Unraveling Morality: The Impact of Business Size and Family-Owned Businesses on Trust Formation

Terry Haekyung Kim[a,b], Hyunjoo Im[b], and Zhanming Chen[b]
[a]University of South Carolina, USA, [b]University of Minnesota, USA

Keywords: family business, size perception, morality, authenticity, trust

Introduction

Family-owned businesses, characterized by the control and majority ownership held by two or more members of the same family (Carrigan & Buckley, 2008), play a pivotal role in bolstering the local economy (Beck & Prügl, 2018). Small family businesses are struggling to compete with larger national and international businesses, threatening local economies. While researchers devised managerial strategies for family-owned businesses encountering such challenges (Carrigan & Buckley, 2008), research on consumer perceptions of family-owned businesses is scarce and fragmented. However, understanding consumer perception is critical to building the small family-owned business's branding and marketing strategies. This study aims to uncover the effects of consumers' perceptions of family-ownership and business size focusing on the role of morality and trust perceptions.

Literature review

Consumer inference theory (Kardes, 1993) suggests that consumers make inferences based on available information such as branding cues. In the absence of intrinsic cues, consumers heavily depend on extrinsic cues to make decisions and evaluations (Bredahl, 2004). Because consumers rarely have information to accurately judge brands, cues such as family ownership and business size can serve as extrinsic cues. Family businesses are often associated with trust, the belief that another party will behave predictably (Luhmann, 2000). Numerous studies emphasized that the family firm cue can enhance consumers' trust formation (Carrigan & Buckley, 2008). *H1. The family ownership (vs. non-family) will increase trust in the brand.*

Consumer trust fosters positive relationships and business outcomes (Lude & Prügl, 2018). According to the Theory of Reasoned Action (Fishbein & Ajzen, 1975), a consumer's positive attitudes strengthened by trust will influence consumer's actions. Therefore, *H2. The trust will positively influence (a) attitude and (b) behavioral intention; H3. The attitude will positively influence behavioral intention.*

Morality refers to the degree to which the brand is believed to uphold moral values of honesty and sincerity (Haidt & Graham, 2007). People tend to humanize a family firm (Beck & Prügl, 2018) and humanized brands are considered to have morality (Golossenko et al., 2020). Thus, family businesses are often perceived as an entity with integrity and goodwill (Carrigan & Buckley, 2008). *H4. The family ownership (vs. non-family) will increase perceived morality.*

This study identifies three mediators that further explain how morality perception increases trust. Firstly, because moral development is essential for authenticity in a being (Walumbwa et al., 2008), authenticity is a key mechanism through which family ownership influences trust (Morhart et al., 2015). Secondly, the perception of morality is closely related to benevolence, a trustee's goodwill toward the trustor (Beck & Prügl, 2018). Benevolence is a critical outcome of humanness perception of the family firm (Beck & Prügl, 2018) and the central antecedent of trust (Williams, 2001). Lastly, the perceived ethicality of a brand is an indicator of the organization's morality and is closely associated with social contributions (Brunk & Blümelhuber, 2011). A company's ethical behavior plays a crucial role in building trust with customers (Lin et al., 2011). Taken together, *H5. The effect of family ownership on trust will be serially mediated by morality and (a) authenticity, (b) benevolence, and (c) ethicality.*

Small firms are often believed to be more socially responsible than larger firms (Audretch, 2002). Entrepreneurs of small businesses are perceived to engage in responsible behaviors (Solymossy & Masters, 2002). Therefore, it is likely that the positive effect of family ownership on trust is amplified when the firm is small than large. *H6. The business size will moderate the effect of family ownership on trust.*

Methods

A 2 (ownership: family vs. non-family) x 2 (size: large vs. small) between-subjects online experiment was conducted (CloudResearch, N=389, US consumers aged 18-75). Participants were randomly assigned to one of the four conditions and viewed the short description of a brand (a children's clothing maker) and completed a questionnaire. All measurement items were adapted from a previously validated instrument and measured on a 7-point Likert scale.

Results

Data was analyzed using SPSS and PROCESS Macro. Psychometric properties of the measurement scales were ensured (i.e., reliability, validity). The mean age of the participants were 37.81 (SD=11.96), with 47% male (n=183) and 52.4% female (n=204).

