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# Sustaining trust as informal governance mechanism: a competitive edge for family firms?

**J. Freiling** *University of Bremen*

**S. M. Laudien** *Otto von Guericke University Magdeburg*

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### Abstract

Trust is an informal mechanism of governance that seems to work in family businesses differently from other types of companies. This conceptual paper analyzes the impact of internal trust on the competitiveness of firms over time. To this end, we introduce different modes of intra-firm trust, develop a set of research propositions, and introduce a stage model on the development of trust in family businesses over time. By comparing family and non-family businesses, we discuss how the differences may influence the competitiveness. The paper advances research by a holistic approach of trust and a multidimensional view of trust.

**JEL Classification:** *L14; M10; M16; M21*

**Keywords:** *Internal Trust; Family Firms; Firm Competitiveness; Informal Governance.*

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### Affiliations and acknowledgements

Jorg Freiling (corresponding author), Full Professor, University of Bremen. E-mail: [freiling@uni-bremen.de](mailto:freiling@uni-bremen.de).

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# 1 Introduction

Trust influences the competitiveness of firms silently but considerably. Trustful relationships facilitate coping with complexity and uncertainty of external and internal transactions of firms for trust reduces the willingness of opportunistic behavior (Williamson, 2002, 1981). Reason for this is that trust is based on the belief that the counterpart of the transaction will avoid defective behavior (Rousseau *et al.*, 1998). Assuming this, the benefit of acting opportunistically is lower compared to the loss in connection with misbehavior and the unforeseeable consequences of counter-attacks of the transaction partner.

In particular, family firms seem to benefit from trust since the relationship between family firm members is due to strong personal ties often much closer compared to employees working in other types of firms (Steier, 2001). Because trust can serve as a strong stabilizing force of expectations of future behavior of other people and institutions (Freiling and Nieswandt, 2012), trust is often a driver of the competitiveness of family firms (Carney, 2005; LaChapelle and Barnes, 1998). Nevertheless, examples like the bitter fight between Henry Ford and his son show that trust inherent in early stages of family firm development and employed successfully as governance mechanism cannot always be preserved when the firm grows and evolves. Therefore, we need to understand how ongoing, sustainable trust develops within family firms. Following this train of thoughts, we try to understand the way internal trust emerges within family firms and ask: *What are the factors that make initial trust in family firms sustaining and make trust become a strong informal governance mechanism?*

To answer this question we structure our paper as follows: Subsequent to the brief introduction we give in this first section we elaborate in section two the conceptual framework of our paper. This framework rests on two antecedents: First, we conceptualize trust as a dynamic phenomenon. Second, we acknowledge the relevance of transaction costs in economic relationships and explicitly highlight the role opportunistic behavior as counterpart of trust plays in such relationships. In section three, we develop a first set of research propositions that mirrors core causalities in the context of our research question. Against our theoretical background we employ the causalities to outline a stage model that describes the development - and the persistence - of internal trust in firms over time. In section four, we use our model to describe determinants of the development and the persistence of internal trust in family firms and firms with no family background and discuss the role trust plays as informal governance mechanisms in both types of firms. In this context, we derive a second set of research propositions. Finally, in section five we discuss the findings and limitations of our paper and give an outlook to future research avenues.

Our conceptual paper contributes to research by providing a conceptual framework for future empirical research focusing on the development and persistence of trust within firms. The developed stage model considers the dynamic nature of trust as well as effects that stabilize the process of developing and conserving trust within firms. Based on the comparison of the role of internal trust in family firms and firms with no family background we shed some light on governance effects of trust and on the way how these effects affect firm competitiveness.

## 2 Conceptual framework

Since significant parts of the business environment have become more and more complex and volatile throughout the last decades, companies are very often challenged by uncertainty in a

way they can no longer control. Taking Lachmann's notion of radical uncertainty seriously and relating it to most recent business settings (Lachmann, 1986), companies are to a large extent simply unaware of developments of their business environment. There may be different ways of coping with the state of ignorance but trusting in some parts while being sceptical in others is one response to this constellation. In this vein, trust has become an indispensable element of governing institutions (Sundaramurthy, 2008). Trust stabilizes expectations of decision-makers and, from the viewpoint of decision-makers, may create a kind of "quasi-security" that eases decision-making.

