Sustaining Trust Within Family Businesses

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Trust, a competitive advantage for family businesses in the early stages, often deteriorates as the firm grows, putting it under considerable risk. While sustaining trust within family businesses is a critical topic, we have limited understanding of this issue. Yet, the trust research within the organizational sciences provides considerable insight on this topic. Therefore, in this paper a model of sustaining trust is presented based on an integration of this trust literature with the family business literature. The basic premise of the model is that trust is dynamic and multiple dimensions of trust need to be developed through structures and processes to sustain interpersonal trust inherent in the early stages. Implications of the model and future research directions are outlined.

Trust is viewed as fundamental for the competitiveness of social organizations given the increased levels of complexity and uncertainty. Trust refers to a person's belief that individuals engaged in exchanges will make sincere efforts to uphold their commitments and will not take advantage of the given opportunity; in other words, it is one's willingness to rely on others (Rousseau, Sitkin, Burt & Camerer, 1998). Trust is central to family businesses—where a group of individuals affiliated with the enterprise are connected through common ancestry or marriage—because their existence goes well beyond economic rationale. It "often represents a fundamental basis for cooperation" and it is a source of competitive advantage for family businesses (Steier, 2001, p. 354).

However, "ironically, what was once a very resilient trust is replaced by an atmosphere of fragile trust," and unfortunately, this saga is a recurring theme in many family businesses (Steier, 2001, p. 353). The Bingham, Steinberg, Berkowitz and Haft families are all case examples of how trust inherent in the early stages was not sustained as the enterprise grew and evolved. Yet we know that organizations and groups that are able to successfully build ongoing trust within the organization are healthier and more successful in the long run (LaChapelle & Barnes, 1998; Gersick, Davis, Hampton & Lansberg, 1997). Within family firms this component is even more significant because family businesses have ready access to resources such as the social capital and stewardship behaviors that stem from common ancestry and shared family identity (Corbetta & Salvato, 2004). These are resources that large public corporations seek continually but have to make significantly more investments, thereby, giving family businesses a "comparative advantage" (Carney, 2005, p. 249). How can the initial trust, so vital to the competitiveness of family businesses be sustained as the organization grows and evolves? What mechanisms may be useful in maintaining and growing the initial levels of trust that enable family businesses to flourish? Relatively little is known about the dynamics of building and sustaining ongoing trust within these organizational forms.

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Yet there is a long tradition of research on trust in organizational studies which can be very insightful in understanding the dynamics of sustaining trust within family firms (Kramer & Tyler, 1996; Lane & Bachmann, 1998; Rousseau et al., 1998). In particular, this body of work highlights the different bases of trust such as cognition-based and affect-based trust (McAllister, 1995), which can be built and maintained in different ways (Lane, 1998). The interconnections among trust at various levels—interpersonal, intra-organizational, inter-organizational and system levels—which is central for sustaining organizational trust, is also underscored (Rousseau et al., 1998). Furthermore, this body of work acknowledges the dynamic nature of trust in that scholars examine how trust evolves through phases within a relationship (Lewicki & Bunker, 1996). Thus, of interest is how trust is built, maintained, potentially destroyed and re-built (Rousseau et al., 1998).

In this paper, insights from the trust literature in organizational sciences are integrated with the family business literature and a model of sustaining trust within family firms is presented. How various structures and processes can through additional trust bases complement and sustain the initial relationship-based trust within family firms is explored. More specifically, openness to outside influence, transparency and formalization of organizational activities and strong communication is argued to engender a reinforcing positive cycle of trust by fostering task-based or competence trust, instilling system trust, and continually renewing interpersonal trust. Thus, a family firm's attention to these additional bases can complement inter-personal trust and contribute to sustained organizational trust as the family firm evolves.

THE CONCEPT OF TRUST

The concept of trust has attracted research attention from a number of disciplines including sociology, economics, organizational behavior and strategy among others, because it is believed to be significant in a number of ways: It enables cooperation, promotes network relationships; reduces harmful conflict; decreases transaction costs; and facilitates the effective functioning of groups and effective responses to crises (Rousseau et al., 1998). Based on a cross-disciplinary review of the trust literature, Rousseau et al. (1998: 395) define trust as "a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another." Thus, trust is not a behavior but a psychological condition that is caused or results in behavior. Furthermore, interdependence between individuals and uncertainty as to whether the other intends to act appropriately are commonly viewed as two necessary elements for trust to arise (Lane, 1998).

