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DO NEPOTISM AND CRONYISM HAVE PAYOFF BOUNDARIES? A CROSS-COUNTRY INVESTIGATION

Abstract

In modern business, the phenomena of "nepotism" and "cronyism" are often observed, which are usually associated with corruption in the public sector and abuse of public resources. However, these phenomena are international in scale, and no country or sector of the economy is free from them. Existing research does not identify shared and contradictory interests of individuals based on nepotism or cronyism. This study aims to fill this research gap. A research hypothesis was developed and tested in order to determine a point from which nepotism and cronyism are not beneficial to their perpetrators. The research data included Poles and Albanians. According to Transparency International (2022), the obtained results showed that Polish society is currently less vulnerable to corrupt practices than Albanians. Moreover, it was substantiated that relative altruism operates as the mechanism that explains nepotism or cronyism practices. Individuals involved in nepotism or cronyism perceive these practices as a tool to reduce the risk of their operations failing. However, the phenomena lead to long-lasting reciprocity, like in the case of corruption. This study contributes to a better contextual diagnosis of organizations and helps develop preventive strategies.

Keywords

unethical behavior, morality, nepotism and cronyism,
family business, compliance

JEL Classification

J53, J88, M19

INTRODUCTION

Conflicts of interest as a phenomenon related to corruption are a prerequisite for developing corruption offenses. Conflicts of interest precede extracurricular relationships that have or may have potential corruption risks related to family, close relationships, or business interests. As a rule, this applies to officials who directly represent the interests of public authorities and local self-government and, at the same time, have their own private interests, which is contrary to the interests of society. The openings consider nepotism and cronyism as prerequisites for the conflict of interests that underlies private interests. Thus, conflict of interest is a broader and deeper corruption phenomenon, which includes not only the presence of potential conflicts of interest, decision-making in conflicts of interest but also the emergence of corruption within the state mechanism, the spread of such phenomena as close relatives, benefits and privileges to friends, etc.

While the existing literature shows the existence of nepotism or cronyism practices in businesses, a question that has not been addressed is how to identify shared and contradictory interests of those engaged in nepotism or cronyism practices? This question is crucial for all companies worldwide, including family businesses and multinational enterprises, engaged in implementing their integrity policies. They in-

vest in different technologies and enhance profitability, often being responsible to shareholders or, more broadly, to stakeholders. Individuals and organizations start to perceive any preferential treatment of relatives or friends in workplaces as unfair and treat such a situation as an indicator of low social responsibility (Cruz et al., 2014; Samara & Paul, 2019).

The current study reveals how deep nepotism and/or cronyism practices can develop in firms.

1. LITERATURE REVIEW AND HYPOTHESIS

Nepotism and cronyism are widespread in modern business. Manifestations of both phenomena can be observed in different countries and different sectors of the economy. Nepotism and cronyism are analyzed as forms of internal corruption in non-governmental organizations when decision-making is guided not by objective criteria that determine the employee's competence but by family relations or patronage of employees based on subjective feelings. In other words, in both cases, social ties take precedence over the interests of the organization. This situation is not appropriate for the sustainable development of organizations.

Wong and Kleiner (1994) formulated a few sound generalizations about nepotism. First, nepotism practices are a sensitive and touchy issue in American business. They noticed that nepotism is alive in American business and remains deeply ingrained in all industries. Second, the firms' rationality does not help reduce nepotism or cronyism. Vinton (1998) argued that nepotism is one of the least-studied and poorly understood human resource practices. More recent research on this phenomenon (Bellow, 2003; Coco & Lagravinese, 2014; Firfiray et al., 2018; Akuffo & Kivipõld, 2019; Gorji et al., 2020) confirmed the above generalization. The above argument is additionally justified if one considers that, despite many studies, the frequency of unethical behavior in both the private and public sectors is enormous, as evidenced by the annual Transparency International analysis (2021, 2022).

