Entrepreneur & Innovation Exchange
Published online at FamilyBusiness.org on March 01 2023

Falling from Grace: How Scandals Affect Family Businesses

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KEYWORDS: Marketing, Family Business, Conflict, crisis management, Help with a family business, Running a family business tips, Successful family businesses.

Promoting the family behind the family business can often bring benefits. Consumers can feel better about a product or service – and more likely to trust it and buy it -- if they know a “family” is behind it. Family-based brands can also make customer relations easier to manage and strengthen the competitive advantage of a firm. Some brands advertise their family business origins clearly on product packaging, advertising or service delivery (e.g., SC Johnson and William Grant & Sons), while others highlight their family-based brands when they are sold to non-family owners.

With all these benefits attached to family-based brands, we really have to think about the flip side: the dangers posed when the family image gets tarnished. Scandals, defined as “a publicized instance of transgression which runs counter to social norms” (Piazza & Jourdan, 2018, p.167), can wreak havoc on both the family and the firm.

The High Cost to Business

Whether it involves the entire family or only one of its members, scandals can seriously compromise the reputation of a family firm. They invite negative media attention and ridicule, undermine consumer confidence in the brand and pave the way for auditors and regulators to examine the firm’s business affairs. News about a scandal at a high-profile family firm can spread via social media with remarkable contagion, causing negative reverberations on the family firm and its brand. In fact, the broken expectations of external stakeholders who feel betrayed by the family business wrongdoer might lead to a loss in revenues, and even protests or boycotts.

To categorize this costly problem and identify ways that companies can bounce back, our research looked at several factors; the specific ethical, legal or other norm that was broken, why it was broken, and the breadth of the damage. We’ve illustrated our findings using real examples of companies that have been hurt by scandals and we’ve shared how they recovered from them. We hope that our research sheds light on a very sensitive topic that is rarely talked about in academia and consulting, and provides some practical advice for family businesses.

Four Types of Scandals

From our analysis of these factors and the specifics of some notorious family business incidents, we identified four types of scandals.

The Feud

This type of scandal involves disagreements that end up embroiling the entire family and drawing widespread attention to it, thus undermining public confidence in the firm. Two great examples are the Gucci family and the Koch brothers. The history of both family businesses is indeed characterized by numerous instances of wrongdoings committed by several family members, which ultimately brought both families to the court. The "curse" of the Gucci family, founder of the renowned Florentine fashion house, is exemplified by numerous instances of wrongdoing committed by several family members. The family’s bitter and occasionally violent disputes have kept the firm in the media spotlight for the last 20 years. For instance, In the early 1980s, the Manhattan Supreme Court was asked to resolve a dispute between the Gucci cousins, Paolo and Maurizio.

Another infamous feud is the protracted legal dispute between the four Koch brothers, sons of Fred C. Koch from Koch Industries, which is today the biggest privately held company in the US (Forbes, 2021). The four brothers fought over the inheritance when their father died in 1967. The conflict lasted for more than 20 years and was so acrimonious that it was alleged that they ignored one another even at their mother's funeral in 1990.

The Black Sheep

This type of scandal involves wrongdoings committed by a single member of the family, where the fallout can damage the company reputation. The cases of George O'Neill Jr. and Francois Henry-Pinault, respectively a fifth generation member of the Rockefeller dynasty and a second-generation family member of PPR (Pinault-Printemps-Redoute), illustrate this kind of scandal. O'Neill Jr.'s wife alleged that he had a licentious lifestyle that included many extramarital affairs. Because he was a staunch supporter of "family values" and morality, these accusations have been especially damaging for his reputation. Pinault, owner of the French fashion house formerly known as PPR (Pinault-Printemps-Redoute), is another example of a black sheep. Pinault became the subject of controversy in 2012 when supermodel Linda Evangelista filed a lawsuit against him seeking child support for their son, whom Pinault had not acknowledged until the boy was five years old. The trial was covered by international media.

The Bad Egg

The third scenario describes scandals that originate within the business and are limited to a specific circumstance (e.g. misconduct of a single person, failure of a product). In this type of scandal, even a single defective ingredient, one unflattering portrayal in a book or the media, or one breach of ethical behavior can challenge the integrity of the family business behind the product. We looked at the case of Nutella, one of the flagship products of the family-owned multinational enterprise Ferrero, being criticized for listing palm oil among its ingredients. France's Minister of Environment in 2015 declared that in order to rescue the rainforest, customers should quit consuming Nutella.

