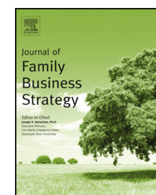
Journal of Family Business Strategy 5 (2014) 264–275

Contents lists available at ScienceDirect

Journal of Family Business Strategy

journal homepage: www.elsevier.com/locate/jfbs



The role of interorganizational trust and organizational efficacy in family and nonfamily firms

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ARTICLE INFO

Article history:
Received 22 May 2012
Received in revised form 2 July 2013
Accepted 8 July 2013

Keywords:
Family firm
Interorganizational trust
Organizational efficacy
Social capital
Firm performance

ABSTRACT

This article extends research on family firm social capital by examining two components of family firm social capital, organizational efficacy and interorganizational trust, and their influence on performance in family and nonfamily firms. Using a sample of 157 family and nonfamily suppliers to a University, we find that suppliers' organizational efficacy and trust in the buyer positively predict performance in family and nonfamily firms. Contrary to expectations, there were no significant differences between family and nonfamily firms in the level of organizational efficacy and interorganizational trust. We also find that the interaction of organizational efficacy and interorganizational trust predicts performance in family firms. Based on these findings, we discuss implications for theory development and provide suggestions for future research.

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1. Introduction

Family firms exist and thrive in all areas of business, and some evidence suggests that under certain conditions family owned firms can outperform their nonfamily counterparts (Anderson & Reeb, 2003; Chrisman, Chua, & Kellermanns, 2009; Gedajlovic, Carney, Chrisman, & Kellermanns, 2012). However, findings are mixed (see Gedajlovic et al., 2012 for a review), and the drivers of family firm performance are not fully understood. Family firms may enjoy competitive advantages due to a variety of reasons (see Mazzi, 2011 for a review), including an absence of agency problems (Anderson, Duru, & Reeb, 2009; Anderson & Reeb, 2003), strong long-term-orientation (James, 1999), and deeper concerns about the firm's reputation due to its connection to the family members' individual identities (Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2010). While the vast majority of research examines intra-firm performance drivers, family firm research is beginning to examine inter-firm relationships as a source of competitive advantage. Some preliminary evidence suggests that family firms may be better able to establish long-term relationships with business partners due to the owner-managers' extensive social networks (Lester & Cannella, 2006). These networks may provide access to resources and the ability to make handshake deals, thereby minimizing transaction costs (Gedajlovic et al., 2012). In other words, family firms may be able to leverage their social capital in order to increase performance (Pearson, Carr, & Shaw, 2008).

The goal of this study is to examine drivers of family firm performance in the context of interorganizational relationships. We do so by investigating two components of family firm social capital: organizational efficacy (i.e., the firm's collective cognitive confidence and assurance that the business will perform well), and interorganizational trust (i.e., organizational members' collective expectation that the partner firm will act in a reliable, predictable, and fair way) (Zaheer, McEvily, & Perrone, 1998). Social capital is described as "the character of social relationships within the organization, realized through members' levels of collective goal orientation and shared trust" (Leana & Van Buren JIII, 1999, p. 540). Research on social capital suggests that family firms often possess unique capabilities and resources due to the high level of interaction and involvement of family members (Arregle, Hitt, Sirmon, & Very, 2007; Pearson et al., 2008). While some preliminary evidence suggests that social capital positively influences family firm performance (Sorenson, 1999), more work is needed to fully understand which components of family firm social capital drive performance, and how social capital affects the firm's relationships with external stakeholders. We suggest that family firms enjoy higher levels of organizational efficacy than nonfamily firms because they are better able to coordinate their actions in order to achieve the firm's and their clients' goals. Furthermore, we suggest that the combination of higher levels of organizational efficacy and trust between family firms and their business partners leads to higher levels of performance.

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1877-8585/$ – see front matter © 2013 Elsevier Ltd. All rights reserved.
http://dx.doi.org/10.1016/j.jfbs.2013.07.001

The first component of social capital, organizational efficacy, is typically examined at the individual level; however, we examine it at the organizational level. Self-efficacy has been used in entrepreneurship research to predict entrepreneurial intentions and behavior (Boyd & Voziki, 1994; Cant, 1996; Jenkins & Johnson, 2003; Noble & Jung, 1999), and to explain differences between entrepreneurs and nonentrepreneurs (Chen, Greene, & Crick, 1998; McDermott, Markman, & Balkin, 2003). In the family business literature, self-efficacy (i.e., an individual's beliefs in his or her task-related competencies; Bandura, 1995, 1997) explains individual behavior such as succession and leadership (DeNoble, Ehrlich, & Singh, 2007; Memili, Chang, Kellermanns, & Welsh, 2012). We suggest that higher levels of efficacy at the organizational level are associated with stronger collective goal orientation, stronger relationships with business partners, and ultimately, higher levels of performance.