One would be wrong to say that nepotism and cronyism are the noticed bane only of American companies. They are widespread worldwide and broadly presented in the literature. Wong and Kleiner (1994) characterized nepotism as preferential conduct of employing and developing a low or not-qualified candidate for a job because

of their closeness with those who have some administrative or shareholding authorities. Abdalla et al. (1998) studied the perceptions of human resource managers toward nepotism. Arasli et al. (2006) analyzed undesirable impacts of Nepotism on HRM and HR Need Anticipation. Jaskiewicz et al. (2013) and Padgett et al. (2015) considered whether nepotism is good or bad in the organizational context, and the division of nepotism into two kinds of paired against intergenerational nepotism in the workplace. Wated and Sanchez (2015) considered the advantages of nepotism. Without considering job-related competence and skills of employees, managers and top management authorities are bringing their family members to higher and good positions in firms. Moreover, the behind motivation is clear as relations come first than technical skills and abilities.

Landsberg (1983), Holland and Boulton (1984), and Donnelley (1988) perceive nepotism through the prism of the company's size. They argue that nepotism may exist in small companies and should be limited to large ones. Such a statement is controversial. One may argue that nepotism is the only way small and privately-owned entrepreneurship can effectively exist and prosper. However, this statement can be sound only in the case of firms that do not employ non-family staff. In other cases, the argument presented above might be similar to another controversial idea: one may tolerate "small" corruption, but a big one may not. Such a view leads to relativism and acceptance of organizational pathologies. Meanwhile, any pathology is wrong from a societal perspective, regardless of size. Jaskiewicz et al. (2013) suggested that social exchange relationships between family members are valuable to firms because they facilitate tacit knowledge management, leading to competitive advantage. In opposition, Sroka and Vveinhardt (2018) argue that continuing business activity at all costs, even without ethical framework, does not lead to long-term success.

As mentioned earlier, the preferential treatment of family employees is perceived as standard practice in many businesses (Barnett & Kellermanns, 2006; Chua et al., 2009; Samara & Arenas, 2017). However, Samara and Paul (2019) and Cruz et al. (2014) aptly underline that many theorists and practitioners currently assume that such preferential treatment is unfair and indicates low social responsibility.

Cronyism exists close to nepotism, and many researchers studied cronyism (Wade, 1998; Khatri & Tsang, 2003; Johnson & Mitton, 2003; Khatri et al., 2006; Brick et al., 2006; Gul, 2006; Coco & Lagravinese, 2014; Jones & Stourt, 2015). It was underlined that cronyism is the mutual support of people related by intimacy or belonging to a specific group. Cronyism is otherwise known as protection, based on informal connections. Considering these definitions and the definition of nepotism as perceived preferences given by one family member to another (Jones, 2012), one may argue that nepotism and cronyism lead to long-lasting dependence with unpredictable outcomes. Therefore, nepotism and cronyism are similar to corruption. However, the perception of cronyism and nepotism depends on a particular society (Leung et al., 2008). Even though informal economic relations are typical for every society, even the most developed, the level of perception of nepotism and other features of untransparent connections significantly differs (Al-Naser & Hamdan, 2021; Mishchuk et al., 2018; Saputra, 2019).

As stated earlier, the adverse influence of nepotism and cronyism on society is well known. These phenomena lead to weak outcomes in the long term (Brick et al., 2006; Aydogan, 2009; Coco & Lagravinese, 2014; Safina, 2015; Pearce, 2015; Abubakar et al., 2017). Researchers also recognized the relationship between nepotism, cronyism, and loyalty. Hiring and promoting people in organizations is not based on their knowledge and skills. However, family and crony ties require the parties' loyalty. Loyalty alone is not bad behavior, but in this case, it may foster cultures of crime by demanding members' silence to others' wrongdoings (Elliston, 1982; Graham & Keeley, 1992; Skolnick, 2002; Rothwell & Baldwin, 2007; Hildreth et al., 2016). In business, loyalty to one's friends and family manifests in cronyism and nepotism (Padgett & Morris, 2005; Hildreth et al., 2016; Samara & Paul, 2019) and may drive corruption. Such a situation

generates epistemic injustice and manifests by exclusion, undervaluing one's status in communicative practices, unfair distinctions in authority, and unwarranted distrust (Fricker, 2007).

