

FROM THE DINNER TABLE TO THE BOARDROOM: THE
EFFECTS OF NEPOTISM ON FAMILY BUSINESSES

By

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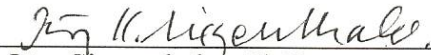
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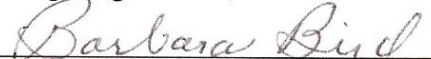
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DEDICATION

Questo lavoro è dedicato ai miei nonni, Leonardo e Albina Finelli e Constantino e Angelina Sartori. Loro fecero un grande sacrificio lasciando tutto per venire in America per costruire un meglio futuro per i figli e nipoti. E hanno provveduto a me il dono di libertà. Libertà a scegliere gli obiettivi che voglio persequire, libertà a persequire questi obiettivi, e di più importante la libertà cambiare questi obiettivi e persequire i nuovi. Questa era la libertà che mancava a loro. Per questa libertà, io sono molto gradevole.

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ABSTRACT

This study explores the consequences of nepotism on family businesses and their members from a sociological perspective. Through case studies of 18 privately-owned family businesses in the greater Baltimore-Washington metropolitan area, this research investigates the conditions under which nepotism is beneficial or problematic for the family business. More specifically, it addresses the role the structure and culture of the business plays in developing nepotism practices, and how these practices affect the interpersonal relationships of multiple generations of family and nonfamily members, the success of these members, and the overall success of the business.

The case studies included quantitative data elicited from self-administered questionnaires and qualitative data extracted from in-depth interviews with founder/senior family members, junior family members, and key nonfamily members from each firm. The survey provided data on the structural and cultural characteristics of the firm, policies and procedures in regard to nepotism, and information regarding the statuses and roles of its members. However, because the sample size was not adequate enough to produce meaningful statistical analyses, only frequency statistics were

generated. While this indicates a slight methodological shift, the attitudes and actions (interpersonal relationships) of members of the family firm as well as the “informal organization” were always intended to be the foci of the research. To compliment the evidence gathered through the in-depth interviews and survey, data were also drawn from observations, texts, documents, and artifacts including company manuals, organizational charts, genograms, and human resource policies and procedures.

Although nepotism tends to have a negative connotation in American culture, the empirical evidence from this research implies that nepotism in itself is not inherently negative or positive but that the outcome is dependent upon nepotism policies and practices. While both negative and positive consequences surfaced in the data, the findings suggest that equity, not necessarily equality, is essential to ensuring positive outcomes for the family firm. This supports previous literature which is based primarily on anecdotes and commentary of individuals involved in the field of family business. The data on the transparency of these policies and practices were inconclusive, so more research is necessary to fully understand the conditions under which nepotism is beneficial or problematic for the family business.

ACKNOWLEDGMENTS

“Sonny, we don’t discuss business at the table.”

The Godfather, 1972

This journey would not have been possible without the support and assistance of my family, friends, colleagues, and committee members. I am eternally grateful to my parents, Carolyn and Dominic, for their unconditional love and support. Because they have always provided me with these gifts, I have never had to go searching for anything to make myself or my life complete and I try not to ever take that for granted. They sacrificed much to ensure that my brothers and I were able to get a college education. They gave me all the tools I needed to survive in life and have always been there to comfort me in my failures and share in my successes. Through their words and actions, they inspire me to do the best I can, act kindly, forgive, and live my life with integrity. They are my rock and without them I would not be even half of the person I am today.

Although it is both a blessing and a curse, I am fortunate that my family *did* discuss business at the dinner table, and I have benefited greatly from the knowledge shared through that experience. It was an honor and a privilege being part of our family’s business, and I owe Custom Vending and my family, especially my grandfather Sam who started the business and my grandmother Angie for her enduring love and understanding, much gratitude for the personal growth its presence in my life has provided.

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In addition, I would like to thank all of my friends for continuing to stand by me even though for the past twelve years I was often not available for them and could not share their milestones and attend their celebrations. Although I was always there in spirit, I look forward to finally being able to spend more time with them. I am especially thankful for my dear friend Annie for helping me take life less seriously and making me laugh when I wanted to cry. Her endless support and love has always kept me going.

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At American University, I wish to thank my committee chair, Esther Chow, for her tireless hours and dedication in ensuring that my work was the best it could be. Her feedback was always right on target, and her insightful comments were invaluable to my success. Esther's commitment to her students is unrivaled and enduring, and as one of the last dissertations she will serve and chair, I am honored that I had the opportunity and privilege to work with her and benefit from her kindness and expertise. I am also extremely fortunate to have had Jürg Siegenthaler and Barbara Bird on my committee. Their willingness to continue to serve after all these years was a tremendous gift, and they made the process a productive and pleasant experience. I would also like to express my thanks to Sandy Linden, who over the years has been a constant source of assistance and support for me.

Last but not least, I owe special gratitude to all the family and nonfamily members who so graciously volunteered their time and welcomed me into their businesses and homes. Without them, my research really would not have been possible. I am appreciative of their willingness and candidness in sharing their stories with me, and I wish them continued success, prosperity, and harmony in their business, family, and personal lives.

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CHAPTER 1

INTRODUCTION

Statement of Problem

Embedded in the social structure of American society, the practice of nepotism in business has been widely debated because it conjures up attitudes that conflict with core cultural values such as individuality and equality. However in family business, which makes up 87 percent of all businesses (U.S. Census Bureau 2002c), nepotism is not only expected but necessary for its survival. As a result, this conflict in values and the necessity to practice nepotism has a tremendous impact on the family, business, and employees of family firms.

Some claim that nepotism is problematic and impedes the success of the business (Kets de Vries 1993; Hayajenh, Maghrabi, and Al-Dabbagh 1994; Yeung 2000), while others suggest that nepotism has tremendous benefits (Danco 1982; Molofsky 1998; Nelton 1998). However, I contend that nepotism in itself is not inherently negative or positive to the family business, that the outcome is dependent upon nepotism policies and practices. I argue that family businesses can avoid negative outcomes of nepotism and ensure positive results by implementing nepotism policies and practices that are both open and fair.

Therefore, the purpose of this study is to explore the consequences of nepotism and nepotism practices on family businesses and their members. In keeping with this

purpose, this research addresses the following overarching query: Under what conditions is nepotism beneficial or problematic for the family business? To answer this question, this study examines the following: What role does the structure and culture of the business play in developing nepotism practices? How do nepotism and nepotism practices impact the interpersonal relationships and success of members of the family firm? Furthermore, how does this affect the overall success of the business? And finally, in applying this knowledge, this study discusses how one can best develop nepotism policies and practices that benefit the family, the business, and all of its members.

A triangulation of theory and methodology is utilized to explore these research questions. Interpretive and multivariate arguments are presented along with supportive literature that is both multidisciplinary and interdisciplinary in scope. A combination of self-administered questionnaires and in-depth interviews are used to elicit data that are both objective and substantive, and these methods are enriched by secondary data relevant to family business. I believe that through further examination and analyses of the literature, relevant theory, and the collected data, it will become evident that the effectiveness of family businesses and the success of its members can be best achieved through both open and fair nepotism policies and practices.

Significance of Study

Nepotism, generally referred to as the practice of hiring family members, affects all types of family and nonfamily businesses, yet it is considered one of the least-studied and most poorly understood human resource practices (Vinton 1998). The majority of research on nepotism has taken a narrow approach concentrating on the presence or

absence of nepotism policies, but few have examined the impact these practices have on members of family businesses and the long-term value of the firm (Vinton 1998). The purpose of this research is to expand our understanding of the consequences of nepotism and nepotism practices on family businesses and its employees, as well as to provide insight on how to best develop nepotism policies and practices that benefit the family, the business, and its members.

