

Policing nepotism and cronyism without losing the value of social connection

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Abstract

Anti-nepotism policies are common in work organizations. Although cronyism appears commonplace, as well, official policing of cronyism is less common. We argue that social connection, sometimes in apparent nepotistic and crony relationships, may add considerable value to organizations. We also argue that policing of nepotistic relationships can be a form of unfair discrimination when the perception of inequity is being policed rather than its reality. Finally we will consider effective approaches that simultaneously preserve the value of social connection, avoid the actual ethical breaches associated with some social connections, and avoid unfair discrimination on the basis of group memberships (in this case family and friends).

Nepotism is defined as actual and perceived preference given by one family member to another (Jones, 2012). Cronyism, its close relative, involves actual and perceived preferences by one friend to another. For the sake of page space, these will be referred to collectively as social connection preference (SCP). Most popular examples of SCP describe preferences given by decision makers within an organization to their fellow members of groups *outside* the organization (family, friends, club members, etc.). Furthermore, and most important for the purposes of this paper, SCP is generally assumed to be unethical and to reduce organizational effectiveness. That is, SCPs are seen as unfair and ineffective (Simon, Clark & Tiffit, 1966; Bellow, 2003; Mutlu, 2000).

SCP is a pervasive phenomenon (Bellow, 2003; Jones, 2012). Given this, it is remarkable how little has been done to investigate SCP and the organizational practices that are used to manage it. Furthermore, little of this research comes from applied psychology (see Colarelli, 2003), despite the obvious social psychological nature of this problem set. This paper will juxtapose the little we know about SCP with the somewhat larger literature on the effects of social connectedness, more generally. This will lead to an evaluation of the likely effectiveness of methods used to manage SCP. Discussion will center on the various social and ethical dilemmas implicit in any attempts to manage the fundamental human tendency to give preference to kin and friend.

Managing a social dilemma

Consider the plight of a Sam, who has been in a long and fruitful relationship with a life partner, who we shall call Jan. Sam is chief of operations at Happy Place (HP), and

controls hiring for its many chocolate factory employees. Jan has asked Sam to hire a favorite cousin – Danny-- to fill a shop supervisor role.

Sam is already in a social dilemma, even before we consider Danny's competence for the job or any policies that HP may have against family hiring. This dilemma in itself helps to explain the enormity of the prevalence of SCP. Sam has obligations to both familial and work groups. If Sam decides not to *consider* Danny, there is a risk that the longtime, very important bond with Jan will be jeopardized. On the other hand, deciding to consider Danny for the job costs very little, assuming that there is no obligation to hire. In the long run, and given the likely power of family social groups over organizational social groups, it should not be surprising that family often wins in decisions like this one.

Additional social dilemmas occur when Sam decides to consider Danny for the job. Evaluations of Danny's *competence* and *willingness* to accept the opportunity of a job at HP both lead to dilemmas. The first of these (competence) is the classic problem of nepotism. If Danny is less competent than other available workers, Jan needs to decide between Jan's wishes and HP's interests: It again pits Jan against HP in Sam's decision making. Of course, if HP proscribes family hiring, Sam may risk loss of employment, depending on the legal status of the Sam/Jan relationship.

However, when combined with Danny's *willingness*, it also pits Sam's relationship with Danny (a member of "family") against Sam's relationship with the organization. Suppose that Danny is highly competent and the best available applicant for the position by all

criteria (performance, retention, citizenship). But, if Danny feels compelled to accept the offer, against his own wishes, this constitutes coercion (Van Hooft & Stout, 2012). Even though Danny would provide advantages to the organization, Sam is faced with weighing the interests of HP against those of Danny. In the end, Danny may have problems with both Sam and HP, and Sam has problems either way: By not agreeing to Jan's wishes, by choosing to undermine HP's interests, or by coercing Danny.

In order to avoid these problems and more (Muchinsky, 2012), organizations use sweeping anti-nepotism policies (Jones, Stout, Harder, Levine, Levine, & Sanchez, 2008) that prohibit hiring of close kin. Such policies are by definition "policing"—that is, the use of coercion (penalties such as the loss of one's job) in an attempt to reduce or eliminate targeted behaviors. Such policing is also by definition discriminatory on the basis of our most basic social category—our family membership. That is, it discriminates between applicants who are and are not family members, and is thus a selection device. This, in itself does not constitute unfair discrimination. It just singles out family relationships (as opposed to other SCPs or group memberships) as a basis for excluding people from the organization.

