FAMILY BUSINESS REPUTATION: A LITERATURE REVIEW AND SOME RESEARCH QUESTIONS

Ferda Erdem, Dr.
Department of Business Administration,
Akdeniz University, Antalya, Turkey

Abstract

Although there is a heightened interest in the concept of corporate reputation, only a limited number of studies have been done in the literature. Moreover, the methodological debate of these studies does not reach a sufficient level as well. However, the concept of reputation has affluent dimensions. Especially the organizational context, in which the reputation concept is discussed, is an important methodological issue. In this study corporate reputation has been discussed in terms of family businesses. First, some characteristics of family businesses have been emphasized. Next, some research questions that aimed to explore the meaning of reputation concept for family businesses have been suggested.

Key words: Corporate reputation, family businesses, perceptions, founder, family members, non-family members.
INTRODUCTION: REPUTATION AS A NEW RESEARCH DOMAIN

The corporate reputation (CR) is “a collective representation of a firm's past actions and describes the firm's ability to deliver valued outcomes to multiple stakeholders. It gauges a firm's relative standing both internally with employees and externally with stakeholders, in both the competitive and institutional environments” (Gardberg and Fombrun, 2002: 304). The CR especially contributes to develop social legitimacy of corporate in terms of those groups (Martin de Castro et al. 2004: 576) and organizational legitimacy as a social comparison among organizations on a variety of attributes, which could include these same regulative, normative or cognitive dimensions (Deephouse and Carter, 2005: 332). Similarly, Caruana (1997) has emphasized its power in developing a company’s social status. In recent years, since financial outputs are thought to be directly affected by CR, its management as a capital has largely been discussed. Reputation the formation of which takes quite long time could be a major factor in gaining competitive advantage as a core-strategic resource (Carmeli and Freund, 2002). Due to its complex dynamics; reputation, the cumulative result of the previous and past economic behaviors of corporate, has become the initial focus of most disciplines. Hence, the contributions coming from different disciplines (communication, psychology, sociology, economics, organization studies, management) give signals of enriching debates on defining and measuring CR.

Many questions concerning how the reputation subject will be analyzed and how it will be managed still wait to be enlightened in parallelism with that continuously increasing interest in the management literature. One of the unclear fields of this subject is what the different corporations understand from the reputation and how they manage this. For example, the large corporations have dealt with the reputation management more strategically, for SMEs reputation management currently has not been a priority importance. Goldberg et al. (2003) emphasized that most small business managers would accept CR was important but there was a failure to translate this viewpoint into concrete reputation-building activities. The managers of these businesses did not follow policies aimed specifically at developing the intangible asset of company reputation and they neither made use of personnel time, nor did they expend financial resources in order to reach this objective (p. 183). However, the reputation management can be possible with a long-term, patient and coherent organization behaviour. For small businesses that need rapid economic issues to exist, the efforts of improving reputation should be abstract and also romantic. However, instead of making these kind of speculative determinations or excessive generalizations, to explicate the reputation with the right research questions and methods support the arguments more. One of the important problems of this subject is whether the reputation perception has been changed by the characteristics of businesses. For instance, the question of what the reputation means for family businesses as a special typology is a specific question and deserves a special interest.

Family businesses are the most common form of the business organizations in the world (Lee, 2006: 103) and are estimated to account for 65 % to 90 % of all business in various nations (Sharma et al. 2000: 233). Specially, it can be seen that family businesses compromise a great part of small and medium size companies in the world. Their life stories, structural characteristics, strategic orientations and cultural traits are interesting case studies for practitioners and scholars. However, the number of studies
directly focusing on reputation is very limited for these businesses, despite the opinion that there is a close relationship between the continuity of family business and its CR.

This study argues that reputation has to be separately discussed for family businesses as a phenomenon and the issues should be handled with the right research questions. Therefore in the context of this study the original dynamic of the family businesses were taken into account and some research questions were developed. However the questions were not tested empirically. It is considered that researchers who will make research with respect to the family businesses will develop a set of hypotheses by the help of these questions and seek for empirical supports to hypotheses.