Without nepotism, family businesses cannot continue to exist. Family, by definition, implies the presence of more than one member. Therefore, even the broadest definition of family business requires the formal or informal involvement of more than one family member, not necessarily concurrent, in the business. This is not to suggest that all businesses with multiple family members are considered family firms, rather it implies that without the involvement of more than one family member, a business could never be identified as a family business. Furthermore, without the continued participation of a family member in the business, the firm ceases to exist as a family business. Thus, nepotism is both inherent and necessary for the survival of family business. Studying the effects of nepotism on family business is important since the existence of family firms is dependent upon the presence or absence of nepotism. And how businesses approach and carry out nepotism practices may impact the survival of the business. Therefore, by studying the effects of nepotism on family firms, this research will be contributing vital knowledge that may help prevent the breakdown of firms and increase the sustainability of family businesses. But why should people be concerned with the perseverance of family businesses?

Family businesses are an integral part of the economic and social systems in society. They are significant not only because they are in abundance, but also because they affect the economic and social stability of the United States, as well as the stability of the family, and quality of life among individuals involved in family firms. According to broad estimates, 80 to 90 percent of all business enterprises in North America are family-owned (Shanker and Astrachan 1996). In the *Survey of Business Owners*, 87 percent of all businesses reported being family-owned (U.S. Census Bureau 2002c). Furthermore, in the United States, it is estimated that family businesses account for as much as 78 percent of all new job creation (Shanker and Astrachan 1996), 62 percent of employment, and 64 percent of the gross domestic product (Astrachan and Shanker 2003).

Family businesses have also contributed to the social stability of the United States in other ways. For example, in the past and today, immigrants often turn to entrepreneurial activities as a means for integration and upward mobility in the United States (Waldinger, Aldrich, and Ward 1990). Furthermore, entrepreneurial activities, whether initiated by immigrants or natives, typically rely on either formal or informal assistance from other family members since the survival of the family and the quality of life of its members is dependent upon the success of the business. Thus, family businesses also affect the stability of family and the quality of life of individuals involved in family businesses.

In addition, a case can be made for the importance of this study to policy makers and government officials since family businesses “represent a substantial portion of the U.S. economy and have a massive impact on economy as a whole” (Astrachan and

Shanker 2003:217). By understanding the consequences of nepotism and nepotism practices on family businesses and learning how to best develop nepotism policies and practices, it may be possible to increase the vitality and sustainability of family businesses. And increased vitality and sustainability of family firms not only benefits those affiliated with the business, but also positively impacts the economic well-being of the communities in which these businesses operate. For example, family businesses employ members of the community, pay local and state property taxes and license fees, as well as utilize the services of other businesses in the area such as gas stations, restaurants, and shopping facilities. And this in turn elevates the importance of family businesses to policy makers and local government officials.

Surprisingly, sociologists have paid family businesses little attention. Upon numerous searches, I have found only a handful of articles appearing in sociological journals that have even mentioned family businesses. And although both family and work are common subjects in the realm of sociology, and countless studies exist on family dynamics, organizational behavior, and self-employment and economic mobility for minority groups, interest in the study of the family business itself appears to be lacking. This is astonishing, considering the preponderance and impact of family businesses on American society. While some applied sociologists have taken notice of the research and consulting opportunities available in family firms, most of the interest in family businesses has been dominated by academics in the business sector (Dyer and Sánchez 1998). Sociology may be recognized as a major contributor to the field of family business, but sociologists have done little to continue its growth. And it is time for this to change.

By studying family businesses and nepotism, this research contributes to numerous subfields within the discipline of sociology. For example, family business is clearly relevant to scholarly research on organizations, occupations, and work. Understanding how nepotism policies and practices are developed and the effects these policies and practices have on family firms, the occupational roles and behaviors of members of such firms, and the dynamics of work may provide insight into other types of organizations. This research could also be of assistance in understanding family structures, culture, and practices as well as the relationship between the social institutions of family and work. Other branches of sociology that could benefit from research on this subject matter include international migration, culture, ethnicity and race, gender, and aging and the life course. For example, the role family businesses play in the incorporation of immigrants in receiving societies is of interest to studies of international migration. Understanding the symbolic meaning of nepotism within and outside American society and its relationship to social behavior would be of interest to the subfield of the sociology of culture. And of course, the implications of the ethnicity, race, gender, and age of members of family firms could provide a plethora of knowledge to sociologists concerned with the effects these factors have on various social institutions.

In summation, this study is significant because it seeks untapped knowledge that is invaluable to members of family businesses, their advisors and consultants, and policy makers and government officials. Studying family businesses is important not only because they are in abundance, but because they affect the economic and social stability of the United States, as well as the stability of the family, and quality of life of individuals. By increasing our understanding of nepotism and its consequences, this

study provides insight for developing policies and practices that will benefit and help sustain family businesses. And finally, by expanding the knowledge of scholars, advisors, consultants, and businesses, this study also advances the relatively small but growing field of family business research and increases awareness of the field among sociologists.

Standpoint

According to Shulamit Reinharz (1992), the concepts of subjectivity and objectivity do not have to be in opposition, they can be bridged by using the stance of acknowledging the researcher's position. Therefore, to bridge that gap this research begins by identifying the writer's position in the social world.

I once saw a bumper sticker that read, "Avenge your children; give them all equal shares in your business!" And if I was not part of the third generation of a family-owned and operated vending business, I do not think I would have really understood the satire of that expression. I am a single, white woman in my early forties who after careful consideration joined my father, brother, and mother's brother full-time in the family business over ten years ago; and who after careful consideration, left the business almost four years later. The business as well as the vending industry is predominantly male, and this factored greatly in my experiences in the business. My mother's father, an Italian immigrant, along with the help of his son, and my father, also an Italian immigrant, started the business over forty years ago. My father and uncle currently operate the business with shares divided equally between the two families. And although I am no longer a visible owner of the company, I remain a private stockholder in the business and

will always be a part of the family. In a sense, I am what Mannheim called a “free-floating” intellectual (Merton 1972) in that I am both an insider and outsider to family businesses. This is relevant because sociological understanding involves a balance of both insider and outsider traits—the ability to gain access and comprehend the social and cultural truths of a particular group while at the same time having the ability to objectively understand that group (Merton 1972). My status is significant because it reflects the lens from which family businesses are viewed and the lens for this research. Thus, identifying my position not only reveals my biases to the reader, but also bridges the concepts of subjectivity and objectivity.

Scope and Limitations

There are a number of items that limit the scope of inquiry in this study. The first one deals with conditions related to the selection of firms. To properly address the effects of nepotism it was necessary for participating family businesses to meet certain criteria. Therefore, participation in this study was limited to family firms in which ownership was held by one or more family members, the majority of voting control was in the hands of a member or members of the family, major operating decisions and plans for leadership succession were influenced by family members actively serving in management positions, and there was active involvement of multiple generations. Due to these constraints, few minority and women-owned businesses qualified for this study since those businesses were less likely to have been established long enough ago to fully satisfy the criteria. And although the size of firms varied, the criteria also made it more likely for firms that had between ten and 250 employees to qualify. Thus, small to

medium sized family businesses were the focus. Due to limited resources this study only included select family firms located in the greater Baltimore-Washington metropolitan area. However, these firms are diverse in industry.