However, it should be noted that Gutman (2012) describes adjudicated cases where such policies have created de facto discrimination. One case is particularly illustrative of this problem. The vast majority of applicants excluded from employment by one anti-nepotism policy were women (Gutman, 2012). Thus, this policy was struck down by the court on the basis of unfair gender discrimination.

Naps and nepotism

From the organizational perspective, the social dilemmas of SCPs have an analogy in the fundamental need for sleep. Like the preference for kin (Spranger, Colarelli, Dimotakis, Jacob, & Arvey, 2012), sleep is a powerful motivator. Numerous studies have shown that variables associated with sleep can have effects on work performance (Driskell & Mullen, 2005; Wyatt & Bootzin, 1994). In particular, recent research has shown consistently that napping at work can enhance productivity (Driskell & Mullen, 2005; Davy & Göbel, 2013; Hayashi & Chikazawa, & Hori, 2004; Wyatt & Bootzin, 1994). However, in some cultures, there appears to be a stigma of incompetence that accrues to those who are “caught napping” (Mead, 2007). This may explain why, despite the demonstrated advantages of napping, research on company policies that “allow” napping is fairly recent (e.g. Bonnefond, Muzet, Winter-Dill, Bailloeuil, Bitouze, & Bonneau, 2001). Thus, the natural inclination for sleep (like the natural tendency toward kin preference), is policed in organizations.

Now, suppose that a company polices *against* napping—against our natural inclination for sleep. Since napping enhances productivity, the company policy is a counter-productive attempt to reduce the *perception* of incompetence, rather than the reality of incompetence. Workplace prohibitions on social relationships in the interest of reducing perceptions of unfair preference may be similarly counterproductive. Like discrimination on the basis of other group memberships (i.e. gender, ethnicity, religious group membership), there is a need for I-O psychology to do the sort of research on the effects of SCP that Human Factor Engineering has done on naps.

The advantages of social connection to organizations

This is particularly so in light of other research related to social connection. Though family and friends are constituted outside the organization (except in family firms), their later inclusion in the organization may actually enhance organizational effectiveness. In fact, research on social capital has demonstrated in fairly convincing fashion that social connectedness in the workplace provides advantages to both individuals (Noe & Tews, 2012; Walton, Cohen, Cwir, & Spencer, 2012) and organizations (Andrews, 2010). It is possible, in fact, that SCP may be a large part of the reason for positive effects of social connections in organizations.

Research on career development supports this notion at the individual level. Van Hooft & Stout (2012) provide a number of possibilities from the nepotee perspective, based on job search and career choice literatures. First, since genetic offspring are likely to have specific dispositions and abilities in common with their predecessors. This would tend to enhance their “fit” with occupations similar to predecessors (Dickson, et al, 2012).

Second, motives and preferences that are influenced by families and friends may affect career and job decisions. In particular, social cognitive theory (Lent, Brown, & Hackett, 1994; Betz & Hackett, 1981) is based on self-efficacy beliefs that are developed through family experiences. If offspring experience positive feedback for developing career preferences and skills similar to their parents’, then nepotie careers are more likely. This same mechanism may proceed from the feedback received from friends.

A third possible reason for the advantages of SCP is human capital transfer. In career theories, human capital transfer explains familial occupational choice as the result of enhanced exposure. By exposing children to the knowledge and skills required for an occupation, parents increase the chances that the child will choose the occupation. Like genetic and cognitive explanations, the assumption here is that parents have a fundamental effect on offspring's development and choices (Gway, Senecal, Gauthier & Fernet, 2003). In this case, the effect occurs through sharing of occupation-specific knowledge and skill (Whiston & Keller, 2004; Laband & Lentz, 1992).

In terms of broader SCP than family, human capital transfer may occur with friends, as well. For example, friends from school have often *learned job-relevant content* from each other and have *learned to trust* one another's judgment and choices. Evidence is clear that people learn effectively through social transfer (Konstantinou & Fincham, 2011). The development of trust in nepotistic relationships may also grant an important advantage in SCP (Dickson, Nieminen, & Biermeier-Hanson, 2012). If people have relied on each other for learning through their professional training, they may continue to do so after leaving educational institutions.