However, what is trust basically about? Trust rests on the belief that coordination partners in firms and/or markets and/or societies will behave according to agreements made before. This implies that they will not act in an opportunistic way to take an advantage by self-seeking behavior and harming the interests of their counter-party (Rousseau *et al.*, 1998). Fundamentally, trust develops in social transactions. Zucker (1986) points out that trust can be characteristic-based, process-based, and institutional-based. Despite of this, it is always social interaction and the allegiance to belong to certain social groups that builds trust among people. This trust might develop asymmetrically in social interaction so that one person trusts the other, whereas the other way round, the other person does not perfectly trust the counter-part. As an informal means of governance, trust is not related to contracts but operates independently - but with comparable results. Contracts aim to reduce uncertainty and the possibilities of opportunistic behavior by formal agreements. In case of misbehavior the claimant may expect third-party support, i.e. by institutions of public governance (courts). Trust rests on bilateral expectations of the other party's behavior. If things prove otherwise, social sanctions might work - often with effects comparable to formal governance. It is rather obvious that due to this characteristic considerable transaction costs or coordination costs can be saved by employing trust as a governance mechanism (Rousseau *et al.*, 1998).

Building trust is often a time consuming endeavour. If trust should evolve people need to know each other by social interaction. Even in case of rather straightforward and effective processes of building trust a level of trust that is once reached can break down immediately. Sometimes it takes only one disappointment of the trusting person that turns trust into long-lasting distrust. Insofar, trust is rather fragile. Nevertheless, whenever trust works the chance arises to stabilize social interaction and to create a more or less harmonic sphere.

Moreover, trust is a complex construct: Lewicki and Bunker (1996) argue that three types of trust exist: calculus-, knowledge-, and identification-based trust. Calculus-based trust rests on the fear of consequences that come with breaking trust. This view on trust is mainly employed in new institutional economics (Lane, 1998). Knowledge-based trust builds on the predictability of the moves of third-parties which is influenced by experience and the competence of the trustee (Lane, 1998). The first two kinds of trust belong to the category of "rational" trust (McAllister, 1995). The last one, identification-based trust, is based on understanding the desires of the counter-part and a common alignment of goals (Lewicki and Bunker, 1996). Shared norms and values play an important role in building this kind of trust (Fukuyama, 1995). Rousseau *et al.* (1998) also outline the relevance of an emotional dimension of trust and call it "relational" trust. In case of our research focus, it is important that identification-based trust and the broader relational trust can be affected by the existence of cognitive biases.

Against this background the multi-faceted character of trust transpires (Sundaramurthy, 2008). In real-world situations it is possible that one component of trust goes hand in hand with a component of distrust (Lewicki *et al.*, 1998). The different levels of trust are, thus, interconnected.

We already pointed to the dynamic nature of trust (Lewicki and Bunker, 1996). Thus, the question arises how trust evolves. Normally, the evolutionary process of building trust starts with calculus-based trust in relationships. At this first stage, the risks and benefits of (mutual) dependence determine individual and collective action. Thus, the level of trust in relationships is to some extent influenced by confronting the counter-part with negative consequences of breaking initial trust. Some relationships never go beyond this initial trust whereas others develop and reach the next stage of trust, knowledge-based trust. This kind of trust is fostered by positive experience gained throughout multiple repetitions of processes. The third stage of trust is identification-based trust. By getting closer, the transaction partners learn more about each other and their values, norms and beliefs. They become familiar with each other which allows for relying much more on trust rather than on formal regulations to manage their relationship (Lewicki and Bunker, 1996). Not many relationships move to this third stage since sharing norms and values among each other and sticking to them normally only takes place in particular settings such as families.

Why does trust often develop in such a way? One major reason is that initially the setting of transaction or coordination processes is to some extent simply unknown. Therefore, it is possible that at least one counter-part behaves opportunistically in the sense of Williamson (1985). In particular selfish behavior destroys the foundations of trust - once it becomes evident. Thus, many relationships between people and organizations do not reach the “maturity” stages of trust.

