

## **Family business: Generational identity and succession planning**

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### **ABSTRACT**

This quantitative correlational research study used a voluntary survey to determine if conditions of trust and identity played a role in succession planning over multiple generations in the family business. Analysis of Variance (ANOVA) was used to examine differences in trust by generation and succession planning. There was a statistically significant difference in the average trust scores by generation,  $F(2, 167) = 6.22, p = .002$ . Families that develop succession plans had highest levels of trust. ANOVA was used to examine differences in identity and generation. There was a statistically significant difference in identity by generation,  $F(4, 140) = 6.330, p < .001$ . The mean identity score was not the same across generations. Identity to the family business was highest in the first and fourth generation with the second generation's identity the least reliant on the family business.

Keywords: Family Business, Succession Planning, Family Governance, Generational Trust, Family-Owned Enterprise, Generational Business

## INTRODUCTION

There are challenges to running a family business that may include differing attitudes towards management strategy, emotional issues, understanding roles of family members, finding competent leadership, and succession planning (Alderson, 2011; Davis & Harveston, 2001; Le Breton-Miller, Miller, & Steier, 2004). These issues are under the umbrella of family trust (Sundaramurthy, 2008), and transgenerational survival may be linked to social identity and attachment with the family business (Bjornberg & Nicholson, 2012). Governing the family business becomes more complicated when generational layers are added because each generation has a unique perspective towards the business (Filser, Kraus, & Mark, 2013). These challenges, if not addressed, may hinder family harmony, business prosperity, and the longevity of the business. Most research on the family business is centered on explaining the differences between family and nonfamily companies concerning principal-agent theory, resource-based theory, and stewardship theory in terms of performance (Barney, 1991; Cruz, Gomez-Mejia, & Becerra, 2010; Dreux, 1990; Jensen & Meckling, 1976; Lau, 2010).

Principle-agent theory assumes that there are fewer transactions costs because ownership and management are one in the same (Sharma, Chrisman, & Chua, 1997). Resource-based theory assumes that the family business runs more smoothly because the resources of the family are used for perpetuating the business for future generations (Habberson & Williams, 1999). Hauswald (2012) stated, "Despite the theoretical reasoning behind why family business should be different from nonfamily businesses, empirical evidence linking family influence to performance outcomes has been inconclusive" (p. 10). This study provided empirical evidence that trust and identity to the family business may be reasons they outperform nonfamily business. Few family business researchers addressed how trust impacts the entity and how trust towards the family or management changes over generations (Sundaramurthy, 2008). There are gaps in knowledge on family business concerning how one generation relates emotionally to the next and if social identity and attachment determine successful intergenerational transfer of the business (Bjornberg & Nicholson, 2012).

Trust between family members and management is one challenge that must be addressed by the business family (Sundaramurthy, 2008). Trust issues are of concern because family members who own equity in the organization vote in the Board of Directors. Trusting a fellow family member or a nonfamily member to operate the business in succession planning becomes an issue when confronted with the subjective consideration of trustworthiness. Trust is the perceived risk of allowing another to reduce the uncertainty in a situation (Nickel, 2009; Schoorman, Mayer, & Davis, 2007).

The succession process can be a difficult time for a business family (Ward, 2004). The role of trust at this critical juncture of a family business can allow for the continuation of the business or can be its demise (Rosenblatt, de Mik, Anderson, & Johnson, 1985). Scholars repeatedly stated that the role of trust is critical when passing leadership, the business, and the assets to future generations (Eddleston, Chrisman, Steir, & Chua, 2010; Sundaramurthy, 2008; Ward, 2004).

Unique to family business is social identity and the significance of group behavior based on emotional ties and in-group similarities (Matherne, Ring, & McKee, 2011). Social identity may change over time, and ties to the family unit may make pronounced differences in attitudes toward how decisions are made. Ashforth and Mael (1989) and Davis, Schoorman, and Donaldson (1997) agreed that positive family identity in the business family leads to stewardship

and positive organizational outcomes. Identity to the family business, or to other family members, may be deep rooted or nonexistent. Differing levels of identity allow for different opinions concerning how the family system and the family business system interact and support each other when transitioning into successorship (Bjornberg & Nicholson, 2012).

Different factors including individual relationships, social identities, and financial factors may play critical roles when transitioning the business to future generation (De Massis, Chua, & Chrisman, 2008). Nurturing the concept of succession planning is a critical element for a business to survive beyond the first generation and lies in understanding empirical evidence suggesting that trust and identifying with the family business are critical elements for successful transitions (Bjornberg & Nicholson, 2012; De Massis et al., 2008; Eddleston et al., 2010; Hubler, 2011; LaChapelle & Barnes, 1998; Steier, 2001; Sundaramurthy, 2008).

## **STATEMENT OF THE PROBLEM**

The specific problem is that family businesses in the United States typically do not last beyond the first generation due to lack of effective leaders for succession planning (Bagby, 2004; Davis & Harveston, 2001; Sonfield & Lussier, 2004). The concern that family businesses in the United States typically only last one generation, and fewer than 10% of family-held companies survive into the third generation, is important because of the impact on the economy (Davis & Harveston, 1998; Handler, 1990; LeBreton-Miller et al., 2004; Ward, 1988). The societal importance of this statistic is that family businesses are the backbone of the U.S. economy as they constitute 90% of all businesses (Davis & Harveston, 1998) and account for 40-60% of gross domestic product (Gomez-Mejia, Nunez-Nickel, & Gutierrez, 2001). This quantitative correlational study investigated reasons that family businesses do not create successful succession plans. The problem was addressed through a correlational analysis of multiple generations of family businesses. The conceptual problem addressed was the lack of effective leadership in family companies when passing the company to future generations as most family businesses do not survive beyond the first generation. The missing component for family businesses has been how to effectively create an effective succession plan. This study hypothesized that if family businesses were to focus on creating a trusting environment and work on a strong family identity, these factors would help create an effective succession plan thereby surviving past the initial first generation. In turn, longer survivability of family businesses would help support economic growth in this country.

This study evaluated generation one, two, and three in terms of trust, social identification with the family and the business, and the role that these constructs have in succession planning. Social identity with the family was hypothesized to be one of the antecedent variables of generational family trust that enhances sustained business continuity that in turn influences successful succession planning. It was theorized that relational factors such as trust and identity within the business family leads to a long-term sustainable business. A better understanding of how to promote successful succession planning added to the empirical body of knowledge on family businesses in the United States with the goal of longer term survivability resulting in economic stability.

The purpose of this quantitative correlational study was to explore the variables of trust, social identity, and succession planning (dependent variables) across generations (independent variable) of family businesses. It was believed that understanding intergenerational attitudes towards trust and identity to the family business would increase the chance of survival rate

beyond the first generation. The importance of family business to the American culture is that it is tied to economic growth that drives the economy. In 1996, family businesses in the United States represented 37% of the Fortune 500 enterprise; 60% of these were family companies (Shanker & Astrachan, 1996). Of concern is that 36 million baby boomers in 2011 owned and operated family businesses with the probability of retirement and transitioning to the next generation (Solomon et al., 2011). Another 45 million owners will retire over the next 20 years and will also be faced with transitioning to future generations (Solomon et al., 2011). If transitions of succession to future generations do not go smoothly, the result may be the loss of many jobs as the family business could be sold or liquidated, potentially affecting over 70 million workers (Poutziouris, Smyrniotis, & Klein, 2006). The complexity of strategic succession planning and successful transitioning to the next generation is tied to the relationship between trust, attachment, and social ties to the business (Bjornberg & Nicholson, 2012; Miller, Steier, & Le Breton-Miller, 2003; Ward, 1988).

This study explored the following research questions:

1. What is the relationship between generation and perceived trust in the family held business?
2. What was the relationship between succession planning and perceived trust?
3. What was the relationship between generation and social identity within the family held business?
4. What was the relationship between social identity and perceived trust within the family held business?

Data was analyzed to test the following null and alternate hypotheses:

*H1<sub>0</sub>*: There is not a positive relationship between the generation a person belongs to and perceived trust.

*H1<sub>a</sub>*: There is a positive relationship between the generation a person belongs to and perceived trust.

*H2<sub>0</sub>*: There is not a positive relationship between succession planning and perceived trust.

*H2<sub>a</sub>*: There is a positive relationship between succession planning and perceived trust.

*H3<sub>0</sub>*: There is not a positive relationship between the generation a person belongs to and social identity.

*H3<sub>a</sub>*: There is a positive relationship between the generation a person belongs to and social identity.

*H4<sub>0</sub>*: There is not a positive relationship between social identity and perceived trust.

*H4<sub>a</sub>*: There is a positive relationship between social identity and perceived trust.

