

Chapter 12

Nepotism in a Family Business

ABSTRACT

Nepotism in both its bad and good scopes is not mainly a result of national socio-cultural variances, nor is it the outcome of a global dispersion of morals and standards across nations. Rather it is a culturally driven business practice. Nepotism occurs when traditional forms of interaction are replaced by modern forms without a corresponding modern substitution for traditional social morals. For the successful use of nepotism, family members must meet certain qualifications such as an appropriate educational background and outside work experience. Outside work experience is the most important. In addition, corporations who hire family members should inform them that they will be fired in the case of unethical or illegal behavior no matter how closely related to them they are. This chapter explores nepotism.

INTRODUCTION

Nepotism is the act of hiring relatives in the same company over other candidates. If a corporation employs or promotes a family member, many undesirable consequences may rise. Other employees may feel frustrated about this. In some cases, unqualified heir takes over and drives the firm towards bankruptcy. Reading all about nepotism, listening to different point of views, finding out the advantages and disadvantages, still doesn't cover one important question: is nepotism ethical? Based on different theories understandings, if we are to consider Utility theory, then we will need to find out the outcome of the act whether taking a decision under nepotism will be productive and effective to the company, if so then it is an ethical act. On the other hand, if we are to look into duty

obligation theory, then the act itself is not correct no matter what kind of outcome we will have. So these are different theories depending on personal perceptions which theory to choose.

BACKGROUND

Nepotism is the act of hiring relatives, which will result in emotional complications in decision making. Nepotism is mostly common in family business in which it will be acceptable, more often, respectful positions for several reasons; could be better for safety/security especially and for confidentiality. However, others oppose this idea that consequences of nepotism might result in illegal employment discrimination. Still others support nepotism in small businesses and/or family

businesses based on being practiced in a reasonable way having guidelines and qualifications as well as enjoying fair reward system. This means, if a relative or family member will be hired for specific job, he/she should have the qualifications and job related skills at the same time he/she will be treated the same way like others & rewarded likewise. Usually nepotism occurs in business and politics.

Adams Bellow's Explanation of Nepotism

One of the experts in Family Business Enterprise Adam Bellow through his book "In Praise of Nepotism" explained the differences in Nepotism between past and present as follows. New nepotism is different than old nepotism. Parents are not the ones who pull the strings. Instead, children do it themselves.

Old style nepotism has changed since World War II. Before that time, "...in most family businesses, you kept things in the family. But it wasn't just an upper class phenomenon. The same thing was done among immigrants. Family members would come over from other countries at different points, and they didn't come as individuals but as families and ethnic groups. They habitually relied on extended families to get credit and for manpower and markets. All the ethnic groups created their own independent economies, and when businesses became successful they broke out of their ethnic economy. And that's how most nationally successful businesses started, as a family business. But we forget all of this. People can't remember when they weren't in the middle class. They can't remember how they got here". (Adam Bellow, 2003)

With this explanation of Adam Bellow, that nepotism has produced both positive and negative results in everything from ancient Chinese clans to Renaissance and American families like the

Gores, Kennedys, and Bushes. Practiced badly or haphazardly, nepotism is embarrassing to everyone, including the recipient, but done well it can benefit society as a whole. Nepotism is always found but changing the way or the approach from generation to another.

Craig E. Aronoff and John L. Ward's Explanation of Nepotism

Aronoff and Ward wrote on Nepotism in *Family Business Succession: The Final Test of Greatness*. Business Owner Resources, 1992. Craig Aronoff and John Ward give guidelines to have successful use of nepotism. Nepotism in family business requires from members to meet three qualifications before they are allowed to join the family business:

1. Requires a good education;
2. At least three years of work experience;
3. A position that suits their background.

According to Aronoff and Ward (1992), "...outside work experience is the most important for both the business and the individual. It gives future managers a wider experience base that makes them better equipped to deal with challenges, let them learn and make mistakes before coming under the watchful eye of the family, make them realize what other options exist and thus appreciate the family firm, and provides them with an idea of their market value".

Aronoff and Ward also suggest that family members begin their association with the business by working part-time during their school years or participating in internships. In addition, they stress that companies who hire family members should make it clear to the individuals that they will be fired for illegal or unethical behavior, regardless of their family ties. Finally, they recommend that family businesses encourage their employees to

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