org/content/should-you-brand-your-family-business-evidence-from-research-and)) , 2021). Customers usually believe they provide better quality; employees expect higher levels of commitment; and creditors see more long-term orientation rather than a desire for short-term gains. Many of these benefits result from higher levels of trust that families not only enjoy, but also provide – kicking off a virtuous cycle that enhances the mutual commitment in such relationships.

While some of these benefits do not accrue everywhere (e.g., specific industries), in most cases, a firm that signals that it's family-owned and run enjoys a positive impact.

We set out to investigate whether the signal also holds across geographies. We saw that because families and family businesses play different roles in different societies, the benefits described above don't hold universally, especially in countries like India where family firms are seen as so common that they are not regarded as "special."

Our Study

We set out to learn how people's perceptions towards family firms varied in three different countries: The United States, India, and Germany. Surprisingly, such multi-country research on family business perceptions had not yet been conducted and we were curious whether similar results would be found across three of the largest economies in the world.

We developed a multifaceted theoretical framework that explores potential reasons why family business perceptions may vary. We discussed the role families play in society (for example, how tightly knit family relationships are, whether multiple generations live under one roof, whether children care for family members once they are unable to do so themselves); and in the economy (whether lots of businesses coincide with family constellations, as in the proverbial "mom and pop" stores). We also discussed how the country's culture embraces the values usually ascribed to families (e.g. long-term orientation or collectivism).

We interviewed 500 respondents in each country (Germany, India, and the United States), representing the adult (18–60 years) population in terms of age, social class, region, and gender. Each person was asked to write down at least five associations (attributes) that came to their mind when thinking about the term "family business." We then used automated text analysis and illustrated these linkages through word association networks. This allowed us to emphasize how these attributions and associations tied together, assess their connectedness, and identify thematic clusters among them.

Our Findings

We found many similar perceptions in the U.S. and Germany, but notable differences in India. Respondents in the U.S. and Germany strongly associated family firms with small size, relational qualities, and transgenerational family ownership.

We also saw some differences between the two western nations. In the U.S., family businesses are often linked with specific industries (e.g. restaurants, retailing) rather than specific companies (the opposite was true in Germany). In Germany, the most central association was tradition. This could be because family firms have been part of the German economy for a longer time, so Germany's family firms are generally older than their U.S. counterparts.

In contrast, respondents in India scarcely associated family firms with typical attributes such as local and small. Similarly, trustworthiness associations (e.g., trust, reliable, friendly, traditional, honest) are rare in India, while they were among the most frequently mentioned attributes among respondents in Germany and the U.S.

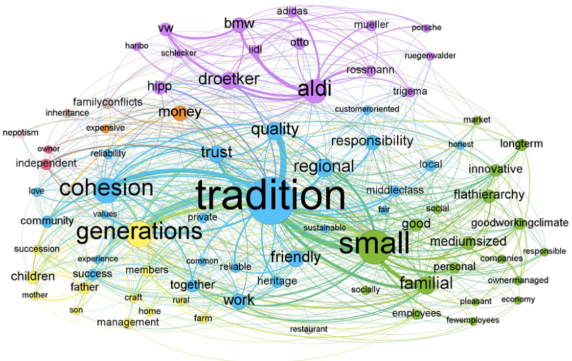

Figure 1: Association Network Germany

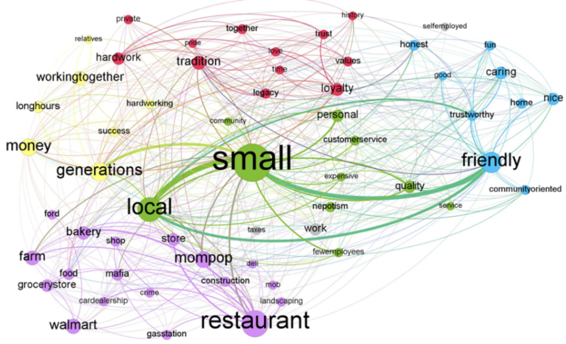

Figure 2: Association Network U.S.