While many scholars have viewed trust and distrust as two ends of a single trust-distrust continuum or view the presence of low trust as indicative of distrust, Lewicki, McAllister and Bies (1998) posit that trust is distinct from distrust. They argue that relationships between individuals are multiplex, and hence, both trust and distrust are separate constructs that can co-exist within facets of interpersonal relationships. For instance, within relationships with colleagues we have encounters in different domains of work and different contexts, where the colleague may be trusted in some domains but be distrusted in others. Thus, underlying this conceptualization of trust is the notion that trust is a multi-faceted concept with multiple bases.

Lewicki and Bunker (1996) suggest that there are three bases of trust: calculus-, knowledge-, and identification-based trust. The first is built on the fear of the consequences of the breach of trust and/or the rewards associated with preserving trust; this view of trust is endorsed by economic perspectives such as agency and transactions cost theories (Lane, 1998). Knowledge-based trust, which is built on the predictability of the other, rather than on deterrence, is another trust basis. Predictability can emerge from the knowledge and information about the integrity of (also known as fiduciary trust), and/or the competence of the trustee, known as competence trust (Lane, 1998). Identification-based trust is the third kind, which according to Lewicki and Bunker (1996),

arises when the parties effectively understand the desires and wants of the other and when there is alignment of goals. This form of trust exists when one "thinks and feels" like the other because of shared norms or values (Fukuyama, 1995) that may be based on common kinship, familiarity, background or interest (Lane, 1998). In Rousseau et al.'s (1998) conceptualization, identification-trust is analogous to relational trust, which is derived from repeated interactions and the formation of bonds. McAllister (1995) uses a broader grouping and notes that there are rational and emotional bases for trust. The former is cognition-based and would include calculative and knowledge bases for trust. The latter is grounded in affective bonds among individuals and would include identification-, value- or norm-based trust. He also notes that typically, the cognitive basis is an antecedent of the latter. As discussed in the next section this sequence varies in the case of family businesses where trust initially is based on identification which can be strengthened through cognitive bases.

Trust is also a multi-level phenomenon and scholars have noted that useful theories of trust explore the interconnections among trust at multiple levels (Lane, 1998; Rousseau et al., 1998). At the micro-level, scholars address inter-personal trust, but acknowledge that these relations are embedded in a broader context, and hence, inter-personal trust is constrained and enhanced by macro-level systems trust or trust in the reliable functioning of abstract systems at the organizational or societal level. For example, Pearce, Branyicki and Bigley (2000) found that the absence of procedures within firms for consistent employee treatment coupled with the autocratic nature of the Hungarian government under communism undermined the inter-personal trust between supervisors and subordinates. Similarly, foreign managers' trust in the institutional context in China influenced their trust in local staff, reinforcing the inter-connections among trust at the institutional, organizational and inter-personal levels (Child & Mollering, 2003).

Scholars also recognize that trust is dynamic, in that it is built and sustained over time, even though studies may focus on a particular stage. For instance, Lewicki and Bunker (1996, p. 124) propose a "stage-wise evolution of trust" that "develops gradually as the parties move from one stage to another." They propose that varying sources of trust are tapped as the relationships among unknown individuals progress, starting with calculus-based trust, to knowledge-based trust to identification-based trust. Relationships start on the basis of calculation of the risks and benefits of dependence and individuals are willing to take a risk based on the presence of some deterrence. Some relationships are based only on this type and level of trust, whereas many progress to the next stage. Knowledge-based trust which is cognitive emerges if the feedback from repeated interactions is positive and deterrence is not used often. In this stage, individuals are more accurately able to predict the trustee. The third trust level is identification-based and is affect-based; this type of trust occurs when the parties learn more about each other and begin to identify with each other's needs, priorities and preferences. Additional information may be sought, providing a broader foundation for trust. It is argued that only few relationships progress to this level (Lewicki & Bunker, 1996).

Child (1998) applied this stage model to the evolution of trust in strategic alliances between firms that develop in three phases: formation, implementation and evolution. In the formation stage of the alliance, calculation is the bases for trust. During the implementation stage, systems are put in place so that the quality of knowledge available to partners is increased, thereby providing the foundations for knowledge-based trust. Accuracy in predicting partners is a key element of trust in this stage. As the collaboration develops and succeeds, there is a potential for "bonding" (Child, 1998, p. 252) between partners which provides the basis for normative trust—viewed as critical for alliance success. Two observations about Child's model are noteworthy. First, trust at the interpersonal level between personnel from the two partner firms is central to the development of trust at the inter-organizational level. Second, the model emphasizes that the various

bases of trust need to co-exist in order for trust to be sustained; if calculative or cognitive basis are withdrawn, normative trust cannot be sustained. Thus, trust within the organizational literature is conceptualized as a dynamic, multidimensional concept that exists in an inter-connected fashion at the interpersonal, organizational and macro-levels.