The second component of social capital, trust, has been linked to greater stewardship, or decision-making intended to benefit the organization, rather than oneself (Davis, Frankforters, Vollrath, & Hill, 2007). Trust has also been linked to more efficient governance (Davis et al., 2007) and greater strategic flexibility (Zahra, Hayton, & Salvato, 2004). Steier (2001) suggests that trust within the family firm may be one driver of family firm performance. Furthermore, Eddleston, Chrisman, Steier, & Chua (2010) suggest that because trust may influence behavior within family firms, it may explain differences between family and nonfamily firms and therefore warrants future research. We add to the growing literature on the importance of building trust in family firms (e.g., Salvato & Melin, 2008) by suggesting that trust extends outside the family firm to these inter-firm relationships. By examining trust at the inter-firm level, we can see how it increases cooperation between family firms and their business partners and ultimately leads to higher performance.

The current study makes several contributions to the family firm literature. First, we extend the theory of the family firm (Chua et al., 2003) by identifying drivers of family firm performance and conditions under which family firms may outperform nonfamily firms—an area of the family firm literature that is not fully understood. Identifying the drivers of family firm performance is necessary because it emphasizes the uniqueness of family firms and clarifies the boundaries of family business research (Kellermanns & Stanley, 2013). Second, we add to the growing body of literature on family firm social capital by examining relationships between, rather than within, firms. Specifically, we examine the role of two components of family firm social capital in inter-firm relationships: organizational efficacy and interorganizational trust. To date, most family business research examines the effects of efficacy and trust within the organization (DeNoble et al., 2007; Memili et al., 2012), which has created a gap in the family firm literature. We begin by reviewing research on performance in family firms. Next, we examine organizational efficacy and its role in family firms. Last, we review interorganizational trust and discuss its role as a competitive advantage which is unique to family firms.

2. Literature review

2.1. Performance in family firms

Some empirical evidence suggests that family firms' unique synergistic resources may be associated with higher levels of performance relative to nonfamily firms (Anderson & Reeb, 2003; Chrisman et al., 2009; Gedajlovic et al., 2012; McConaughy, Matthews, & Fialko, 2001; Miller & Le Breton-Miller, 2005). Others suggest that the relationship between family firm status and performance is more complex and depends on size (Wright & Kellermanns, 2011), involvement of the founder (Gedajlovic et al., 2012), ownership concentration (Mazzi, 2011) and whether or not the firm is publicly traded (van Essen et al., 2011). There is some evidence that the family context may help the firm achieve unique performance advantages (Andres, 2008; Eddleston & Kellermanns, 2007; Habbershon, Williams, & MacMillan, 2003; Mazzi, 2011; Sirmon & Hitt, 2003). Huybrechts, Voordeckers, Lybaert, & Vandemaele (2011) suggest that family firms possess unique intangible resources which may drive performance. The authors identify four distinct categories of intangible resources which create a competitive advantage for family firms: organizational culture, reputation, human capital, and networks. Huybrechts et al. (2011) suggest that because family firms' cultures are often characterized by strong trust and collective goal orientation, family firms benefit from lower governance costs and greater knowledge and expertise. In the next section, we extend this body of research by discussing organizational efficacy as a form of collective goal orientation and offer hypotheses regarding its effect on firm performance.

2.2. Organizational efficacy

In order to understand efficacy at the organizational level, it is important to first examine it at the individual level. Locke and Latham (1990) indicate that efficacy is an important aspect of motivation in that efficacy strongly influences goal-setting. More specifically, individuals reporting higher levels of efficacy are better able to establish attainable goals. Self-efficacy is an individual's confidence in his or her ability to be successful at a given task (e.g., Bandura, 1997). It implies that individuals will evaluate their own individual capabilities and make decisions based on their assessment of the best possible outcome. Bandura and colleagues emphasized that efficacy expectations, an important aspect of motivation, can lead to greater performance due to the individual's perceived ability to execute the behaviors necessary to produce the desired outcomes (Bandura, Adams, Hardy, & Howells, 1980). Self-efficacy is related to both the creation of individual goals and performance (Stajkovic & Luthans, 1998; Vancouver, Thompson, & Williams, 2001). In addition, self-efficacy is linked to several important organizational behavior and human resource management outcomes, including leadership, selection, and training (Gist, 1987).

While much of the organizational behavior and human resource management research focuses on self-efficacy, it has largely been overlooked at the organizational level (see Gist, 1987 and Memili et al., 2012 for exceptions). This gap presents a promising area of research. Researchers have applied self-efficacy to groups and termed it collective efficacy. The definition of collective efficacy is a group's collective belief in their task-fulfilling competencies (Bandura, 1997; Parker, 1994; Zellars, Hochwarter, Perrewe, Miles, & Kiewitz, 2001). Empirical evidence indicates that collective efficacy is a strong predictor of team performance. For example, in their meta-analysis, Gully, Incalcaterra, Joshi, & Beaubien (2002) find that collective efficacy has a strong relationship with team performance.

In addition to group level efficacy, Gist (1987) proposes the idea of corporate or organizational level efficacy that may be useful for examining functions at the strategic business level. For this study, the definition of organizational efficacy is the cognitive confidence and assurance that the business will perform well with respect to fulfilling its client's needs. This competency consists of the internal judgment that the organization has the capabilities, judgment, confidence and intention necessary to be successful. Empirical evidence suggests that efficacy strongly predicts performance across contexts (Schaubroeck, Lam, & Xie, 2000). Due to its strong predictive power, we expect that organizational efficacy will

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