Zbysław Dobrowolski

Monika Dobrowolska

Nepotism and Cronyism. Is the Concept of Relative Altruism Fit? The Preliminary Study

Abstract

The phenomenon of nepotism exists in many countries. There is the following unresolved research question, which creates research gap. Is it possible to identify the area of shared and contradictory interests of the subjects of relationships based on nepotism or cronyism? The preliminary research allowed solving this research problem and showed that relative altruism could be used to understand nepotism and cronyism. Besides, the multifaceted impact of corruption on income growth was determined. The study has a practical implication, serving all of those engaged in preventing and detecting corruption.

Keywords: institutions and entrepreneurship, epistemic injustice, corruption and ethics, nepotism and cronyism

1. Introduction

Wong and Kleiner state, that nepotism in management is a sensitive and touchy issue in American business. It has implications for management development, human resource management and management control, and the image and public relations of business and executives who have or would like to have relatives in highly-payed management positions. Above researchers note that the generalisation that business rationality leads to the extinction of nepotism is too optimistic. Nepotism is alive and on the march in American business and will continue to remain deeply ingrained in all industries (1994). This statement applies not only to American business, but is more widely observed in other regions of the world (c.f. Sherman 1977; Abdalla, Maghrabi & Raggad 1998; Arasli, Bavik & Ekiz 2006). Despite many years, researchers still ask themselves. Is nepotism wrong? Or maybe nepotism is the natural practice of ourselves with people we trust? Is nepotism a manifestation of corruption? When does nepotism pay off to others? The same question one may formulate in the case of cronyism. The paper proceeds as follows: First, the previous research on nepotism and cronyism is reviewed. After that, the research method is discussed, followed by analysing the concept of relative altruism using it to explain the nepotism and cronyism phenomena. Next, based on study results one may offer the potentially radical suggestion that governments should change their current anti-corruption methodology; otherwise, their prevention efforts will be useless for firms and societies; This paper ends conclusion and opportunities for further research. This paper is prepared based on Dobrowolski and Dobrowolska research (2020).

2. Theoretical Framework

Vinton (2004) argues that nepotism is one of the least-studied and most poorly understood human resource practices. However, its impact on family-owned businesses is enormous. The author aptly notes that one must look at nepotism from an interdisciplinary perspective to understand its impact on family firms. One may add that nepotism may influence organisational cooperation as well. Some authors (c.f. Ford & McLaughlin (1985; Jaskiewicz, Uhlenbruck & Balkin 2013) argue that in contrast to the literature that portrays nepotism as generally problematic, develop a conceptual model to explain why some family firms benefit from nepotism while others do not. Ford and McLaughlin underline

that an ideal nepotism policy is tailored to the company's size and ownership pattern (1985). Other words, nepotism may exist in small companies and should be limited in large ones. Can one utilise such an argument that nepotism may be the only way a small, privately-owned entrepreneurial organisation can effectively exist and prosper? (Ibidem). This argument might be similar to another one that a little alcoholism may be tolerated, but a big one may not. Indeed, such generalisation is wrong. Nepotism and cronyism generate epistemic injustice, and the term epistemic injustice is understood in this article as Fricker defined it (1997).

Jaskiewicz, Uhlenbruck, Balkin suggest that social exchange relationships between family members are valuable to firms because they facilitate tacit knowledge management that can lead to competitive advantage (2013). This assumption still does not lead to resolving the fundamental question. Is, is nepotism wrong? Or maybe nepotism is the natural practice of surrounding ourselves with people we trust? Is nepotism a manifestation of corruption?

The devastating economic effects of the global financial crisis and domestic corporate scandals have underscored the need to redefine corporate governance provisions. Although cronyism has been suggested as a leading cause of the two crises, it has received little attention from scholars (Khatri, Tsang & Begley 2006). Cited authors aptly note that cronyism is a form of corruption (Ibidem). However, the perception of cronyism and nepotism depend on the culture of a particular society. It is noted by Leung, Heung and Wong (2008), as well as by Dobrowolski, Dobrowolska (2020). Cronyism may affect firm performance. For example, excessive financial compensation is independent of the low governance variable (Brick, Palmon & Wald 2006). Such situation erodes the organisational culture. Employees notice that their effort is not linked with effectiveness, but the most important is cronyism relations. It may lead to weak outcomes in the long-term.

