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THE ROLE OF FAMILIAL TRUST IN THE LEADER-MEMBER EXCHANGE

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Abstract. *Drawing on the study of micro and small family businesses in a transition economy, this research explores the effects of trust transferred from the family to the business system. Specifically, it examines how the leader's interpersonal trust in the member affects the quality of the leader-member exchange (LMX) in familial dyads. The results reveal that interpersonal trust has a positive effect on LMX and the degree of this association depends on the leader's orientation. This relationship is strengthened by the leader's orientation, however, only in the case when the orientation is family-centric. The moderating effect is not statistically significant when the leader adopts business-centric orientation.*

Key words: *family business, trust, leader-member exchange*

1. INTRODUCTION

When formal markets are immature, nonmarket mechanisms, including kinship ties and family cohesion are especially significant (James, 1999). In many former socialist countries families play a critical role in providing necessary resources for the newly established businesses (Dyer & Mortensen, 2005; Duh, 2003) and SME business founders heavily rely on family and friends as a source of financial capital, as well as source of information for business-concerned advice (Statistics Department of Lithuania, 2009). Entrepreneurs' reliance on family highlights family businesses – enterprises governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families (Chrisman, Chua, & Sharma, 2005). In fact, family businesses dominate the economic landscape and are the driving force behind

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the private sector internationally, and according to various estimates, annually create from 70% to 90% of global GDP (Chittoor & Das, 2007; Heck, Hoy, Poutziouris, & Steier, 2008; Klein, 2000; Kuratko & Hodgetts, 2004; Lam, 2009; Lee, 2006; Morck & Yeung, 2003; Rutherford, Kuratko, & Holt, 2008).

Reliance on family members is linked with interpersonal trust, defined as "the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party" (Mayer, Davis, & Schoorman, 1995, p. 712). Whereas families often are "high-trust" organizations, they enable family firms to develop family-based business relationships and unique context for trust (Sorenson, 2014). Eventually, trust can become a potential source of competitive advantage for a family business (Gersick, Davis, Hampton, & Lansberg, 1997), and a central component in family business social capital (Adler & Kwon, 2002; Aldrich & Cliff, 2003; James, 1999). At the same time, trust in family firms is highly interpersonal, relational (Corbetta & Salvato, 2004) and becomes an essential condition for cooperation (Steier, 2001). Due to involvement of both family members and non-family employees in the business, the scope of trust in these organizations concerns interactions among all of these individuals, and as a result, extends to both family and employer-employee (also termed business) relationships and social exchange.

While it is essential for family firms to manage trust in both family and business relationships, there is a number of reasons to believe that family relationships, including trust, can result in spillover on relationships with non-family employees that primarily belong to the business relationship category. Family members often have influence on key directions and decisions of the family business (Sorenson, 2014), and varying effect on human resource management practices, such as staffing, promotion, compensation, performance appraisal (Barnett & Kellermanns, 2006). In turn, human resource management practices can have both positive and negative influence on perceptions of justice and fairness held by non-family employees (Lemons & Jones, 2001). On the one hand, long-term orientation in the business, arising due to family ownership (Le Breton-Miller & Miller, 2006) can promote sustaining of employees and lesser lay-offs than in non-family businesses (Block, 2010; Stavrou, Kassinis, & Filotheou, 2006), even at times of economic downturn (Lee, 2006). On the other hand, family influence and relationships can evoke bias, nepotism, cronyism, and favoritism in organization (Kotey & Slade, 2005; Lubatkin, Schulze, Ling, & Dino, 2005; Schulze, Lubatkin, & Dino, 2003) that may result in negative impact on the business performance (Lubatkin et al., 2005; Miller, Le Breton-Miller, Lester, & Cannella, 2007) and be detrimental to both business and family (Lee, Lim, & Lim, 2003; Schulze et al., 2003). Considered together with high dependence on non-family employees (typically, more than 80% of all employees in a company) (Deloitte & Touche, 1999), as well as current employees in contrast to new hires (Michael-Tsabari, Lavee, & Hareli, 2008), development of commitment, value-oriented attitudes and behavior, effective management of non-family employees become vital questions for family businesses (Chua, Chrisman, & Sharma, 2003). Along with positive effects of trust, higher trust in family members can have a negative effect on non-family employees (Pearson & Marler, 2010). As a result, interpersonal (or relational) trust among individuals involved in the family business and its effects can augment our understanding of interpersonal relationship development and management in these types of organizations. Reasons above suggest that studies with a focus on trust among family members who are involved in the business can contribute to analysis of associated outcome variables in both family and non-family dimensions. However, trust and its effects remains a largely under-explored topic in family business research. This topic is especially relevant for family businesses in transition economies, where under communism interpersonal trust had played a specific role in transactions. Based on family and friendship relationships, interpersonal trust had long served for transactions at all levels of society (Raiser, 2001). Considered together with the observation that eventually nepotism in organizations in emerging economies is common (Kazmer & Konrad, 2004), trust with regard to kinship ties and business activities becomes a topic of special significance in transition economies.