FAMILY BUSINESS: A SPECIAL TYPOLOGY FOR BUSINESS LITERATURE

In the family business literature, there is a richness of definitions (Chua et al. 1999). In these definitions, the significant ownership leads the criteria used to explain these kinds of businesses; that means the family owns all or a voting controlling share of the firm, power over strategic direction, and involvement of multiple generations (Shanker and Astrachan, 1996). Furthermore, family involvement which concerns the degree to which a family is involved in the ownership and management of a firm and the transference of ownership to the new generation criteria differentiate these businesses from non-family ones (Athanassiou et al. 2002: 140; Dyer, 2003: 406). Moreover, the managerial applications such as informal management structures, leadership by inheritance and a lack of non-family employees in positions of real authority are the typical characteristics of these businesses (Haugh and Mckee, 2003: 143). Also, same behavioral characteristics such as high level of trust and commitment may result in greater efficiency than non-family businesses; however, it is known that the conflicts between the family and the business affect the business performance negatively (Lee, 2004: 51).

In studies regarding family businesses, two dimensions gain importance: the family and the business. McCann et al. (2001) have defined these dimensions as family centered and business centered. These two dimensions are mutually embedded. Especially business dimension which contains strategies is deeply affected by family values, business style and vision of the company. This characteristic can transform into an advantage or disadvantage for the success and continuity of the company. It should especially be emphasized that when the aims of family and the market expectations aren’t overlapped, this situation definitely can be a problem for the business. As Dyer emphasizes (2003: 408), the goals of a family focus generally on the nurture, and develop, and support family members but the perceptions of performance of non family business focus on profits, market share, efficiency and other economic criteria. Moreover, it gives rise to a sustainability problem for family businesses that cannot response rapidly to the market expectations. However, statistics show that only one-third of the family businesses can be carried over the second generation and a few companies can survive through the third generation.

Family businesses literature has developed late as a relative within the management literature. Some researchers have indicated that the interest of this field began in 1970s. However, researches increased more systematically in the second part of the
1980s and 1990s. Casillas and Acedo (2007) made an important study on the subject of family businesses and analyzed the articles that were published between 1988 and 2005 in Family Business Review. In this study, the researchers found a high fragmentation because of the different paradigms on the family businesses literature. They specially have emphasized that the new research topics such as strategic management, conflict management, innovation, internationalization are important like succession topic. Moreover, researchers have stressed that specially internal and external variables that covered these firms and the conjuncture should be understand clearly (p: 151).

NEGLECTED DIMENSION: CORPORATE REPUTATION

Family business literature growing immediately with its different dimensions isn’t as rich as reputation. Certainly, one reason of this is the description; measurement and the method of reputation arguments are very new. On the other hand, like the family businesses phenomenon’s itself, lots of disciplines are interested in reputation, and also this makes the analyses unclear.

However having different dynamics, family businesses are interesting population in terms of reputation concept, too. Continuity understanding instead of achieving fast performance outputs can be seen as a more prestigious attitude for most of the second or third generation manages family businesses. Dyer and Whetten (2006: 791) suggest that family firm founders, shareholders, and managers are more likely to initiate a tradition of socially responsible business practices and to avoid harmful practices to protect the image of the firm. Especially, a disgusting business image has damaged the family name; and immediately after, it has damaged the reputation. Donnelley (1964: 98) states that the reputation of a family has direct effects not only on relations with the society but also on the operations of the enterprise: Such that local banks knowing the family grant a credit. Therefore, the reputation of the family and the reputation of the business have quite often developed in a parallel way. Hoffman et al. (2006: 137) have dealt with reputation as a family norm with obligations and expectations, identity, and moral infrastructure. The view of what the main issue of a powerful CR is that the reputation has reduced the transactional cost and created a competition advantage. Like Hoffman et al. (2006: 139) deal with in their study depending on the family capital theory when the CP generated with confidential behaviors inside and outside of the business gets stronger; the need of monitoring declines, transactional cost and capital cost decrease and efficiencies in resource procurement increase.