Up to now, we addressed trust primarily at the micro-level, i.e. particularly interpersonal trust. For the given context of family businesses we need to consider the macro-level as well, i.e. trust in organizations (Pearce *et al.*, 2000). Especially family businesses seem to benefit from trust because the people in charge of action in this type of companies are often connected through kinship that builds a unique and strong background for cooperation (Steier, 2001) and allows for accessing social capital (Corbetta and Salvato, 2004). Trust influences cooperation because it eases firm-internal processes of coordination. Therefore, internal trust can be seen as one source of competitiveness of family firms. Nevertheless, relying on the advantage of trust may be problematic for family firms as the amount of trust between family members may change over time. Against this background, the ability to establish persisting internal trust seems to be a competitive edge of family firms (LaChapelle and Barnes, 1998).

We already introduced the emergence of trust on a more personal level. Child (1998) touches on the development of trust in an organizational context by focusing on strategic alliances. The three phases of the process in his model are similar to the stages of trust we introduced above: formation, implementation, and evolution. In the formation phase trust is mainly calculative. During the implementation stage knowledge sharing takes place and knowledge management systems are implemented which enhances quantity and quality of knowledge available to members of the alliance. This provides a solid basis for the development of knowledge-based trust. The third phase, the evolution phase, provides a potential for bonding between alliance partners and triggers a development of identification-based trust (Child, 1998). Two aspects have to be added: First, in the model provided by Child (1998) trust is transferred from a personal to an interpersonal level. Second, the various bases of trust co-exist, so they do not exclude each other. Both insights are relevant to this paper and will be considered henceforth.

### 3 Model development

Against the conceptual background, we consider trust a dynamic and multi-faceted phenomenon. The development of trust is influenced by cognitive and affective aspects of the transaction or coordination partners (Sundaramurthy, 2008) as well as several environmental factors such as institutional frameworks available or the transparency of transactions. We focus on the firm-internal development of trust. Nevertheless, we believe that the development of trust in external business relationships does not differ much and the factors mentioned determine the level of trust between coordination partners in internal relationships and also between transaction partners in external relationships. However, these factors may vary over time. This is another reason for the dynamic nature of trust. We state:

**Proposition 1:** *Trust between coordination partners develops depending on calculations of the partners, knowledge available and identification.*

Nevertheless, the development of trust between coordination partners is neither cumulative in a pure sense nor is the process straightforward. Many disturbances and oscillations may occur. Moreover, the development of trust is by no means unlimited. Metaphorically speaking, an “upper boundary” evolves from a specific risk aversion that characterizes coordination partners and their behavior - no matter how long the relationship exists or how intense it may be. A negative outcome for either one or even both of the coordination partners is always possible when coordination takes place. Thus, safeguards against this negative outcome are relevant to both parties involved. Keeping in mind the crucial role opportunistic behavior may play in coordination, it seems to be reasonable to assume that there is no unlimited trust in partnerships. Uncertainty limits the application of trust. Even in case of positive experiences between the same coordination partners over time these restrictions still occur - unless we speak of “blind” forms of trust.

**Proposition 2:** *With increasing remaining uncertainty in coordination, trust as an informal governance mechanism will be accompanied and/or replaced by other modes of governance.*

Obviously, trust can be replaced by other means of governance. However, is it possible to develop relationships without any trust? Theories that strive to explain how markets work often suggest that transactions take place without any trust (e.g. neoclassical economics or transaction cost theory). Is this really true and does it apply in relational contexts and/or internal coordination as well? Real-world experience tells us that trust is a pervasive principle of economic and social life. Sometimes it works in the background of transaction and coordination processes, sometimes it is rather evident. It may be that trust is related to the other party's behavior or to the workability of surrounding institutions (e.g. social sanctions, jurisdiction, cf. Freiling and Nieswandt, 2012). Insofar, we argue that a minimum of trust is employed in any business relationship, be it of hybrid or internal governance in the sense of Williamson (1985). It goes beyond the scope of this paper but we could also consider whether trust works in every market transaction, in particular in uncertain and complex transactions - as long as they are agreed via market governance. Trust may apply in all those constellations where transaction and coordination partners do not expect that things get out of control. In fact, in almost every coordination and transaction we can specify those constellations - depending on the specific setting. In particular in case of newly established contacts or in innovative endeavours, it is easy to observe that in case of missing trust these contacts will not mature to partnerships.