As such, trust can have effect on a variety of individual and organization-level outcomes. Interpersonal trust can affect relationships and exchange between individuals, which further translates into outcomes significant for the whole organization. It can specifically unfold in relationships between the leader and a direct subordinate, which are main drivers of individual level outcomes, including job (task) performance and effectiveness, attitudes, organizational citizenship behavior and retention (Colquitt, Scott, & LePine, 2007; Dirks & Ferrin, 2002; Dulebohn, Bommer, Liden, Brouer, & Ferris, 2012; Gerstner & Day, 1997). Family member engagement in the business and enactment of the leader and follower roles form unique relationships and interactions in family firms.

The purpose of this paper is to examine the effect of the leader's trust on the outcomes in the leader-follower dyad. With this aim, we apply the leader-member exchange theory, where the leader-member exchange (LMX) is regarded as "(a) a system of components and their relationships (b) involving both members of a dyad (c) involving interdependent patterns of behavior and (d) sharing mutual outcome instrumentalities and (e) producing conceptions of environments, cause maps, and value" (Scandura, Graen, & Novak, 1986, p. 580). We examine the effect of trust on the leader-member exchange and the moderating role of the leader's goal priorities. Our central argument is that the positive effect of the leader's trust on the leader-member exchange varies depending on the leader's prioritization of family versus business goals. We extend the argument that "business first" and "family first" orientation of a business owning family will have an impact on attitudes and culture exerted on the company (Montemerlo & Ward, 2005; Sharma & Nordqvist, 2008; Ward, 1987). We propose that the leader's orientation towards family and business goals will have a moderating effect on the relationship between the leader's trust and the leader-member exchange. By suggesting that the perceived quality of the leader-member exchange depends on the leader's trust in the member and orientation, we seek to unveil the impact of the leader's position on the outcomes. In accord with the arguments that family influence on the business is not inherently good or bad (Astrachan & Pieper, 2010; Dyer & Dyer, 2009), we seek to document that a certain degree of trust does not always translate into the certain quality of the leader-member exchange and the leader's orientation is an example of such conditions. Specifically, we investigate the linkage between the leader's trust in the member and the quality of the leader-member exchange, perceived by both the leader and the member in work relationships, where both individuals are associated by family ties. As leaders have to navigate between competing goals and requirements of family and business systems (Dyer & Handler, 1994; Kets De Vries, Carlock, & Florent-Treacy, 2007; Ward, 1987), we then examine how the leader's orientation towards the business or family moderates this relationship.

This paper aims to make several contributions from scientific and practical perspectives. From a scientific standpoint, analysis of trust and the leader-member exchange, which have not yet been well researched, build up our knowledge on the influence of family on the business. The findings of this study suggest that the leader's degree of trust in the member has a positive effect on the quality of the leader-member exchange perceived by both the leader and the member in the dyad and this effect is also subject to the leader's orientation. Foremost, we found the positive relationship between the leader's degree of trust in the member on the perceived quality of the leader-member exchange, which is moderated by the leader's orientation preferences towards the business or the family. In addition, we demonstrate that this moderation effect is only significant in the cases when leaders give priority to the family goals and is insignificant when leaders give priority to business goals. In other words, when the leaders are primarily oriented towards the business, no cumulative positive effect on the quality of LMX is observed. Specific findings on trust between family members enable further examination of boundaries at which trust is built and affects outcomes. From a practical perspective, by highlighting trust building in the family system that can foster the quality of social exchange in the business, this study implicitly offers insight to human resource strategies that would support family businesses in emerging economies, and volatile and uncertain environments that they face (Astrachan & Pieper, 2010). Secondly, it draws attention of practitioners in transition economies to once again revisit the orientation towards goals pursued by the family business leader and the impact of the familial ties on the business.

2. THEORETICAL FRAMEWORK

The leader-member exchange theory stems from Social exchange (Blau, 1964), which is a theoretical lens, applicable for both family (Stamp, 2004) and employer-employee (Barnard, 1938; Coyle-Shapiro & Shore, 2007) relationships and exchange. Low-quality relationships rely on transactional part, while high-quality relationships are based on respect, trust, obligation, mutual liking (Graen & Uhl-Bien, 1995). According to the norm of reciprocity (Foa & Foa, 1980; Gouldner, 1960), individuals involved in the social exchange understand that received favor is linked with an expectation of some reimbursement in the future. Eventually, recipients of positive actions experience a sense of indebtedness (Graen & Uhl-Bien, 1995), which results in positive and beneficial attitudes and behaviors directed at the individual who provided care. Thus, higher quality relationships call for a great investment of time and energy (Uhl-Bien & Maslyn, 2003).