Altruism behavior is widely addressed in the literature (Hamilton, 1964; Piliavin & Charng, 1990; Jensen, 1994; Rose-Ackerman, 1996; De Waal, 2008; Kurzban et al., 2012) and is generally understood as a desire to benefit someone other than oneself for that person's sake (Sober & Wilson, 1998). There are several types of altruism. Reciprocal altruism is based on a mutual give-and-take relationship. Those who help other persons now expect that these persons may one day return the favor (Brosnan & de Waal, 2002). Group-selected altruism includes helping people based on their group affiliation (Hagen & Hammerstein, 2006). Genetic altruism involves engaging in acts that benefit close family members (Rushton, 1989). Finally, moral altruism involves helping someone else without reward (Underwood & Moore, 1982; Daube & Ulph, 2016).

One may argue that altruism's roots are impartial and impersonal or a central role of compassion and personal affection in altruistic behavior (Blum, 1980; Noddings, 1986; Slote, 2013). Simon (1993) stated that the key concept in modern evolutionary theory is fitness (the number of progeny individuals produced or, for species, the average number of progeny members of the species). In evolutionary theory, altruism means behavior that reduces the actor's fitness while enhancing others' fitness. Therefore, Simon (1993) noticed that altruistic behavior would thrive only under exceptional circumstances. In other words, altruism to close kin may occur if it positively influences their fitness. Besides, altruistic behavior may oblige others to behave altruistically (Annas, 1993; Batson, 2011).

One can analyze nepotism and cronyism from their impact on social capital (Ignatowski et al., 2020, 2021). This term refers to features of public life, such as trust, norms, and networks (Putnam, 1993, 2000). Researchers usually emphasize the benefits that flow from social capital. For example, there are trust, reciprocity, information exchange, and cooperation (Goldthorpe et al., 1987; Coleman, 1988; Baker, 1990; Boxman et al., 1991; Burt, 1992; Fukuyama, 1995; Brehm & Rahn, 1997; Nahapiet & Ghoshal, 1998; Lochner et al., 2003; Moran, 2005), growth of de-

mocracy level, attractiveness for high-skilled professionals and possibilities for economic development consequently (Grgurevic, 2022; Oliinyk et al., 2021). The influence of social capital on intra-organizational mobility was also emphasized (Podolny & Baron, 1997), as well as the links between trust, on the one hand, and economic performance, on the other (Knack & Keefer, 1997; Putnam, 2000; Whiteley, 2000; Stam et al., 2014). For example, the positive influence of social capital on the process of assembling financial capital in market economies is underlined by Newton (1999), and speeding up deals is underlined by Husted (1989), Svensson (2001), Blois (2002), Pennington et al. (2003), and Huang and Wilkinson (2013), an increase of the tax compliance level is confirmed by Mas'ud et al. (2019).

In opposition to Putnam's (1993) optimistic view of social capital, Bourdieu (1986) emphasized some negative aspects of social capital. For example, special interest groups can establish social connections that speed up transactions but effectively exclude outsiders, leading to epistemic injustice. In other words, social capital can be used to maintain advantages for some individuals and their relatives or their social class. In such circumstances, "interest groups" are willfully created and maintained to obtain undue privileges and usually financial benefits. The creation of isolated groups may occur not only due to financial reasons. If members of a social network become over-embedded, it can serve as a blockade that isolates it from the outside world (Uzzi, 1997; Gargiulo & Benassi, 2000; Parra-Requena et al., 2010).

Portes (1998) pointed out the consequences of low social capital. Societal relations based on a low level of trust lead to economic and social stagnation and may create ethical collapse resulting in social inequality, exclusionary, and corruption. The adverse effects of negative social capital are revealed in the "conspiracy of silence" phenomenon. This behavior results from the parties' loyalty, resulting from the fear of the consequences of revealing some information. It may lead to crime proliferation. The "culture of silence" can be considered a substitute for trust (Dobrowolski, 2017).