However, the question in what way trust may be a pervasive element of coordination and transaction is still open. Nooteboom (2009) argues that uncertainty relates to skills and behavior. If people are not reliable in terms of governance and intentions, coordination might break down. Insofar, coordination is fuelled by trust in competence and trust in intentions. In early phases of collaboration, people grant limited and, thus, controllable trust-based credits to the other party as for competence and real behavior. In later steps, this still rather blind trust is replaced by - often much more - educated modes.

**Proposition 3:** *Trust pervades every relational transaction and internal coordination process and rests on trust in competence or trust in intention as for the counter-part.*

The cyclic nature of trust within firms can be described best by referring to the metaphor of a circle. This *circle of trust* encompasses the three different basic types of trust (calculus-based trust, knowledge-based trust, and identification-based trust, cfr. Lewicki and Bunker, 1996). According to their differing complexity, it is most likely that it takes a different amount of time to develop these types of trust in relationships (Lane, 1998). In the beginning, trust is somewhat rational and only based on the fear of negative consequences triggered by possible actions that might break the initial level of trust. In this sense, the circle of trust starts with calculus-based trust. Over time, knowledge sharing may take place between the coordination partners and levers the kind of trust to more matured levels. This, however, depends to some extent on the open-mindedness of the partners involved and their belief in the benefits of collaboration. This process of knowledge-sharing triggers the development of a different, more complex kind of trust, the so-called knowledge-based trust. In this sense, trust is no longer a consequence only of fear. In this stage of the partnership, trust rests on an appreciation of the coordination partner and the related skills.

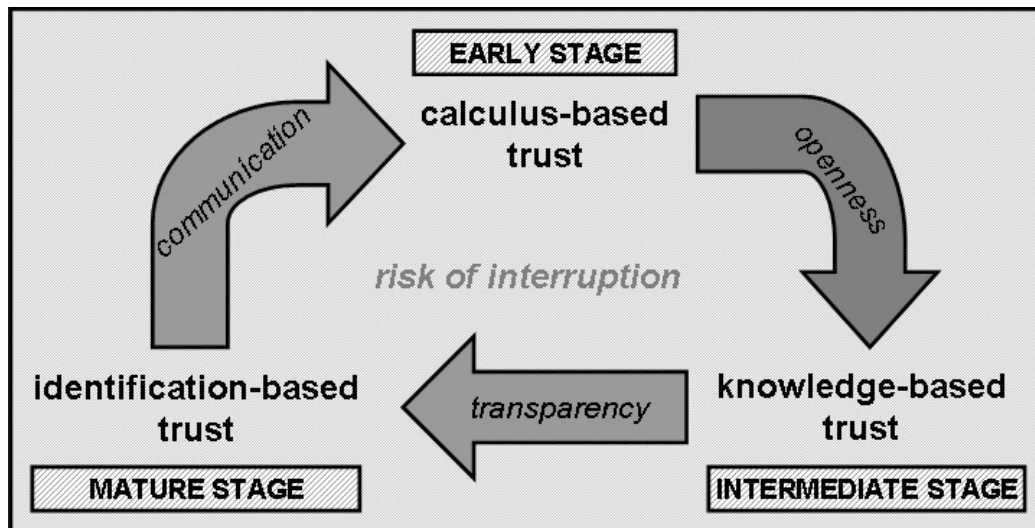
However, in a long-term relationship a third level of trust may be reached. The coordination partners become much more familiar with each other. Thus, their relationship is not based mainly on formal rules any longer for positive experience more and more replaces the formal corset that stabilizes the collaboration. Identification-based trust, the most complex type of trust (Lane, 1998), plays an important role in this case. Nevertheless, the development of trust is not path-dependent and it can be disturbed at any time of the three stages by personal and/or environmental factors (e.g. changing the employees that are involved in the transaction partnership) or negative experience (e.g. cheating by of one of the transaction partners, cf. Child, 1998; Luhmann, 1979).