Yukl (2006, p. 117) described the leader-member exchange (LMX) as "the role making processes between a leader and each individual subordinate and the exchange relationship that develops over time". The leadership-making model (Graen & Uhl-Bien, 1995), developed for non-family organizations, distinguishes among several phases, through which leader-follower relationships develop until they stabilize. The LMX relationship in this framework begins with the Stranger phase, where the leader and the member occupy interdependent organizational roles and begin interactions. These interactions occur on a formal basis, which Graen and Uhl-Bien (1995) referred to as a "cash-and-carry" economic exchange that due to absence of caring and commitment are characterized as low-quality exchange (Liden, Sparrowe, & Wayne, 1997). In the second, Acquaintance phase, the leader and the member begin to share greater information both on personal and work levels. The next stage is referred to as Mature partnership, in which the exchanges are not only behavioral but also emotional. The members count on each other for loyalty and support, mutual trust and respect, and obligation also grow throughout this process. Leaders count on their followers to provide them with assistance whenever needed, and followers rely on their leaders for support, encouragement, and career investments. The leadership-making model refers to this stage as mature partnerships because it reflects high-quality LMX (Graen & Uhl-Bien, 1995).

Leader-member relationships between family members are likely to experience a different path of the leadership-making model, since they involve both family and work relationships, and family relationships penetrate work relationships, as family life may have conscious and subconscious influence on the business (Matthews, Schenkel, & Hechavarria, 2009). Family, as a social institution, shapes the values of its members and those values in turn do influence their attitudes and behavioral choices (Sorenson, 2014). Families in the business rely on moral infrastructure that conditions family social capital, family values, norms, obligations, and expectations (Hoffman, Hoelscher, & Sorenson, 2006; Sorenson & Bierman, 2009). Family member inclusion in both family and business domains can result in greater shared vision, shared goals, and stronger, more multidimensional social ties (Pearson, Carr, & Shaw, 2008). The exchange between the family leader and the member are not only behavioral but also emotional, since families are often organized and driven by emotions (Kets De Vries et al., 2007;

Ward, 1987). The leader and the member may count on each other for loyalty and support, mutual trust, respect, and obligations as relational ethics stemming from the family system include trust, fairness, justice, loyalty and entitlement (Lumpkin, Martin, & Vaughn, 2008). Leaders count on their followers to provide them with assistance whenever needed, and followers rely on their leaders for support, encouragement, and career investments. The leadership-making model refers to this stage as mature partnerships because it reflects high-quality LMX (Graen & Uhl-Bien, 1995). Therefore, it can be assumed that relationships when both the leader and the member are family members skip Stranger and Acquaintance phases and begin at Mature partnership phase, associated with high-quality LMX. Thus, we hypothesize that:

Hypothesis 1. The quality of the leader-member exchange perceived by both leaders and members will be high in familial dyads.

The leadership-making model articulates that trust is related with high-quality LMX and overall, the character of social relationships in organizations is closely related with shared trust among members (Leana & Van Buren, 1999). Respectively, positive significant relationships have been documented between trust and the leader-member exchange (Dulebohn et al., 2012; Gomez & Rosen, 2001; Wat & Shaffer, 2005). For social exchange, trust is an essential condition as it cannot develop in the absence of trust and it is therefore sometimes considered to be an essential element that indicates the presence of social exchange relationship (Blau, 1964; Shore, Tetrick, Lynch, & Barksdale, 2006). Likewise, trust is a crucial element in LMX theory (Schriesheim, Castro, & Cogliser, 1999) since if either member of the dyad experiences a lack of trust, it is difficult to maximize the potential positive outcomes that evolve from the relationship (Brower, Lester, Korsgaard, & Dineen, 2008). Thus, the quality of LMX may depend on the degree of existing interpersonal trust that either the leader, the member or both experience. So far, there has been a lack of agreement whether trust is primarily an antecedent or a consequence of the leader-member exchange (Scandura & Pellegrini, 2008). However, existing studies have already confirmed that trust is one of the interpersonal variables in the leader-member relationship that affects the leader's and follower's perceptions of each other and the quality of LMX (for a complete review, see Dulebohn et al., 2012). Specifically, a meta-analysis study by Dulebohn et al. (2012) also confirmed that the leader's trust in the member positively affects the quality of LMX perceived by the member. This paper addresses interpersonal leader's trust in the member as a proximal antecedent of positive leader-member exchange drawing on the existing literature.