Results showed that manipulations of business type ($F=144.588$, $p<.001$, $M_{fam}=5.78$ vs. $M_{non}=3.95$) and size were successful ($F=595.205$, $p<.001$, $M_{large}=5.63$ vs. $M_{small}=2.14$). The family ownership and the small size of the business both positively affected trust perceptions ($F_{fam}=8434.166$, $p<.01$; $F_{size}=229.467$, $p<.05$; H1 supported). Then, trust positively affected attitude ($\beta=.597$, $t=14.624$, $p<.001$, $R^2=.356$) and behavioral intention ($\beta=.602$, $p<.001$, $R^2=.362$). Thus, H2 was supported. Attitude positively influenced behavioral intention ($\beta=.560$, $t=13.284$, $p<.001$; H3 supported). The effect of family ownership was serially mediated by morality and authenticity (effect=.09[.02;.18]), but not by ethicality or benevolence (H4 supported; H5 partially supported). The size of the business did not moderate the serial mediation. Thus, H6 was rejected. Instead, the size influenced trust through benevolence (effect=.03[.01;.07]) and authenticity (effect=.13[.05;.22]) (serial mediation).

Discussion & Conclusions

Based on consumer inference theory, our research unveils how family businesses and small businesses can earn consumers' trust. First, our study suggests that morality perception is the key mediator that triggers trust-related perceptions. The indirect effects through empathy, benevolence, or authenticity disappeared without morality. Thus, the findings suggest that increasing perceived morality for family-owned businesses is important in enhancing consumers' trust perception. Second, authenticity remains the only mediator that explains the variance of trust. Therefore, a heightened perception of the authenticity of the business (which is elicited by the increased morality perception) is necessary to increase consumers' trust. Third, the findings suggest that the small size of the business, compared to family ownership, may be more effective in increasing consumer perceptions of trust in more than one way if the business makes clear moral claims. Lastly, this study is limited by the potential influence of the product category of the brand on the non-significant interaction of size and ownership. Therefore, future research should consider investigating this relationship within a different product category to enhance the generalizability of the findings.

Reference

Beck, S., & Prügl, R. (2018). Family firm reputation and humanization: Consumers and the trust advantage of family firms under different conditions of brand familiarity. *Family Business Review, 31*(4), 460-482.

Bredahl, L. (2004). Cue utilisation and quality perception with regard to branded beef. *Food Quality and Preference, 15*(1), 65-75.

Brunk, K. H., & Blu¨melhuber, C. (2011). One strike and you're out: Qualitative insights into the formation of consumers' ethical company or brand perceptions. *Journal of Business Research, 64*(2), 134-141.

Carrigan, M., & Buckley, J. (2008). 'What's so special about family business?'An exploratory study of UK and Irish consumer experiences of family businesses. *International Journal of Consumer Studies, 32*(6), 656-666.

Fishbein, M. & Ajzen, I. (1975). *Belief, attitude, intention and behavior.* Reading, MA: Addison-Wesley.

Golossenko, A., Pillai, K. G., & Aroean, L. (2020). Seeing brands as humans: Development and validation of a brand anthropomorphism scale. *International Journal of Research in Marketing, 37*(4), 737-755.

Haidt, J., & Graham, J. (2007). When morality opposes justice: Conservatives have moral intuitions that liberals may not recognize. *Social Justice Research, 20*(1), 98-116.

Kardes, F. R. (1993). Consumer inference: Determinants, consequences, and implications for advertising. *Advertising Exposure, Memory, and Choice, 349*(7), 163-191.

Lin, C. P., Chen, S. C., Chiu, C. K., & Lee, W. Y. (2011). Understanding purchase intention during product-harm crises: Moderating effects of perceived corporate ability and corporate social responsibility. *Journal of Business Ethics, 102*(3), 455-471.

Lude, M., & Prügl, R. (2018). Why the family business brand matters: Brand authenticity and the family firm trust inference. *Journal of Business Research, 89*, 121-134.

Luhmann, N. (2000). Familiarity, confidence, trust: Problems and alternatives. *Trust: Making and Breaking Cooperative Relations, 6*(1), 94-107.

Morhart, F., Malär, L., Guèvremont, A., Girardin, F., & Grohmann, B. (2015). Brand authenticity: An integrative framework and measurement scale. *Journal of Consumer Psychology, 25*(2), 200-218.

Solymossy, E., & Masters, J. K. (2002). Ethics through an entrepreneurial lens: theory and observation. *Journal of Business Ethics, 38*, 227-240.

Walumbwa, F. O., Avolio, B. J., Gardner, W. L., Wernsing, T. S., & Peterson, S. J. (2008). Authentic leadership: Development and validation of a theory-based measure. *Journal of Management, 34*, 89-126.

Williams, M. (2001). In whom we trust: Group membership as an affective context for trust development. *Academy of Management Review, 26*, 377-396.