In spite of these pretentious arguments, the number of the studies directly focusing on the reputation of the family businesses is very limited. Reputation in most researches is just a (sub)dimension that explains the fundamental problematic but not the special problematic of the family businesses researches. The author of this study has analyzed the articles referring to the reputation concept among the articles published as a full text in Family Business between 2000 and 2007. The articles including the word of reputation more than two times have been chosen as a method. Within these studies the number of articles actualizing this condition is just seven and also the concept of reputation is one of the explanatory factors of the research subject in these articles. This subjects are natural environment policies and social responsibility (Craig and Dibrell, 2006), family capital (Hoffman et al. 2006), competitive advantage and performance (Hoopes and Miller, 2006), stewardship (Miller and Miller 2006), board-
human capital (Blumentritt, 2006; Corbetta and Salvato, 2004), operational and financial performance advantages (Adams et al. 2002) growth (Mazzola ve Marchisio 2002). As a result of this quick analysis, reputation is seen as a proposal increasing the legitimacy of the business in its environment.

On the other hand, like a similar method, the articles published as a full text in Corporate Reputation between 1997 and 2007 have been searched and it has been looked for the ones that include the word of family business more than two times. However, no article has been found corresponded to these criteria. In the articles that include the word of family business just one times, the family business hasn’t been focused directly (Rode and Vallaster, 2005; MacMillan et al. 2005; Steiner, 2003; Carmeli and Freund, 2002). Therefore, it can be said that there is an indirect interest about the subject and “CR in family businesses” is the very important niche and should be examined as a special domain.

RESEARCH QUESTIONS FOR FAMILY BUSINESSES

Reputation is a construct mainly based on perceptions. Image and reputation are considered to be largely the interpretation of perceptions of the company as seen from the outside (Steiner, 2003: 178). In a perception research it is fairly important to specify the level of analysis (individual, group, stakeholder, organizational, societal, etc.) (Wartick, 2002:375). Thus, in a reputation research the question that asks “how do the different groups within business perceive the CR” has to be taken into consideration. Among those groups for family businesses the founders play the most critical role. It is because the founders have an underlying role in terms of company values, strategic orientation and existing philosophy and applications. According to Schein (1983) founders bring many of these assumptions with them when the organization begins; their problem is how to articulate, teach, embed, and in other ways that realize their own assumptions working in the system (p.14). As a similar way, Poza et al. (2003) have indicated that CEO-parents’ perceptions differ from other two groups in the management practices (p.103) and Dyer and Whetten (2006: 789) have suggested that founders are likely to view their business operations as an extension of their identity, or self-view. Specially, the business concept, values and philosophy are the corporate identity elements. These elements are the core of the start-up and facilitate the company management. The founder's perspective of the world and their experiences strongly shape corporate identity, his or her behavior is an example to employees, the style of leadership characterizes the atmosphere within the company and personal attitude is decisive for the process of hiring new employees (Rode and Vallaster, 2005). Especially the effect of the founder continues for longer time especially in small and medium sized firms.

This powerful role is frequently emphasized as Founder Effect Syndrome in the literature (Kelly et al., 2000). The development of reputation for such enterprises follows a process generally beginning with founding activity and continues with individual respectability of the founder. The relationship between the founder and CR has been explained with the steward approach in some studies. Miller and Miller (2006) have stated that leaders being "insiders"-whose names are on the business and whose past, present, and future are tied to the reputation of their firm-may act especially as solicitous stewards. The philanthropy phenomenon lately stated more often in the family businesses literature can be handled in this frame as well. Family business founders or
owners are natural philanthropists (Breeze, 2009) and some researches emphasize that family members volunteer to give ecology and education support as a social responsibility behavior (Gallo, 2004: 144). Personal reputations, especially the founders known as charitable in their social environments due to their specialities identify with the CR. Thus, the meaning referred to reputation by the founder is critically significant for strategies and practices of businesses that arises bad or good reputation: Any company is a manifestation of its entrepreneur’s vision (Steiner, 2003: 183).