Fairness and honesty in all methods of working with staff are considered the most important principles. However, this is not as simple as it seems. Their application requires extra effort to maintain a very transparent recruitment process. Negotiation is one of the

imperative barriers that hire recruitment managers to attract the most qualified and competent candidates. Thus, systematic study of nepotism and cronyism determines the purpose of the study.

Based on the above, the following hypothesis was developed:

H₁: Pareto set shows the boundaries of profitability of nepotism and cronyism for their perpetrators.

2. DATA AND METHODS

Research data collected using unstructured interviews in 2017–2019 included 200 individuals working in Poland's private sector and 105 individuals from Albanian firms. There was assumed that this kind of interview is used in qualitative research to understand complex human behavior without imposing any a priori categories that might influence the analysis result (Fontana & Frey, 2005). In addition, Van Manen's (2016) perspective on hermeneutic phenomenology was used. In other words, the study investigates the nepotism and/or cronyism practices from the viewpoint of those whose workplaces are firms, regardless of their size and type of their activities. According to the phenomenological approach, how staff experience nepotism or cronyism in their work reveals something about the nature of the phenomenon itself – the nepotism or cronyism practices. Of course, such experiences are always interpretations and, therefore, tentative and subjective. However, this assumption complies with the phenomenological approach that interpretations are around, and the description itself is an interpretive process (Berrios, 1989; Randles, 2012).

The respondents were not asked for personal data and the names of the companies in which they are employed. Ensuring the anonymity of the answers provided contributed to their credibility. At the beginning of the interview, participants often stated that if they are asked for personal data, they would not answer honestly. Albanian interviews were conducted in Tirana. Polish interviews were conducted in several Polish cities including Kraków, Szczecin, Warsaw, Opole, Tomaszów Mazowiecki, Toruń, and Gdańsk.

Because of the complexity of nepotism or cronyism nature, Burrell and Morgan's (2017) classification of paradigms was used. In answering the question, "Which research strategy fits this study?" the epistemological pluralism strategy was chosen, having an opportunity to use approaches drawn from different paradigms and obtain cognitive results. The following research questions were identified:

- 1) What are the boundaries of nepotism or cronyism profitability for their perpetrators?
- 2) Can relative altruism be used to understand nepotism and cronyism?

To resolve the research questions and test the above hypothesis, triangulation to get a broader context of the studied issues was used (Campbell & Fiske, 1959; Greene et al., 1989). During this study, the concept of the Pareto Set was used. This concept is understood as a set of solutions that are non-dominated by each other but are superior to the rest of the solutions in the search space (d'Amore & Bezzo, 2016).

3. RESULTS

All respondents in both countries reported that they know what nepotism/cronyism is and clearly demonstrated an understanding of the terms. Table 1 shows the number of respondents in each country that reported experience with nepotism/cronyism.

Table 1. Experience with nepotism and cronyism

Experience with nepotism/cronyism	Poland	Albania
Not used but witnessed in the workplace	27	–
Used nepotism/cronyism	7	105
No experience	166	–
Total	200	105

All 166 Polish respondents who reported having no experience with nepotism/cronyism indicated that they would use it to improve their professional position.

Based on answers obtained from all respondents from Albania and Poland, one may formulate the following generalizations:

- Nepotism/cronyism maintains advantages for some individuals and their relatives.
- "Interest groups" are willfully created and maintained to obtain undue privileges, including financial benefits.
- When nepotism/cronyism is used to obtain undue benefits, it is better not to tell anyone about it. Respondents knew that nepotism/cronyism violated the integrity of human resource management.
- They could tolerate unwarranted distrust in others resulting from nepotism/cronyism.
- They would not help strangers selflessly achieve better professional or financial positions in their workplace.

Based on answers obtained from all respondents from Albania and Poland, one may formulate the following conclusions:

- A higher number of relatives around them increases their chances of success.
- Being with relatives or close fellows reduces their uncertainty in workplaces because such people around them reduce the risk of opportunistic behavior.
- Relatives or close colleagues who receive their help would help them in the future.

The interviews of the 200 individuals from Poland and the 105 from Albania enabled a test of the hypothesis – the Pareto set shows the boundaries of profitability of nepotism/cronyism for their perpetrators.