Against this background we propose:

**Proposition 4:** *Trust in partnerships changes its quality over time from calculus-based trust over knowledge-based trust to, finally, predominantly identification-based trust.*

In a last step, it is necessary to explain that initial trust in coordination partnerships is intensively related to the personal level. While the complexity of trust grows over time, it also diffuses from the personal to the organizational level (Sundaramurthy, 2008).

Figure 1 shows a *circle of trust* that integrates the elements discussed above. We employ this model in section four to discuss similarities and differences in the development of internal trust in family businesses and non-family firms.

Figure 1: *The Model of the Circle of Trust*

Source: own illustration.

## 4 Comparing the development of trust in family businesses and firms with no family background

The model displayed in figure 1 highlights the role of different types of trust as drivers of internal partnerships. Commonly the starting point of developing sustaining trust in firms with no family background seems to be a certain fear that opportunistic behavior gets obvious to the partner and results in negative consequences. These negative consequences (e.g. that the other side quits the partnership) can be serious. It is likely that this negative effect exceeds possible advantages of selfish, opportunistic action. Thus, it is rational for the partners to behave according to the agreements. In this case, a partnership is trustful as long as sanctions are available for safeguarding this relationship. However, developing this kind of calculus-based trust is costly due to monitoring the behavior of the partner in detail and activities of making sanctions available.

Which role do family businesses play in this regard? Family firms are organizations with a particular quality of internal relationships among family members - and often even the entire personal network of the company. In a certain sense, family businesses can be regarded as "high trust organizations" (Corbetta and Salvato, 2004). Trust emerges based on kinship and the values related to the particular family (Carney, 2005; Kets de Vries, 1993). Insofar, the starting point of building trust differs considerably from non-family businesses. In terms of the development model of trust, knowledge-based and identification-based trust exist often from the very beginning between family members (Lewicki and Bunker, 1996).

Due to experience in interaction, the family members are able to anticipate the action of their counter-part. To some extent, this experience stems from non-business issues and often rather private settings. This social relatedness creates "glue" among family members that decreases the probability of opportunistic and selfish behavior considerably - often more effective than in those cases with a solely business background (Rousseau *et al.*, 1998; Lewicki and Bunker, 1996). Another difference of these interpersonal ties is the stability of the relations. This stability is a consequence of the fact that human action is guided by values and norms that

are person-related and/or related to the organization - and not bound to particular situations. Since these values and norms are influenced by shared history, identity, rituals, and experience (Gersick *et al.*, 1997), it is also rather likely that values and norms of the members of one family do not differ that much. Following, it is much easier to achieve a shared understanding between coordination partners in family firms who know each other very well and follow the same values and norms than between partners in non-family businesses.

Although conflict may appear and cause coordination costs, the level of trust is still comparatively high in family businesses. Obviously, this trust is deeply rooted in personal minds and organizational values. Furthermore, family members normally show a high commitment to each other and the goals of the family business (e.g. the welfare of the family) are for all of them typically superior in relation to individual goals (Gersick *et al.*, 1997). Since in certain things family members may distrust other family members, this kind of mistrust is compensated by other modes of trust so that opportunistic thinking of some family members does not matter much. Compared to firms with non-family background, in family firms it is right from the beginning much easier to transfer knowledge and to build resources and competences (Aldrich and Cliff, 2003; James, 1999; Sanders and Nee, 1996).