## LITERATURE REVIEW

### Theoretical Framework

Theoretical foundations for this study were based upon sociological and psychological literature on trust (Fulmer & Gelfand, 2012; Lewis & Weigert, 1985; Nickel, 2009; Rotter, 1967). Trust is an elusive concept demonstrated by the almost infinite number of books and articles written concerning this topic. Simpson (2012) stated that trust is difficult to define because it arises out of mutual cooperation and is an “invisible assumption” (p. 550). Simpson posited that trust is not a homogenous assumption, but rather it is an umbrella term that envelops

situations, has nuances of meaning, and involves reactive sentiment. Trust can be based on rationality and if one is willing to take a risk upon another person's actions, or their trustworthiness. This study was based on the following conceptualizations of trust.

Theories providing the framework for understanding family business will be presented. The concept of trust and how trust and trustworthy behaviors impact governance within the business are reviewed. Relational trust and the impact on perception, attitudes, and performance, and how trust impacts succession planning are also reviewed. Social and organizational identity within the family business is explored. Over the past two decades, social identity research, as it relates to group and intergroup behavior, has become more prevalent (Cameron, 2004; Davis et al., 1997; Mael & Ashforth, 2001; Zellweger, Kellermanns, Eddleston, & Memili, 2012). Relationships within the family business are thought to give the family entity a competitive edge as the interpersonal connections build intimacy and long-term sustainability of the business and stakeholders are more likely to cooperate (Ashforth & Mael, 1989; Milton, 2008). Family firms face relational challenges unknown to nonfamily firms, and understanding the impact that identity has on both the business and the family systems demonstrates the importance of identity (Habbershon & Williams, 1999; Habbershon, Williams, & Macmillan, 2003; Zellweger et al., 2010).

## **The Family Business**

Defining family business is complicated because there are numerous business models including S corporations, C corporations, partnerships, limited liability companies, sole proprietorships, and family-controlled publicly held companies (Poza, 2010). In order to research the family business, Chua et al. (1999) argued that there must be both a theoretical and operational definition for family businesses. The issue with defining a family business is that the business family has unique ties to the governance, management, and business strategies. The family interacts with the organization over a period of time, and the cross generation and evolution of the company is intrinsically tied to the identity of the family and to their emotions.

Literature on family business research has moved toward a blended model of family and business as "they are inextricably intertwined" (Aldrich & Cliff, 2003, p. 573). Due to the business and family being intertwined, it is difficult to separate the two entities as each system is greatly dependent upon the other. Aldrich and Cliff (2003) used the family embeddedness perspective for their research on entrepreneurship. Their research focused on opportunities in North America due to changes in the family system over the past two decades, such as moving toward smaller families and having fewer children. They stated that there are great entrepreneurial opportunities and agreed with Stafford, Duncan, Danes, and Winter (1999) and Upton and Heck (1997) that scholars have paid little attention to the role of the family when new ventures start-up. Aldrich and Cliff suggested that businesses do not begin in a vacuum and individuals starting a business are influenced by associations in their environment including family members.

Colli, Fernandez-Perez, and Rose (2003) stated that a business family is defined when "a family member is chief executive, there are at least two generations of family control, (and) a minimum of 5% of voting stock is held by the family or trust interest associated with it" (p. 30). Miller et al. (2003) defined the family business as:

One in that a family has enough ownership to determine the composition of the board, where the CEO and at least one other executive is a family member, and where the intent

is to pass the firm on to the next generation. (p.127)

Habbershon and Williams (1999) proposed that the family firm is defined by unique social and behavioral phenomenon defined as “familiness” (p. 18) with the intention to control for family succession. Lea (1991) offered a more emotional and spiritual definition of a family business offering a definition based on emotional cohesion of the family. Lea proposed that a business is built by the hands and minds of the family and is guided by their commitment, molded by their morality and spirituality, and is passed down to future generations. This framework underscores the difficulty in defining the family business.

The difficulty of defining family business lies in if there is direct family involvement in the business (Chrisman, Chua, & Sharma, 1998). There can be an organization constitution of a family business wherein members are shareholders and vote in the board but have no influence over daily activities. The opposite side of this is the family business that manages daily operations and is intimately connected to its well-being and its stakeholders. Based on family involvement, there are obvious differences in defining the family business and the influence family members have over the business.

The observable characteristics of a family firm are ownership structure, management, governance, and succession planning. Operationalizing a family firm definition can include the pattern of controlling ownership, such as if individuals are related by blood or married into the family. There can be parent, sibling, cousin, and extended family involvement. Observable characteristics can include the age of the business and its financial performance. One difficulty in operationalizing a family business is how to define the family. A family changes over time and different cultures view the family differently. Therefore, it is difficult to specifically ascertain when researching what exactly constitutes a family business. To be functional, a definition must be measurable and replicable (Astrachan et al., 2002).

### **Theories of Family Business**

Systems theory, resource-based theory, agency-theory, and practices of stewardship provide a more in-depth understanding of the family business (Poza, 2010). The family system model focuses on three interdependent subsystems. These interdependent systems are the family, ownership, and management (Moncrief-Stuart, Paul, & Craig, 2006). Resource-based theory focuses on the competitive advantage that a family firm enjoys that includes rapid speed to potential markets, being able to focus on market niches, and family reputation (Songini, 2006). Agency theory centers on the relationship between internal and external stakeholders. The family as owners and the manager-agents as non-owners have differing emotional, financial, and value concerns, and these can lead to congruous or incongruous relationships. Stewardship theory focuses on altruism and a selfless perspective leaving a positive legacy.

The family from ancient history to the present has driven the economy (Zachary, 2011). In the agrarian society, activities of farming and living were carried out to sustain the family. The industrial revolution allowed the family to move from the farm to the city. The family business system continued to be self-sustaining and moved from farming to other entrepreneurial activities, such as crafting and local commerce (Zachary, 2011).

Zachary (2011) stated that in order to appreciate the family business, one must examine the family system separate from the business. Not all authors agreed with this as the family and business relationships are intertwined and intersect (Tagiuri & Davis, 1982). The family system creates and sustains behaviors relevant to both systems (Cramton, 1993; Danes, Lee, Stafford, &

Heck, 2008; Sharma, 2004). The family system directly impacts the business system because there is a compelling sense of belonging that encourages cooperation, collective thinking, and behaviors of commitment (Matherne et al., 2011).

Zachary (2011) stated that “families and businesses provide resources to the entrepreneurial endeavors of family members in the form of social capital, human capital, and assets including both financial and physical capital” (p. 32). The family system collaboratively sustains behaviors that promote the business system, and this is the reason family business is unique. The family system embraces social capital, defined as the asset of trust. Human capital is defined as the personal time and energy a family member gives to the business. Financial assets lay foundational framework to the business through investments, allowing the firm to be sustainable.

The systems model is a dominant theory explaining how the family and the business systems overlap. Systems theory is developed from a transdisciplinary approach and views the systems as “independent and interacting parts” (Rautiainen, Pihkala, & Ikavalko, 2012, p. 156). The family and business systems must coexist for the benefit of the other but often include external stakeholders. This model encompasses the family, the business, and owners. This creates unique challenges when studying the family firm as there can be varying degrees of involvement between systems and interaction between subsystems. The three circle model of family business created by Tagiuri and Davis (1982) encompassed seven overlapping systems that may encompass external investors, nonfamily management and employees, nonfamily owners, family members who are not employees, family members who do not have ownership, and family members working within the business and who own stock.

Systems theory can approach research on the business family from a dual systems stance with the dual systems being family and the business (Whiteside & Brown, 1991). At times, ownership and management are the same group of individuals, and, therefore, some investigators suggested using an integrated systems perspective that includes differing sets of individuals including (Davis & Stern, 1988). The family may also have a vision to develop the business for future generations, and this distinguishes the systems approach even more as it may include familiness (Pearson, Carr, & Shaw, 2008, p. 949). Familiness is defined as “resources and capabilities that are unique to the family’s involvement and interactions” (Habberson et al., 2003, p. 451).

Familiness “refers to the idiosyncratic bundle of resources and capabilities possessed by family firms” (Habberson et al., 2003, p. 451). Familiness is the concept that a business family is enduring and creates wealth for future generations. Habberson et al. (2003) developed this construct because what seems to be unique to family businesses is that the interactions between business and family members. This intersection creates an interesting dynamic wherein resources from the family and from the business create a competitive advantage and may be linked to exceptional performance by the family business (Carney, 2005; Dyer, 2006). In effect, familiness ties the organization through shared vision and language within the family that embraces relational dimensions, such as trust that then drives collective goals and actions.

In reviewing the systems approach to understanding the family business system, it is noted that the systems do not operate independently of each other. There is notable overlap, and if any subsystem is inefficient, it can cause systemic issues. Research on the family business, therefore, must take into account different layers or subsystems that impact both family and business (Rautiainen et al., 2012). In summation, defining the business family is complicated because it not only is defined by the business, but also it is defined by the family being

intertwined with the business on differing levels. Familiness is also an interesting dynamic in defining the family business as the family is tied through common interests and goals that drives performance that is a phenomenon unique to family business.

