

## **Cronyism and Nepotism are Bad for Everyone: The Research Evidence**

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## **Cronyism and Nepotism are Bad for Everyone: The Research Evidence**

Jones and Stout make one claim that I would like to correct: there is substantial quantitative (and observational) research on the workplace and organizational performance effects of nepotism and cronyism. That these authors have missed this research is understandable; the research is not in traditional I/O Psychology publications (although some of it does appear in journals from the related field of Organizational Behavior). Nevertheless, this work is systematic and rigorous, and provides strong evidence to support the experience-based perceptions of practitioners that nepotism and cronyism damage employees, their supervisors and produces poorer organizational performance. I welcome the opportunity Jones and Stout have provided to briefly introduce my colleagues in I/O Psychology to this literature.

We can begin with Max Weber (1947) who, based on his observational research of organizations in Germany over 100 years ago proposed that what he called bureaucracies (where nepotism and cronyism are constrained by tests and other human-resources systems that seek to foster decisions based on impersonal assessments of merit) have superior performance to what he called traditional forms of organizing (based on nepotism and cronyism, among other things). That nepotism and cronyism damage organizational performance has been documented in numerous studies since then. To cite just a few: In his large study of Overseas Chinese firms Redding (1990) found that these family-based organizations were characterized by extensive political infighting among siblings and cousins, and

usually split into separate small organizations to provide each family member with their own organization to keep the peace. Supervisors were autocratic and employees unhappy. Hellman, Jones and Kaufmann (2003) and Kaufmann and Kraay (2002) have provided rich data on how executives' dependence on personal relationships are used as a proactive competitive advantage they call "state capture," in which powerful business elites use their personal relationships with government officials for personally favorable laws and enforcement. This "competitive advantage" produces poorer economies as those without connections are shut out and the inefficient are protected (see also, Fligstein, 1994). Al-Aiban and Pearce (1993) found that in Saudi Arabia -- where cultural obligations to protect and advance family members are strong -- managers in for-profit businesses reported less nepotism in their organizations than did managers in governmental organizations, where performance pressures were weaker. This suggests that even when such practices are culturally accepted they are seen as undermining organizational performance. I recommend the above authors, and those cited by them, to those who want to learn more about why nepotism and cronyism undermine organizational performance.

My own work has focused on how nepotism and what I have called favoritism affect employee attitudes and perceptions. I have reported how organizing based on personal relationships undermined the perception that rewards are based on performance, how employees report more cheating, distrust of their coworkers, employees are more dissatisfied and less committed, they report that they are more fearful, and are obsequious to their supervisors in order to

become a favorite (Pearce, 2001; Pearce, Branyczki, & Bigley, 2000). Employees report less procedural justice, as could be expected given that rewards and jobs are based on personal relationships not performance (Pearce, Branyczki, & Bakacsi, 1994). Further, in a recent longitudinal study of transitional Hungary following three organizations that sought to implement more meritocratic selection and performance management practices in their transition from communist state-ownership, combined with two laboratory studies, we have found that once employees believe that rewards are based on cronyism rather than merit, those perceptions do not change even years after new foreign parents have implemented formal systems to eliminate cronyism (Pearce & Huang, 2014). These employees recognized that reward systems had become formally more merit-based, but they simply did not believe that these formal systems had replaced the behind-closed-doors favoritism they had experienced. That is, nepotism and cronyism not only have the negative effects listed above when they are operational, these attitudes and perceptions are resistant to change once established. Finally, cronyism and favoritism not only affect first-level employees, managers change the way they manage when personal relationships are pervasive in the workplace. We found that dependence on personal relationships led managers to withhold information from their subordinates because keeping critical personal relationships secret was important to their legitimacy (Pearce, et al., 2011). This led to over-centralization (also documented by Redding, 1991) and distrust.

Before concluding, I would like to explain exactly why nepotism and cronyism produce the dysfunctions we have documented. Nepotism places loyalty

and obligations to one's family over obligations to one's employer. We cannot reasonably expect people to abandon the love and support of their families, the primary sources of our identities, emotional, social and financial support for most of us, for a particular job. Nepotism is damaging because any claims that family members make must be take precedence over any organizational requirements. Jones and Stout are correct that nepotism creates dilemmas for managers, which is why most organizations have policies that remove family members from personnel decisions about their loved ones; exactly the sort of practical policy mitigation that can limit the negative impact of nepotism and favoritism. Working with family members creates tremendous strains – just ask anyone working in a family business. Cronyism is more complicated. First, much of the favoritism we studied had been based on experience with the person as a reliable and competent performer, so favoring that person was really based on an assessment of his or her performance; managers had grown to like the person because she or he was a good performer. In addition, the obligations of friendship are not as strong as family, and so would not always trump organizational obligations. This is exactly the kind of question that should be addressed in further research. The need for further research on exactly how and under what circumstances extra-workplace personal relationships affect employees' affect, perceptions and performance, and the most effective mitigation policies, is an area where Jones and Stout and I agree.

In conclusion, decades of research in political science, economics and anthropology have demonstrated that nepotism and cronyism are bad for organizational performance. The work of my colleagues and I has documented how

dysfunctional they are for employees and their supervisors. Nepotism and cronyism damage exactly the kinds of social relationships that make for a humane and tolerable workplace and foster organizational performance. There is absolutely no evidence that nepotism and cronyism facilitate the kinds of personal relationships I/O Psychologists would seek, and substantial research evidence (as well as the personal conclusions of anyone who has ever seen them in operation in an actual organization) that they undermine organizations and the people who work in them.

I commend Jones and Stout's strong counter-intuitive claims for the opportunity they have provided to bring research from cross-national political science, economics, anthropology and organizational behavior to the attention of my colleagues in I/O Psychology. In this case the experience-based intuition of practitioners does have the support of systematic longitudinal quantitative (and qualitative) research: if not constrained in ways that allow all employees to transparently escape the pressures of family obligations, nepotism is always bad, and cronyism based on mere extra-organizational personal relationships is very dangerous. Nepotism and cronyism are bad for employees who are forced to weigh conflicting obligations, they are bad for coworkers who become demoralized when they suspect the worst, and they are bad for organizational performance.

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