Sustaining the Cycle of Trust Within Family Firms

Based on an integration of the trust literature with the family business literature, a "sustaining cycle of trust" model within family businesses is presented in Figure 1. The basic premises of the model are (1) trust is a multidimensional phenomenon with cognitive and affective aspects—both of which need to be natured on a continual basis; (2) trust is dynamic, although the order in which different aspects of trust develop vary between family businesses and external business transactions and each dimension of trust is more significantly associated with a different phase of the firm's development; (3) the trust cycle is regenerative and the family firm will continue to revisit each of the three aspects of trust after the initial cycle and the withdrawal of any one of the basis can jeopardize organizational trust (Child, 1998); (4) sustaining trust at the individual or group levels is intricately linked to the firm level (Lane, 1998; Rousseau et al., 1998); and (5) "trust cannot increase apart from distrust" (Luhmann, 1979, p. 89); therefore, a functional coexistence of trust and distrust within a family business system can serve to sustain trust within family firms (Lewicki et al., 1998).

More specifically, it is posited that the interpersonal trust, based on affect, at the group level inherent in the early stages of a family firm, can be sustained by a healthy dose of distrust in the competence of the evolving family firm. Processes that promote competence and system trust—knowledge and calculus trust basis, respectively—can sustain trust levels within family firms as the firm grows and evolves. In the following sections I describe the basis for interpersonal trust or identification-based trust in the early stages of the firm, the need for competence and systems trust and how outside influence and transparency can promote these trust forms. The description of the model is concluded by discussing how trust building mechanisms, such as strong communication, can further sustain the interpersonal trust within family firms. The three types of trust bases are discussed sequentially, based on the predominance of each at varying stages of the family firm. However, after the initial cycle, all bases of trust need to be continually nurtured to sustain trust within family firms.

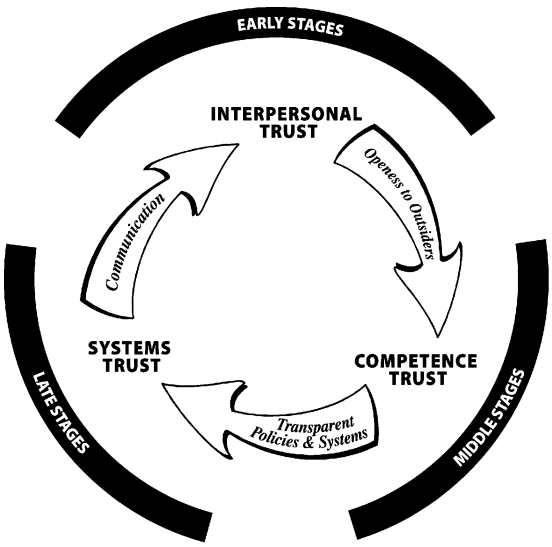

Figure 1 Sustaining Cycle of Trust.

Family Business and Interpersonal Trust

Family businesses, particularly in the early stages, are depicted as "high trust" organizations where trust is of a relational kind and is interpersonal (Corbetta & Salvato, 2004). *Interpersonal trust*, among members of the family, is based on kinship, familiarity, commonality of personal characteristics, history and extended period of experience (Carney, 2005; Kets de Vries, 1993; Lane & Bachmann, 1998; Steward, 2003).

Such commonalities foster cognitive and emotional bases for interpersonal trust: knowledge- and identification-based trust (Lewicki & Bunker, 1996). The former is grounded in the predictability of the other's action. The history of interaction among individuals allows one to know what to expect from the other, which contributes to trust even if the other is predictably untrustworthy (paradoxically enough) because one can anticipate how the other will violate the trust. Shared experiences and understandings also build an "emotional bond [that] . . . enables a person to 'feel' as well as to 'think' like the other" (Lewicki & Bunker, 1996, p. 122), helping to identify with a common set of goals and norms. Their affective and cognitive elements co-mingle to establish normative or identification-based, relational and interpersonal trust (Child, 1998; Rousseau et al., 1998).

Interpersonal trust takes a tremendous amount of time to build between strangers and is typically built only over extended periods of repeated interactions. In fact, according to Lewicki et al.'s (1996) evolution model, very few business relationships reach this level. Furthermore, public firms yearn for this trust because it can give them a competitive advantage and is critical for success in certain contexts such as strategic alliances (Child, 1998).