### **Resource-Based Theory of Family Business**

The resourced-based theory of family business ties together the resources the family is able to give the family firm that creates a competitive edge over nonfamily businesses (Dyer, 2006; Habbershon & Williams, 1999; Sirmon & Hitt, 2003). The assumption of this theory is that there are certain resources that make the family firm unique, and because of these resources, family firms are more productive, more competitive, and create wealth for the family. These resources are “human capital, social capital, survivability capital, patient capital, and governance structure (Sirmon & Hitt, 2003, p. 341). Most of these resources are not tangible and only exist within a system such as the family (Coleman, 1988).

Human capital focuses on individual attributes that are essential to the family business because it ties the family and business relationships together almost to the exclusion of bringing in outsiders. External, qualified candidates may not be considered during the succession planning process because the family does not want to share or transfer wealth. Family candidates often do not have the skill set or necessary expertise to operate the business (Le Breton-Miller et al., 2004). It has been noted in the literature that public companies recognize work experience and education as a predominate factor in hiring, whereas family firms typically do not and often there are incompetent family member successors (Horton, 1986; Le Breton-Miller et al., 2004).

Social capital is comprised of structural, cognitive, and relational components (Coleman, 1988; Sirmon & Hitt, 2003). Coleman (1988) stated that social capital is the structure of functional relationships and that these relationships are valued by the participants. Coleman further suggested that social capital depends on trustworthiness and the social environment and that without trustworthiness the social group would not exist:

All social relations and social structures facilitate some forms of social capital; actors establish relations purposefully and continue them when they continue to provide benefits. Certain kinds of social structures, however, are especially important in facilitating some forms of social capital. (p. S105)

Social capital is especially important in the family as the family forms the basis for strength and support between parents and child and the family system. Coleman (1988) noted that if the adult is physically and emotionally present for the child during formative years, then the child will have access to the “adults human capital” (p. 111). When there is a responsive family system the child will likely learn that resources stay within the family and hence resourced-based theory of family business (Sirmon & Hitt, 2003).

Survivability capital is the system whereby resources, such as free labor, additional paid-in capital, and loans, are personally maintained by the family for the benefit of the business. The personal resources given to the firm send the message to employees that there is long-term commitment by the owners (Sirmon & Hitt, 2003). This capital also establishes a safety net because when additional equity comes from personal resources of family members this ensures that outsiders are not invited into the family wealth (Dreux, 1990; Haynes, Walker, Rowe, & Hong, 1999; Muske et al., 2009).

The governance structure and trust in the family firm rely on shared values, a common



history, and interaction between family members (Sundaramurthy, 2008). Governance is often founded on emotions that influence behaviors (Stanley, 2010). Trust can control for self-serving opportunism and can reduce governance costs. The family firm must be careful, as once trust is broken it is difficult to rebuild (Sitkin & Roth, 1993). When viewing stewardship theory, the value of trust seems to tie the family together that generates long lasting trusting relationships.

### **Stewardship Theory of Family Business**

Stewardship theory explains the reasons family businesses may perform better than nonfamily businesses (Davis et al., 1997; Miller & Le Breton-Miller, 2006). For example, when there is commitment to the organization, there usually are emotional ties towards the business that lead to mutual participative actions that can reduce conflict, cause owners to protect the company and family members (Davis et al., 2011). Davis et al. (2011) stated, “A good steward in a family business is a decision-maker who is a caretaker of a family’s assets, who desires to pass a healthier and stronger business to future generations” (Davis et al., 2011, p. 1093). Stewardship promotes transparency and effectively builds a healthy relationship within the family and for the business. Stewardship theory is opposite agency theory wherein leaders are self-serving and opportunistic and not looking after owners (Eddleston & Kellermanns, 2007).

Relationships within the family can be productive and strengthen the business, or relationships can be negative and be destructive towards business performance (Eddleston & Kellermanns, 2007). Eddleston and Kellermanns (2007) tested a hypothesis based on stewardship and participative actions of family members towards each other and towards the business. Based on their results, “Family firm members are encouraged to focus more on family relationships and the level of participating in the strategy-making process” (Eddleston & Kellermanns, 2007, p. 546). To reduce negative conflict, trust issues must be addressed within the family company. Situational mechanisms associated with stewardship theory are trust within the family and trust levels in management (Davis et al., 1997). The Davis et al.’s (2011) study on stewardship practices in the family found that trust is positively associated with stewardship. Furthermore, this study found that family members trust other family members in leadership roles and that stewardship behaviors may be one reason the family firm is likely to be more productive than nonfamily firms.

Stewardship in a family company minimizes opportunism of controlling agents. Stewardship theory proposes that the risk of opportunism is minimized because agents of the company are pro-organization and act in good faith towards the owners. Governance, therefore, empowers the top management group who will then align with the owners’ values and goals and therefore commit to stewardship (Cruz et al., 2010; Mael & Ashforth, 1992). Eddleston et al. (2010) stated, “Stewardship theory appears to be a suitable perspective in viewing the family as a resource because it depicts organizational members as collectivists, pro-organizational and trustworthy” (p. 549). The family becomes a necessary resource as members learn to take care of each other with positive regard. The stewardship theory proposes trust enhances the success of the family firm and encourages family members to rely on each other and work together to enhance the business. Contrary to this is agency theory wherein some owners, managements, or agents of the company find opportunistic avenues to promote self-interest at the expense of shareholders (Schulze, Lubatkin, & Dino, 2003).

### **Agency Theory of Family Business**

Agency theory assumes a contract must be established to monitor and to align management or “agents” with the interests of the owners so that agents do not become self-serving. In agency theory, trust is not assumed, and there is not a willingness to be vulnerable to the agent. Contracts are typically put into place to mitigate self-serving behaviors. In order to mitigate these self-serving behaviors, the business must create control mechanisms (Cruz et al., 2010). Agency theory assumes that any member of management can promote self-interests as opposed to being financial stewards of the business. In the family business, there are owners who work within the company, and the question arises if they make decisions to benefit themselves or to the shareholders that do not work within the company system. Literature on trust and agency theory in the family firm and how these issues relate to governance is almost non-existent (Shepherd & Zacharakis, 2001). There is a belief that trust in family relationships builds long-term relationships that resolve agency problems (Chrisman, Chua, Kellermanns, & Chang, 2007). Eddleston et al. (2010) wrote:

As such, the concept of trust may capture the basis for some of the inherent strengths, weaknesses, and behaviors of family firms and help explain how they differ from nonfamily firms and from one another. For example, trust can mean an expectation that individuals will not pursue self-interest in an opportunistic fashion, will act as stewards and align their interests with those of the organization, or will altruistically place the interests ahead of or equal to their own. (p. 1045)

Therefore, trust in the family business becomes a critical element in governance and succession planning because economics alone does not explain the reason family firms are unique, and the reason decisions are not based solely on economic performance (Sundaramurthy, 2008). However, it must be noted that trust can also be blind that leads to complacency (Cruz et al., 2010; Steier, 2001). When owners are not working at the company or trust employees too much, at times this leads to activities such as embezzlement (Chrisman et al., 2010; Steier, 2001).

The family firm typically encounters higher agency costs to temper self-serving management (Bracach & Eccles, 1989; Combs, Penney, Crook, & Short, 2010; Ring, 1992). Combs et al. (2010) and Cruz et al. (2010) stated that too much trust causes blind faith and complacency. Germane to the issue is that when little trust is evident, there are higher agency costs that causes corporate governance issues (Steier, 2001). The connection between trust and governance is critical, and it may be prudent for the family business firm to maintain the governance structure within the family (Puranam & Vanneste, 2009) but with open communication. Trust may be paramount in the family business not only to reduce agency costs but to also promote cross generational transfer of knowledge that builds trust and integrity (Sirmon & Hitt, 2003).

## **Trust**

Interpersonal trust influences individual and organizational effectiveness (McAllister, 1995). When individuals cooperate and work efficiently together, organizational effectiveness is enhanced. The ultimate challenge to family business is strategically planning for future generations. The business owning family must rely on a sense of trust towards family members and towards management, whether management is part of the in-family network or nonfamily. Ward (2004) explained, “Unfortunately, we have very little experience with sibling co-owners leading family businesses as a team and consequently little understanding of how to make such

teams work” (p. 3). Often siblings become co-owners in a business through inheritance and if not skilled and trained, siblings often are business rivals. Part of this challenge is recognizing and appreciating the perceptions of trust between and among family members and management (Sundaramurthy, 2008).

In relationships, there is an element of vulnerability and risk taking. The expectation that another will do no harm and will perform predictable actions or behaviors lays the foundation for trust. Trust is subjective in nature and is difficult to define. Cooper (1975) stated, “There is no single variable that so thoroughly influences interpersonal and group behavior as does trust” (p. 131). Trust is essential for an organization to survive (Kramer & Tyler, 1996). Trust in an organization can be viewed as a necessity for good working relationships and integrity; it also allows for risk-taking without retribution and is a catalyst for change (Notter & Blair, 2004).