Regarding nepotism/cronyism, all respondents:

- Stated nepotism/cronyism could help their relatives and close colleagues and friends find a job or better post if it did not threaten them.
- Defined the term "threat" as a situation where nepotism/cronyism results in newcomers to replace them in the job they hold.

- Said that nepotism/cronyism could result in new hires recommending other newcomers to managers, and such a situation may threaten their job position.
- Hoped that with nepotism/cronyism, new employees – their relatives and colleagues and friends – would be loyal and their job would be secure.

Analysis of the interview responses identified three assumptions that guided the people who wanted to help others through nepotism/cronyism:

- They expected unspecified reciprocity from the people they assisted. Such reciprocity was perceived as a reduction of the risk of uncertainty in the event of loss of employment.
- They assumed that the newly hired people did not threaten their professional position and would not replace them in the future.
- They wanted to create a group of their supporters.

Analyzing the above assumptions enables one to determine whether it is possible to identify the area of shared and the area of contradictory interests in the relationships based on nepotism/cronyism (Figure 1).

Thus, let one assume that on the axis, the following points correspond to the successive levels of preferences of “supporters” (people helping others through nepotism/cronyism in getting a job or a specific position) and “supported people” (those

who obtained a job or specific position through nepotism/cronyism). Based on interviews, one may generalize that multiplying the number of “supported people” influences the organization. If one expands the set of “supported people” with the assumption of a limited number of organizations in which lucrative employment can be found will, over time, result in a conflict of interest between “supporters” and “supported people.”

Suppose point “B” means jobs or posts most favored by the “supported people.” After crossing this point (moving on the axis to the right), the utility resulting from the implementation of changes because employment of other “supported people” decreases. There is a moment of “Bo,” from which the “supported people” are no longer interested in hiring new “supported people” because they will not derive benefits from the organizations as before (they will have to share the benefits with others, new “supported people”). Therefore, the “supported people” will be interested in conducting specific negotiations with the individuals – “supporters” ranging from 0 to “Bo.” Let one assume the following situation:

- N – the point where the changes through hiring new “supporting people” are most preferred by the people who support others (“supporter”),
- No – the point from which the “supporter” is no longer interested in increasing the number of “supported people.”

In the situation presented above, the “supporter” will consider the situation marked on the axis as the

Source: Own elaboration based on Mueller (2003), Dobrowolski and Dobrowolska (2020).

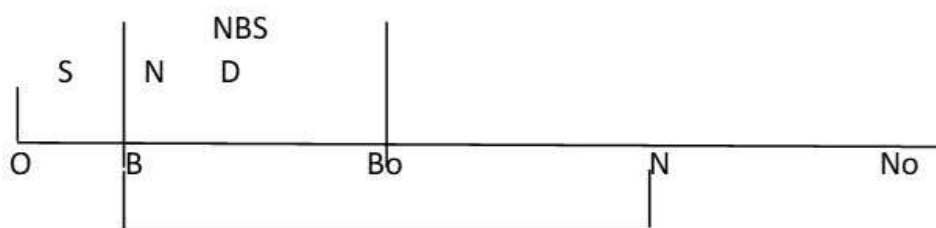


Figure 1. Area of shared and contradictory interests of the relationships based on nepotism/cronyism

“Ono” set. Therefore, the standard part is the “Obo” set, defined as the set of nepotism discussions (SND). In this area, both entities, i.e., “supporter” and “supported people,” are willing to negotiate the shape of changes in a specific organization caused by hiring new “supported people,” taking into account mutual interests. “BN” set is a set of Pareto because it is impossible to find a solution by negotiation. The standard part of the Pareto set and possible discussion area is an area of common bargaining. Negotiations on the shape of the changes (hiring additional, new “supported people”) will be carried out in this area (BBo), defined as NBS – the nepotism bidding set.

In order to link nepotism/cronyism with negative social capital, the respondents were asked about their trust in the state and other people. Thus, out of 200 Poles surveyed, 148 people said they do not trust the state. The rest said they trusted the state. When asked about trust in others, out of 200 people surveyed, 148 said they did not trust others, and the rest said they trusted other people (other than family members). Out of 105 surveyed Albanians, four people declared that they trusted the state.