In addition, there are some characteristics included in the conceptual framework of this study that are explored but are not the focus of this research. Even though the structural and cultural characteristics of the family businesses are identified, the sample size was not adequate enough to produce meaningful statistical analyses. Therefore, a discussion of the statistical significance of the relationships between these variables and nepotism policies and practices is not included. Member success and the success of the business are also incorporated into the conceptual framework. However, the focus of this study is on the impact nepotism has on interpersonal relationships because it would be difficult to fully assess the success of members or the business without conducting a longitudinal study and also comparing situations in which nepots or nonfamily members stayed in the family business with those in which nepots or nonfamily members left.

It should also be noted that this research does not intend to study other personnel issues besides those related to nepotism nor does it intend to research nepotism policies and practices in nonfamily firms. And finally, the theoretical perspectives used in this study are limited in name but not necessarily content to those familiar to sociologists since this work comes from a sociological perspective.

In addition to the items that limit the scope of inquiry, there are also some constraints on the generalizability and utility of the findings resulting from the design and methods used to conduct this research. Due to a lack of a sampling frame and the subsequent use of non-probability sampling design in this study, as well as a limited

accessible population of family businesses and difficulty in obtaining participants, the sample size is small and the findings focus on qualitative data. As a result, no attempt is made to generalize findings to the larger family business population. Instead, this is an exploratory study that attempts to provide a greater understanding of the impact nepotism has on family and nonfamily members of family businesses by revealing some of the intricacies that occur and patterns that develop when nepotism takes place.

Organization of the Study

The dissertation is organized into nine chapters. This chapter provides an introduction to the topic and includes a statement of the problem, rationale for the study, the standpoint of the researcher, and the scope and limitations of the research. Chapter 2 reviews the evolution of organization and labor research and provides a theoretical framework for studying the effects of nepotism on family businesses. The theoretical framework includes a discussion of four major sociological theories—structural-functionalism, conflict, symbolic interactionism, and rational choice theory since each may be used, at least partially, to help understand and explain the effects of nepotism on family businesses. Chapter 3 provides the conceptual framework for this research. It includes a review of relevant literature on family businesses and nepotism as well as definitions of these terms. It also offers a conceptual mapping of the variables included in this research as well as guiding principles. This is followed by Chapter 4 which outlines the research methods used to conduct this study. This chapter includes information on the instruments used to collect data, variables and measurements, sampling design and data collection, and data analyses.

The next four chapters present the empirical findings. Chapter 5 describes the structural and cultural characteristics of the firms and provides a context for exploring the conditions in which nepotism may be beneficial or problematic for the family business. Chapter 6 provides data on policies and practices related to nepotism and member perceptions about these practices. Chapter 7 follows with an assessment of the equality and openness of these policies and practices. And Chapter 8 provides a window to the formation and perception of these practices as well as the perceptions of each other upon the nepots' entrance into the family business. Together, these chapters provide insight into how nepotism and nepotism practices impact the interpersonal relationships, which in turn impacts the success of members, and ultimately the overall success of the business. And this provides a platform for understanding the conditions in which nepotism is beneficial or problematic for the family business. To apply this knowledge, Chapter 8 concludes by discussing some suggestions for developing nepotism policies and practices that benefit the family, the business, and all of its members. The final chapter, Chapter 9, synthesizes and discusses the empirical and theoretical contributions of the study and considers directions for future research.

CHAPTER 2

THEORETICAL PERSPECTIVES

This chapter reviews the evolution of organization and labor research and provides a theoretical framework for studying the effects of nepotism on family businesses. The literature on organizations and labor is diverse, transcends disciplines, and continues to evolve. It is fraught with two competing ideologies—one emphasizing a macro approach where surveys are used to test hypotheses and researchers avoid any links to practice; the other taking a more applied approach, focusing on small-group interactions and informal networks to understand patterns of relations through observations and in-depth interviews. Although this oversimplifies the matter, it is precisely this dissonance that has led to the broad theoretical framework presented in this chapter. Four major theories—structural-functionalism, conflict, symbolic interactionism, and rational choice theory are all described and used to help understand and explain the effects of nepotism on family businesses. All four theories are relevant since each may be utilized, at least partially, to accomplish this goal. According to Lewis and Kelemen (2002) it is not necessary to conclusively choose one theoretical perspective over another. They believe that using multiple models in combination may foster the development of a more relevant and comprehensive theory and actually strengthen the understanding of a given subject matter. However, with that said, there is one approach that overshadows the rest.

In this study interpretive arguments guide the research and the underlying theory is structural-functionalism. This means that the attitudes and actions (interpersonal relationships) of members of the family business as well as the “informal organization” are the foci of the research. Therefore, identifying patterns through in-depth interviews and observations is the primary goal. However, to better understand these relationships and the effect nepotism policies and practices have on them, it is also necessary to study the formal organizational structure of family businesses. To accomplish this, survey research is conducted. My research approach is consistent with previous research conducted in the field. Both Studs Terkel (1975) and Rosabeth Moss Kanter (1977) used a structural framework to study the informal networks and attitudes and actions of members in the workplace. And in that same spirit, proponents of what has become known as “organizational democracy,” have studied the structure of organizations while emphasizing the viewpoint of the individual and their well-being within the organization. By combining survey and field research, and integrating interpersonal relations and informal networks with formal structures in family businesses, a suitable and unifying framework for studying the effects of nepotism on family business has been constructed.

Organizations and Labor: The Evolution of a Field

Since its inception, sociology has recognized the value of studying organizations and labor to help better understand human society and social interaction. For example, Emile Durkheim’s first major work and doctoral dissertation, *The Division of Labor in Society* ([1893] 1984) focused on the increasing specialization of labor that evolved with the onset of the industrial revolution. Karl Marx’s theories of economics were based on

understanding the ways in which work is organized and its effect on the labor process and human behavior. And Max Weber made significant contributions through his research on formal organizations and bureaucracy. However, early theories of organizations and labor were not confined to sociologists; they also had managerial roots.

Like the theories that developed in sociology, industrialization and the growth of complex large-scale organizations also gave rise to the theory of scientific management. This approach, developed by Frederick W. Taylor in the early 1900s, sought to increase productivity and performance by simplifying and coordinating the actions of workers. According to Taylor (1911), this entailed four elements—the scientific management of tasks; the scientific selection, training, and development of the worker; cooperation between management and the workers; and the almost equal division of work and responsibility between management and the workers. Compared to large-scale organizations of the past, this model ensured that both management and the workers were governed by rules and laws developed through scientific inquiry rather than a dictator.

At first glance Taylor's principles appear logical and even friendly. However, they are based on the premise that workers, unlike management, have limited intelligence and prefer mindless labor and that people are motivated entirely by economic incentives and rewards. Therefore in practice, workers not only need to be trained and developed, they need to be motivated and controlled by economic incentives. And the only reason cooperation between the management and the worker is encouraged is to ensure that all of the work is being done in accordance with the principles developed by management. So although Taylor may have believed that scientific management could not be successful unless the workers benefited, in practice the workers were essentially treated

as if they were, or should be, extensions of industrial machinery. In other words, “Taylorism” had a dehumanized view of workers, and ignored the nature of work as a social process (Marshall 1998).

As a result, management control was emphasized and workers became increasingly dissatisfied, presenting a whole new set of problems. These practical problems would lead to the development of the human relations approach, the other major school of thought that has dominated American management theory. Considered one of the most recognized applications of sociological thinking to organizations and the workplace, this approach stresses the importance of informal networks in organizations and demonstrates that people are motivated by social as well as economic incentives and rewards (Glass 1994). The work of Elton Mayo and his colleagues at the Harvard Business School, through a research collaboration with Western Electric in the 1920s and early 1930s, pioneered this new approach (Whyte 1991; Glass 1994). Through observational studies and intensive interviews, their research and this new field of human relations took a practical approach that focused on interpersonal relations and the patterns of these relations in the workplace (Whyte 1991).