As for the competitiveness of family businesses, this strong trust from the beginning (Barney and Hansen, 1994) is a competitive edge compared to non-family businesses. The reason for this is that it eases and speeds up internal transactions and helps to save monitoring costs and to establish a real division of labour in production and management. We state:

**Proposition 5:** *When setting up a business, a higher level of trust available between family members eases coordination processes and increases competitiveness of family firms compared to non-family businesses.*

As for this competitive edge, its sustainability is by no means given. The high level of trust between coordination partners in family businesses is predominantly limited to family members. However, the number of family members employed in the firm or surrounding the firm as key stakeholders is unlimited, so that the availability and, finally, sustainability of trust depends on translating familiarity of relations and family-based values to relationships among other people belonging to the firm. In many family businesses this is possible and takes place. However, family businesses are well advised to nurture these processes - be it implicitly or explicitly. This holds particularly true for processes that build knowledge-based trust. In case of identification-based trust, the constellation needs to be specified. A certain level of identification with the values and the culture of a particular family business is useful. However, the downside of identification-based trust is preventing the constructive way of questioning given structures and preventing family firms from creating and/or adopting innovative solutions. As a consequence, identification-based trust hampers developing new ideas and concepts in the family firm. Instead of permanently questioning the given circumstances, people employing identification-based trust believe that the behavior and decisions of their counterparts are useful and follow them more or less blindly. Once again, the problem of “blind” trust comes to an issue and may lead to a certain kind of *groupthink* (Janis, 1982). Mechanisms that allow for early warnings are to some extent disabled and cause organizational vulnerability of the family businesses (Sundaramurthy, 2008). Against this background, we state:

**Proposition 6:** *Identification-based trust in family businesses creates modes of “blind trust” that decreases the firm’s ability of self-reflection and renewal and, thus, weakens its competitiveness.*



The other way round, with continuing growth of the family business over time, organizational complexity becomes a core issue the firm has to deal with (Hollander and Ellman, 1988). Besides the need of changing structures, the companies need more personnel. In this case, family businesses sometimes favour an integration of family members. Those members often do not belong to the “inner circle” of the family, and are i.e. not direct relatives. Instead, the newly employed persons are in-laws or even without any kinship. Thus, organizational growth is a factor that dilutes many advantages of “familiness”. This holds true as for the trust position of family businesses as well.

Firms with no family background are typically not affected by this kind of problems. On the contrary, the longer the partnerships last, the more likely it is that the partners get to know each other and their strengths and weaknesses on a regular basis. Thus, the quality of trust rises as calculus-based trust is more and more replaced by knowledge-based trust in firms with no family background. For non-family businesses it is - in particular in case of a mutual openness - much easier to build workable relationships with external people since they have to deal with this challenge right from the scratch. Thus, handling an increasing number of relations seems to be easier for firms with no family background compared to family firms. We state:

**Proposition 7:** *By learning from the experience how to establish trust in partnerships, non-family businesses may be able to improve their competitiveness compared to family businesses.*

How can family firms sustain their competitive edge based on trust when their business grows? Among the set of numerous factors, there are two we are going to highlight below. First, family businesses sometimes tend to overrate the family membership - generally and especially in terms of trust. When it comes to employing external people, a certain commitment to the values of the particular family firm is an important factor but should not be a superior criterion in case of decision-making. Knowledge, motivation, talent, and skills are other factors that matter as well and should be carefully considered. This awareness of decision-makers in family businesses fosters the acceptance of family-members, employed in leading positions, by core stakeholders. Integrating external people is useful not only to avoid a lack of personnel. Moreover, integrating external persons provides family businesses with the opportunity to access specific external resources such as information, expertise, and network access (Aronoff and Ward, 1996; Borch and Huse, 1993; Schwartz and Barnes, 1991). This might increase the competitiveness of the family business (Ward, 2004). Finally, external people can mitigate evolving conflicts between family members. If the members of the family trust in the knowledge and expertise of the family externals, conflicts may be prevented or at least be discussed in a more professional and less emotional way (LaChapelle and Barnes, 1998). Against this background we propose:

**Proposition 8:** *By establishing knowledge-based trust in addition to identification-based trust and integrating family externals into the business, family businesses sustain their competitive edge.*