The etymological concept of corruption differs significantly from Latin origin. The Latin word "corruptio" meant corruption, seduction, perversity. Later, the concept of corruption was extended to bribery. Corruption is defined as accepting or demanding financial or personal benefits by a public employee in return for performing an official activity. The discussed phenomenon is defined as taking (venality), giving bribes (bribery), occurring in connection with the performance of activities by a public official or a person appointed to perform a public function. Corruption is perceived as the use of an official position for personal gain. Corruption can also be defined as an illegal activity consisting of a privileged position to obtain economic or political benefits, manifesting itself in putting self-interest over the entity's interest that represents itself (Dobrowolski & Dobrowolska 2020). Sztompka notes that corruption can be viewed as a phenomenon in a community characterized by a lack of mutual trust (2007). Illegal ties bind the group together around specific goals. The fear of disclosing criminal activity dictates the conspiracy of silence. It is also possible to generalize, following Dobrowolski and Dobrowolska, that corruption is a specific type of relationship between persons performing specific social roles, aimed at gaining benefits by both parties of this relationship in a manner contrary to the rules applicable in a given community (2020).

The etymological analysis of the word “corruption”, combined with observing this phenomenon's manifestations, allows one to assume that they are close to the terms: venality and bribery. The latter usually refers to a separate behaviour consisting of accepting or demanding financial or personal benefits connected with the functions performed (venality) or giving or promising them to various people connected with the functions performed (bribery) (Dobrowolski & Dobrowolska 2020).

Corruption, according to art. 2 of the Treaty No.174 Civil Law Convention on Corruption means requesting, offering, giving or accepting, directly or indirectly, a bribe or any other undue advantage

or prospect thereof, which distorts the proper performance of any duty or behaviour required of the recipient of the bribe, the undue advantage or the prospect thereof.

Corruption understood in this way means a long-lasting relationship and mutual dependence. Nepotism means favouring relatives and friends when hiring in high positions and distributing dignity by influential people. Cronyism is the mutual support of people related by kinship, intimacy or belonging to a specific group. Cronyism is otherwise known as protection and is based on informal connections. If one understands corruption as a manifestation of the long-term waste of intangible assets that will affect financial losses, then nepotism is a manifestation of corruption. Tolerating breaking the competition rules from the internal perspective will break other rules from the external perspective.

3. Methodology

Literature studies and observation of the scale of countries' problems with corruption leads to the following generalisation: the concept of relative altruism can explain nepotism and cronyism. It can be the basis for determining its profitability for the parties to the corrupt contract. The study also aims to determine the area of shared and contradictory interests of the subjects of relationships based on nepotism or cronyism. It is assumed that nepotism and cronyism are an example of corrupted practices. Consistent with an abductive approach (Lukka 2014; Lukka & Modell 2010), the insights in this paper have emerged iteratively through consideration of both theory and the empirical case.

4. Results

Based on a review of the literature, it was established that the phenomena of nepotism and cronyism could be explained by the concept of relative altruism by Hamilton (Wojciechowski 2008). This researcher explains the phenomenon of altruism by identifying the subject of evolution with a genotype, and not with an individual who is only a carrier of a given genotype. Taking the above into account and the concept of Smith on kin's selection, the phenomenon of nepotism or cronyism will serve the same purpose as an evolutionary mechanism responsible for selecting those features of the organism that favourably affect the survival of related individuals. Thus, it is about increasing the number of related individuals or individuals representing a specific group in the circle of people of high material status or social position. Functioning in a given environment of a more significant number of people related to each other by relationships based on nepotism or cronyism increases the chances of success for their offspring (Dobrowolski & Dobrowolska 2020).

Using the Rutkowska and Szuster (2008) research on altruism, it can be assumed that among the mechanisms of nepotism and cronyism we can distinguish: the mechanism of closeness, and therefore the tendency to help relatives even if it is illegally. A knowledge mechanism, the basis of which can be found in complex social interactions, is being brought up together in "one yard" by a specific group of people. Mechanism of similarity (matching phenotypes). Research problems to be solved are as follows:

• What is the maximum size of a population bound by nepotism or cronyism that maximizes the utility of such relationships?

• is it possible to identify the area of shared and contradictory interests of the subjects of relationships based on nepotism or cronyism?