What is unique about family firms is that they begin with this deep level of trust because the family is a common identifying factor. Shared history, experience, identity, rituals and realities serve as a critical bonding mechanism fostering interpersonal trust (Gersick et al., 1997). The immediate access to these deep levels of interpersonal trust has significant implications in that family members often contribute capital and other resources on the basis of this trust (Aldrich & Cliff, 2003; James, 1999; Sanders & Nee, 1996). Most of all, family members are willing to commit, "even to the point of self-sacrifice" in the name of the general family welfare" (Gersick et al., 1997). Indeed it has been noted that this basis of trust within family firms has aided the development of several economies such as Japan, Russia, India, Latin America, colonial America and Victorian Britain because families serve as an important source of capital for family firms when capital markets are underdeveloped or when access to capital markets is limited (James, 1999). Such contributions provide the family business with what Barney and Hansen (1994) call "strong form trust," which is scarce and, therefore, is a source of comparative advantage.

Proposition 1. Family firms in the early stages are likely to have high levels of interpersonal trust.

In the next section, it is argued that over reliance on interpersonal trust can pose problems, unless other bases for trust are also cultivated as the family firm evolves. In particular, the significance of competence trust and promoting this trust basis is discussed.

Competence Trust and Outside Influence

While interpersonal trust can serve as an anxiety reducing mechanism, it can lead to "blind" trust and groupthink (Janis, 1982), which often arises in tightly knit, collaborative groups with high interpersonal trust, such as leaders of family businesses. Blind trust can be dysfunctional because it dampens the early-warning-system provided by anxiety.[1] This can be particularly problematic if the family firm has been successful because they may attribute their success to their cohesive family leadership of the business. Such groups may be inclined to engage in counterproductive defenses such as consensus seeking and complacency, which can eventually erode the quality of decisions and the ability of the family firm to effectively compete in the market, thereby eroding trust in the sustainability of the family firm. Hence, maintaining trust that reduces dysfunctional conflict while appreciating the value of functional conflict co-exists. Supporting the interpersonal trust within such groups with a healthy dose of functional distrust in the decision-making capabilities of such groups can promote functional discourse.

[1] Thanks to an anonymous reviewer who made this observation.

Furthermore, as indicated in the organizational life cycle models (Hollander & Elman, 1988), over time as a family business grows, complexity on a number of dimensions is introduced. Competition and customer demands increase and the nature of business changes (Ward, 1997). In addition, ownership and management of the family business may disperse among cousins and those affiliated through marriage given that a vast majority of the family businesses intend to retain control in the future as indicated in a study sponsored by MassMutual and Raymond Institute (Astrachan, Allen, Spinelli & Wittmeyer, 2003). In addition, the MassMutual data indicate that almost two-fifth of the sample firms have had a family member cease employment with the business in the past 5 years, suggesting that these family members have chosen alternate paths (Astrachan et al., 2003), thus, potentially distancing themselves from the day-to-day operations of the company. Lack of deep knowledge of each other and common experiences can potentially dilute the level of interpersonal trust, evoking the need for additional cognitive trust bases discussed below.

It is proposed that a second form of trust can be developed to not only overcome the shortcomings of interpersonal trust but also to complement it. *Competence trust* is a belief that the parties entrusted with a job are not only willing but capable of performing the job effectively (Mishra, 1996). Competence trust can compensate for some of the deficiencies of a system dependent solely on interpersonal trust. The following comment from a manager lucidly illustrates the importance of competence trust even if interpersonal trust exists: "They've got to have some feeling that you're competent to lead them . . . Because, they may like you a lot but if they feel you're a bumbling idiot they say, '%$*&! We can't trust what the guy tells us. He's gonna take us off the end of the cliff.' I mean they have to be confident that you're competent" (Mishra, 1996, p. 266). In a family business context, those members who are not actively involved in the business seek to have confidence that those running the business system are capable of adapting to changing environmental needs, so that the family business can flourish. Such confidence can be fostered when the family business system is open to outside influence and expertise. Developing structures and decision processes that enable the family firm to draw from the outside resources becomes critical.

Building competence trust by bringing the "outside" "inside." Two critical avenues for external influence are including nonfamily members on the board and encouraging family members employed in the business to gain experience outside the family firm. These mechanisms can help the family firm draw boundaries between the family and business systems, enhance the quality of strategic decisions made, offer a system of checks and balances, and enable it to seek, develop and employ competencies to compete in a changing market place. Such efforts are critical in building competence trust within the family business system.