Baier (1986) stated that trust is found in exchange relationships, such as a parent-child relationships. Predictably, the concept of trust involves micro-relationships based in individual knowledge to macro-relationships, such as international negotiations between powerful governments. Trust is recognized at multiple levels and from the 1990s forward was recognized in management and organizational journals as a guiding force for organizational relationships (Schoorman et al., 2007).

Psychology, sociology, social psychology, management studies, political science, and economics define trust according to their theoretical perspectives. Psychology literature has defined trust as the interdependence and ability to trust others. Social psychologists view trust in terms of a cognitive resource that can be viewed on a continuum from trusting a stranger to the extreme of trusting a nation in nuclear arms negotiation (Lewis & Weigert, 1985). We trust in people every day when we buy items at the store, trust in an airline pilot, and trust that the social order is dependent upon others (Rotter, 1971). The field of sociology recognizes that social relationships and everyday life is not possible without trust (Eisenstadt & Roninger, 1984) and that trust builds social order. Trust is a recognized characteristic of institutional environment (Zucker, 1986).

There are several conceptual distinctions of trust, but most definitions are based in an expectation that a person or entity willingly performs an action that will not harm and will benefit the relationship. Various scholars argued that trust and risk are predicated in personal exchange contexts (Hardin, 2002; Walker, 2003). Risk makes an individual vulnerable to the actions of another in an interpersonal relationship (Johnson-George & Swap, 1982). Interdependence is also necessary as there must be a reliance upon another party (Rousseau, Sitkin, Burt, & Camerer, 1998). Rousseau et al. (1998) distilled the concept of trust down to these two conditions in their seminal work on trust: risk and interdependence.

### **Sociological Research on Trust**

The construct of trust has generated great opportunities to study this concept at the interpersonal, organizational, and cultural levels. Cross-disciplinary studies have stimulated trust research, especially as it relates to sociology (Lane, 2001). Trust is viewed as an important mechanism for competitiveness and superior performance in the workplace. Trust is a necessary condition with the increasing globalization of business. Intellectual property rights, world partnerships, and supply chain partnerships are only a few examples of the importance of trust. For the family business, trust is reflected as important not only for the business system but also as it impacts the family system through the relationship between emotional and cognitive trust.

When trust is betrayed, it brings great emotional pain upon the betrayed and strong negative emotions toward the betrayer (Barbalet, 1996).

The sociological study of trust assumes three elements. First, there must be a relationship between the trustor and the trustee. Trustworthiness is built on the prior actions of the trustor (Luhmann, 1979). People would not need to trust if not for social relationships (Lewis & Weigert, 1981). Second, trust provides a path towards uncertainty or risk in relationships. This is evident in economic theory whereby risk is assumed in an opportunistic business situation. In this situation, there is a temporal element of risk wherein the trustee is expecting the trustor, within a certain time frame, to produce goods. There is uncertainty and an element of risk when entering into an exchange relationship (Luhmann, 1979). Third, one party will not take advantage of the other party's vulnerability.

Research speculates and agrees that the nature of trust is predicated on the stage of the relationship (Lane, 2001). Cognitive or calculative trust exists at the beginning of the trustee/trustor relationship. As the trusting relationship evolves and trustworthiness is established relational trust emerges.

### **Trust and Governance in the Family Business**

Eddleston et al. (2010) stated that trust is the organizing principle for governance in the family enterprise. Trust is linked to theoretical frameworks of family enterprises and is found in agency and stewardship theory, social capital theory, and transaction cost economics. Trust can be viewed as the bridging concept in understanding the differences between the family firm and the nonfamily firm (Puranam & Vanneste, 2009).

Stewardship in the family business refers to the practice of trust, commitment to similar values, and the concept that the decision-makers take care of the family's assets (Davis et al., 2011). Family businesses that support stewardship can mitigate against agency theory. Agency theory is dichotomous to stewardship theory, as executives or family members in power can be self-serving and opportunistic resulting in fewer resources for other family members (Jensen & Meckling, 1976; Siebels & Zu Knyphausen-Aufsess, 2012).

Trust is an organizing principle in the family firm because family bonds are based in trusting relationships that is the basis for governance (Steier, 2001). Sundaramurthy (2008) explained that trust is central to the family firm because the existence of the family company is not solely based in economics. Trust is the foundation needed to continue collaboration between the family and management for good corporate governance (Eddleston et al., 2010; Gedajlovic & Carney, 2010). It is believed that trust linked to altruism and family stewardship is so critical in the family firm that it actually gives rise to the competitive edge family firms have (Carney, 2005). This competitive edge is also known as *social capital*. The social capital of the family firm is the shared vision and support members give each other. When positive emotions are experienced within the family, the family firm bonds together, and the perception of trust promotes cooperative and trustworthy behavior. Positive trait affect and mutual trust is a predictor of good outcomes in negotiations (Anderson & Thompson, 2004).

Balancing trust in the family firm is critical for owners to understand and to build within the organization and with owners (Eddleston et al., 2010). When trust in management relies on uncritical acceptance and over trustworthiness, complacency occurs that allows for agents' opportunism. Family members can blindly believe that their management team is acting beneficially for the good of all family members when in reality they are not (Steier, 2001);

Sundaramurthy, 2008). The positive side of trust is that sound governance policies and procedures promote sound transactions and competitive advantages. Trust improves the perception of commitment and stewardship behaviors (Eddleston et al., 2010).

### **Trust and Succession Planning**

Succession planning for continued family control and continuity is a necessity for all family owned businesses to address. Necessary to successful planning is the need to look at shared values between generations, transfer of knowledge, and the incumbent-successor relationship that promotes respect, trust, cooperation and closeness, and some business simply do it better than others (Le Breton-Miller et al., 2004). Founders attempt to promote their legacy, only 30% of companies survive past the first generation (Handler, 1990). The reasons for this vary; the common denominator for failure is lack of trust and lack of planning. Lack of trust shows up in unprepared or incompetent successors, family rivalry, lack of communication, lack of vision, and lack of a well-designed Board of Directors (Le Breton-Miller et al., 2004). Planning for succession is critical for success.

Family members must prepare in advance for continuity and how transition will occur from one generation to the next. This can be a painful process wherein the founder simply dies with no transition plan in place. Mortality will affect leadership in a company at some point and it is best to plan for such transition (Trevinyo-Rodriguez & Tapies, 2006). The best case scenario in transitioning to the next generation is that a well thought out succession plan is created upon both cognitive and relational trust. Transfer of three elements to future generations must take place for smooth succession. These are transfer of ownership and power, transfer of management, and transfer of competence and knowledge (Trevinyo-Rodriguez & Tapies, 2006). Transferring the aforementioned is based in trust. The trust between the family and business system must be healthy in order for a smooth transition to occur. In the family held company, good transitions cannot take place when there is secrecy, lack of transparency, lack of ability to manage emotions, and lack of commitment by all family members (Poza, 2010). These deficiencies lead to distrust.

### **Social and Organizational Identity**

Family identity overlaps the business or organizational identity and builds the family firm image and reputation. Reputation is based in trust because nonfamily stakeholders note positive affect, mutual support, altruism, and citizenship behaviors within the family. Social identity can be reflected in the family values and can serve as a benchmark for stakeholders to strive for and “can be the relational dimension of social capital that is unique to family firms” (Pearson et al., 2008, p. 959).

The family firm has two identities on a continuum of integration or separation (Shepherd & Haynie, 2009). There is the individual identity of the family that encompasses core values and beliefs, and then there is the organizational identity. Social identity theory (SIT) was first conceptualized by Henri Tajfel in the 1970s and 1980s (Austin & Worchel, 1986; Tajfel, Billig, Bundy, & Flament, 1971). Tajfel was of Polish-Jewish heritage and fled Germany during World War II pretending to be of French descent. When he returned to his homeland, Tajfel found that his friends, neighbors, and relatives had all been sent to Nazi concentration camps and many had not survived. From this tragedy came his quest to understand group discrimination (Austin &

Worchel, 1986). Since the initial conceptualization of SIT, this theory has grown to encompass a broader definition of social groups and has moved from its original conception of discrimination (Ashforth & Mael, 1989).

Evidence suggests that social identity or categorization of people with similar backgrounds is more trusting because individuals tend to understand each other, and those who socially identify with the same group trust each other more (Bracach & Eccles, 1989). Research on in-group bias indicated that individuals expect more positive behavior from members of their own social group when all else is equal (Brewer, 1979). Trust can be thought of as members of a group sharing a purpose for the common good and, therefore, establishing trustworthiness. Members will put group needs above personal needs. Group members will set out to accomplish group goals and will trust each other (Mael & Ashforth, 2001).

