

# Cronyism and Nepotism Are Bad for Everyone: The Research Evidence

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Jones and Stout (2015) have made 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 industrial and organizational (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 the work provides strong evidence to support the experience-based perceptions of practitioners that nepotism and cronyism damage employees and their supervisors and produces poorer organizational performance. I welcome the opportunity that Jones and Stout (2015) have provided to briefly introduce my colleagues in I-O psychology to this literature.

I begin with Max Weber (1947), who proposed on the basis of his observational research of organizations in Germany over 100 years ago that the performance of what he called bureaucracies (where nepotism and cronyism are constrained by tests and other human-resources systems that foster decisions based on impersonal assessments of merit) was superior to the performance of 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. I 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 the firms usually split into separate, small organizations to provide each family member with his or her own organization, to keep the peace. Supervisors were autocratic, and employees were unhappy. Hellman, Jones, and Kaufmann (2003) and Kaufmann and Kraay (2002) have provided rich data on how executives' dependence on personal relationships is used as a proactive competitive advantage that 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"

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produces poorer economies as those without connections are shut out and as the inefficient are protected (see also Fligstein, 2001). 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 on how organizing on the basis of personal relationships undermined the perception that rewards are based on performance and generated employee reports of more cheating, greater coworker distrust, greater employee dissatisfaction, less employee commitment, greater employee fearfulness, and employee obsequiousness toward supervisors in an effort to become a favorite. (Pearce, 2001; Pearce, Branyczki, & Bigley, 2000). Employees reported less procedural justice, as could be expected given that rewards and jobs are based on personal relationships, not performance (Pearce, Branyczki, & Bakacsi, 1994). Further, my colleague and I conducted a recent longitudinal study of transitional Hungary in which we followed three organizations that sought to implement more meritocratic selection and performance management practices in their transition from communist state ownership. In that study and in two laboratory studies, we found that once employees believe that rewards are based on cronyism rather than merit, those perceptions do not change even years after new, foreign parent companies have implemented formal systems to eliminate cronyism (Pearce & Huang, 2014). These employees recognized that reward systems had become formally more merit based, but employees simply did not believe that these formal systems had replaced the behind-closed-doors favoritism that employees had experienced. That is, not only do nepotism and cronyism have the negative effects listed above when operational but also the resulting attitudes and perceptions are resistant to change once established. Finally, cronyism and favoritism not only affect first-level employees but also change the way managers operate 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 the managers' legitimacy (Pearce, Xin, Xu, & Rao, 2011). This led to overcentralization (also documented by Redding, 1990) and distrust.

Before concluding, I would like to explain exactly why nepotism and cronyism produce the dysfunctions that my colleagues and I 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 people's identities and the sources of emotional, social, and financial support for most people, for a particular job. Nepotism is damaging because any claims that family members make must take precedence over any organizational requirements. Jones and Stout (2015) have correctly claimed 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 that 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 therefore 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 on what the most effective mitigation policies are is an area in which Jones and Stout (2015) 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. In our work, my colleagues and I have documented how dysfunctional nepotism and cronyism 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 there is substantial research evidence (as well as the personal conclusions of anyone who has ever seen nepotism and cronyism in operation in an actual organization) that nepotism and cronyism undermine organizations and the people who work in them.

I commend Jones and Stout's (2015) strong, counterintuitive 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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