An active board with nonfamily outsiders can offer a family firm access to external resources such as information, expertise and networks (Aronoff & Ward, 1996; Schwartz & Barnes, 1991). A "competency-based" board (Lane, Astrachan, Keyt & McMillan, 2006, p. 152), can build on the depth and breadth of outside directors' experience and provide the family firm access to information on industry dynamics, provide fresh ideas that spark creativity, and help develop and manage key external relationships (Borch & Huse, 1993). Furthermore, outsiders can be vital in dealing with the costs of role blurring or "altruism" potential in tightly integrated family businesses and enhance a family firm's chances of long-term survival (Ward, 2004). They can clarify roles of family business owners, particularly in decisions that affect both the family and the business systems by helping owners see "which hat they are wearing on a particular topic" (Aronoff & Ward, 1996, p. 232). As a case in point, it may be extremely hard for a father to pick one child to lead the family company when a sibling partnership may not be viable. The succession question can be turned to the board because regardless of how clear the qualifications of a particular successor, it is "absolute torture" for the CEO to pick one

child (Poza, 2004, p. 148). An active board with outside influence can therefore signal that the family firm is willing to think about the common financial and strategic needs of the entire enterprise.

These outside members can serve as critical "trust catalysts," building bridges between siblings and other subordinates, between the boss (parent) and subordinates (children). LaChapelle & Barnes (1998) describe how the board of advisors comprised of outsiders addressed sibling tensions during transition, played the role of trust catalyst in the Fielding Oil Company, and resolved retirement and ownership issues. As aptly noted by Frank Fielding, a third-generation successor, the board was able to "suck (ed) three-quarters of the emotion out of the family stuff. Having objective, outside people changed the dynamic of the brothers" (LaChapelle & Barnes, 1998, p. 14); thus, outsiders can be effective in reminding family members of the trust issues that may be in jeopardy, particularly when tensions are high.

Finally, outsiders provide a system of checks and balances that can help make top managers accountable, offering credibility for management's actions. As Chrisman, Chua and Litz (2004, p. 348) note, " . . . even board of directors or advisors without formal power should act as a further check on altruism because of the influence their opinion will have on owner-manager behavior; all else equal, individuals tend to want the approval of their actions from friends and peers." Outside board members can effectively steer the dynamics of board discussion to be more objective and constructive. In addition, as a family business grows and flourishes, a network of cousins may be managing the business many shareholders may not actively be involved in the business; in this context, the outside directors' involvement helps underscore that business decisions are adequately arrived at, taking into account all interests.

Competence trust can also be engendered by having family members seeking strategic positions within the family firm gain work experience outside the firm. External experience will help the individual to develop one's technical and leadership skills, but can also offer the perspective and confidence needed to guide the family firm forward (Ward, 1987). In fact, in their study of father-son dyad relationships in family business, Davis and Tagiuri (1989) note that sons and fathers often do not work together until the sons have time to develop their identity independent of the family. Similarly, Moores and Barrett (2002, p. 61) underscore the value of outside experience "because of the need to be seen as credible as a business person both by people within the family firm and by others, whether competitors or people in firms linked to the family business in some other way. Most importantly, future family business owners needed to be credible in their own eyes." Thus, external success and experience gained by family employees prior to joining the family firm can be critical in building credibility in the competence of the family business system.

Proposition 2. As the family business grows, opening the family business system to external experience and knowledge can increase competence trust.

Transparent Policies and System Trust

A third trust dimension that is vital for sustaining the cycle of trust in a family business is *system trust* (Barber, 1983; Luhmann, 1988). As Whitley notes, it refers to "the collective characteristics of an administrative organization and top management group which are not reducible to features of individual actors and which ensure some continuity of activities and direction when those actors change" (quoted in Sydow, 1998, p. 45). It is impersonal and relates to the trust individuals place in systems and processes; it can serve as a source of trust for a wide network of individuals such as active family members, dormant partners, nonfamily employees and suppliers. As the family business grows, interpersonal trust cannot be sustained without confidence in the system that governs key interpersonal exchanges. Traditions and "formal rules which contribute to a higher level of reliability of actions [may] stimulate the

emergence of institutional-based trust if agents truly refer to these in their actions" (Sydow, 1998, p. 44).