In our second example, a 2015 book accused the family-owned international brewery Heineken, whose name is derived from its founder Gerard Adriaan Heineken, of unethical behavior in its commercial activities in Africa (van Beemen, 2015). Heineken advertises itself as a family business where "passion and family dynamics [...] inspired the Heineken family to produce the world's most worldwide premium beer," yet this was found to be only a marketing ploy.

The Deception

Finally, the deception scenario depicts scandals emerging in the business context which refers to a broad matter usually involving multiple actors and several wrongdoings. We explained the deception scandal by using the cases of Barilla and Tony Goetz NV. During a local radio program, a Barilla representative stated, "We would never make a commercial with a homosexual family, not out of a lack of respect, but more because we don't agree with them," and "if gay customers don't like it, they should go buy another brand of pasta." Barilla intended these few phrases to promote the virtues of the "traditional family," which the brand aimed to appeal to. But the phrases backfired and resulted in incredible pushback.

On an even larger scale, in 2018 the Belgian family business Tony Goetz NV, working in the metals and mining sector, was embroiled in a significant scandal after it was alleged that the company had adopted a sophisticated global fraud architecture, including money laundering and illegal mining operations. The two second-generation brothers Sylvain and Alain, who run the business, were found guilty in Belgium in 2020. These types of scandals happening at a corporate level, besides causing considerable losses in terms of both tangible and intangible assets, can reflect badly on the families behind the businesses.

How Companies Rebounded from Scandal

The Gucci family's company fortunes survived the potentially destructive feud. The Gucci family firm was sold to Investcorp in 1993 and is now a part of the global conglomerate Kerin. The feuding Koch brothers participated in a 20-year-long legal battle over the inheritance and economic control. Koch Industries' commercial branding do not specifically mention the familiar element, despite the fact that the family name is in the company's name. Possibly this is the reason why the business hasn't adopted a clear strategy to address the scandal brought on by the family quarrel.

To respond to the deception scandal that embroiled his company, Guido Barilla officially apologized for the

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homophobia in front of leaders of LGBT families. To make amends, he established a "Diversity and Inclusion Board" to promote inclusion among Barilla's staff. The business donated to LGBT organizations and implemented diversity and inclusion training. By doing this, the company was able to use a scandal as an opportunity for reflection and reinvention. The Goetz family adopted a different redressing strategy. Six months after the conviction of the two brothers, the company decided to change its name from "Tony Goetz NV" to "Industrial Refining Company," distancing the family issues from the business.

As for the black sheep, the case of George O'Neill Jr had very little media coverage, and the details of the settlement were kept confidential to prevent spread to the family and the corporate system. The Pinault family took a different approach by adopting a rebranding strategy (changing the company name to Kering), as they believed that using the family name could have caused potential damage either to the family or the company.

Finally, both the illustrative cases of the bad egg, Ferrero and Heineken, adopted strategies that allowed to transform the scandal into an opportunity for strengthening their brand, by launching programs and stating renewed commitment for good. For example, the Ferrero Group increased its transparency by joining the Roundtable on Sustainable Palm Oil, becoming a member of the Palm Oil Innovation Group (POIG), and incorporating important information about palm oil as an ingredient into their official website. On the other hand, in response to van Beemen's accusations, Heineken reiterated its commitment to the African continent and its people, declaring itself open to dialogue, and pledged to make significant improvements to its business practices. On top of it, Heineken launched the "2030 Better World Ambitions" program, a set of commitments "aimed at driving a positive impact on the environment, social sustainability and the responsible consumption of alcohol" (Heineken, 2021).

The Takeaway

Scandals can occur even to the most respected organizations, so it is crucial to know how they might emerge and how to minimize their damage. With our study, we aim to increase awareness about the risk faced by family-based brands. When scandals involve the spread of unintended messages, they may conflict with and overpower the intended ones, harming organizational outcomes and reputation. For this reason, family business CEOs should seriously consider how the family is associated with the company brand, the messages conveyed, and the potential effects a scandal could have on both the brand and the family.

In today's world, communication tactics are currently undergoing a revolution due to the emergence of social media. On one hand, social media platforms can help with branding because they allow for direct communication with customers, enhancing the intimacy of consumer-brand connections. However, they can also magnify scandals, and family members who have their own social media presences may find it difficult to distinguish between personal and professional circumstances. Marketing managers should be aware of the importance of responsible use of corporate and personal social media accounts, and they should routinely monitor reactions to the information shared through social media posts.

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