High degree of the family leader's trust in a family member can be available in a work context due to transfer of trust from family to business system. While trust decisions are based on personal experiences and demonstrated behavior (Blomqvist & Stahle, 2004; Schoorman, Mayer, & Davis, 2007; Uslaner, 2002), shared experiences and history of interactions between family members allows them to know what to expect from each other and to predict other individual's actions (Lewicki & Bunker, 1996). When the family members meet in the business context, they already share common experiences, history, identities, rituals and realities (Gersick et al., 1997) and as a result are in a more favorable position to build trust than in pure business relationships, since trust requires strenuous interactions and time to be built, and only few business relationships reach this level (Lewicki & Bunker, 1996). Respectively, kinship, familiarity, commonality of personal characteristics, history and extended period of experience (Carney, 2005; Kets De Vries, 1993; Lane & Bachmann, 1998) are likely to build a high degree of the family business leader's interpersonal trust in the family member. Possession of shared values by another family member in a relationship also meets the fundamental assumption of interpersonal trust (Mayer et al., 1995; McAllister, 1995; Uslaner, 2002). It is likely that the trust built in a family context before family leader and family member establish a work relationship can foster their leader-member exchange in a business context.

Interpersonal trust is considered to be a key element of any healthy relationships (Tan & Tan, 2000) and it paves the ground for a more efficient social exchange between the trustor and trustee (Blau, 1964). Along with respect and mutual obligations between leaders and members, trust characterizes high-quality leader-member exchange (Graen & Scandura, 1987; Graen & Uhl-Bien, 1995) and positive and significant association between trust and LMX has been documented by a number of studies (Dulebohn et al., 2012; Gomez & Rosen, 2001; Wat & Shaffer, 2005). Yet, trust is not necessarily mutual or reciprocal: a leader may trust a subordinate and at the same time subordinate may not trust the leader, or vice versa (Brower, Schoorman, & Tan, 2000; Mayer et al., 1995). It is assumed, however, that subordinates are willing to reciprocate the trust and care expressed by the leader in a relationship (Dirks & Ferrin, 2002; Konovsky & Pugh, 1994). As leader-member relationships move through Stranger and Acquaintance phases in the leadership-making model, they accumulate trust, eventually reaching the Mature partnership stage, characterized by rather stable, high-quality LMX. Thus, the gradual increase in trust is likely to positively affect the quality of LMX. When applying the leadership-making model to the LMX between family members, it is supposed that the relationship already begins at a Mature partnership stage and thus has passed the most critical Acquaintance stage, where dyads that do not develop further may revert to the stranger phase (Graen & Uhl-Bien, 1995). Therefore, the effect of the leader's interpersonal trust on the quality of LMX in family leader-member relationships can be limited, yet is expected to be positive.

Hypothesis 2. The leader's trust in the member will have a positive effect on the quality of LMX perceived by both leaders and members in familial dyads.

While the leader's interpersonal trust in the family member may promote the quality of LMX, this relationship may be subject to the family-centric or business-centric orientation that the leader undertakes. As discussed above, trust developed in the family context can be transmitted to the business context as family members work together. However, family business leaders are often facing the challenge to navigate between competing family and business systems (Lansberg, 1983) with differing goals (Dyer & Handler, 1994; Ward, 1987). The underlying principles of these two systems diverge in at least several aspects (Dyer, 1992). Firstly, relationships are personal in family, but can be impersonal in the business (and of secondary importance). Secondly, the family goals focus on support and development of family members, whilst the business pursues profits, revenues and efficiency. Third, the business functions more formally, basing on formal procedures for evaluation in contrast to the family. Lastly, the expectations in a family system are often informal, while the business system often employs formalized expectations with written and formal rules, rewards and punishment are often stated explicitly. Business (or economic) system can be insensitive to family system goals and objectives (Sharma, Chrisman, & Chua, 1996), whereas family interest can override business objectives (Anderson & Reeb, 2003; Gomez-Mejia, Haynes, Nunez-Nickel, Jacobson, & Moyano-Fuentes, 2007). While the nature of family and business entities can often be contradictory, the leader must navigate between the two, often selecting "family first", or "business first" (Ward, 1997). Montemerlo and Ward (2005), Sharma and Nordqvist (2008), and Ward (1987) firstly addressed the distinction between "family first" and "business first" value orientation of the business-owning family as a cultural mentality. Ward (1987) described the difference in terms of priority given to the family or the business values. As the family business leader, who represents the business-owning family, acts on behalf of this family, his or her priorities and primary orientation towards family or business can therefore alter the family business leader's behavior, including the leader's interactions with the member. Originally, Ward (1987) labelled these priorities as "values". As we consider leadership perspective, we refer to "goals" instead of values since goals are an essential, driving component in the concept of leadership (DeRue, 2011; House et al., 1999; Yukl, 2006; Northouse, 2012). In addition, a pilot study that was undertaken prior to the empirical study revealed that the term "goals", instead of "values" more accurately represents the notion of this orientation for family business practitioners.

