

When Family Business Reputation Helps—and When It Hurts

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Family firms often enjoy strong consumer goodwill, until they engage in deliberate misconduct -- when higher expectations can produce deeper disappointment and sharper backlash.

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Consumers often view family businesses as firms with enhanced trustworthiness and ethical behavior. But what happens if such firms face accusations of corporate misconduct, such as environmental pollution or the mistreatment of employees?

Our recent research, published in *Entrepreneurship Theory and Practice*, reveals a sobering yet intriguing truth: under certain conditions, being known as a family firm protects a company, but under other conditions it can make things significantly worse. The outcome depends on the available information regarding how much control the firm had over the negative event. To solve this puzzle, we applied attribution theory from psychology, which explains the process people use to attribute blame to a company when negative events occur. We then tested these mechanisms through two large-scale experiments with consumers.

Why Family Business Brands Are So Powerful

From a consumer's perspective, family firms typically enjoy a reputation for trustworthiness and deep

community roots. Compared with non-family corporations, they are often perceived as less profit-driven and more focused on long-term sustainability. Consumers also tend to believe that family firms care more about their stakeholders' well-being and are motivated to behave ethically. Because these companies are associated with families, research shows that they are perceived as more human organizations and are attributed positive traits such as honesty, benevolence, and a strong sense of moral responsibility.

For years, branding experts have therefore encouraged family businesses to actively highlight their family status in brand communication. The logic is straightforward: Consumers tend to hold more favorable attitudes toward family firms and often prefer buying from them rather than from anonymous corporations. In this sense, a family business identity has been treated as a strategic asset—almost like a reputational shield that could protect the company even when problems arise. Because no prior research has identified a negative main effect of emphasizing family firm status, this branding strategy has generally been viewed as low risk. In our study, however, we questioned whether this reputational asset might sometimes turn into a liability. To explore this possibility, we turned to attribution theory from psychology.

The Psychology of Blame

Attribution theory describes the psychological process people use to assign blame when something negative occurs. Specifically, when a company is involved in a negative ethical incident, such as a breach of minimum wage laws or environmental harm, consumers don't just look at the event; they look for a culprit who is responsible for it in order to assign responsibility and guide their subsequent reactions. A crucial factor in this process is *perceived controllability*: the extent to which

people believe the company had control over the incident. The more control consumers believe the firm had, the more blame they assign.

Importantly, this judgment strongly depends on the information available about the situation. In many cases, information is scarce or ambiguous. Media reports may conflict; investigations may still be ongoing; or the responsible party within a complex supply chain may not yet be clear. In such situations, it is unclear to what extent a firm had control over the negative incident, and consumers must rely on their own assumptions to infer how responsible the company might be.

In other cases, however, the situation is far more transparent. Investigations may reveal clear evidence—such as internal documents or witness testimony—showing that the company knowingly engaged in unethical behavior. When this happens, consumers objectively know about the firm's control of events and assign blame more directly.

In our research, we predicted that consumer reactions in these two situations would differ significantly depending on whether the company involved was a family firm or a non-family firm.

Testing the Idea

To examine this question, we conducted two between-subjects experiments with nearly 600 consumers in the United States. Participants were asked to evaluate a fictitious company. Depending on their random assignment, some participants were told that the company was a family business, while others did not receive this information. Next, participants read a news article describing a negative ethical incident involving the company: a violation of minimum wage laws affecting its employees. Crucially, we varied one key piece of information: the firm's controllability over the incident. Specifically, in one scenario, participants were told that the incident was still under investigation and that it was unclear whether the company had control over the situation. In the other scenario, the investigation had already concluded and clearly demonstrated that the company had full control over the incident. After reading the article, participants evaluated the company again.

The results revealed two very different patterns of consumer reactions.

Scenario A: The Benefit of the Doubt Effect

When it was unclear whether the company had control over the negative incident, family firms enjoyed what we call a *benefit of the doubt* effect. Consumers in our experiments instinctively assumed the family firm had less control over the incident than the non-family firm. This is because people automatically perceive family businesses as more human and morally grounded than non-family firms. This perception makes it harder for consumers to believe that the firm would intentionally harm employees or the environment. Consequently, people tend to blame bad luck or unfortunate circumstances rather than bad intent.

Non-family firms, in contrast, are often perceived as more profit-oriented and efficiency-driven. Given widespread public skepticism toward large corporations, consumers may find it more plausible that such companies would knowingly engage in questionable practices to achieve financial goals.

This psychological bias leads consumers to assign less blame to family firms when the situation remains ambiguous, allowing them to maintain more favorable attitudes toward the company after a negative incident.

Scenario B: The Backfire Effect

The picture changes dramatically when it becomes clear that the company did have full control over the incident. In this case, the positive reputation of family firms actually backfires.

In more detail, when consumers realize a family firm had full control over a negative incident, they feel a deep sense of betrayal. They held the family company to a higher moral standard because of its humanized brand. The gap between what they expected from such a trusted company and what actually happened is huge. This sense of betrayal amplifies the negative reaction, provoking harsher criticism, and stronger demands for accountability.

While such situations are also detrimental for non-family firms, people blame them comparably less. Consumers often view these incidents as more consistent with the assumed profit-driven motives and corporate pragmatism of non-family companies. In these moments, the family firm reputation is no longer an asset; it turns into a liability. Specifically, the effects reverse, ultimately leading to a significantly more

negative attitude toward the family firm compared to a non-family firm. In short, if a family firm is found to have engaged in deliberate negative misconduct, their positive reputation actually makes things worse.

Strategic Lessons for Family Management

The findings of this research should be seen as an important reminder for owners and managers of family firms: Positioning yourself as a family business brand is not a one-way street to success; it is a big responsibility and a promise of moral accountability.

- 1. Build Your Reputation Buffer Early:** Don't wait for a crisis. Consistently demonstrating ethical behavior and community engagement builds social capital and a reservoir of goodwill. This acts as a vital buffer during a crisis, making consumers more likely to give you the benefit of the doubt during periods of uncertainty.
- 2. Alignment is Key:** If you market yourself as a values-driven family business, internal controls and ethical agendas are particularly important. Because consumers hold these brands to a higher standard, a single scandal can cause disproportionate damage to both the business and the family name.
- 3. Family Protection:** If a negative incident is the result of controllable behavior, it may be prudent to keep the family link out of the spotlight. For businesses already recognized as family firms, shifting communication away from family-centric branding toward fixing the organizational failure and focusing on concrete solutions may help to protect family members from amplified public anger.
- 4. Strategic Transparency:** When negative publicity hits and your hands are clean, prove it. If the event was truly outside your control, emphasizing your family firm status can help bridge the periods of uncertainty until the company's innocence is proven.

In a Nutshell

In today's highly competitive consumer markets, being known as a family business remains a powerful positioning strategy. It can strengthen trust, differentiate a company from competitors, and build long-term customer relationships. Yet our findings show that this reputational advantage comes with a hidden risk. The

same values that make family firms attractive to consumers can also magnify disappointment when those expectations are violated. For family businesses, reputation can function both as a buffer in times of uncertainty and as an amplifier of backlash when misconduct is clear.

Handled carefully, the family firm identity can be a powerful branding asset. But it is one that must be managed with care.

Explore the Research

Jaufenthaler, P., Schroll, R., & Kellermanns, F. W. (2026). When Family Firm Reputation Backfires: The Role of Controllability in Consumer Responses to Negative CSR Incidents. *Entrepreneurship Theory and Practice*, 1-30.
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