It seems likely that individual success in the organization relies to some extent on such previously successful relationships (Reiche, 2012). It makes sense that people would prefer to perpetuate successful friend and family relationships formed outside of the organization by establishing them inside the organization. If these relationships were

effective in other endeavors, why would they be assumed to create problems in the organization?

In fact, this human capital transfer into organizations through SCP mechanisms may explain the evidence about recruitment source effectiveness. Specifically, this research has shown that individual referral is the best source for new employees (Zottoli & Wanous, 2000). To date, there is no research that shows what percentages of such referrals are familial, but it is almost certain that friends are a major part of any referral group. The effectiveness of such SCP referrals has never been compared to the effectiveness of referrals of other, non-friends in the available workforce. This may seem a bit far-fetched, but it is just this sort of analysis that is used to evaluate the fairness of hiring decisions with respect to other group memberships (esp. ethnicity and gender). So, fairness has never been considered in understanding the value of referrals—just that they tend to be a “good” source. Still, referral seems to be related to successful integration of social connections across boundaries.

At the organizational level, research supporting SCP-effectiveness relationships is more than suggestive. Walmart, O’Reilly Automotive, Ford Motors, and Walgreens are all firms with integrated family relationships in critical roles; all started as family firms and carry family names. During the great recession, these were some of the top performing stocks in their sectors, suggesting that family connection is an advantage at the organizational level.

Quantitative research also supports this. For example, Luo, Huang, and Wang (2012) have demonstrated meta-analytically that *quanxi*-- a Chinese notion of social connection and exchange relationships-- has positive relationships with different measures of performance across a very large sample of organizations. Given how uncommon it is to find firm-level evidence of the efficacy of social-psychological variables, this makes a strong case for conserving and even enhancing SCP in organizations.

In addition to these *advantages*, there is little quantitative evidence showing that the inclusion of family and friends in an organization's social connections is a *problem*. Many people tell stories of incompetent offspring and corrupt cronies, but there is little quantitative evidence supporting the negative effects of these sorts of relationships (Harder, 2012). In fact, these stories may belie cultural stereotypes. Regardless, given the tendency to seek confirming evidence to support stereotypes under some circumstances (Snyder, Campbell, & Preston, 1982; Allen, Sherman, Conrey, & Stroessner, 2009), such vivid anecdotes should be given little weight.

How to effectively police social connection preference

Effective policing needs to take into account the stakeholder dilemmas described earlier. First, it should be clear that anti-nepotism policies are a form of unfair discrimination. Because such policies do not take all stakeholder interests into account, using status as family or friend of someone in the organization as a sole basis for hiring (or not hiring) is unethical and unjust (Phillips, 2003). This is akin to the use of stereotypes to make decisions: "I have seen an example of dysfunctional crony or family relationship, so I

assume that all such relationships are bad.” To the contrary, the evidence on recruitment sources, social capital and career choice suggest the opposite.

What this means is that, if we wish to get the advantages of a “family feel” in an organization, it means managing the common prejudices against SCP. Like the stigma associated with napping, there are probably prejudices against SCP. And, just as SCPs are not likely to go away, so the stereotype that SCP will always lead to unethical behavior dies hard. In fact, it is not likely that we will ever get rid of either preferences or prejudices. And, even though these prejudices do appear to differ across cultures (Wated & Sanchez, 2012; Luo et al, 2012), they are pervasive enough to have practical significance for organizational practices (i.e. anti-nepotism policies). At the same time, because they do appear to differ across cultures, some of the same means that organizations use to try to enhance cross-cultural understanding may therefore hold promise as ways to manage the prejudice against SCP (Morley & Cerley, 2010).

Assuming that the many stories of dysfunctional SCP are true, however, we need to ask another set of questions. Foremost among these is how organizations might effectively manage dysfunctional relationships. One obvious way would be to try to stop them from entering the organization in the first place: Hence common anti-nepotism policies. These include everything from complete exclusion on the basis of family membership to simple disclosures about dual relationships (Gutman, 2012; Wegman, 2007). Disclosure requirements of course fit less comfortably under the heading of selection devices than do

stricter anti-nepotism policies. Nevertheless, most of the same ethical questions apply: The idea is to reduce real or perceived conflicts of interest.