As the human relations approach gained momentum, it also drew criticism from sociologists and labor economists who saw it as a “soft” science, and wanted to return to the macro-level or societal aspects of labor and management found in the writings of Max Weber (Whyte 1991). It was at this point that a noticeable split started to emerge between the two camps—one side taking a more systematic approach that focused on changing the system and the other a more applied approach that favored alleviating symptoms and helping individuals adapt to their work environment (Glass 1994). Those

taking the macro approach preferred to call the field industrial sociology, but the term “industrial” would lose its relevance as technology’s role increased and society shifted from a production-oriented industrial economy to an information-processing service economy. And those who remained loyal to the principles set forth in the human relations approach eventually opted for other labels as criticisms mounted and deficiencies in the theory became evident (Glass 1994). Today, these theories are often placed under the umbrella of organizational behavior with the assumption that there are two competing lines of research (Whyte 1991). Others, however, separate the two, generally viewing organizational development, or OD as it is commonly referred to, as a logical extension of the human relations approach (Glass 1994; Dentler 2002).

Organizational development emerged in the 1960s and is based primarily on small-group theory and leadership training popularized by the writings and practices of human relations researchers (Glass 1994). It is a multidisciplinary field comprised of applied behavioral scientists from business, economics, psychology, and sociology. Over time, OD has come to represent a number of facets including organizational culture, quality of work life (QWL), total quality management (TQM), employee empowerment, and learning organizations approach (Argyris and Schon 1978; Trist 1981; Peters and Waterman 1982; Kanter 1983; Abbott 1987; Glass 1994; Dentler 2002). Although all of these facets are concerned with understanding interpersonal relationships and the “informal organization,” as the field has grown it has shifted its focus from small-group interventions to changing entire systems (Glass 1994).

Nonetheless, the field of organizational behavior is instrumental to the objectives of this research—understanding how family businesses are structured, how people

behave in them, how they are led and managed, and why some are more successful than others. Its literature not only provides a historical backdrop for studying family businesses, but it also informs the theoretical framework used to explore the effects of nepotism on family businesses.

A Theoretical Framework for Family Business

In *The Craft of Inquiry*, Robert Alford (1998) argues that all great works integrate both the theoretical and empirical aspect of research. However, the researcher's point of entry influences the kind of question that is formulated, which in turn, influences the evidence that is examined. Evidence without theory is meaningless; similarly, theory without evidence is merely the subjective interpretation of social reality. Alford (1998) identifies three paradigms for entering and framing research—multivariate, interpretive, and historical. Each provides the researcher with a set of distinctions that guide their thinking in the research process.

Arguments within the multivariate paradigm seek variations within a system of interrelated variables and focus on the importance of measuring these variables to make generalizations (Alford 1998). In contrast, interpretive arguments seek to reconstruct the social processes of interaction by focusing on language, symbolic meanings, and how the on-going social order is negotiated and maintained (Alford 1998). Evidence is typically accumulated through fieldwork or participant-observation and the desired outcome is insight and understanding (Alford 1998). Historical arguments add the dimension of time and are concerned with describing and comparing specific temporality and events (Alford 1998). Evidence for historical arguments is usually drawn from texts, documents, and

artifacts of the past (Alford 1998). All three paradigms can be found in great research; what differs is the location of the argument. The foreground assumption is the argument that is the focus of the theory and evidence, while the remaining arguments serve as the backdrop, providing context for the arguments in the foreground.

In this research the foreground argument is interpretive. Careful attention is given to explaining how meanings are constructed through interaction among members of the family and family business as well as in the larger social world. Understanding the conditions under which nepotism is beneficial or problematic, as well as interpreting how nepotism affects the interpersonal relationships and success of the members are primary goals. Data are gathered mainly through in-depth interviews, interpretations of documents, and observations in their natural setting. However, to compliment and strengthen the research, both multivariate and historical arguments are used in the background. Utilizing background arguments not only provides rhetorical credibility, but also helps maximize validity (Alford 1998).

Multivariate arguments are used to measure the effects of nepotism by examining the relationship between the structural and cultural aspects of the family business and nepotism practices. Data to support multivariate arguments are gathered primarily from survey research. Historical arguments also appear in the background. To compliment evidence gathered through survey, in-depth interviews and observations, data are also drawn from texts, documents, and artifacts including company manuals, organizational charts, genograms, and human resource policies and procedures. This evidence is analyzed to provide the history of the structural arrangements of the family business as

well as to explain sequences of contingent events occurring at specific times in each company examined.

Although this research seeks to expand our understanding of the consequences of nepotism and nepotism practices on family businesses and its members, its goal is also to assist family businesses, advisors and consultants of family businesses in developing effective nepotism policies and practices. In other words, besides reflecting a commitment to scholarship, this study also seeks to be useful. Therefore, theory is utilized when it identifies variables and concepts that are likely to produce important and practical results (Bickman and Rog 1998). In this chapter, four major theoretical frameworks—structural-functionalism, conflict, symbolic interactionism, and rational choice theory are identified and then applied to attempt to bridge theory with family business and nepotism. Although these theories are transdisciplinary, they are discussed in the context of a sociological framework since I am a sociologist. Structural-functionalism provides the most comprehensive framework for studying the effects of nepotism on family businesses and therefore dominates this research. However, because structural-functionalism is not sufficient to study the effects of nepotism on family businesses—conflict, symbolic interactionism, and rational choice theory are also used.

Structural-Functionalism

The development of a theoretical framework for family business research has been a common topic of discourse among family business scholars, however according to Wortman (1994) no such paradigm has been developed for family businesses. In an article by Hollander and Elman (1988), they identify and examine four paradigms for

analyzing family businesses—founder, phases and stages for growth, rational, and systems approaches.

In their investigation they find that all four of these approaches recognize that the family business contains two interactive, interrelated, and powerful components (the family and the firm), and that any event that occurs in one of these components influences events that occur in the other component. Interestingly, although they state that it is too early to adopt the systems approach as a paradigm for the field of family business, in essence, the components they claim unite all four of these approaches are in fact all components of a “systems approach.”

Recently, it has been suggested that the accepted paradigm for family business is based on the three-circle framework intersecting family, managers, and owners (Moore 2009). This framework is clearly embodied in the systems approach. In fact, most of the conceptual literature examined for this research has revealed, either explicitly or implicitly, the use of a structural-functional systems approach that frames studies with one, two, or three systems, or subsystems (such as stages of development or growth) that interrelate with the larger system (Astrachan 1988; Barnes 1988; Handler and Kran 1988; Hollander and Elman 1988; Lansberg 1988; Ward and Handy 1988; Davis and Tagiuri 1989; Dumas 1989; Gillis-Donovan and Moynihan-Bradt 1990; Hollander and Bukowitz 1990; Donckels and Fröhlich 1991; Whiteside and Brown 1991; Daily and Dollinger 1992; Gersick, Davis, Hampton, and Lansberg 1997; Stafford, Duncan, Danes, and Winter 1999; Habbershon, Williams, and MacMillan 2003; Pieper and Klein 2007). Therefore, even though systems theory has not been identified as the major paradigm for

family business research, the literature suggests that it is certainly the theoretical framework most commonly used.