There can be differing social identities to include family, social groups, and work identities (Matherne et al., 2011). In family business, social identity is quite complex as: Members of the business, especially family members, are tied to one another in emotionally laden ways, are interdependent on multiple dimensions, and often have intergenerational histories. Family businesses often have intergenerational histories. By definition, the ownership of the business is highly correlated with family status and thereby is also correlated with family identities, that are also likely to be strongly tied to management positions and accompanying role identities, and to power within the firm (Milton, 2008, p. 1067).

Shared identity in the business family is significant because resources such as social capital and stewardship behaviors give the business an advantage over nonfamily businesses (Pearson et al., 2008). The social identity in a family business builds on a shared stewardship of the family and the business (Matherne et al., 2011). Systems theory and social identity theory help researchers understand how the family business system differs from the nonfamily business. Social identity within the business family allows for family to intentionally act to support the family and the business enterprise. Matherne et al. (2011) stated that “these intentions and actions alter the relationship between identification and stewardship” (p. 26) and sets the business family apart from the nonfamily business.

Matherne et al. (2011) stated that business families “feature simultaneous roles, a shared identity, a common history, emotional involvement, a private language, mutual awareness and privacy, and knowledge of the meaning of the family company” (p. 27). These attributes are considered “familiness” by some theorists (Habbershon & Williams, 1999; Pearson et al., 2008; Sharma, 2008; Zellweger, Eddleston, & Kellermanns, 2010). The familiness construct is being widely adapted as a unique feature of family businesses (Pearson et al., 2008). Familiness is the basis for social capital that is unique to family firms. Social capital is the network ties, shared visions, and shared language that build trust, obligations, identification, and the norms built into the family system (Pearson et al., 2008).

The business family identifies with its members and sees themselves as having a strong identity; this promotes the family to support, cooperate, and share information and knowledge. The family identity is a strong force evidenced by the fact that 25% of family owners who sold their businesses later tried to buy them back (Lansberg, 1999). Their motivation to buy their firms back was the lack of identity after selling their business. Relationships within the family and business are long-term sustainable, resilient resources not found in the nonbusiness family enterprise.

Individuals adopt identities because they feel attachment and social psychologists argued

that behaviors can be influenced by this perceived identity (Christian & Petty, 2001; Shih, Pittinsky, & Ambady, 1999). Identity captures a type of attachment to a group of people and can include collective identity such as belonging to a family business (Jones & Volpe, 2010). The perception that one belongs to a unit is essential in many organizations and organizations rely on this commitment and loyalty to establish excellent performance (Jones & Volpe, 2010).

Despite literature indicating that social identity is important to the family firm, there is a notable lack of empirical evidence suggesting family firms should capitalize on their social identity as a business family as an antecedent to success (Zellweger et al., 2012). “While research suggests that family members’ concern for their firm’s brand identity influences family firms’ success, the processes through which a firm emphasizes its family firm image and how that impacts firm performance are not clear” (Zellweger et al., 2012, p. 239). Family businesses use identity to brand and typically this enhances performance. Situational factors can substantially change perception of identity. Self-perception and behavior associated with identity can affect decisions (Sharma, 2004). Family members will likely stay with the family system and their identity category unless there is a rationale to shift. Social psychology suggests that identity attachments are important but reaction to specific circumstances can change such as untrustworthy behavior (Christian & Petty, 2001; Shih, Pittinsky, & Ambady, 1999). Similarly, trustworthy behavior can align individuals. Having established social identity with the family, the strength of attachment may predict whether the individual will remain attached to the social group (Sharma, 2004).

Tajfel’s (1969) social identity leads to categorization or attributes of membership within a given group of people that leads to group bias. Tajfel stated, “We have the rational model for natural phenomena; we seem to have nothing but a blood-and-guts model for social phenomena” (p. 80). In his writings, Tajfel promoted the link between situations and behavior. This concept is further instrumental in understanding categorization and the process of trustworthiness. People view behavior through the lens of previous encounters and consciously view trustworthiness as including category-based behaviors, such as benevolence, integrity, and competence (Williams, 2001). The perception of trustworthiness is typically grounded in previous encounters with the individual.

The potential benefit of a shareholder allying with the family identity is the psychological embracement and cohesion and comfort it gives to the individual to feel part of the group (Mael & Ashforth, 2001). When shareholders identify with the family business, they are psychologically intertwined and share common ground in terms of success and failure; thus, loyalty is established (Mael & Ashforth, 2001). The concept of identifying with a group is not new. Tolman (1943) stated:

And, insofar as one does thus identify, he tends to feel at one with each such group. *Its* fortunes are *his* fortunes; *its* goals become *his* goals; *its* successes and failures, *his* successes and failures, and *its* prestige becomes *his* prestige (p. 143).

Identification with the family firm creates a long lasting organizational culture (Zellweger et al., 2012). Maintaining the business for future generations is often the goal for family firms and some literature suggested this can be accomplished through planning and orienting younger generations to the business.

## Generations

The significance of understanding the importance of generations within the business

family has been minimized in the literature as ownership and management relate to each other (Sonfield & Lussier, 2004). One reason for this is the lack of agreement in how to define the family business (Chua et al., 1999). The family business can be defined in terms of behavior, management, or governance. The family business can be owned and managed within the family, but at other times the business can be owned by the family and managed by an outside entity (Astrachan et al., 2002).

Each generation adds complexity to the equation as governance issues become more germane. Each family member will have more involvement in the family business system and this is an important concept as the life cycle of the business can be in peril as more generations and more individuals become involved (Lambrecht & Lievens, 2008). Each new generation adds complexity to the business because children and grandchildren and cousins become involved, and there may be incentive to not work for the business, but to take the rewards through dividends (Lambrecht & Lievens, 2008; Miller & Le Breton-Miller, 2006). Each of the new additions adds a layer to the complexity of the meaning of generation as each view their relationship with the business in terms of personal goals, values, and commitment to the business and to others within the same generation (Lambrecht & Lievens, 2008).

To simplify generational focus, this study focused on the least complex way to view a generation and their influence on the business. In the simplest terms, family business is identified by family having majority control and a board presence and for purposes of this study, the business was family-controlled. The family business is a family system that has a current founder living or a business that has had a founder in the past, and through succession planning, intentionally passes management to future generations.

Another difficulty in family business research is that with each subsequent generation, there are more individuals adding weight to the decision-making process, which adds layers of complications (Sonfield & Lussier, 2004). Complications are cumulative because with more people there are more developmental issues and implications (Davis & Harveston, 1998, 2001). The complexity continues to grow with each generation and is defined “by the number of family members and the kind of relationships established among them, the number of generations alive at a given point in time, and so on” (Poutziouris et al., 2006, p. 147). Developmental issues can be described as the family simply growing through natural reproduction and marriage and sibling rivalry (Friedman, 1991). As more people are involved in the business and rely on the business for income, the major focus may become monetarily sustaining the family.

Future generations may focus more on what the income they can gain from the business as opposed to what they can provide intellectually to the business (Sonfield & Lussier, 2004). For example, as a business grows and the number of family shareholders increases exponentially, with sometimes-costly divorces, the business is gradually forced to hand over more money to the family. The opposite side of this is rewarding those who approach being in the family business with the understanding that they will help the business grow through their talents and express the desire to be successor-talent (Solomon et al., 2011). The focus for generations should be in the succession planning for each generation (Sonfield & Lussier, 2004).

## **METHODOLOGY**

The nature of the research questions and the sample supported the correlational research design using a survey. This study’s research survey, in the format of a Likert-type, closed-ended question survey, measured succession planning as it related to trust and social identity to



generation. Administration of the survey instrument assessed the impact of trust, social identity, and succession planning (dependent variables) to generation (independent variable) in the family business. This study consisted of 176 participants and each participant completed the 36-question Likert-type closed-ended survey that assessed trust, identity, and succession planning over generation of family business. Respondents were from a convenience sample of family members who attended transitions conference held by Family Business Magazine.

The data was collected through a convenience sample of family business owners including manufacturing, service industry, restaurateurs, landscaping, and builders who subscribed to Family Business Magazine and attended family business transitions conference. In addition, snowball sampling was employed to take advantage of networking recognizing that not all family members attended the conference.

The criteria used to establish credibility as a family business was that the business had at least five employees, had at least a million dollars a year in revenue, and at least 10 years of continuous operations. These criteria must be met in order to meet the generally acceptable definition of being a family business. This information was asked within the body of the survey. Additionally, in order to maximize generalizability of the findings, the aforementioned criteria were applied.

The objective of this study was to use both descriptive and inferential statistics to examine the hypotheses that evaluated potential relationships between trust, identity, succession planning and generation. Descriptive statistics summarize the data of a said population through numbers, tables, and graphs (Agresti & Finlay, 2009). Inferential statistics make predictions or inferences about a population from the sample data (Agresti & Finlay, 2009).

