Chapter 20
"I'm Your Leader Now, but Do You Trust Me?": Analysis of Leadership and Trust in Family Firms

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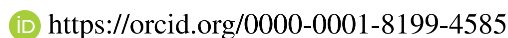
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ABSTRACT

Leadership succession is inevitable for most family businesses. To effectively face this challenging transition, next-generation leaders need to have the ability to gain their employees' trust which is typically very challenging due to previous generation' influence on the business. The chapter explores how trust in family leaders can impact succession when a business is passed from one generation to the next. This chapter presents two comparative examples of family business cases operating in the transportation sector in Italy. In the first business, the succession already took place and the next-generation leader is running the firm, while in the other firm, the incumbent generation is still in charge of the company and is not passing the baton. Results show that the incumbent and next-generation leader's perception of their leadership style correspond to non-family employees' perceptions. However, employees' trust in the incumbent is higher than the trust in the successor.

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INTRODUCTION

Leadership styles have a significant effect on firm performance (Avolio & Bass, 1990; Sahaya, 2012) because leaders influence their followers (Sahaya, 2012). This chapter focuses on the leadership styles of family firms' leaders. Family firms are the dominant form of enterprise worldwide since more than two of every three companies can be classified as family businesses (Gersick et al., 1997). Scholars are paying more attention to these firms' peculiar theoretical and practical problems (Dyer, 2003). The quality of leadership and strategy is widely viewed as instrumental in maintaining and improving competitive performance. Leadership has a vital role to play in strategic effectiveness. One of the biggest challenges that these firms face is the management of nonfamily employees, which has been acknowledged as keenly important to family businesses (Chua, Chrisman, & Sharma, 2003). Although family members often hold executive positions in family firms, many family firms employ nonfamily managers. Thus, securing the cooperation and commitment of nonfamily employees can be a major element for the strategy of family firms, which may determine its success or failure (Chrisman, Chua, & Litz, 2003).

Weak next-generation leadership is often cited as one of the leading reasons for the failure of family firms to successfully transition from one generation of family ownership to the next. Non-family employees' trust in family leaders is especially important during the succession phase. The employees' perception of the leader may change before and after succession, and in particular, employees may trust the new leader more or less than the incumbent one (Le Breton-Miller, Miller, & Steier, 2004). Furthermore, family firms may suffer from the incumbent's shadow, which consists of the prior generation's excessive and inappropriate involvement in an organization, which may cause social disruptions in the organization and create dysfunctional effects on the strategy and the performance of the firm (Lussier & Sonfield, 2009). Indeed, a change in leadership may represent either a period in which the future looks uncertain and frightening or an opening to new opportunities.

Extant research has shown that leadership styles are an important driver of business success since they impact on employees' satisfaction and commitment (Gao & Bai, 2011; Sorenson, 2000). This is particularly relevant in family businesses where founders act as leaders and provide imprinting to the firm that will last even beyond the first-generation (Kellermanns et al., 2008).

Literature considers three main leadership styles: (i) transactional, when leaders promote social exchange, focus on reaching goals and give rewards for good performance; (ii) transformational, when leaders stimulate and inspire followers to achieve extraordinary outcomes by raising the level of motivation and morality; (iii) and laissez-faire, when leaders avoid responsibilities in making decisions and exhibits a lack of involvement in business life (Bass, 1985; Burns, 1978).

The stewardship theory posits that trust is a valuable asset that is available to leaders in family firms (Davis, Schoorman, & Donaldson, 1997). Family businesses generate trust bonds because of pre-existing relationships between family members (Davis, Allen, & Hayes, 2010; Pearson & Marler, 2010). However, when trust breaks down in the family, the distrust majorly impacts the profitability of the business (Stanley & McDowell, 2014). Lack of trust among family members creates emotional distress and creates costly detours. However, non-family members' trust in the leader is also essential in the organization. Trust is an individual predisposition versus another person and refers to the expectation that the other person will not act opportunistically (Mayer, Davis, & Schoorman, 1995). Employees' trust in their leaders produces positive consequences for the organization since they focus on value-producing activities and display greater organizational citizenship behaviors (Mayer & Gavin, 2005). Generally, high-quality

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