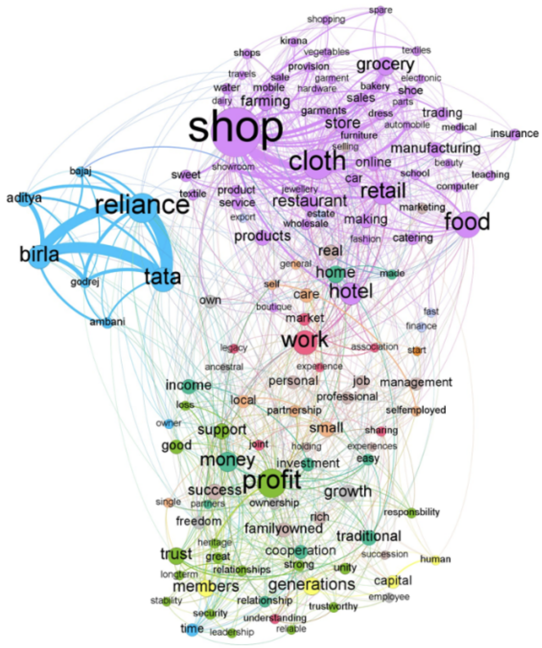

Figure 3: Association Network India

A Deeper Dive

In two follow-up studies we tried to shed more light on these findings. First, we interviewed a number of Indians who live in Western countries about their perceptions of family business in India. Their responses often focused on the (perceived) ubiquity of family firms in India. Family firms are the ownership structure that most Indians expect almost automatically when exposed to any firm-specific signal. This is attributed to the strong interconnection of family and business in daily life, ranging from widespread semi-professional, self-employed business activities to the central role played by business families of well-known conglomerates in society.

Next, we conducted an experiment where 200 respondents in each of the three countries were asked to indicate which one of two brands was more unique. One of the firms signaled that it is a family business. Respondents in the U.S. and Germany agreed that the family firm was more unique, whereas the Indian respondents did not indicate such a difference.

These findings indicate that family businesses are not perceived as unique or special in the economic environment among the Indian society, which is also mirrored in the fragmented associations we received in

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our major study. Interestingly, this finding adds to one aspect of the latest Global Entrepreneurship Monitor (GEM(https://www.gemconsortium.org/) , 2022): the motivations of founding a company. Among others, the report differentiated between two motivations: “to continue a family tradition” and “to earn a living because jobs are scarce.” In India a significant majority, nearly 70%, resonate with the aim of upholding familial business traditions as entrepreneurial motivation. This contrasts with Western nations, where, for instance, just over 30% in Germany and approximately 38% in the U.S. share this motivation. These figures underscore the deeply rooted synergy between family and business in India, which makes family businesses “normal” instead of “unique.”

From a branding perspective, it is essential to have a certain level of uniqueness, i.e., the ability to stand out and differentiate from other firms. Only by doing so can a family firm signal evoke strong perceptions associated with family firms, such as trustworthiness.

Takeaways

Communicating that you’re a family-owned business may not be a fruitful strategy everywhere. In India, for example, such communication doesn’t appear to improve a company’s reputation. In contrast, communicating that you are family-run can improve your reputation in both the U.S. and Germany. This means that international companies may not want to promote themselves as family businesses in every country as a key element of a brand’s desired reputation. Instead, carefully select markets where family ownership is seen as unique and associated with favorable attributes to positively impact brand reputation.

Given that perceived uniqueness appears to be crucial in triggering strong associations with family firms, this principle may extend to other contexts, including for example industries. In situations where family firms are perceived as very common (vs. rare), the differentiation power of signaling family firms is lower (vs. higher).

Additionally, promoting the family firm status makes the owner family more public, and thus, family owners must carefully weigh the benefits of this branding strategy against the responsibility associated with the family becoming a 'part' of the brand.

Explore the Research

Country Differences in Family Firm Reputation: An Exploration in Germany, India, and the United States (https://journals.sagepub.com/doi/10.1177/08944865231192339) **,** Family Business Review, August 2023

EDITOR'S NOTE: This article was produced in partnership with Family Business Review, a leading journal in the field of family business, as part of FamilyBusiness.org's mission to bring research-proven insights and practical advice to our readers.

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