In the run of the organizational evolution things may change particularly for family businesses. The reason for this is that trust in family firms is mainly interpersonal trust. Institutional or systems trust (Luhmann, 1989; Barber, 1983) often does not really evolve. Family members

usually believe in the power and usefulness of family structures. However, they differentiate between the “inner core” of the organization, that primarily builds on family structures, and the periphery - with the main difference that they do not entirely believe in the same workability of organizational structures. If the family firm grows over time, this basic belief may be disadvantageous due to lacking trust. Insofar, leaders in family businesses should nurture the process of building institutional trust by complementing and/or replacing interpersonal trust. Another issue is varying level of trust in family businesses over time. Although a basic level of trust typically exists between family members, the quality of this trust changes with growing psychic distance between family members (e.g. caused by a new generation of family members entering the firm) that are responsible for the family business. Insofar, trust has to be transferred from the personal to the organizational level for the existence of system trust may prevent the appearance of interpersonal conflicts between family members (Tagiuri and Davis, 2004). By developing system trust, family businesses may be able to protect their competitive edge. However, the question is open how this can be achieved. In this context, transparency plays a major role. Processes in organizations typically only run smoothly if the activities are comprehensible for all members of the system (Ward, 2004). Clear policies for family entry, compensation, and succession are needed to make a family business more transparent (Sundaramurthy, 2008; Jurinski and Zwick, 2001). By establishing such policies, procedural justice should be considered (Brockner and Siegel, 1996). Moreover, adaptations between family members and non-family members should allow for avoiding a loss of trust level in family businesses - in particular in case of externals joining the company (Harvey and Evans, 1994).

In firms with non-family businesses, these coordination challenges are often much smaller. Due to their more heterogeneous background as for ownership, employees, and other core stakeholders, these firms develop system trust earlier than family businesses. Insofar, transferring trust from an interpersonal to an organizational level is an endeavour much easier to cope with. Hence, we propose:

**Proposition 9:** *Family businesses increase their competitiveness by developing institutional rather than interpersonal trust.*

Up to now, we addressed communication implicitly rather than explicitly. However, an understanding of trust without communication would be empty. To ensure sustaining trust in family businesses - as well as in firms with no family background - communication is indispensable (Ward, 2004). In times of transitions of leadership it is vital to preserve the experience and knowledge of the predecessors within the firm. Due to the transition and the managerial vacuum of such business successions (Freiling, 2012) this is almost always a challenging endeavour. By establishing specific communication facilities, firms can ensure and support the flow of information between interacting parties - and even partners that do not directly stay in contact with each other. Securing a flow of information within the firm is vital for building and preserving trust within the firm system (Das and Teng, 1998; Whitener *et al.*, 1998). Furthermore, effective communication is a prerequisite for establishing procedural justice within firms. This holds particularly true for family businesses (Heyden *et al.*, 2005). Thus, we propose:

**Proposition 10:** *Effective communication fosters the development and/or preservation of sustaining trust within family businesses.*

## 5 Discussion, limitations, and outlook

Trust is a phenomenon with many facets. This paper argued that there are striking differences of the level and the kind of trust in family businesses compared to firms with no family background. The differences are important since trust belongs to the informal modes of governance and thus has a considerable impact on the run of internal (and external) coordination processes. Against this background, trust is related to the firm's competitiveness. The extent of effectively employing trust as a governance mode is directly related to the stage of organizational development. In early stages of firm development, family businesses benefit from a quality of trust between family members that is higher than level of trust available in firms with no family background. This family background enables family businesses to employ trust as effective informal governance mechanism in early stages of firm development and to coordinate internal coordination processes much faster than non-family businesses. The reason for this is that family businesses are less confronted with problems of opportunistic behavior of coordination and transaction partners. Other studies (e.g. [Brokaw, 1996](#); [Ward and Aronoff, 1996](#)) confirm this consideration.