In sociology, this school of thought is embodied under the heading of structural-functionalism. It focuses on large-scale social and cultural systems and subsystems as well as the relationships among these systems and subsystems. Structural-functionalists are generally concerned with interrelations at the societal level and the effects of social structures and institutions upon actors. According to Talcott Parsons (1966), a major proponent of this approach, structural-functionalism operates in accordance to the following set of seven assumptions. First, all systems have the property of order and the interdependence of parts. Second, all systems tend towards equilibrium. Third, the system may be static or involved in an ordered process of change. Fourth, the nature of one part of the system affects the form other parts can take. Fifth, all systems maintain boundaries within their environment. Sixth, allocation and integration are fundamental processes necessary for the given state of order of a system. And seventh, all systems have a tendency towards self-maintenance.

Another important aspect of structural-functionalism is Parson's general system of action. His action system consists of four components—a behavioral organism, a personality system, a social system, and a cultural system. In developing this scheme, Parsons (1971) identified four functions necessary for the survival of all systems. The first of these functions is adaptation. Adaptation refers to the ability of a system to cope with external situations. Second is goal attainment. This is the necessity for systems to not only define, but achieve its primary goals. The third function is integration. Integration refers to the ability of a system to regulate the interrelationships of its

component parts and manage the relationships between the other functions. And the fourth function is latency. Latency is the ability of a system to furnish, maintain, and renew both the motivation of individuals and the cultural patterns that create and sustain motivation.

Although structural-functionalists are generally concerned with interrelations at the societal level, they are also interested in how systems and their subsystems operate and relate to each other as well as the constraining effects of these systems upon the actors involved. In the family business, the two major social and cultural systems are family and work. The actors are the family members and employees of the business. Borrowing from models of entrepreneurship and theories of family dynamics, a two-system model was developed in the late 1960's and early 1970's to express the operation and relationships within a family business. Tagiuri and Davis elaborated on this model at the Harvard Business School in the early 1980's, differentiating further between owners and non-shareholding managers (Gersick et al. 1997). From this, the authors of *Generation to Generation* (1997) developed a three-circle model (Figure 2.1) that

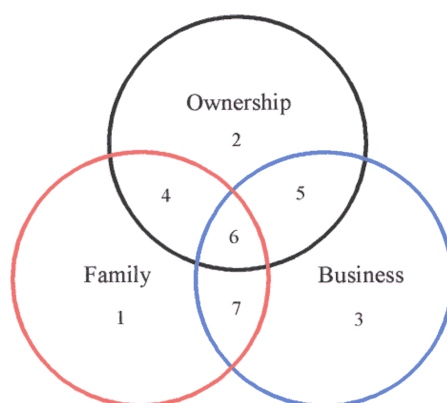


Figure 2.1: Three-Circle Model of Family Businesses
(Gersick et al. 1997)

differentiates between the family, ownership and the business. Within this three-circle model actors can occupy any one of seven positions at a given time. For example, position six illustrates a family member who works in the business and is also an owner, whereas position one describes a family member who does not work in the business and holds no ownership shares.

Unlike the two-system model, the three-circle model acknowledges the need to view the family business as an entity in itself, not separate systems. In this scenario, using a Parsonian approach, the family business is a stable system comprised of three major subsystems—family, business, and ownership. Each of the subsystems is interrelated and dependent upon one another and each subsystem of the family business affects the form the other subsystems can take. As in all existing family businesses, allocation, adaptation, integration, and self-maintenance are fundamental processes necessary for the given state of order and social attainment.

In addition, family businesses, like all systems according to Parsons, must fulfill four functions if they are to survive. To illustrate this portion of Parson's theory, a three-dimensional developmental model of family businesses is used. The model, created by Gersick et al. (1997), adds development over time to the three-circle model (Figure 2.2). For each of the three subsystems—family, business and ownership, there is a separate developmental dimension. Each subsystem goes through its own sequence of stages, with each developmental progression influencing each of the other dimensions while simultaneously operating independently (Gersick et al. 1997). Tables 2.1, 2.2, and 2.3 express the characteristics and key challenges of the developmental dimensions of the family, business, and ownership subsystems respectively.

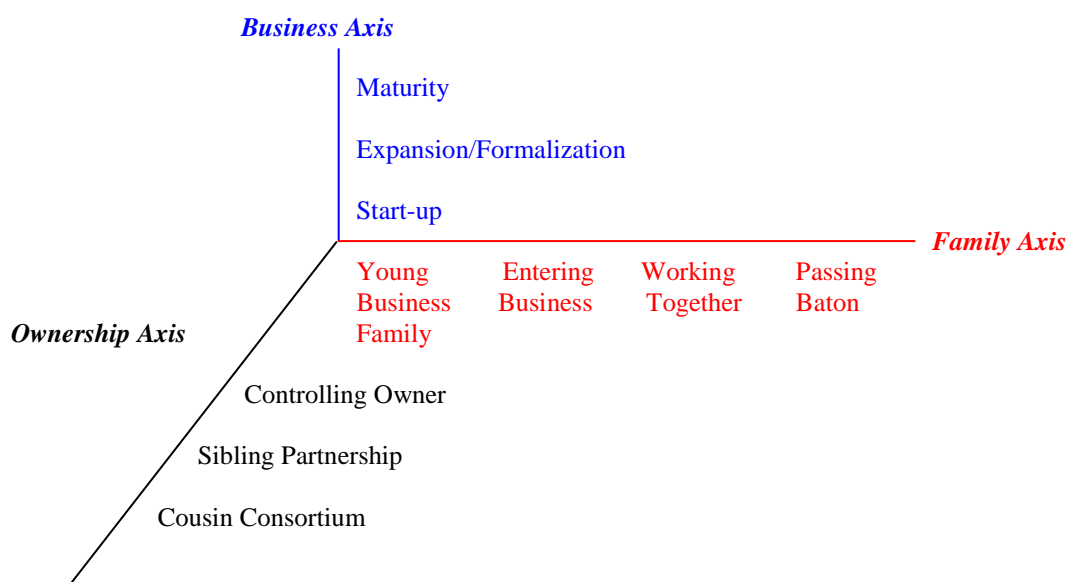


Figure 2.2: Three-Dimensional Developmental Model for Family Business
(Gersick et al. 1997)

Table 2.1. Family Business Developmental Phase: Family Developmental Axis

Phase	Characteristic	Key Challenges
Young Business Family	<ul style="list-style-type: none"> Adult generation under 40 Children, if any, under 18 	<ul style="list-style-type: none"> Creating a workable marriage enterprise (developing style of interaction) Making initial decisions about the relationship between work and family Working out relationships with extended family Raising children
Entering the Business	<ul style="list-style-type: none"> Senior generation between 35-55 Junior generation in teens or early 20s 	<ul style="list-style-type: none"> Managing the mid-life transition Separation and individualization of the younger generation Facilitating a good process for initial career decisions
Working Together	<ul style="list-style-type: none"> Senior generation between 50-65 Junior generation between 20-45 	<ul style="list-style-type: none"> Fostering cross-generational cooperation and communication Encouraging productive conflict management Managing the roles of each generation
Passing the Baton	<ul style="list-style-type: none"> Senior generation age 65+ 	<ul style="list-style-type: none"> Senior generation's disengagement from the business Generational transfer of family leadership

Source: Gersick et al. 1997

Table 2.2. Family Business Developmental Phase: Business Developmental Axis

Phase	Characteristic	Key Challenges
Start-up	<ul style="list-style-type: none"> Formation of informal organizational structure, with owner-manager at center One product 	<ul style="list-style-type: none"> Survival (market entry, business planning, financing) Rational analysis versus the dream
Expansion/ Formalization	<ul style="list-style-type: none"> Increasingly functional structure Multiple products or business lines 	<ul style="list-style-type: none"> Evolving the owner-manager role and professionalizing the business Strategic planning (specialty market, high volume, cost or quality focus) Organizational systems and policies Cash management
Maturity	<ul style="list-style-type: none"> Organizational structure supporting stability Stable (or declining) customer base with modest growth Divisional structure run by senior management team Well-established organizational routines 	<ul style="list-style-type: none"> Strategic refocus (consider legacy, family values, goals, and history of company) Management and ownership commitment Reinvestment