According to the authors' assumption, the first research problem requires a solution resulting from in-depth, subsequent scientific research. In the case of the second research problem, an attempt was made to solve it.

Thus, let one assumes, that on the axis, the following points correspond to the successive levels of preferences of "supporters" (people helping as a result of nepotism or cronyism in getting a job or a specific position by "supported" people) and "supported". Multiplying the number of people “supported” affect the organization. If one expands the set of "supported" with the assumption of an endless number of entities in which lucrative employment can be found will, over time, result in a conflict of interest between "supporters" and "supported". Suppose point “B” means activities most favoured by the "supported", then after crossing this point (moving on the axis to the right), the utility resulting from the implementation of changes, and thus employment of the next "supported" ones, decreases. There is a moment of “Bo”, from which the "supported" is no longer interested in hiring more people, because it will not derive benefits from the organizations as before (it will have to share the benefits with other "supported"). Therefore, the "supported" ones will be interested in conducting specific negotiations with the "supporters" range from 0 to “Bo”. However, in the case of the "supporter", if one assumes that N is the point where the project of changes is most preferred by the "supporter", and No - the point from which the "supporter" is no longer interested in changes in the activity of "supported", then the "supporter" will take into account the situation marked on the axis with the line-segment – “Ono”. Therefore, the standard part is the “Obo” set, defined as the set of corruption’s discussions (SCD). In this area, both entities, i.e. "supporting" and "supported", are willing to negotiate the shape of changes in a specific entity's activities, taking into account mutual interests. “BN” set is a set of Pareto because it is impossible to find a solution by negotiation. The common part of the Pareto collection and possible discussion area is an area of joint negotiation. Negotiations on the shape of the changes will be carried out in this area (BBo) known as the corruption bidding setting (CBS). It is illustrated in the figure below.



Figure 1. *Corruption discussion's set, and corruption tender's set*

Source: Dobrowolski & Dobrowolska 2020

What practical implications result from this original approach to the issues of nepotism and cronyism. In preventing and detecting corruption phenomena, it is necessary to identify the tender area of corruption to reveal the real beneficiaries of corruption.

The real costs of corruption are difficult to determine; however, some simulations showed that corruption costs might be around several per cents of Gross Domestic Product. Besides, reducing corruption in public procurement may reduce investment cost (Dobrowolski & Dobrowolska 2020). It

is not crucial (at this moment) how much the cost level can be reduced if the scale of corruption is limited. Those interested can find such data in the studies of the World Bank.

When determining the relationship between corruption and the level of national income growth, one can use the concept of the Keynes multiplier and Akerlof and Schiller's assumptions. They aptly noticed that trust influences the decisions made, and therefore also macroeconomic phenomena. In Keynes' concept, the exogenous factor, i.e. the state, influences national income growth through its investments (Orlik 2017).

$$\Delta Y = \frac{1}{1-b(1-t)} \Delta I + T$$

Figure 2. *The multifaceted impact of corruption on income growth*

Source: Dobrowolski & Dobrowolska 2020

The increase in "Y" income depends on the multiplier, where “b” is the marginal propensity to consume, "t" is the level of taxation, “T” is level of trust in the State and "I" is state investment. In general, trust in partners and the State increases when corruption is reduced. The increase in the trust may cause an increase consumption and, thus, impact the marginal propensity to consume. Trust, which depends on the level of corruption, impacts individual decision-making and aggregated form on macroeconomic values.

Conclusions

This preliminary research was, in many cases, pioneering because it was established that the phenomena of nepotism and cronyism could be explained by the concept of relative altruism by Hamilton. It leads to identifying the area of shared and contradictory interests of the subjects of relationships based on nepotism or cronyism. Besides, the multifaceted impact of corruption on income growth based on Keynes, Akerlof and Schiller's assumptions was determined. The scale of corruption has not decreased worldwide. It allows the conclusion that one may use the arguments of Christensen, Glover, and Wood (2013) and notice that although the organisations' environment's complexity has increased in recent decades, problem-solving approaches are lagging.

Limitations and future research

The authors have assumed that preliminary research aims to determine and describe the research problem. Thus, the authors need to show modesty towards the generalizability of findings and encourage future researchers to tests whether research findings hold in different countries.

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