## Data Analysis

Data was obtained from a 36-question Likert-type, closed-ended survey instrument that addressed trust, identity, and succession planning from generation one, two, and three. The analyses were one-tailed. Data on trust was derived from the 18-item Rempel and Holmes Trust Scale. This scale measured trust in close relationships and consisted of three subscales of faith, predictability, and dependability. Faith referred to the concept that the other individual in the relationship is responsive during times of uncertainty. Predictability referred to being able to rely on another in a close relationship based on past experience with the individual. Dependability referred to facing risk with the other individual and the risk of potential emotional hurt. Each trust question relied on a 7-point Likert scales from strongly disagree to strongly agree. Each subscale was scored separately or combined to get an overall score. Trust was measured using the interval variable by adding all 18 items of the trust scale to get a trust score.

There was one between-groups independent variable of generation. Under the assumption of medium effect size and  $\alpha = .05$ , it is found that the required total sample size is  $n = 159$ ; this meant that a generation group needed a sample size of  $n_1 = n_2 = n_3 = 53$ . The questions in this study that were used to identify trust were survey questions 13 – 30. Social identity to the family was reflected in questions 31 through 36. Social identity is an important concept for the family business. Family members are tied to each other through the business system and have shared intergenerational histories. Social identity tied to the family business may correlate to family succession, as a collective group with similar characteristics has an inclination to trust each other.

Multiple linear regression was used in this study. One regression model for each

dependent variable was used with generation being the independent variable. If generation was significant in the model, then ANOVA was used. The ANOVA was used for Research Question 1 and Research Question 3 and their corresponding hypotheses. The scores of the dependent variables of trust and social identity were scored against the independent variable of succession planning.

Multiple linear regression analyses were performed for Research Question 2 and Research Question 4 and corresponding hypothesis. Correlation identified if there was a relationship between social identity and trust within the family held business. Regression analysis was based on correlation and this statistic allowed for the exploration of a relationship of the dependent variables of trust and identity with the independent variable of generation.

The research questions were created to reflect an interest in the effect of the independent variable, generation, on the dependent variables of trust, social identity, and succession planning. The longevity of a business was most likely tied to succession planning and was thought to be related to trust and social identity. Trust, as it relates to generation, increased the prospect of surviving (Rosenblatt et al., 1985). However, there are no direct studies on how trust and social identity may change over generations.

The questions outlined intended to add to the body of knowledge on family businesses by developing and furthering the importance of how trust changes through generations and how social identity, or lack thereof, may be an important concept to understand when planning for succession. The hypotheses developed tested trust using the Rempel and Holmes (1986) Trust Scale that measured trust in interpersonal relationships. The Mael and Ashforth's (1992) Social Identity Survey was used to measure identity and was a validated and reliable survey tool that measured social identity with "conception of self in terms of one's group membership(s)" (p. 116) and is used in a variety of organizations, such as in schools and in business. Demographic data were collected, such as the age of the company, the generation, and if there is succession planning was in place. As visual relationship between the hypotheses to the instrument questions are indicated in **Table 1 in Appendix A**.

## RESULTS

One-tailed Pearson correlations were used to assess the bivariate association between all variables that were at least ordinal in value and these were generation, trust, and social identity (succession planning was excluded because it is a nominal variable). Pearson correlation was used to determine if there is a linear relationship between two variables. Multiple linear regression analysis was performed to model the relationship between explanatory variables and response variables. Multiple linear regression was used in this study to model the relationship among the explanatory variables of generation and succession planning and the response variable of trust. Generation and trust were independent variables in the regression model for social identity, the dependent variable.

ANOVA was used to analyze the relationship between generation and trust for Research Question 1 to determine if the means were the same across generations and Post-hoc Tukey tests were performed. Multiple linear regression was used for Research Question 2 to assess trust against succession planning. The regression model was statistically significant and follow-up, one-way ANOVA was used to examine differences in trust by generation and succession planning. Results indicated that trust scores were not the same across generations. Generation was significant in the model and ANOVA was the appropriate statistic to apply as this was a

categorical and ordinal level variable (generation) measured against interval level data (trust).

ANOVAs were used to assess the association between generation and identity for Research Question 3. Generation was a categorical, ordinal variable, and social identity was interval level data. The mean social identity score was not the same across generations and post-hoc Tukey tests were performed.

Multiple linear regression analysis was performed for Research Question 4. This linear regression model examined trust and social identity. Regression analysis was used to measure the predictor correlation of trust on social identity. Both trust and social identity were interval level variables. Regression coefficients were not interpreted because there was not a significant relationship between perceived trust and social identity.

Three surveys were excluded from the data set since these prospective participants failed to agree to the informed consent. One hundred seventy-six people, who attended Family Business Magazine's transitions conference, completed the survey. The majority were female ( $n = 98, 58.0\%$ ), those in the second generation ( $n = 63, 37.1\%$ ), and the son or daughter of the business founder ( $n = 63, 36.8\%$ ) were best represented in the sample. The largest number of participants were in the manufacturing business ( $n = 64, 35.6\%$ ), owned stock in the company ( $n = 137, 83.0\%$ ), were not represented by a trust ( $n = 135, 79.9\%$ ), and worked at the business ( $n = 143, 84.6\%$ ). Of those who worked at the business, the largest percentage held the position of president/CEO ( $n = 47, 32.6\%$ ) and worked at the business for more than 5 years ( $n = 108, 77.7\%$ ). More than half reported having less than 50 employees ( $n = 101, 61.2\%$ ) and 40% ( $n = 72$ ) had non-family executives and senior managers.

### **Assessing Univariate and Multivariate Normality**

Univariate normality was assessed for the social identity and trust via the skewness and kurtosis indices (i.e., skewness or kurtosis statistic/standard error) of the variables. Per Kline (2011), a variable is not normally distributed if its skewness index is above three and if its kurtosis index is between 10 and 20. The distribution of trust variable was skewed and this variable was transformed via a square root transformation (trust). The transformed trust variable had skewness and kurtosis in dices were the acceptable limits.

Multivariate normality was assessed via the normal probability plot generated by the linear regression procedure. Per Norusis (1991), multivariate normality is fulfilled when the points are clustered towards the diagonal. This plot was examined prior to reporting the linear regression findings.

### **Pearson Correlations**

One-tailed Pearson correlations were used to assess the bivariate association between generation, trust, and social identity (succession planning was excluded because it is a nominal variable). Pearson correlation is used to determine if there is a linear relationship between two variables. Pearson correlation in a sample population is noted with an  $r$ . The range of  $r$  can be from -1.0 to +1.0. An  $r$  of -1.0 indicates a perfect negative correlation and  $r$  of +1.0 indicates a perfect positive correlation (Agresti & Finlay, 2009). There was a small positive statistically significant correlation between generation and trust ( $r = .19, p = .001$ ). There were no other statistically significant correlations. Furthermore, none of the correlations exceeded .24; thus, multicollinearity was not an issue.

### Findings for Trust and Generation in Hypothesis One

The dependent variable of trust was measured through 16 Likert scale questions from 170 participants in this research. In this first hypothesis generation was the independent variable, and the assumption of homogeneity of variances was met,  $F(4, 125) = 2.113, p = .083 > .05$ , which indicates that the variances can be assumed to be equal as indicated in Table 7. The null hypothesis of equal means was rejected,  $F(4, 125) = 13.007, p < .001$ . Therefore, the sample data provided enough evidence to claim that the mean trust is not the same across generations. A post-hoc test was conducted (Tukey) and test analyzed the data when there are three or more means and additional information is sought to determine which means are significant from each other (Agresti & Finlay, 2009). The  $F$  test provided data that there were not equal means across all generations.

### Findings for Trust and Succession Planning in Hypothesis Two

The dependent variable of trust was measured through 16 Likert scale questions from 170 participants in this research. The trust questions evaluated trust in interpersonal relationships. Succession planning was measured by one question asking if there was a succession plan as represented Question 12 on the survey. A multiple linear regression model was computed to examine generation and succession planning as independent variables in the regression model for trust. The model as a whole was statistically significant ( $F(2, 167) = 7.84, p = .001$ ) and accounted for 8.6% of the variance in trust. The test of the regression model indicated that generation ( $B = .56, p = .002$ ) was significantly associated with trust. In addition, succession planning ( $B = -.99, p = .004$ ) was significantly associated with trust.

Table 10

Given the statistically significant findings in the regression model, follow-up one-way ANOVAs were used to examine differences in trust by generation and succession planning. The first one-way ANOVA was used to determine if there were statistically significant differences in trust scores by generation. There were statistically significant differences in the average trust scores by generation,  $F(2, 167) = 6.22, p = .002$ . Tukey post-hoc tests were used to determine what groups were statistically significantly different. The results indicated that the first generation ( $M = 98.94, SD = 14.74$ ) had a higher average trust score than the third generation ( $M = 86.57, SD = 24.48$ ); this mean difference was statistically significant (mean difference = 12.37,  $p = .004$ ). In addition, the second generation ( $M = 97.04, SD = 18.80$ ) had a higher average trust score than the third generation ( $M = 86.57, SD = 24.48$ ); this mean difference was statistically significant (mean difference = 10.47,  $p = .013$ ).