We suggest that depending on the focal orientation chosen by the family leader, new aspects of interpersonal trust may emerge. While greater degree of interpersonal trust is overall expected to positively affect the quality of LMX, the leader's orientation can cause the difference between trust in a family system and trust in a business system. When the family leader gives priority to family goals, the interpersonal trust that stems from the family system is likely to nurture the quality of exchange. While business families with a strong orientation towards family can evoke tension that swifts both the business family and the business away from entrepreneurial, i.e. business orientation, similar risks can be associated with the leader's family-centric orientation. A rather negative example is family members often occupying high organizational roles (Davis

& Harveston, 2001), which may be a result of negative nepotism or favoritism (Kotey & Slade, 2005; Lubatkin et al., 2005; Schulze et al., 2003) instead of work-role fit and promotion of family members regardless of their abilities, that indirectly refers to choosing family goals over business goals. Different effect, however, may be expected when the family leader chooses a business-centric orientation. Due to entrepreneurial pressures, such as time and financial issues, entrepreneurs may fail to establish good communication with their families, while spouses and children may experience that the family is a matter of secondary importance (Dyer, 1992). In contrast to tendency of families to be emotional, businesses are more objective (Kets De Vries et al., 2007; Ward, 1987), which may call for leader's interpersonal trust in the family member to be built in line with the work requirements. Thus, family-based trust may be not equal or exhaustive enough for the trust required in a work (or business) relationship. We suggest that the relationship between the degree of the leader's trust in the member and the quality of LMX will be moderated by the leader's orientation:

Hypothesis 3. The leader's orientation moderates the relationship between the leader's trust in the member and the quality of LMX perceived by both leaders and members in familial dyads. Specifically, the positive effect of family-centric orientation is greater than the effect of business-centric orientation.

3. METHOD

Sample

Though SMEs fall within the scope of this study, the findings from 5-employee and 49-employee companies can significantly differ when the leader-member exchange is studied. Therefore, the empirical study involved enterprises with up to 20 employees. In all enterprises which participated in the survey the majority of ownership rights was held by a single family. The data was collected from 124 micro and small enterprises in Lithuania, from 124 leaders (managing directors) and 128 family members (direct subordinates). Questionnaires were distributed to leaders and members, and participation was voluntary, preserving confidentiality (no individual identification was collected). In total, the data set includes 124 leader-member dyads as cases, and no values are missing. In every dyad the leader and the member are related by familial ties. The terms "leader" and "manager" are used interchangeably in management literature (Yukl & Van Fleet, 1992) and family business research follows this tendency. The premise of this study is that managing directors of micro and small family businesses are the leaders of the organization, especially, since when control over the company mainly belongs to one family member, he or she is likely to become the dominant individual (Tagiuri & Davis, 1992). The leader-member exchange theory, which is our theoretical lens, primarily employs the quality of exchange between an employee (subordinate) and his or her direct manager (Graen & Scandura, 1987) as a focal point.

Constructs and measures

Independent variable. The seven-item measure of trust by Schoorman & Ballinger (2006) was selected for measurement of the degree of the leader's interpersonal trust in the member. This scale is an extended version of the four-item trust scale developed by Schoorman, Mayer, & Davis (1996), which maintains the conceptual definition without creation of redundant items (with an alpha level of .84). Example items are "My subordinate keeps my interests in mind when making decisions"; "I would be willing to let my subordinate have complete control over our future in this company". Items were scored on a 5-point Likert scale, ranging from (1) "strongly disagree" to (5) "strongly agree". The Cronbach alpha for the leader's trust variable is .746.

Dependent variable. In order to measure the quality of LMX, perceived by leaders and members, an extensively premeasured LMX-7 instrument (Graen & Uhl-Bien, 1995) was applied, with soundest psychometric properties documented by meta-analytical studies (Gerstner & Day, 1997). In LMX-7, the quality of relationships is assumed to vary from low to high and is measured on a seven-item scale. LMX-7 measures vertical dyad linkage and involves attributes such as mutual trust, respect, affection, and loyalty. Leaders and members were the referents in measuring every leader-member dyad in the study. Both LMX-7 scales then were scored by summing up the responses for all questions, respectively. The mean value of the quality of LMX reported by the leader and the quality of LMX reported by the member was calculated for the whole dyad. The Cronbach alpha for the quality of LMX was .810.

Moderator. To date, there has not been an established instrument that would specifically measure the "family first" or "business first" orientation. Theoretical and empirical works that address this concept (e.g., Ward, 1987; Montemerlo & Ward, 2005; Sharma & Nordqvist, 2008; Montemerlo, Minichilli, & Corbetta, 2013) refer to the direct distinction between family over business or business over family. Thus, the leader's primary orientation (family-centric or business-centric) was assessed by a single item, "What goals are more important to you?" (Family = 0 and Business = 1). Out of the sample, 35.2% of the responding leaders selected family-centric orientation, and 64.8% of the leaders selected business-centric orientation.