Transparency of these rules and traditions can therefore be central to producing the reliability fundamental for trust in a system. Although transparency does not involve total openness, it entails presenting information accurately and "offering information that is material to the recipients in important ways—affecting personal or financial well-being" (Paine, Deshpande, Margolis & Bettcher, 2005, p. 131). Within the family business context, clear and transparent rules can clarify roles, responsibilities and expectations of actors within the family firm enhancing the potential for trust in the working of the family business system. The potential for conflict is high in a family firm because as Tagiuri and Davis (1996) note several systems overlap as the family business grows and evolves. As indicated earlier, several members of the family may not be closely involved with the day-to-day operations as they may choose alternate career paths. Furthermore, as successful family businesses open themselves to external members, an additional stakeholder—the nonfamily employee—is involved in the management of the business. The expectations of entitlements of members of nonfamily managers, family owner-managers, and family owners not involved in the family firm may vary; hence, clarifying these expectations is central in mitigating conflict and sustaining trust in the family business system.

Furthermore, Ward (2004) notes that successful family businesses recognize that predictable conflict-arousing issues are likely to arise and therefore suggests dealing with them even before they become an issue. Compensation, entry into the family business and succession are all such decisions that can be given attention before they become personal and emotional. Clear policies and guidelines for family entry, compensation and promotion within the business can reduce role ambiguity, manage expectations of family members and that of employees, and engender system trust. Families with large businesses construct "family constitutions" that reduce to writing the rights and obligations of family members (Jurinski & Zwick, 2001).

Constructing clear policies enables family members to discover what is important to them as a family and what is important to them as individuals. Clear policies allow for the integration of family values within clear boundaries, and help establish trust in the family-business system, both for those operating within and outside it. Such agreements can also be central in communicating the family's desire to keep the business within the family but at the same time emphasize a commitment to meritocracy and not nepotism. For instance, in Smorgon Consolidated Industries, there is a place for every family member, yet family members are not promoted beyond their ability to succeed (Ward, 2004). At Goldoni Foods, two employment tracks with different educational and experience requirements are in place, balancing the need for integrating the family, yet maintaining the standards needed for business success (Aronoff, Astrachan & Ward, 1998). In other cases, participation of family members in non-management roles—philanthropy, family councils, trusts—are encouraged (Poza, 2004).

Transparent compensation and performance appraisal policies also offer opportunities to build system trust. In some companies, compensation for family is reviewed in the same manner as that of nonfamily based on level of responsibility and performance; hence, siblings and cousins in the same generation may receive different salaries and perks. Other firms may pay a team rate in the interest of promoting overall corporate interests rather than business unit interests (Poza, 2004). Specifying clearly the guidelines and consistently applying these for performance appraisal and compensation can remove role ambiguity and build confidence in the family business. Such policies help the family business manage the expectations of future generations, employees and external stakeholders. Indeed, ambiguities in the roles, expectations and obligations within the firm of family and nonfamily members is a critical source of conflict in family firms, which can lower preexisting interpersonal trust levels (Harvey & Evans, 1994).

Consistent application of transparent, clear guidelines on key issues governing family and nonfamily members provides the foundation for process-based justice or procedural justice (Brockner & Siegel, 1996). In fact, in the presence of procedural justice, fairness of the outcome of a decision is less significant and justice scholars argue that this is indeed the case because of the "degree of trust engendered by procedural fairness" (Brockner & Siegel, 1996, p. 398). For instance, in multinational corporations, subsidiary managers who believed their company processes to be fair showed a higher degree of trust and commitment to their organizations regardless of whether they themselves won or lost (Kim & Mauborgne, 1991). Within family businesses, Heyden, Blondel and Carlock (2005, p. 10) indicate that fair process consists of five elements: "voice", or engaging all stakeholders in the process; "clarity of information, process and expectation" of family and management; "consistency" of current decisions with the past; "changeability" of policies based on clear procedure; and finally "commitment to fairness." Adherence to these principles will be critical for developing policies that build system trust within family businesses.

Thus, family businesses can enjoy the competitive advantages of strong form trustworthiness if they can leverage the interpersonal trust that emerges during early stages of a family business. Yet, if this basis for trust is not supported with structures and processes that foster competence and system trust, interpersonal trust is not likely to be sustained in the long term. Hence:

Proposition 3. As the family firm grows, developing family and business policies that are transparent and consistently applying them enhance system trust.