When analyzing the data, the categories of married-in-first, married-in-second, married-in-third and married—in beyond third generation were collapsed into one single categories, married, in order to have enough degrees of freedom for the analysis of married in category. This was executed to determine how married-in categories changed the analysis. Nine cases or 5.3% seemed to make a difference in trust and succession planning by generation. The test of the regression model indicated that generation ( $B = .56, p = .002$ ) was significantly associated with trust when married-ins were included in their respective generation. In addition, succession planning ( $B = -.99, p = .004$ ) was significantly associated with trust. Fifty two cases (30.6%) are first generation, 60 cases (35.3%) are second generation, 37 of cases (21.8%) are third

generation, and 12 cases (7.1%) are fourth and beyond. Nine cases (5.3%) are married into the family. All generations of married-ins are collapsed into the category married. For the variable succession, there are 38 cases (22.2%) that had a formal succession plan, whereas 133 cases (77.8%) did not have a formal succession plan. Succession was based on a yes or no response.

The next one-way ANOVA was used to determine if there were statistically significant differences in trust scores by succession planning. Table 1 includes the descriptive statistics for trust by succession planning. There were no statistically significant differences in the average trust scores by succession planning,  $F(1, 174) = 3.71$   $p = .056$ ; however, the model approached statistical significance. Those with a succession plan ( $M = 99.78$ ,  $SD = 20.79$ ) had a higher average trust score than those without a succession plan ( $M = 92.78$ ,  $SD = 19.55$ ). The mean difference was not statistically significant (mean difference = 7.00).

Given the findings of significant statistical differences in trust scores by generation the null hypothesis that there is no positive relationship between the generation a person belongs to and perceived trust was rejected. The null hypothesis was rejected given the negative relationship between succession planning and trust was found in the regression model. When there was little trust there was little succession planning and greater trust led to greater succession planning.

### Findings for Social Identity for Hypothesis Three

The questions on the survey that were related to social identity were questions 31-36. The responses were summed; higher scores indicated higher social identity is to the family business. The variable generation was a categorical ordinal variable, and social identity was an interval variable. Therefore, in order to assess the association between generation and identity an ANOVA was performed. The assumption of homogeneity of variances was met,  $F(4, 140) = 1.459$ ,  $p = .218 > .05$ , which indicates that the variances can be assumed to be equal. Table 18 above shows the results of the ANOVA analysis. The null hypothesis of equal means was rejected,  $F(4, 140) = 6.330$ ,  $p < .001$ . Therefore, the mean social identity score is not the same across generations. A post-hoc Tukey test was conducted and based on the results above, the researcher concluded that those in the second generation had a mean social identity score that is significantly lower than that of those in the fourth and beyond generation. Married-ins have lower social identity than the first, third and beyond generations. No other pairwise difference was statistically significant.

### Findings for Social Identity and Perceived Trust in Hypothesis Four

A multiple linear regression model was computed to examine trust and social identity to the family in the regression model. The model as a whole was not statistically significant ( $F(2, 167) = 1.05$ ,  $p = .35$ ) and accounted for only 1.2% of the variance in social identity. The variables perceived trust and social identity are both measured at the interval level. Therefore, in order to assess the association between identity and trust, a correlation analysis was conducted, and if a significant linear association exists, a regression analysis was conducted.

*Figure 7.* Scatterplot of trust versus identity scores.

Figure 7 shows that there is no clear association between *identity* and *trust*. Indeed, Table 20 below shows that the correlation coefficient is  $r(113) = .023$ ,  $p = .813 > .05$  (the one-tailed  $p$  value is  $p = .813/2 = .4065 > .05$ ). Hence, there is not a statistically significant relationship between perceived trust and social identity. Given the lack of a statistically

significant model, the regression coefficients were not interpreted. The null hypotheses that there is not a positive relationship between the generation a person belongs to and identity is not rejected.

## **DISCUSSION**

Potential challenges typical to the family business include differing attitudes toward management styles, emotional issues, changing roles of family members, and succession planning (Alderson, 2011; Davis & Harveston, 2001; Le Breton-Miller et al., 2004). This study found that there was scarce family business research addressing trust and how this impacts the family or management over multiple generations (Sundaramurthy, 2008). There were gaps concerning how one generation relates emotionally to the next, and whether social identity and attachment determine successful intergenerational transfer of the business and succession planning (Bjornberg & Nicholson, 2012). This study combined these concepts concluding that trust, identity, and succession planning all create a sound platform for the business to continue over multiple generations.

### **First Research Question**

The first research question asked what the relationship was between generation and perceived trust in the family business. The results confirmed that trust changed over generations. It was concluded that respondents in the first, second, and third generation had a mean trust score significantly higher than those in the fourth or beyond generation. It was also found that those who married into the family had lower trust scores than family members.

The null hypothesis stating that there is not a positive relationship between generation and trust was rejected. The alternate hypothesis that there is a positive relationship between trust and the generation was not rejected. This may indicate that in this particular sample these families have learned constructive management for problem solving. Sundaramurthy (2008) emphasized that little was known about trust in the family business and how it changed over generations. There is the obvious conflict that emerges in the family business wherein the family must decide how much resource to commit to the family and how much resource is committed to sustaining the business (Davis & Harveston, 2001). Lack of trust can impact family dynamics and fracture the family into factions (Bagby, 2004). Exploring how trust is perceived by different generations may lend insight for family businesses wanting to excel at succession planning.

The conclusion from the first hypothesis is that trust changes over generations and that married-ins may be influential in family decisions due to their lack of trust. Business families are encouraged to engage in building trusting relationships and to encourage respect and accept all family members' ideas. Establishing trust is one piece of the foundation for successful succession planning.

### **Second Research Question**

The second research question addressed if there was a relationship between succession planning and perceived trust with family held business. The null hypothesis was not rejected as the data did not support a positive relationship between succession planning and trust, however

the model approach significance. It is noted that of the 171 respondents, only 38 (22.4%) indicated they had formal succession plans. Most had formal boards or outside expertise available to management, but few had formal succession plans. Only six of 47 respondents from generation one had a succession plan in place. Sixteen of 47 (25.4%) from generation two had succession plans in place. Sixteen of 38 (29.4%) had succession plans in place in generation three and beyond.

Succession planning is a critical issue as only 10% of business families survive into a third generation. It was believed at the inception of this study that those generations with higher levels of trust would have effective succession planning. Succession planning includes the commitment of the younger generation to the continued operations of the company. Lansberg (1988) stated, "Succession planning means making the preparations necessary to ensure the harmony of the family and the continuity of the enterprise through the next generation" (p. 25). The data in this research does not support statistical evidence that creating trust within the family unit encouraged successful succession planning, however the results approached significance.

Scholars indicated that one of the predictors for successful succession planning was to create a nurturing environment that includes career development process of younger members of the next generation (Sharma et al., 2001). Another predictor of successful succession planning was the willingness of the incumbent to relinquish control. Sharma et al. (2001) found that the inability of the incumbent to retire was often the major obstacle that interfered with succession planning. In this study, terminology and understanding the concept of succession planning may have limited usefulness and lack of a clear definition may be one limitation of this research.

### **Research Question 3**

The third research question provided data on the relationship between generation and social identity within the family. Data indicated that there was statistical evidence that the mean social identity scores were not the same across all generations. Identity to the family waxes and wanes with each generation.

A post-hoc Tukey indicated that those in the second generation had a mean social identity score significantly lower than those from the first or fourth generation. Longevity to the business seemed to inspire identity such that those in the fourth generation with the family business had significantly higher scores than those in the second or third generation.

Social identity "is comprised of a personal identity, encompassing idiosyncratic characteristics such as abilities and interests, and a social identity, encompassing salient group classifications" (Mael & Ashforth, 1992, p. 134). The theory of social identity indicated that sameness as a group characteristic leads to more trust due to shared identity (Bracach & Eccles, 1989; Mael & Ashforth, 1992; Milton, 2008). Social identity and the attachment to the family and to the business through the shared bond may be a key antecedent for successful succession planning (Bjornberg & Nicholson, 2012). The final research question addressed social identity and trust.

Social identity to the family is a critical construct as it categorizes people psychologically into the same group. Behaviors of members tend to be supportive and in turn conflict is minimized. Business families that can build identity to the business and create an affective, supportive, and nurturing environment have a better chance at surviving into future generations. By internalizing the same norms and being loyal to each other it can be argued that the identification with the family establishes the individual schema that one belongs. This

emphasizes meaning to the individual and a connection to the family and to the business.