Source: Gersick et al. 1997

Table 2.3. Family Business Developmental Phase: Ownership Developmental Axis

Phase	Characteristic	Key Challenges
Controlling Owner	<ul style="list-style-type: none"> Ownership control consolidated in one individual or couple Other owners, if any, have token ownership holdings 	<ul style="list-style-type: none"> Capitalization Balancing unitary control with input from key stakeholders Choosing ownership structure for next generation
Sibling Partnership	<ul style="list-style-type: none"> Two or more siblings with ownership control Effective control in the hands of one sibling generation 	<ul style="list-style-type: none"> Developing process for shared control among owners Defining role of non-employed owners Retaining capital Controlling factional orientation of family branches (own family becomes primary concern as they get older)
Cousin Consortium	<ul style="list-style-type: none"> Many cousin shareholders Mixture of employed and non-employed owners 	<ul style="list-style-type: none"> Managing the complexity of the family and shareholder group Creating a family business capital market

Source: Gersick et al. 1997

Within each dimension and each developmental phase, all four functions characteristic of systems may be demonstrated. For example, in the family dimension, during the early years, adaptation and goal attainment is evident as the actors define goals, make initial decisions and cope with the relationship between work and family. Integration becomes most apparent at times when new members of the family are entering the business as well as when several generations are working together in the business at the same time. The ability for the family business to furnish, maintain and renew both the motivation of individuals and the cultural patterns that create and sustain motivation are most characteristic of the passing the baton developmental stage within the family dimension. Similar associations can be made within the business and ownership dimensions. Furthermore, as one dimension faces adaptation, another may be struggling with integration and goal attainment. Thus, it is possible for all four characteristics identified by Parsons to operate within and among all three developmental dimensions simultaneously.

As evident, structural-functionalism has greatly influenced the three-circle model and three-dimensional developmental model for family businesses presented here as well as other system models such as the one developed by Hollander and Elman (1988) or Whiteside and Brown (1991). Regardless of the model, it is apparent that structural-functionalism is not only a suitable theory, but an applicable theory as well. On a macro level, besides providing a basis for understanding how family businesses are organized and how each part interacts with the others, structural-functionalism is also helpful in studying the relationship between the values in the larger community and the values of the family and family business (Astrachan 1988), as well as between family businesses

and nonfamily businesses (Donckels and Fröhlich 1991; Daily and Dollinger 1992). On a more micro level, it is a useful tool for understanding the source of interpersonal conflicts, role dilemmas, priorities, and boundaries in the family business. Specifying different roles within the subsystems makes it easier to understand what is actually happening in the family business and why (Gersick et al. 1997). For example, struggles between family and nonfamily members become understandable in a new way if each actor's position in the systems model is taken into account (Barnes 1988; Handler and Kran 1988; Lansberg 1988; Davis and Tagiuri 1989; Dumas 1990). However, because structural-functionalism fails to deal effectively with power, conflict, and change in family businesses, it is necessary to turn our attention to another theory to address these concerns.

Conflict Theory

Although this theoretical school also focuses on large-scale social and cultural systems, unlike structural-functionalists, modern conflict theorists believe that society is maintained through authority, coercion, and the differential distribution of power. Contemporary conflict theorists argue that every society at every point in time is subject to social change, that conflict can occur at every point in the social system, and that whatever order exists, exists through the coercive nature of the members holding positions of power.

To apply this basic premise to family businesses, the three-circle model of family businesses suggested by Gersick et al. (1997) is utilized. As demonstrated in the section on structural-functionalism, three subsystems are said to operate within the family

businesses. Each subsystem is constantly developing and changing as a result of forces from outside the environment and forces within the family business. However, at any point in time, conflict can arise. And according to conflict theorists, whatever stability exists within the family business exists only through the coercive nature of the members holding the dominant positions. For example, as the owners of a company age, it becomes necessary to develop a contingency plan to satisfy the personal and business needs of the aging owners. For family businesses, this often means hiring family members. If however, a family member is brought in to take over the family business and they are not qualified or suited for such a position, a struggle for power could emerge between members. Or if a family member is brought in and nonfamily members are not yet ready to acknowledge and accept that in family businesses other family members are often brought in to sustain the business, there could be a power struggle between the newly hired family member and nonfamily members. This conflict may be exacerbated if the family member is brought in as the nonfamily member's superior. Such conflict would likely result in problems identified as negative consequences of nepotism.

Examining how power is derived, exercised, and maintained is also of great importance to conflict theorists. Ralf Dahrendorf's writings on authority are of particular interest to research on family businesses. According to Dahrendorf (1959), authority does not reside in individuals, but in positions. Those who occupy positions of authority are expected to control subordinates. Those in dominant positions seek to maintain the status quo, while those in subordinate positions seek change. However, he also argues that authority is not constant. In other words, an individual's authority varies depending upon time, their position in the system, their positions within the subsystems, as well as

their positions in society. Thus, it is possible for an individual to occupy different positions at different times, as well as to occupy a dominant position in one part of the system and a subordinate position in another.

To demonstrate his theory, the three-circle model (Gersick et al. 1997) is once again utilized. As stated previously, there are seven possible positions an individual may hold in the model. Generally speaking, family members have more authority in family businesses than nonfamily members. Therefore, most would assume that an individual occupying position seven (a family member who works in the business) would have greater authority in a family business than an individual occupying position three (a nonfamily member who works in the business), but this is not always the case. Family members entering the business do not usually start in managerial positions, and some may never occupy such a position. Conversely, nonfamily members often occupy managerial positions. Therefore, it would not be uncommon to see a nonfamily member holding a more dominant position in the business than a family member.

To demonstrate how Dahrendorf's theories on authority apply to family businesses, some mock relationships between family members are examined. In this first scenario, a parent occupying position six (a family member who works in the business and also holds ownership), hires one of their children (who previously occupied position one—only a family member) to replace them, and then retires. Both individuals now occupy different positions than they did previously. The parent who previously occupied position six now occupies position one, and the child who previously occupied position one now occupies position six. In this example, the child now occupies the position of authority in the business and ownership subsystems previously held by the parent. What

if the issue is compounded to include differing positions within subsystems as well as in society? At first glance, authority in the family business system appears to be greatest for those individuals occupying position six (a family member who works in the business and also holds ownership), however this is not always the case.

Building upon the first scenario, another child (currently occupying position one) expresses interest in joining the business. The parent, who is no longer in the business, is in favor of this. However the child who now occupies the parent's previous position (position six), is not. Although the child holds a dominant position in both the business and ownership subsystems, the child's position is subordinate in the family subsystem when compared to the parent, and this affects their authority in the entire system. How might this play out if the child refused to hire their sibling? What if the child in position six held only five percent of the ownership shares? Would their position in the ownership subsystem change their authority in the family business? What if the child was the youngest sibling? Would their position in the family subsystem change their authority in the family business? What about if the child was a female and the sibling desiring to join the family business was a male? Would their position in society change their authority in the family business?

In each of the examples presented, it is evident that authority is not constant, nor does it reside in the individual. Furthermore, in family businesses, it is clear that decisions made in one subsystem, greatly affect other subsystems and this in turn affects one's authority within each subsystem and in the entire system. Therefore, it is important to take into consideration the position one holds within each subsystem as well as the position occupied in the entire model. It is also important to recognize that social factors

such as age, birth order, and gender may compound the issue since an individual's position in society may also affect authority in family businesses.