Sustaining the Cycle Through Communication

As noted earlier as family businesses age and mature interpersonal trust may be weakened given the involvement of several generations, nuclear families, traditions, and rituals. As the business turns over from one generation to the other, the firm's new leadership can develop stronger bases of trust by high levels of open, honest and consistent communication (Ward, 2004). Such communication facilitates the flow of information across parties and knowledge of others that is central for engendering trust within systems (Das & Teng, 1998; Whitener, Brodt, Korsgaard, & Werner, 1998). Such interactions can potentially translate the systems trust to a new generation of interpersonal trust, based on "new degrees of shared beliefs through . . . renegotiation" between generations, between family members who are active in the business and those that are not (Habbershon & Astrachan, 1997, p. 37). Such communication can evoke conversations that are essential for discursively constructing collective identity among groups within a system (Hardy, Lawrence & Grant, 2005), and strategic use of language and communication has also been linked to family firm development (Downing, 2005). Furthermore, good communication among stakeholders is fundamental to effective fair process or procedural justice within family businesses (Heyden et al., 2005).

Family meetings, councils, retreats and assemblies are systematic communication forums that are critical to positive family culture and also enable family firms to reinvest in inter-personal trust as the firm's family and business grows (Posa, Alfred & Maheshawi, 1997). As Vilaseca (2002, p. 310) notes, family councils' "main objective is to preserve and strengthen family values, which are considered a critical asset of the family business. Family assemblies help reinforce a family's unity and harmony, a distinguishing feature of the family business." The family council can grow and evolve with the family (Hutcheson, Lane & Jaffe, 2003). While the involvement of multiple generations depends on a number of factors, family businesses may grow to the point where many of its shareholders may not be employed in the business (Astrachan et al., 2003). In these instances, non-employee shareholders are less likely to have direct flow of information in that a parent, sibling, spouse or child may not be

employed in the family business. Yet these stakeholders will have significant financial and emotional stake in the business. Garnering the trust of these shareholders will entail an effective system that informs, educates and engages these shareholders. While the family council and the board can play a role in keeping the channels of communication open, shareholder meetings can be particularly important (Gersick et al., 1997). These meetings can serve multiple purposes: to share family information, maintain relationships and help small shareholders feel a valued part of the family business. These meetings also mark the boundary between family owners and other family members, clarifying individuals' ownership status (a subject that is often not raised in family forums). Shareholder meetings can perpetuate a strong sense of ownership giving those with minority interests a feeling of belonging, regardless of their day-to-day involvement in the family business.

Thus, strong effective formal communication structures are critical in developing shared understandings about the family business among new entrants to the family and those that are not actively engaged in the business. Collective identity and interpersonal trust can be revitalized by strong communication within and across groups. Hence,

Proposition 4. As family businesses grow to include more than one generation, higher levels of quality communication lead to greater interpersonal trust.

DISCUSSION

Trust is a critical source of competitive advantage for family firms and yet the initial trust embedded in the family firm is often replaced by conflict and strife; hence, understanding how this resource can be sustained and nourished is significant. In this paper I have presented a model of how interpersonal trust indigenous to family firms stemming from common heritage can be sustained by fostering additional bases of trust. In particular, openness to outside influence, clear and transparent rules and policies and strong communication can build competence trust and system trust and bolster interpersonal trust, respectively. Thus, the basic premise of the model is that structures and processes that enhance multiple trust bases are crucial in sustaining the initial familial trust within family firms.

The presented model makes contributions to the governance of family businesses and the trust literatures. Past family business research has spoken about the importance of trust in family business, centered on familial ties (Brokaw, 1996; James, 1999; Ward & Aronoff, 1996), and how this basis for trust is likely to erode as the firm grows (Steier, 2001). This literature has also emphasized the role of individuals such as outside advisors or other members not intimately involved in the business in serving as trust catalysts (LaChapelle & Barnes, 1998). Furthermore, the need for understanding how additional governance structures and processes can complement and nourish familial trust has been noted (Steier, 2001). The proposed model of trust within family businesses addresses this gap in the family business literature by integrating current research on trust from the organizational behavior and social psychological literatures with the family business literature. Specifically, interweaving of competence trust and system trust into a sustaining cycle allows for an understanding of how various forms and levels of trust need to co-exist in order to benefit the firm. Furthermore, as the family firm grows processes such as outside influence, transparent policies, and strong communication can build these additional trust bases and provide on-going investment in higher levels of interpersonal trust.

It is interesting to note that the evolution of trust in family firms may be different from that in nonfamily firms. In nonfamily business relationships, formal contracts and controls are initially used to start business relationships, which are gradually complemented with relationship-based (identification) trust (Child, 1998; Harrison, Dibben & Mason, 1997). For example, early in the life of a joint venture low levels of trust are typical and formal controls are used to foster interpersonal trust (Inkpen & Currall, 2004). In family firms, initially, familial relationship-based trust

is a central feature; however, as the firm evolves, additional processes that engender competence and system trust become significant in supporting relationship-based trust. Thus it would be useful for trust researchers to understand the evolution of trust in non-traditional business contexts such as family businesses and non-profit organizations where the evolution pattern may be different from that in traditional business relationships.