Therefore, expounding the inside and outside behaviors of the business by getting the CR perception from its founder can be an important method. So, the research questions below that examine the individual and institutional dimensions of the founder perceptions separately and try to find their relationships to each other are important:

**Research Question 1:** What are the acts of a reputable business man in the founders’ perceptions?

**Research Question 2:** What are the acts of reputable businesses in the founders’ perceptions?

**Research Question 3:** Is there a correlation between acts of reputable business man and acts of reputable businesses in the founders’ perceptions?

On the other hand, except the founder, other family members working in different positions in the enterprise are the most important human source of these enterprises. Family members working with strong faithfulness and self-sacrifice represent the name and the values of the family within and outside of the institution. And for the continuity of the enterprise, every family member has to fulfill his or her part in maintaining the family’s reputation (Guttman and Yacouel, 2007).

However, this doesn’t mean that especially the founder or the owner and the other members of the family have the similar perceptions. In the study of Eddleston and Kellermanns (2006) on destructive and productive family relationships, they especially emphasize children’s desire to differentiate themselves from their parents, marital discord, identity conflict and ownership dispersion among family members. Like a similar way, Sharma et al. (2000) draw attention that the family members having different perceptions about the activities of the company and the relationships among the family members are dealt with in several researches. They indicate that this situation differentiates the perception of family and business (p.237). Moreover, these views show that the analysis through the reputation perception of family members except the founder should be important.

**Research Question 4:** Which businesses practices have more priority in the perceptions of reputation in the family members?

There are three stages for the life cycle of family businesses: start-up, growth and development or early middle and latest. That stages are influenced by the characteristics of the organization, motivation of the owner-manager, extent of family dominance, the organizational climate and business environment (Andersson et al. 2002: 90). The success of a family business is related with their enterprises’ passing down from one generation to another (Goffee, 1996: 42).
However, it is a well known reality that life cycle for family businesses can end up rapidly. The statistics show that only the one third portion of existing companies survive into the second generation. And only a small portion of second generation managed companies survive into the third generation. According to statistics, 30% of family businesses make it to the second generation, 10-15% make it to the third and 3-5% make it to the fourth generation (Aronoff, 2006) and only one in ten has a family member still involved in management (Goffee, 1996: 42). Thus, it is not wrong to say that continuity is a very important question and companies can face with destruction risk at succession stage. Admittedly, this has a number of reasons. In fact, most of those reasons are related to the next generations’ different motivations, understanding, priorities and values. However, this subject is one of the gaps within family business literature and there are different research findings. For example, Davis and Harveston (2001) state that basic characteristics of family firms change from one generation to another. Whereas in the research made by Sonfield and Lussier (2004) concerning the generation differences it was found that the first, second and third generation shared the same characteristics and behaviors due to the forcing of families. Hence, Sonfield et al. (2005) mentioned that whether the managerial characteristics and practices change or not from one generation to another is an important question but that it is not dealt with too much. And if the reputation perception has changed has become an important debate subject for different generations.

First generation may bring some strategies in the foreground for business’s living long and passing the other generation successfully; such as conservative financial strategies (less debt, more liquidity, sounder balance sheets); reputational investments (investments in innovation, R&D, quality, branding, advertising, customer service, public relations, community involvement) (Miller and Miller, 2006: 81). However, the question how these strategies creating reputation have been adopted and continued by the new generation isn’t clear. The author of this study has focused this question after he has done a pilot study (Erdem, 2006). According to findings, having qualified personnel and qualified document, to be seen as a good example by other companies, to be among companies which apply contemporary business methods and management models, and transparency can directly affect company’s reputation for first generation founder-owner managers in companies whose average age is 12 and 14 (n=39 person). However, the situation is different for a second generation owner of 36 years old company participating in the same research. For this owner, the reputation of a family business is directly affected by family status and success in social environment. Absolutely, this finding is very limited. Because the research has been done with a small sampling formed by owners and it is not a longitudinal study. Therefore there can not be a generalization that different generations have different perceptions. Therefore, a research question, specifically focusing on this fact, should enlighten not only the reputation problematic but also the succession problematic.