Such anti-nepotism policies have the potential problems that we have discussed so far, and there are other reasons to doubt their efficacy. First, strict anti-nepotism policies have been successfully challenged on the basis of gender discrimination. In one case, almost all of the job applicants excluded on the basis of an anti-nepotism policy were women—spouses of male workers (Gutman, 2012). The history of such policies also suggests problems with which I-O psychologists are well-acquainted: The original selection tests were devised partly to eliminate SCP in hiring in the Chinese Civil service (Wang, 1960). These apparently did not entirely do the trick back in the first millennium—the practice of employing only eunuchs (men who were unable to have children) was also followed, but also failed (Crawford, 1961; Menzies, 2004). If a lesson can be drawn from history here, even the most draconian anti-nepotism policies may not work. And this is not even mentioning the problem of policing cronyism—something which is loosely policed in laws that require disclosure of conflicts of interest (e.g. Sarbanes-Oxley; Wegman, 2007).

One potential answer lies more readily at hand to I-O psychologists. While imperfect, the use of validated measures for hiring decisions is the preferred tool of I-O psychologists—not sweeping, either/or anti-family policies. This is of course a fundamental argument for the use of our services, however inadequate Chinese civil service testing may have been. In fact, it is an argument that could be significantly bolstered by further research evaluating both the predictors and the effects of dysfunctional SCPs.

But screening for competence alone may not account for problems of coercion. In the case of Danny in our scenario, there are important questions for how to police the tendency of senior family members to coerce even *competent* family members into accepting jobs they do not want. Job preference measures and values inventories may help to screen for the sorts of dysfunctions that can occur when family or friends are being coerced into a job. Such *career-relevant* hiring systems may hold promise for reducing potential problems with coercive SCP in organizations, as well.

In smaller organizations, I-O psychologists might even put our extensive experience with measurement to work as a way to evaluate relationship characteristics. Such information might help with both hiring processes and organizational training and development. In hiring, for example, an initial “realistic preview” of likely future relationship problems could both lead to self-selection and to successful adjustment. Additionally, empirically-based weighing of the risk of dysfunction against the development of social capital would be better informed. And this same sort of relationship information could serve as a component of needs assessment and in the feedback component of individual and group development. Taking such assessments to the level of standardization and validation held by some famous selection measures could prove highly profitable, if the online dating services are any indication.

Once dysfunctional relationships have entered the organization and begun to move toward problems for the larger organization, things become more complicated (Becker,

2012; Wated & Sanchez, 2012). For a start, the common stereotype (and vivid, confirmatory anecdotes) may have some merit, despite what we have seen so far about the potential benefits of SCP to organizations as a whole. Evaluation research may in fact find that decisions based on SCP may be more likely to yield more “false positives”, leading to adverse effects on other stakeholders within the organization. There is some evidence that SCP perceptions do relate to the satisfaction of other employees (Arasli & Tumer, 2008; Khatri & Tsang, 2003). Although we have already seen that this may be a result of prejudice, “morale” has been used as a legal argument for allowing “no spouse” rules (*Yuhas v Libby-Owens*, 1977; *Thorne v City of El Segundo*, 1983). However, there is no evidence to date demonstrating that policing *enhances* commitment, satisfaction, fairness perceptions, or other “morale” variables.

If we follow the Danny problem a bit further, additional issues may develop for management of SCP. For the *incompetent* SCP recipient, coerced employment runs the risk of stunting the development of important knowledge and skills that might have been gained in other circumstances.* More broadly, anecdotes suggest many dysfunctional relationships that can develop as a result of SCP at work (Muchinsky, 2012). In order to police (or at least manage) these, I-O psychologists will need to consider the competencies usually associated with counseling and family therapy. Although many current I-O psychologists lack training in these areas, many of us are intimately entwined with such problem relationships at work. Future professional committees may choose to consider the development and inclusion of this set of competencies.

Summary

Popular stereotypes about the nature and effects of social connections should not be the basis for sweeping, pervasive organizational policies. In fact, given 1) the actual evidence about the effectiveness of social connection preference, 2) the discriminatory effects of sweeping policies, and 3) the cultural differences in perspectives and practice, I-O psychologists have a professional responsibility to empirically evaluate both the nature of SCPs and their actual risks and benefits. Science-based practice and ethics both demand that we refrain from “engineering” such relationships in work organizations before we have carefully surveyed them. Using the analogy of natural systems (e.g. rivers) and engineering solutions (e.g. dams), trying to deliberately “dam” natural family and friend systems without empirical evidence about their forms and contexts is likely to be at least ineffective, and potentially catastrophic.

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