#### **Research Question 4**

The fourth research question identified if there was a relationship between identity and trust. There was not a significant relationship between identity and trust and this seems plausible as the existence of a family relationships does not necessarily mean there is high level trust. Lack of commitment and satisfaction may be due to the lack of identity that underpins the lack of attachment and involvement and this creates little trust (Bjornberg & Nicholson, 2012). Commitment to the business by the next generation has been identified as one factor that contributes to smooth succession planning and transitioning to future generations (Sharma & Irving, 2005). Commitment to the family company is not always a realized fact. Stavrou (1998) found that 20% of heirs had no intention of joining the family business and over 60% stated there was only a 50/50 chance they would join the business. This suggests that there is little allegiance to the family business and this may explain the lack of identity to the business. The data from this study did not support a relationship between identity and trust in the family business and supports Stavrou's (1998) finding that over 50% of potential heirs do not feel they must work for the family business. Younger generations want to create their own identity and not base their identity in the family company. The concept of trust would have little play in finding ones' identity outside the family firm.

#### **Interpretation of Findings**

This research was conducted in the spirit of sharing knowledge to understand how to create an atmosphere conducive to supporting longevity. There should be high level conviction to family needs as well as company needs by those in decision making roles. In order for the company to survive and thrive, trust must be created and maintained within the family and the company early in the life of the company. The typical family company typically does not last into the third generation because there is no succession plan and no trust between family members. It is analogous to a child's see-saw as there is a teetering balance between the needs of the company and the needs of the family. It is difficult to maintain this balance if the see-saw is lopsided. However, there are paths to creating this harmonious balance including thoughtful succession planning, building trust with family members, promoting stewardship, and creating a family council that helps create the identity to the family and to the business.

Critical to the continuance of the family business is succession planning. At the outset of writing this dissertation it was conceived that trust and identity were antecedents necessary to develop the strategy necessary to pass the business to the next generation. It was found that trust changes over generations. Social identity waxes and wanes depending on the generation and succession planning is not necessarily tied to trust or identity. However, the data from this study supported the idea that those families who had succession plans had higher levels of trust than those families who did not have succession plans.

Based on the data collected in this research, trust changes over generations and it stands to reason that trust is germane to building the successful transition model for succession planning. The data indicated that trust changes over the generations and is highly subjective. The data collection instrument used to determine trust defined this concept as predictability, dependability, and faith. Predictability was defined as expectant behaviors over time.



Dependability was the ability to rely on another person because their behaviors are consistent. Faith is based on evidence that an individual will feel secure with another person's behaviors and that these behaviors are responsive and caring (Rempel & Holmes, 1986, p. 31).

Predictability, dependability, and faith are data points that suggested a person's intentions are trustworthy. These qualities can be perceived that the focus is on the family and the business and not self-oriented qualities. When family members express these behaviors a positive platform of trust is created. Family members are willing to become vulnerable and can assume that self-serving behaviors are mitigated. Le Breton-Miller et al. (2004) stated that the quality of relationships within the family that include "collaboration, accommodation, team approaches, harmony, and sibling relationships" (p. 307) are critical factors for successful succession. Trust may also be a formal mechanism to create sound governance procedures in the transition process (Puranam & Vanneste, 2009). It is recommended that family businesses consider forming the family council so that all voices are supported.

Issues of trust in the family business are critical, as they impact the longevity of the enterprise. Trust, as it relates to a family business and intergenerational continuance (Sharma & Henriques, 2005), was the backbone of this research. Rosenblatt et al. (1985) proposed that trust increases the longevity of the company. The data showed that the families that had succession plans had higher levels of trust. On the opposite extreme, distrust adversely affects relationships and this leads to the demise of aligned goals for the business (Bagby, 2004). This study's data indicated that trust decreases significantly for the second generation. It must also be noted that this may be one reason that most business fail to thrive after the first generation. Trust, or lack of trust still may be the solution for extended survivability. The role of trust is impactful because the shareholders determine whether or not to maintain family management control or allow nonfamily to manage operations when family members. As shown in this study, trust changes throughout the life of the business and it stands to reason that family businesses should spend time on developing trusting relationships. Shareholders determine who is on their Board of Directors and trust may be a direct reflection of those they place in roles of governance (Puranam & Vanneste, 2009).

A healthy climate of trust may ensure continued intergenerational succession since this is significant to the findings of this research. Data indicated that trust changes over generations and the lesson to be applied would be that family business creates a trusting environment early in the business life. This enhances the feeling of safety and security between and among all members. Relational trust research indicates that creating trust is a process based on demonstrating consistent behaviors between the trustor and trustee (Rousseau et al., 1998). This leads to both cognitive-based and affect-based trusting situations and the willingness of each party to become vulnerable to the other. If family businesses can reach this point it stands to reason that they would be able to pass the business down to succeeding generations.

Building trust might be part of the influential mechanism such as team and trust building activities including skiing, biking, hiking, and games for children and grandchildren. This model of team building seems to support that trust activities make a difference and that there is a positive relationship between trust and generation. As such, it makes sense that married-ins are not as trusting because they have not been raised in this type of atmosphere. Stewardship theory influences decisions within the family business; this theory emphasizes altruism between and among members and creates the atmosphere necessary to leave a long-lasting legacy (Eddleston & Kelermans, 2007). When family members are encouraged to build relationships conflict is reduced. Stewardship of the business relies on family relationships to be developed and in turn

encourages communication and influences the long-term strategic process necessary to maintain and to grow a business. Establishing and maintaining a family council is an effective measure to build relationships. Stewardship is based in trust and leads to family involvement and reduces relational conflict. Through the stewardship approach, family members participate and influence the performance of the company through good communication. The family business is strongly encouraged to build and maintain a culture of trust.

The families with a succession plan had a higher average trust score than those families who did not have succession plans. This research supported that trust changes with each generation and a plausible explanation for lack of succession planning may still lie in the notion there is not a trusting environment within the family. Though the data did not statistically support the positive relationship between succession planning and trust, the data did support that those families with high levels of trust had succession plans in place. Le Breton-Miller et al. (2004) stated that the quality of relationships within the family that include “collaboration, accommodation, team approaches, harmony, and sibling relationships” (p. 307) are critical factors for successful succession. Trust may also be a formal mechanism to create sound governance procedures in the transition process (Puranam & Vanneste, 2009).

In the spirit of collaboration between family members a forum for open communication should be established. Family businesses should be encouraged to create mechanisms to reduce family discord. One method of doing this is creating the family council that addresses issues of organization, governance, leadership, enhancing family communication and encouraging the journey forward through multiple generations (Eckrich & McClure, 2012). The family council can set up annual meetings for family members and assist in objective decision-making when addressing business concerns. The family council enhances family unity, opens the door for transparent and effective communication, passes critical information to the family, and allows for all family members to voice their opinions or concerns (Eckrich & McClure, 2012).

The family council can help guide one generation into the next. It should be an intentional process to hand off the business from one generation to the next. There should be a deliberate and well thought out plan that can be executed. The family council can help build such a vision and be proactive in their future.

### **Implication of Findings**

The sample data provided enough evidence to claim that the mean trust score is not the same across generations and that those families who had higher levels of trust were more likely to have succession plans. This study also supported that if the company lasts beyond the third generation then there is a stronger identity to the family company. Understanding that the typical family business does not last beyond the first generation and only 10% survive to the third generation underscores unsuccessful succession planning. The implication of this study helps identify what family businesses can focus on to promote longevity of their firms.

### **Understanding Failed Successions**

The data in this study supported that those families who had succession plans were more trusting. To the opposite extreme, research considering failed successions might lend insight into the reasons for the failure. Trust is only one factor and there certainly are more areas to explore, such as gender roles in succession planning, an incumbent’s struggle to let go of the

reigns, sibling hostility, the role married-ins play in the family structure, mental health issues, and lack of motivation to create a succession plan. All of these factors are related to trust and having a deeper understanding of trust in the family business lends itself to future research.

Further understanding of the relationship between trust and stakeholders would create an interesting investigation (Hauswald, 2012). Trust issues could be explored using management's and employees differing perceptions of trust within the business. Trust develops between and within all stakeholder groups and little research has been carried out that directly studies how the family influences other stakeholders in terms of trust. This study centered on trust within the family and it might be just as important to understand how trust is perceived from the employees' perspective toward the family.

## APPENDIX

Table 1

### *Relationship of Question to Hypotheses*

Hypothesis	Survey Question Number
H1 <sub>o</sub> H1 <sub>a</sub>	7 (generation); 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30 (trust)
H2 <sub>o</sub> H2 <sub>a</sub>	12 (succession planning); 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30 (trust)
H3 <sub>o</sub> H3 <sub>a</sub>	7 (generation); 31, 32, 33, 34, 35, 36 (social identity)
H4 <sub>o</sub> H4 <sub>a</sub>	13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 30 (trust)

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