The proposed model also underscores the interconnection between trust-based and control-based approaches to governance. Control-based approaches to governing focus on the conflict of interests between participants and emphasize the need for controls to limit human action and align interests (Chrisman, Chua & Litz, 2004). Trust-based approaches, on the other hand, emphasize shared interests and focus on empowering individuals within organizations (Davis, Schoorman & Donaldson, 1997). The model demonstrates how processes typically linked with controls (formal policies, transparency and outsiders on the board) when juxtaposed with those associated with trust building (e.g., communication) can be central in sustaining trust within enterprises (Das & Teng, 1998; Sundaramurthy & Lewis, 2003). This sustained level of trust may indeed be a key ingredient for emotional capital that is central to the continued success of family firms (Sharma, 2004).

Directions for Future Research

The model presents several directions for future research. First, significant empirical work is needed to gather evidence regarding the propositions made in this paper. A first step toward testing the propositions will require researchers to develop reliable and valid instruments within the family business realm to measure the various dimensions of trust. In this regard, existing trust measures in social psychology and organizational behavior can be useful (e.g., Gabarro & Athos, 1976; Mayer & Davis, 1999; McAllister, 1995; Rotter, 1967). For instance, Mayer and Davis (1999) building on Rotter's (1967) work have developed a six item scale to measure the perception of top management's ability as reflection of trust in their capabilities. This scale could be modified and used to reflect competence trust within family businesses. Similarly, Gabarro and Athos's (1976) seven-item trust scale can be modified and used to explore employees' trust levels. Similarly, scales reflecting systems trust and interpersonal trust within a family business context will have to be developed.

Next, the model can be tested using firms in the early stages with a single generation and with firms with multiple generations. For instance, Proposition 1 with respect to outsiders and competence trust can be tested with firms in the early stages, whereas the other two propositions regarding system trust and interpersonal trust can be tested with firms in the latter stages. In all cases, data will have to be gathered from multiple groups such as family members not actively involved in the business, family actively involved in the day-to-day operations and nonfamily employees. Thus, multiple groups' perceptions of various dimensions of trust will be critical in understanding how trust can be sustained.

Second, while this paper takes a first step in introducing the value of promoting varied bases of trust within the family business, considerable work is needed on the link between these aspects of trust and other important individual and organizational-level outcomes, such as identification, satisfaction, organizational citizenship behavior, firm growth, entrepreneurial behavior and so on. Are certain dimensions of trust more important in promoting certain outcomes such as entrepreneurial activities? Similarly, are certain facets more significant in particular industry environments? The differential effects of various facets of trust on non-participating family members, nonfamily employees and other stakeholders are also important to understand. Furthermore, how various forms of trust interact in any particular situation is worth exploring. The case that various facets complement each other is made; however, there may be contexts where one form of trust substitutes for the other. During a crisis, one form of trust may substitute for the lack of another. Considerable theorizing is therefore needed in this area. In this regard the trust literature in organizational

behavior and social psychology may provide particularly valuable insights.

Third, the model presented in this paper is derived from the integration of family business literature with the trust literatures and most of these works are based on Anglo Saxon cultures. It would be useful to explore the applicability of the trust model to other cultures that are more collectivistic for instance. Relatively more weight may need to be placed on certain facets depending on the institutional setting. For instance, the development of system trust may be particularly significant in Chinese, Indian, Italian and French cultures where there is "restriction of trusting behaviour within relatively small groups" (Harriss, 2003, p. 756). The sense of duty and obligation to those outside the family is less salient, for instance, in China, where sustaining trust within the family firm and growing the firm may involve fostering significant systems trust. In fact, Indian family business groups are being encouraged to "expand the radius of trust" which entails building "trust with all stakeholders and resolve conflict through explicitly stated principles and ethical norms," in other words, building system trust (Harriss, 2003, p. 767).

In sum, this paper introduces the notion that the initial familial-based trust prominent within family businesses in the early stages can be sustained through the development of additional bases of trust. In this regard, the model presented draws attention to the complementary role of different dimensions of trust within family firms. Trust plays a significant role in the strategic advantage of family firms and merits research attention. It is hoped that this paper will spur additional empirical and theoretical work in this arena drawing on the vast body of trust work in the organizational sciences.

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