Controls. We controlled for the leader's and the member's age and gender. CEOs of family businesses tend to remain in power much longer than in nonfamily businesses (Gersick et al., 1997) and their influence may be particularly salient on the quality of the leader-member exchange. Since leaders of family business often are motivated to build lasting legacy for children and can become especially preoccupied with this aim in greater age (Feltham, Feltham, & Barnett, 2005), the leader's age may influence the leader's motivation to establish a high-quality social exchange with family members. We also controlled for the leader's and the member's gender since gender can play a role in individual's involvement in work and family (Bielby & Bielby, 1989; Tenbrunsel, Brett, Maoz, Stroh, & Reilly, 1995). Masculine family roles and personal qualities and the role of an ideal worker are interdependent and complementary while feminine family roles along with personal qualities and the role of an ideal worker are independent and conflicting (Eagly & Carli, 2007; Meyerson & Fletcher, 2000; Simon, 1995). For example, as Lyman (1988) early noted, women are often prescribed the function of taking care of others' interpersonal needs, and this is often expected in both family and work context. Wives, mothers, daughters, grand-daughters and sisters often are the supporting family members to male leaders (Gillis-Donovan & Moynihan-Bradt, 1990). Therefore, the individuals engaged in the leader-member exchange may have certain role expectations that can be ascribed to gender and as a result, they may have implications on the perceived quality of the leader-member exchange. The leader's age is again important as a control variable in this vein, since the mindsets of individuals have changed significantly over the last several decades, with families shifting towards "dual-earner family" conception, when both husband and wife are gainfully employed (Bellavia & Frone, 2005). Thus, the leader's age and gender may have impact on expectations and perceptions of interactions with a family member.

4. RESULTS

The means, modes, standard deviations and zero-order correlations are presented in Table 1. The mean for the quality of LMX for the overall exchange in a dyad (based on both the leader's and the member's responses) is 4.60. Given that the maximum evaluation of 5 points could be reported, this result suggests that the quality of LMX between family members on average is high, supporting Hypothesis 1.

TABLE 1. **Descriptive statistics and correlations**

Variables	Mean	SD	1	2	3	4
1. Leader's trust in the member	4.46	0.228				
2. The quality of LMX	4.60	0.159	.19*			
	Mode					
3. Leader's orientation	Business		.09	.19*		
4. Leader's age	36-40 yrs		-.02	-.11	-.07	
5. Leader's gender	Male		.00	-0.8	-.04	.17
6. Member's gender	Male		-.09	.02	.04	-.13

Note: LMX = leader-member exchange n=128; p < .05; * p < .05; ** p < .01.

Table 2 represents the results of testing the models. In order to test Hypotheses 2 and 3, we first entered the control variables in Model 1: leader's age (as the natural logarithm), leader's gender, and member's gender (that were introduced as dummy variables, Male = 0, Female = 1). The control variables entered in Model 1 did not yield statistically significant results. Then, we added the main effect in Model 2 and tested the proposed moderation effect in Model 3. When the quality of LMX was regressed onto the leader's trust in the member in Model 2, the model changed significantly ($\Delta R^2 = .089$, $p < .05$). The leader's trust in the member is positively associated with the quality of LMX ($\beta = .26$, $p < .01$). Thus, Hypothesis 2, which stated that the leader's trust in the member will have a positive effect on the quality of LMX perceived by both leaders and members in familial dyads, was supported. Finally, Hypothesis 3 was tested, which argued that the leader's orientation moderates the relationship between the leader's trust in the member and the quality of LMX perceived by both leaders and members in familial dyads. Specifically, the positive effect of family-centric orientation is greater than the effect of business-centric orientation. To test the proposed moderation, we entered the interaction effect in Model 3 and obtained differing results with regard to the type of the leader's orientation (Family-centric = 0 and Business-centric = 1). When the leaders adopt family-centric orientation, the relationship between the leader's trust in the member and the quality of LMX is strengthened ($\beta = .31$, $p < .05$). In cases when the leaders pursue business-centric orientation, however, the interaction effect is nonsignificant.

TABLE 2. **Multiple regression analysis: dependent variable Quality of LMX**

	Model 1	**Model 2**	**Model 3**
Step 1: control variables			
Leader's age (ln)	-.14	-.12	-.02
Leader's gender	-.01	-.02	-.01
Member's gender	-.04	.06	.02
Step 2: main effect			
Leader's trust in the member		.26**	.59*
Step 3: moderator			
Leader's orientation			1.28
Step 4: interaction effect			
Leader's trust x leader's orientation (family-centric)			.31*
Leader's trust x leader's orientation (business-centric)			.04
R^2	.024	.089	.157
Adjusted R^2	.001	.060	-
ΔR^2	.024	.089*	-
F	1.037	3.021	1.837

n = 128; p < .05; * p < .05; ** p < .01. Regression coefficients are reported as betas.