Gender, for example, greatly impacts authority in family businesses since differential distribution of power by gender is evident in both the family and the workplace. Although women's roles in family business have been increasing and continue to expand in employment and ownership (Aronoff 1998), because gender denotes a hierarchical division between women and men embedded in both social institutions and social practices, women still tend to occupy subordinate positions in our society. As a result, primogeniture, especially the first born son, remains a norm in generational transition among family businesses (Barnes 1988; Dumas 1990). Those women who are involved in family businesses often occupy informal roles of power and influence that go unacknowledged (Gillis-Donovan and Moynihan-Brandt 1990). And in situations where daughters do become CEO's or maintain formal positions of leadership, they often face discrepancies in their hierarchical status within the family and the business that frequently lead to discomfort and conflict for all parties involved (Barnes 1988). Furthermore, because of the unequal division of labor within the home, women's interactions with family members tend to dominate both their personal and professional lives (Lyman 1988). Thus tensions due to occupying multiple positions that carry both family and business meanings (Tagiuri and Davis 1982) are likely to have a stronger impact on women than men. To remedy problems arising from inequalities and other conflict that occurs in family businesses, conflict theorists tend to concentrate on structural change, however, managing conflict at the micro level can help preserve the

family business. As a result, many family businesses have enlisted the assistance of professional service providers and consultants.

A substantial portion of family business research has been produced to assist professional service providers and consultants in helping family businesses manage conflict. Those advising family businesses are encouraged to take an interdisciplinary approach, obtaining knowledge in behavioral sciences as well as management, finance, and law, since all of these aspects impact the operation of a family business (The Family Firm Institute, Inc. 2003). There are many sources of conflict in family businesses and several techniques individuals use to deal with conflict including competition, avoidance, compromise, and collaboration, but there are only a few options that lead family businesses out of conflict. These options range from everyday self-directed negotiations among engaged parties to resolutions involving third parties such as arbitration and litigation (Gage and Meza 2003). However, when everyday self-directed negotiation fails, Gage and Meza (2003) argue that mediation is the best option for managing conflicts since unlike other forms of conflict management, the emphasis is on collaboration rather than antagonism and blame. Mediation is both economically and emotionally effective because it produces practical win-win solutions (Blumstein 1992). It enables stakeholders to develop solutions together by creating a safe environment that engages all participants in constructive dialogue (Gage and Meza 2003). And this is essential to the success of any organization, including family businesses (The Family Firm Institute, Inc. 2003). By opening and increasing the lines of communication, perceptions and expectations can be clarified which in turn helps build trust and creates a common culture of shared values and goals (The Family Firm Institute, Inc. 2003).

Because conflict management supports solutions that entail communication skills necessary for dealing with interpersonal interactions, its applications may be best suited within the framework of a more micro level theory such as symbolic interactionism.

Symbolic Interactionism

Symbolic interactionism is a social psychological approach built upon the basic premise that meanings emerge through interaction; it focuses on the symbolic nature of human interaction, linguistic and nonverbal communication, as well as the underlying patterns beneath these symbols, interactions, and processes (Marshall 1998). George Herbert Mead (1934), one of the most significant contributors to symbolic interactionism, believed that the mind, the self and everything else emerge from the social world. Especially important to sociology is Mead's work on the self. The self is the ability to see oneself as an object, and therefore put oneself in the place of others, acting as they act and seeing themselves as others see them. Mead traces the origins of the self through childhood stages of game and play. From these stages emerged what Mead calls, the generalized other. The generalized other refers to the organized attitudes of the whole community that enables one to adopt community values into their conception of self. In his work, *Mind, Self and Society*, Mead (1934) distinguishes between two phases of the self—the "I" and the "me." The "I" is the spontaneous, creative aspect of the self, while the "me" is the organized attitudes of others assumed by the actor.

Another important thinker from the symbolic interactionist school is Erving Goffman. In his book, *The Presentation of Self in Everyday Life*, Goffman (1959) expresses his theory of dramaturgy, a theatrical metaphor for everyday interaction. Life

is a stage and everyday social interaction is a performance. Goffman's theory rests on the assumption that when individuals interact, they want to present a sense of self that will be accepted by others. However, in presenting this self, actors are aware that others may disrupt their performance and for that reason they are also attuned to the need to control the audience. In addition, the actor must also simultaneously satisfy one's own vision of how to present oneself. To deal with these problems, Goffman says that people develop coping techniques, which he calls "impression management." Goffman also makes a distinction between the front stage and the back stage. The front stage consists of the physical setting, (the part of the performance that is generally fixed), and the personal front (the part that specifies the status and roles of the performer), while the back stage is where details that are concealed on the front stage may become apparent.

Theories of social psychology are no stranger to family business. Erikson's eight stages of human development and Levinson's stages of adult socialization are common applications used by business schools when studying the dynamics of family in the family firm (Gersick et al. 1997). But Mead's concept of the self proposes an interesting outlook not fully utilized in family business studies. For Mead, the self is essentially a social structure that arises from social experiences. The organization and unification of a social group is identical to the organization and unification of any one of the selves arising within the social process in which that group is engaged. The attitude of the organized community or social group is known as the generalized other. And the generalized other enables one to adopt community values into one's conception of the self. Thus, for example, the values of the family are the generalized other in so far as they enter, as an organized process or social activity, into the experience of any one of the

members of the family. Therefore, it is through the structure of the generalized other that the community exercises control over the actions of its members.

In a family business, this can become quite complex since more than one aspect of the generalized other is often operating at the same time. The family community may exercise a completely different set of values than the ownership and business communities. For example, appropriate behavior learned in the family can more easily be applied or ignored in the business setting when your boss is some arbitrary authority with no connection to your family. But when your boss is also your father, and he ignores appropriate behavior taught and learned in the family, it is difficult to apply new values from the business and ignore old ones from the family without disrupting the self.

Erving Goffman's dramaturgy theory presents effortless applications to the family business. From Goffman's perspective, life is a stage and everyday social interaction is a performance. In other words, when individuals interact, they want to present a sense of the self that will be accepted by others. However, in the stage that is the family business, the back stage often becomes the front stage and visa versa. In family businesses, one not only has to switch hats often, but one has to do so while standing on the same stage. This can make for quite an interesting production for sociologists to view. For instance, information normally concealed in a business setting or reserved for the back stage, such as the details of a family squabbling, often become part of the front stage in a family business. Nonfamily members suddenly become privy to back stage information that under most business settings would not only be inappropriate, but also have little or no affect on the manner in which business is being conducted. Furthermore, once the squabble becomes center stage, it can be difficult to know which status to take on, for

example, should one carry out the roles of the boss or the father? And this challenge is not only inherent, but also unique to the family business since in family businesses all actions carry both business and family meanings (Tagiuri and Davis 1982). In a professionally managed nonfamily business, the details of a private family squabbling often remain private, or on the back stage. However, when details do become part of the front stage, although they may affect the treatment of the individual involved and/or the individual who exposed the details of the squabbling, generally such information has little or no bearing on the business itself. In other words, in a family business—the front and back stage seem to merge, and it is often difficult to remember which stage one is on, as well as which status and roles one should be fulfilling.

