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Trust in the Family Firm

Results and Implications for Practitioners
Based on an All-Ireland Family Business Study
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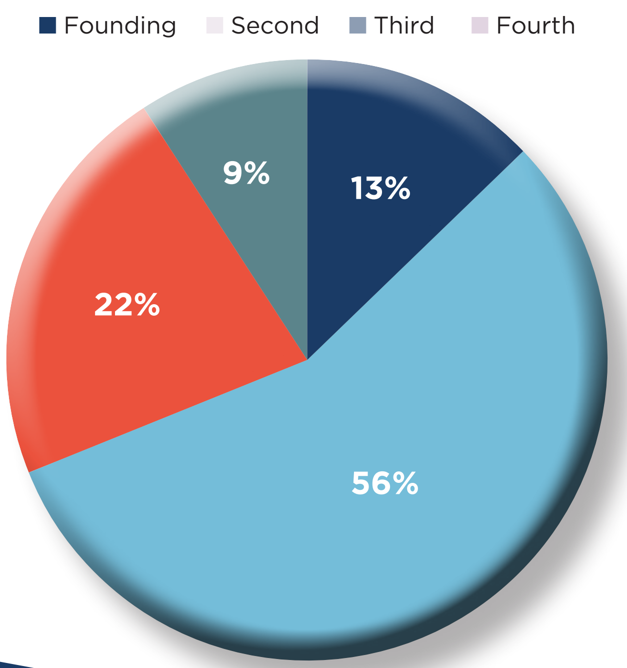
Introduction

Families throughout the world comprise naturally occurring communities that generate trust relations. As such, family firms are often referred to as high-trust organisations. The intense bonds inherent in familial relationships provide a fundamental basis for commitment, cooperation, reduced monitoring, and open disclosure. Consequently, trust represents an important source of strength for family firms. Despite this, family firms are complex entities, and even though they comprise distinct features that can facilitate trust, family firms are particularly vulnerable to forces that can lead to the dilution or dissolution of trust. However, to date, few studies in the context of family firms have been directed toward the topic of trust. This study is one of the first empirical investigations to examine this phenomenon.

About the Study

Participants in this study were chief executive officers (CEOs) (n = 79) and top management team (TMT) members (n = 158) of family firms in Ireland. CEOs completed one survey and identified and nominated a family and a non-family member of their TMT to complete a second survey—all three members were required to submit surveys in order for their firm to be included in the study. As such, 79 family firms were included in the final analyses. CEOs were predominantly family members (95%), the majority were male (85%), and the average age was 51.8 years. At the time of survey completion, CEOs had been working in their organisation for 25.0 years, on average, and held the top position for 16.3 years. Interestingly, 9% of CEOs in the study reported to be a "co-CEO". TMT respondents were 44% female, with an average age of 43.0 years. At the time of survey completion, TMT members had been employed in their organisation for 13.3 years on average.

Family Firm Generation



Participating family firms were in business for 50.8 years, on average, with 144 employees, and represented a diverse range of industries. Family firm generation ranged from founding generation to eighth generation and the majority of firms were owned entirely by members of the business family (89% of firms reported 100% family ownership).

Trust

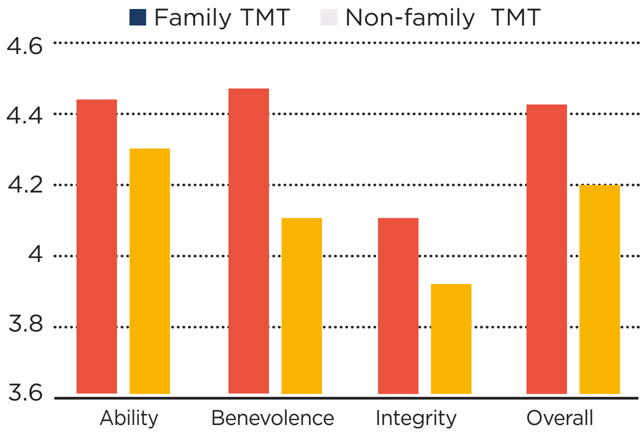
Trust is a willingness to be vulnerable to another person, based upon positive expectations of the intentions of that other person. Three fundamental characteristics determine whether a person will be perceived as trustworthy: perceptions of his/her ability, benevolence, and integrity (Mayer, Davis, & Schoorman, 1995). Perceived ability refers to the belief that the other person is competent within a specific domain and has the necessary skills and attributes required to carry out a specific task. Perceived benevolence involves the other person's genuine care and concern for the trustor and includes loyalty and altruism. Perceived integrity refers to the belief that the other person adheres to a set of moral and ethical principles or values that the trustor finds acceptable. This includes a reputation for honesty, keeping promises, and fairness.

Findings

Results of this study demonstrate that when it comes to trust, family TMT members are more willing to be vulnerable to the family CEO, in terms of open-disclosure of information, than non-family members—who were less willing to share potentially sensitive information with the CEO. However, in terms of relying on the CEO's work-related judgements, no meaningful differences were reported among family and non-family TMT members.

Furthermore, in terms of trustworthiness perceptions, family TMT members viewed the family CEO as more trustworthy, than their non-family counterparts. Although significant differences were reported in terms of overall CEO trustworthiness, the largest differences among family and non-family respondents related to perceived benevolence. In other words, non-family members viewed the family CEO as less benevolent towards them than family members.

Perceptions of CEO Trustworthiness



Finally, we measured feeling trusted, or felt trust—that is, perceptions that another party is willing to accept vulnerability to one's actions. Non-family TMT members reported feeling less trusted by the family CEO than their family TMT colleagues; this is likely related to their lower CEO benevolence perceptions.

Implications

When employees choose to trust their leader, they have undergone a process involving factors that can be identified, analysed, and influenced. This research sheds light on how the decision to trust a leader is made in family firms. By recognising and understanding the factors behind this decision, family firm leaders can maintain harmonious relationships with both family and non-family members and create an environment in which trust can thrive. If family firms are to pursue continuity across generations, leaders must focus on developing trust among members in order to increase commitment and, in turn, performance. Given that family firms represent a significant portion of the economies of every nation, it is pivotal for practitioners and researchers to understand the characteristics that contribute to their success or failure.

The continuation of the family firm by members of the business-owning family constitutes a primary goal for family firms. Yet, passing the business to the next generation still remains the largest threat to family business survival. Family firms must ensure that family members adhere to a higher standard of firm entry than non-family members. Hence, next-generation members have an extra burden of proof in demonstrating their ability to lead based on merit, not just lineage. Family members may require more outside work experience than non-family employees, or a higher level of education. This practice will encourage only the most competent family members to join the firm while also ensuring that there is ample room for upward career paths for able, non-family employees.

About the DCU National Centre for Family Business

Established in 2013, DCU National Centre for Family Business provides the family business community in Ireland with practical managerial and business insights, informed by evidence-based research and best practice in family business management. Through actively participating in the local family business community and with national and international research associations, we produce and share insights that support sustainable family business practices.