Seven people declared that they trust other people (other than family members). Others said they did not trust other people. This study shows that while in both countries’ respondents stated that they are willing to tolerate nepotism/cronyism in the work place there were differences in acceptance if nepotism/cronyism is considered a form of corruption, specifically – when asked “would you use nepotism/cronyism if it turned out that such practices were related to corruption?” All respondents in Albania responded that they would. Only 4 of the 200 respondents in Poland said they would.

It should be noted that nepotism/cronyism are not currently considered crimes in both countries. Based on the interview responses, Poles and Albanians could differ in legal vulnerability if nepotism/cronyism were criminalized. It should be noted that Polish society is currently less vulnerable to corruption practices than Albanian society, as measured by Transparency International (2022).

According to the results, the research hypothesis was supported.

CONCLUSION

This study identified some thought-provoking issues that will help better understand nepotism/cronyism. Based on this study and the literature review, the following mechanisms of nepotism/cronyism can be identified:

- 1) the mechanism of closeness and, consequently, the tendency to help relatives;
- 2) the mechanism of reciprocity, which assumes that someone who helps can reciprocate and help in the future.

Nepotism/cronyism is associated with negative social capital. This study confirms the argument that the unfavorable option of social capital is manifested in preserving benefits for some individuals and relatives. In such circumstances, “interest groups” are deliberately created and maintained in order to obtain illegal privileges. The affirmation of nepotism/cronyism simply because it benefits their participants, leads to ethical collapse, leads to social inequality, and gives the same generalization. Characteristic features of low social capital are the expressed distrust of others by the respondents and the “culture of silence,” which can even lead to the spread of crime.

This study shows that Hamilton’s relative altruism may explain the phenomena of nepotism/cronyism. This study confirms the arguments. It can be generalized that any altruistic trait that forces altruistic people to put themselves at a disadvantage compared to those with whom they interact will only increase if the benefits from others are sufficient to compensate for this disadvantage. Reducing uncertainty due to nepotism/cronyism experienced by attackers is seen as a benefit. In other words, this study showed that:

- 1) people vulnerable to nepotism/cronyism think relatives reduce the risk of opportunistic behavior;
- 2) nepotism/cronyism can increase their trust in others;
- 3) people perceive nepotism/cronyism as a tool to reduce the risk of failure in their work.

This study shows that mutual and group-selected altruism were the dominant types of altruistic practices associated with nepotism/cronyism. Furthermore, the findings confirmed the link between nepotism/cronyism and epistemic injustice, manifested by exclusion and unfounded distrust.

In addition, this study shows the limits of common and conflicting interests of individuals based on nepotism/nepotism. The extent of nepotism/cronyism practice depends on the common interests of the beneficiaries of such practice. The Pareto set allows one to define a set of propositions of nepotism and cronyism. The study has shown that the standard part of the Pareto set and the possible area of discussion between people who use nepotism/cronyism to help others find a job, a better job or salary, and those who support nepotism/cronyism are areas of common bargaining. Negotiations on the form of change (hiring additional, new “supported people”) will be conducted in this area, defined as – nepotism and cronyism. This study contributes to a better contextual diagnosis of the reliability of organizations.

LIMITATIONS AND FUTURE RESEARCH

As with any research, this study has limitations. This preliminary study describes nepotism/cronyism from the perspective of Polish and Albanian interviewees. This limits the generalizability of its findings, and additional research is needed to test whether its findings hold in other countries.

AUTHOR CONTRIBUTIONS

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Data curation: Zbysław Dobrowolski.

Formal analysis: Zbysław Dobrowolski.

Funding acquisition: Łukasz Sułkowski.

Investigation: Zbysław Dobrowolski, Łukasz Sułkowski, Sylwia Przytuła, Martina Rašticová.

Methodology: Zbysław Dobrowolski, Łukasz Sułkowski.

Project administration: Zbysław Dobrowolski.

Resources: Zbysław Dobrowolski.

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