**Research Question 5: Do the perceptions of CR in family businesses differ from one generation to the other?**

On the other hand, even if the founder and the family members are the most important group of the enterprise, they are not a single group. Because different stakeholder such as external and internal groups are likely to differ in their values and beliefs and are therefore likely to judge a company’s reputation in terms of different issues that
are important to them (MacMillan et al.; 2005). According to CR researchers, the customers who represent the corporate image and the employees who represent the corporate identity are the two preferential groups (Davies and Chun, 2002). The employees who are characterized as internal stakeholders in the reputation literature are also important and they are typical indicators that show in what extent the company is straightforward in their effort to develop a reputation. Especially, strong employee relations have been accepted one of the most important dimensions of reputation (Adams et al. 2002). Dortok (2006) has explained this more apparently. According to him, if employees identify themselves with their company, they can work better, pay more attention to their products and this in turn strengthens the corporate culture and they can act as ambassadors of the company. Therefore, receiving the support of employees is crucial for sustaining a strong reputation.

Also in the family businesses there are differences in perceptions of family members and nonfamily members due to expectations and since in-company status for family and non-family members are different. Absolutely the most important question on this level is what the main expectations of nonfamily members from a family business are and how this situation can reflect on the CR perception. Initially, a company’s fair and non-nepotistic practices are critically important for a favorable CR of non-family members. Deniz and Suarez (2005: 30) have indicated that family members enjoy more advantages in terms of rapid promotion, flexibility in remuneration criteria but this nepotism and lack of professionalism will make the company far from the fulfillment of ethical and discretionary responsibilities. However, these applications preferred by family members have damaged the perception of justice for nonfamily members. Barnett and Kellermanns (2006) have examined the strong relationship between HR applications in family businesses and the justice perceptions of non-family members. According to them, family influence in family firms may lead to agency-based problems of nepotism, free riding, and adverse selection, which are likely to have negative effects on the perceived distributive justice of nonfamily employees about outcomes related to HR practices (p: 842). However, beyond this problem, there should be more fundamental problem like the new and small firms’ having more difficulty to recruiter employees and often lacking formal HR policies or systems (Carson and Stevens, 2004: 296).

Probably, justice perceptions of reputation for non-family members must be important indicator but not unique. For example, Carmeli and Freund (2002) suggest that the appropriate working conditions for employees such as innovatory climate and job satisfaction are major determinants of reputation. In spite of the fact that the author emphasizes these conditions focus only on a human resource system's reputation, not the overall organizational reputation. Depending on these findings, although it has been understood that reputation is related with very different organizational applications for non family members but no profound empirical analysis has occurred. Therefore, the question below should be an important beginning for the non-family members:

Research Question 6: Which organizational practices have more priority in non-family members’ reputation perceptions?

Although the reputation of the family enterprises is a quite comprehensive and specific research area for its predicates and results, it is hard to speak of an intensive interest yet. However stories of long standing and old enterprises are essentially a process of
creating a reputation capital and so the reputation must be handled as a continuity variable. The research questions developed in this study focused on the most important actors creating the firm reputation and highlighted perceptions of the founder, family and non-family members as internal key stakeholders.

Doubtlessly, perceptions of other stakeholders (customer, rivals, and suppliers) must be handled with different research questions and perception differences between the stakeholder groups should be compared. While all these efforts contribute to the literature of the family businesses, on the other hand, they will provide scientific data for the executers wanting to develop and manage the reputation strategies for this kind of enterprises.