Notably, the evolution of trust in family businesses seems to be different from firms with no family background. While family businesses start with a high level of trust, they are forced to prevent trust from eroding when the firm grows ([Steier, 2001](#)) and to avoid negative effects of trust (such as rigidities). In contrast to that, firms with no family background are in a better position of developing trustful relations over time. Insofar, family businesses have to manage trust-related issues with caution and to take care of the downside effects of trust in family business settings. Furthermore, trust in family firms is to a larger extent based on personal trust whereas in non-family businesses system trust is comparatively more important. Insofar, using trust as informal governance mechanism may be a competitive edge for family businesses in the early stage of firm development, but this advantage may erode over time - in particular in face of dynamic circles of trust in non-family businesses. Family firms are forced to transfer trust that is solely related to family membership to a knowledge level and, ranging on another level, to a system level. Moreover, they are well advised to develop a system of formal contracts and controls that supports the informal, trust-related governance system and exceeds its typical limits ([Child, 1998](#)). So doing, they are able to match the requirements that go along with firm growth and to safeguard effectiveness and efficiency of their internal coordination system. Firms with no family background are affected by these change processes to a lesser extent for they have to deal with a low level of trust right from starting the business. Moreover, they often accompany informal governance mechanisms by formal rules right from the scratch ([Inkpen and Currall, 2004](#); [Harrison \*et al.\*, 1997](#)).

In our paper we show that internal trust is a competitive edge for family businesses. By comparing the role of trust as governance mechanisms in family businesses and firms with no family background, we are able to understand the deviating role of trust as informal governance mechanism in both types of firms. Our conceptual paper provides a general framework for future empirical research on the dynamic development of trust within firms. Our stage model considers the evolutionary nature of trust as well as the stabilizing forces that can be employed to make trust sustaining. By considering that trust is a multidimensional phenomenon that originates from different sources we go beyond existing literature and foster the development of a more holistic approach of trust. Since we do not only focus on the phenomenon of trust itself but also discuss the role and the impact of trust as informal governance mechanism in family businesses and firms with no family background, we integrate two different research

streams and accentuate the important role trust plays in business practice - especially related to family firms. This provides us with the opportunity to analyze the effect internal trust has on the competitiveness of different types of firms.

Since our paper is a conceptual one, its explanatory power is limited. However, in our opinion newness and complexity of the topic justify that we do not employ empirical research at this early stage of research. Furthermore, we do not refer to organizational learning models in our paper although this may lead to some valuable insights and could be a topic of on-going research.

Giving an outlook to future research, we perceive a need for significant empirical work to analyze the praxeological role of trust in family businesses and firms with no family background. A good starting point for such research can be a development of reliable and valid instruments to measure the different dimensions of trust. Thereby it could be useful to have a deeper look at trust measures developed in social psychology and organizational behavior research (e.g. [McAllister, 1995](#); [Gabarro and Athos, 1976](#); [Rotter, 1967](#)). Employing the measures available, we are persuaded that especially qualitative-empirical longitudinal analyses are helpful to gain a deeper insight into the process of developing and sustaining the different types of trust in family businesses and firms with no family background. In a second step, it could be useful to focus on managerial procedures that can be employed to influence the quantitative and qualitative level of trust in both types of firms to address the practical dimension of this question and to provide firms with a kind of “toolbox” to manage the increase and decrease of trust in internal transaction partnerships. This, however, requires thorough basic steps of understanding the mechanisms of developing sustaining trust.

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# La fiducia come meccanismo informale di *governance*: un vantaggio competitivo per le imprese familiari?

J. Freiling, University of Bremen

S. M. Laudien, Otto von Guericke University Magdeburg

## Sommario

La fiducia rappresenta un meccanismo informale di *governance* che sembra funzionare all'interno delle imprese familiari in modo diverso rispetto ad altri tipi di azienda. Il presente lavoro analizza l'influenza della fiducia interna sul livello di competitività delle imprese nel corso del tempo. A tal fine, gli autori considerano differenti tipi di fiducia infra-aziendale, sviluppano una serie di proposizioni e introducono un modello che descrive lo sviluppo di rapporti di fiducia all'interno di imprese familiari nel tempo. Confrontando imprese familiari e non, gli autori analizzano il modo in cui le differenze possono influenzare la competitività. L'articolo offre un contributo avvalendosi di un approccio olistico e una visione multidisciplinare.

**Classificazione JEL:** L14; M10; M16; M21.

**Parole Chiave:** *Fiducia Interna; Imprese Familiari; Competitività di Impresa; Governance Informale.*