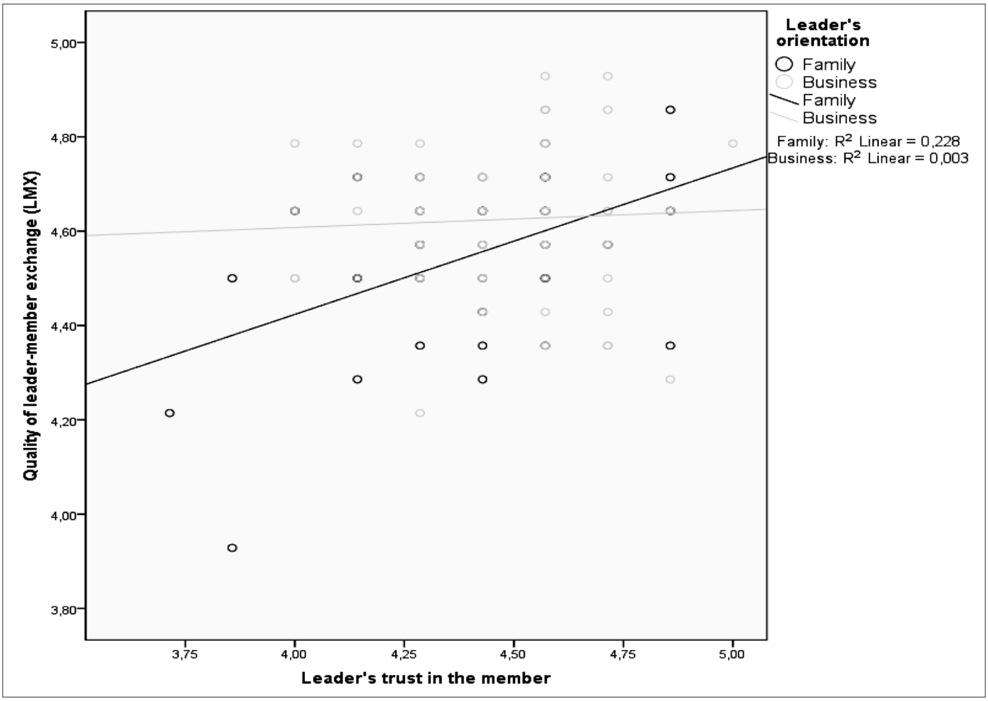

FIGURE 1**. Interaction effect between the leader's trust in the member and leader's orientation**

Figure 1 represents the plotted interaction effects. The plot again depicts the moderation effect occurring when the leader adopts a family-centric orientation. The effect in the case of a business-centric orientation is non-significant.

5. DISCUSSION

The influence of the family on the business can be both positive and negative, thus leading to the questions of how to reap the competitive advantages arising from the family system while at the same time preventing or limiting the negative aspects of this influence. In existing literature trust in family businesses has been mainly identified as a source of competitive advantage (Adler & Kwon, 2002; Aldrich & Cliff, 2003; Gersick et al., 1997; Hubler, 2011; James, 1999). Indeed, the findings of our study confirm that leaders and members in familial dyads share high-quality LMX, which is likely to be a result of common history, experiences, and values. The interpersonal leader's trust in the member, which is also available from family system, is positively associated with the quality of LMX in familial dyads. Identification of the variables that can potentially moderate this relationship is important in order to define the conditions under which the effect of interpersonal trust is enhanced or reduced. In addition, it may thus help to explain trust as an antecedent of the high-quality LMX. The findings in our study confirm the leader's orientation as one of such variables, which in certain cases significantly interacts with the leader's trust and alters the quality of LMX in the whole dyad. As hypothesized, the family-centric orientation strengthens the positive relationship between the leader's trust and the quality of LMX and this effect is greater than the effect of the business-centric orientation. In fact, the results show that the moderating effect of the business-centric orientation is statistically non-significant, suggesting certain limits or peculiarities in the positive effect of familial trust. This study alone does not argue that trust transferred from family context to business context has negative consequences. Consistent with prior research on trust as a potential competitive advantage, our findings complement these studies with additional perspective that the effects of trust may vary. While overall the influence of orientation on the relationship is deemed to be a positive effect, it poses a question as to what are the limits of familial ties promoting positive relationships at work, given that this mechanism does not function equally when the leader gives priority to business goals. Previous research has already suggested that families may act beyond business goals in order to preserve family interests (Anderson & Reeb, 2003; Gomez-Mejia et al., 2007). As such, the finding on the moderating effect of the leader's orientation indicates that trust, although positively affecting the quality of LMX perceived by both individuals in the dyad, can also cause risk for the business organization and perceptions of non-family employees, who are likely to engage in social comparison with focal individuals (other non-family employees and family members) in order to form the perception of their relative standing (Festinger, 1954). In the face of trust promoting the quality of LMX coupled with family-centric leader's orientation can cause negative perceptions among non-family employees, who tend to find themselves in uncertain and complex situations since they do not belong to the family (Mitchell, Morse, & Sharma, 2003). Thus, although overall deemed to be an essential condition and positive antecedent of LMX, the positive effects of trust can also be deceptive, depending on the set of additional factors, and family leader's orientation among them.