CONCLUSION

Succession is certainly vital for all companies. However, it is an ad hoc problematic for family businesses. In general, family businesses fail to manage their continuity. Today only a few numbers of family businesses survive into second or third generation. But the aim of this study is not to discuss this problem. However, the truth is that businesses which succeed in continuity have well-managed reputation. Because strong reputation takes time, and that the payoff from reputation may require longer periods to become visible (Schwaiger, 2004: 51). It’s known that the firms who were able to get continuity provided this with strong ethical codes and in fact, the firms who were able to integrate reputation as a value survived. In the study made by Koiranen (2002) concerning old Finnish family firms, the top values were found out honesty, credibility, obeying the law, quality, industriousness (hardworking) and good ethical conduct. Similarly, Aranoff (2004: 59) states that a very strong set of family values related to hard work, customer and employee relations, ethical business practices and philanthropy influence the family and the business, creating a culture that gives the business a genuine competitive advantage. Even these limited determinations carry cues towards that the reputation is the most important capital for the family enterprises and show that the real power of long standing enterprises is related to their reputation rather than an impressive financial performance. So since the CR management subject has rich dimensions for the family businesses, it deserves a more deep interest from researchers. Through this aim, some research questions were suggested by taking specific characteristics of family businesses into consideration by starting from internal stakeholder perceptions. As a matter of fact, CR is perception. It is what people think, not necessarily reality, hence cognitive (Macnamara, 2006: 4).

On the other hand, there are different stakeholder groups a concerning the enterprise and it is important to understand what these groups think about CR (Schwaiger, 2004: 68). Different stakeholders may have different reputations of the same company based on their own economic, social and personal background (Gotsi and Wilson, 2001). Macnamara (2006), attracts attention to that perception of every group is not effective in the same level on the firm and that which group is more effective primarily in the efforts concerning measuring and managing reputation. As a matter of fact, while developing the research questions on CR for a family business, starting from perceptions of the founder, family members and non-family members is a true preference methodologically. Because, the effect of behaviours of these groups is dominant over the CR. In the literature of the family businesses, it is known that the founders and the family members being the representatives of the former and the
following generation affect the corporate values and behaviours closely. So in this study the reputation perception of the founder and other family members was developed as priority research questions.

On the other hand, the most important internal stakeholder group except this group is the non-family members. In the reputation researches it is suggested to handle employees as one of the key stakeholders (Macnamara, 2006). CR is an enduring asset that can be managed through employees’ efforts, commitment, and unique capabilities. So employees are the first step in the sequence of managing CR to lead to superior financial performance and competitive advantage (Cravens and Oliver, 2006: 295). Moreover, employees can develop commitment to their firms they believe to have reputation outside (Carmeli and Gilat, 2006). In the family enterprises, perceptions of employees, who are defined as non-family members, towards the CR can be affected by work conditions and also they are much likely to be affected by the nepotism problems peculiar to these enterprises. So sometimes important differences between the family members and perceptions of this group towards the CR can be available. To be able to see this difference, the employees perception must be handles as a research subject.

It is possible to increase the number of these research questions. Especially perceptions of these kinds of groups according to external groups must be researched. In the analysis of the reputation of domestic and long standing firms in the region, opinions of customers and even impression of other family enterprises carrying on activities in the same region are important. The research question to be developed in these subjects will provide important cues especially about how those successful family businesses provide the reputation management. Findings obtained from research that based on right questions would be a base for reputation management strategies and contribute to develop efficient strategies; and they would also feed a discussion area remaining lack in the family business literature.

Finally, some methodological warnings should be useful. The reputation analysis of businesses which have different size (such as small, medium and large sized enterprises), have different ownership style (such as private, public, family business or non-family business), have different stakeholders and prolong their activities in different context (such as business, sectoral, cultural context) can not be possible by a single research method and general questions (see to epistemic nature of reputation in Helm, 2005). The empirical truth of CP from whatever the respondents say (Wartick, 2002: 375). Furthermore, the author of this study choosing family businesses problematic has emphasized the methodological risk like this and has pointed a tacit critic through the quick researches. Because, the researches not having strong methods can generate the true knowledge neither for academia nor for practitioners; this problem is more critical for new research domains as family business. In the analysis of reputation perceptions, making the research questions more specific is very important for methodology. Moreover, in some facts which are open to social desirability effect like reputation, qualitative methods (such as open-ended interview, narrative analysis) can be suggested for analyzing perceptions deeply.
REFERENCES


Erdem, F. 2006. Aile İşletme Sahiplerinin İtibar Algısı (Reputation perception of family business’ owners), II. Aile İşletmeleri Kongresi (II. Congress of Family Business, İstanbul.)