6. THEORETICAL AND PRACTICAL IMPLICATIONS

Earlier research has so far not explicitly concluded whether trust is an antecedent or an outcome of the leader-member exchange (LMX). Results of our study that considered interpersonal trust as an antecedent to LMX show that greater degree of interpersonal trust can positively predict the quality of LMX. Specifically, high degrees of interpersonal trust available from the family are associated with high-quality LMX. In this vein, a family business context can entail effects similar to those found in a non-family business context (Dulebohn et al., 2012; Gomez & Rosen, 2001; Wat & Shaffer, 2005). However, LMX in familial dyads, in contrast to work or business relationships, is likely to capitalize on already available familial trust and begin at the Mature partnership stage. Furthermore, the positive effect of trust on the quality of LMX can be moderated and at this point the leader's orientation comes at play, which is a specific condition for family businesses, not encountered in regular organizations. The findings of our study once again highlight the influence that the family may have on the business, along with positive and negative consequences, and paradoxes caused by the family involvement in the business (Sharma, Chrisman, & Gersick, 2012). From practitioner's perspective, leaders who adopt family-centric orientation can benefit from the enhanced LMX with a family member. However, the findings in our study suggest that they may need to be wary of the possible risks and ramifications concerning non-family employees.

In family business literature, family firm culture has been highlighted as a potential competitive advantage of family businesses, as a result, often characterizing them as "high trust" organizations (Corbetta & Salvato, 2004). The major focus of the studies has so far involved organizational level. In our study we highlight that trust begins with an individual (or micro) level (Welter, 2012), being further translated into organization-level outcomes. This individual (or dyad) level can also entail specific conditions and factors, which may account for differing results and are important to consider. Additionally, interpersonal trust may have varying effects under family and business perspective, which suggests that differentiation between family-based and business-based trust can be important in family business research.

7. LIMITATIONS AND FUTURE RESEARCH

Despite the contribution proposed by this study, there are several limitations suggesting further research direction. The study investigated the leader's interpersonal trust in the member as a starting point. We suggest that future studies could explore the effects of the member's trust as well as trust reciprocity since it is not necessarily balanced (Brower et al., 2000; Mayer et al., 1995) and may yield different outcomes. Drawing on the topicality of the effects of the leader's trust and orientation on the family business in transition economies, the sample in this study involved micro and small enterprises in Lithuania. Thus, results may be limited to the context of transition economies, where nepotism is a relevant issue (Kazmer & Konrad, 2004). Additional studies in both transition and developed economies could support or undermine the results of this study.

Our study adopted the concepts of interpersonal trust and leader-member exchange (LMX) that emerged and were coined for non-family business organizations. For the concept of interpersonal trust (Mayer et al., 1995), our study is built on the premises of long discourse in social sciences including psychology, sociology, political science, and economics (Scandura & Pellegrini, 2008). As such, this definition of trust encompasses interpersonal relationships in general, applicable to any context of interactions. The results of this study suggest that differentiation between family-based and business-based trust along with development of respective concepts may scrutinize the future analysis of trust in family business. Similarly, we adopted the concept of the leader-member exchange (LMX) for the purposes of this study that considers the social exchange in work context. While LMX as a theoretical lens conforms to the aims of this study, and specifically, interpersonal relationships and social interactions at work, one might argue that it was not developed for the family business, which is built on the overlap of family and business systems (Sharma & Carney, 2012). Further analysis of LMX in family business context, along with meanings that family members enclose in their understanding of LMX, may advance theoretical rigor in the field.

Finally, the leader's orientation may be subject to the orientation of the business owning and controlling family as a group that may affect the leader's choices and decisions. Investigation of the family's orientation and role could unveil additional layers in the interplay of trust, quality of exchange and orientation in these complex organizations. Further research could add to our understanding whether in the cases when family business leaders are primarily oriented on the business, their degree of trust in the members has greater effect on the quality of LMX in familial and non-familial dyads.

8. CONCLUSION

The current study examined the relationship between the leader's trust in the member and the quality of the leader-member exchange (LMX) in familial dyads in family businesses. The moderating effect of the leader's family-centric and business-centric orientation was tested to identify the specific conditions under which trust-LMX relationship is altered. The key implication of this study is that the leader's trust in the member is positively associated with the quality of LMX perceived by both the leader and the member. This relationship is further enhanced by the leader's orientation, however, only in the cases when the family leader pursues family-centric orientation. In contrast, business-centric orientation has no significant effect on this relationship. In sum, the findings of our study suggest that familial trust has positive influence on the social exchange in the business context, yet, it may be subject to the leader's orientation and have further implications for individual and organizational level outcomes. Thus, these findings further challenge the conditions under which family influence on the business may be positive or negative.

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