Rational Choice Theory

This perspective is important to research on family businesses because it helps bridge the systematic approach of structural-functionalists with explanations at the individual level found primarily among symbolic interactionists. Rational Choice theory is a positivistic approach with roots in neo-classic political economics. Similar to exchange theory, a rational actor is assumed, but instead of focusing on social relationships, rational choice concentrates on the individual decision making taken by the rational actors to achieve objectives consistent with the actor's preference hierarchy. However, rational choice theorists are not concerned with the source of the actor's preferences. According to James Coleman (1990), the person credited with bringing the theory to the forefront in sociology, rational choice theory seeks to explain the problem of social order by explaining how individual rational actions systematically generate

regularity in macro-level outcomes. Therefore, in his opinion, although the focus should be social systems, macro-level phenomena must be explained by factors (individuals and other micro-level phenomena) internal to them because data are collected at the individual level and this is where “interventions” are made and social change occurs (Coleman 1990). So even though rational choice theory takes a systematic approach, unlike structural-functionalism, macro-level phenomena are explained by micro-level factors.

Everyday, in every action an individual takes, a decision for that action must be made. According to Friedman and Hechter (1988), actors are always trying to maximize their benefits, thus each action is based upon the actor’s preference hierarchy that maximizes their utility or satisfies their needs or wants. In addition to the actor’s preference hierarchy, there are two factors of constraint that dictate one’s actions—the scarcity of resources and the influence of institutions. Actors not only have different resources, but differing access to additional resources. Maximizing one’s utility may be quite easy for those with greater resources and/or greater access to resources, but difficult for those who lack resources or access to them. Therefore, the actions of actors are likely to differ depending on the availability of resources. Furthermore, in deciding to take a certain action, actors must also discern the opportunity costs of forfeiting their next-most-attractive action. If the chances for achieving the most highly valued end are slim, then maximizing one’s benefits may mean selecting the next-most-attractive action. Thus, when trying to maximize one’s utility, one must also assess the relationship between the chances of achieving the most highly valued end and the affects that achieving or not achieving this end may have on attaining the objective with the next best value. The

second factor that must be taken in consideration is institutional constraints. Institutional constraints, such as values, norms, laws, and agendas provide both negative and positive sanctions that discourage or encourage certain actions. Thus, by restricting or encouraging one's actions, social institutions systematically affect our social outcomes (Friedman and Hechter 1988).

Although rational choice theorists are not concerned with the source of the actor's preferences, they are interested in the decisions made by individual rational actors to achieve objectives consistent with their preference hierarchy. Unlike decisions made in a uni-social or uni-cultural system such as business or the family, in a family business one's preference hierarchy is compounded because more than one system (family and business) is operating simultaneously. Furthermore, because of the complexity of the structure of the family business, maximizing one's utility can become a much more difficult task.

As with any decision in any system, rational actors in a family business weigh the costs and benefits of that decision with the intention of satisfying their needs or wants. Actors in business systems tend to value the development, growth, and survival of the business with the primary objective being economic maximization, whereas actors in family systems tend to value the development, growth, and survival of the family with the primary objective being harmony maximization. However, unlike decision making in a single system such as business or family where maximizing utility may be focused within that particular system, in a family business it is equally important to maximize utility in both the business and family systems. In a family business, if one fails to maximize utility in both systems, the individual risks harm to both the business and the family. In a

nonfamily business, if one makes a decision that maximizes utility in one system, it does not necessarily risk harming the other system.

For example, a rational actor employed in a nonfamily business makes the decision not to hire a relative for a position in their department. Instead they hire another applicant with more experience for the position because this decision maximizes utility in the business. Although family was factored in the decision making, and the decision may upset the balance of the family system temporarily, only one system was really harmed by this action. However, if the same rational actor made the same decision, but was a family member employed in their family's business, both systems would be affected. Deciding not to hire the relative would undoubtedly upset the balance of the family, and even though the relative lacked experience, utility would not necessarily be maximized within the business by not hiring them. For some family businesses, hiring the family member may actually be the decision that ultimately yields the greatest utility since experience can be gained and the failure to bring new family members into the business eliminates any possibility of sustaining the business as a family business. And this becomes increasingly more important as the leaders of the firm age since keeping the business in the family is often one of the primary purposes of the business (Shanker and Astrachan 1996). The point is, actors employed in their family's business not only have different preference hierarchies, but a different set of constraints. In the family business, family and business can never really be separated for these actors—membership to one implies membership to the other.

Interestingly, in previous research on family businesses, this theory has often been distorted viewing the two systems of the family business as polar opposites¹—the family being the nonrational component and business the rational component (Hollander and Elman 1998). As a result, scholars attempted to eliminate the family since it was believed that the family had a disabling effect on the business (Hollander and Elman 1998). This proved unsuccessful since the presence of the family is integral and sometimes enriching for the family business, and its elimination simply changes a family business into a nonfamily business (Hollander and Elman 1998). However, what even Hollander and Elman fail to recognize is that this literature does not simply force distinctions between family and business, it forces distinctions between the objectives that maximize one's utility and the objectives that do not. Thus, it would be erroneous to assume that business objectives always maximize the utility of the family business, and family always disrupts it. Nonetheless, this manipulation of the approach has left what Hollander and Elman (1998) call a "legacy of negativity" (p. 147), and therefore any researcher using this approach must take this into account.

Utilization of Multiple Theoretical Perspectives

In conclusion, it is evident that utilizing multiple theoretical perspectives in combination is an appropriate approach to studying the effects of nepotism on family businesses. Not only is it appropriate, but it may even promote the development of a more relevant and comprehensive theory and strengthen the understanding of the given

1. This view is not surprising given the prevalence of the scientific management approach in American businesses. The approach clearly views family as a disabling effect on business that should be separated and eliminated (Taylor 1911).

subject matter (Lewis and Kelemen 2002) which in this case is nepotism. Although structural-functionalism is the dominant theoretical perspective, conflict theory, symbolic interactionism, and rational choice theory are also used to help understand and explain the effects of nepotism on family businesses.

Structural-functionalism provides a framework for understanding how family businesses are organized and how each part interacts with the other. The theory is also used to understand each actor's position in the system. Both the three-circle model and three-dimensional developmental model (Gersick et al. 1997) are utilized in this capacity. Conflict theory is employed to identify the power structure embedded in the various positions representative of family firms and to understand the tension that may arise from relationships between these existing positions. Symbolic interactionism is used to examine the meanings that emerge through interactions between the existing positions. Mead's generalized other is important in that it helps explain the impact values and culture have on the family business and its members. Goffman's impression management is utilized to appreciate the importance perceptions have on the interrelationships of members; his theories are also used to understand how members navigate between the front and back stages. And finally, rational choice theory is drawn upon because it helps bridge the systematic approach of structural-functionalists with explanations at the individual level found primarily among symbolic interactionists. This theory is applied to recognize the unique goals of family businesses in maximizing utility.

This research is also guided primarily by interpretive arguments. As a result, the interpersonal relationships of members of the family business as well as the informal practices of the firm are the foci of this study. This is achieved primarily by identifying

patterns through in-depth interviews. However, to better understand these relationships and the effect nepotism policies and practices have on them, the formal organizational structure of the firms is also examined. By combining these approaches, and integrating interpersonal relations and informal networks with formal structures in family businesses, a suitable and unifying framework for studying the effects of nepotism on family business has been constructed.

CHAPTER 3

CONCEPTUAL FRAMEWORK

Family Business

Although family businesses have always represented a predominant form of business in society, prior to 1975, literature and research on the family business was relatively limited (Handler 1989). Its association to small businesses and entrepreneurship as well as negative connotations often identified with family businesses, such as the “ma and pa” image, and lack of innovation and growth, has plagued the field preventing its establishment as an intellectually rigorous and independent domain (Bird, Welsh, Astrachan, and Pistrui 2002). It has only been in the last fifteen to twenty-five years that the family business has emerged as a legitimate and viable field for research and analysis (Hollander and Elman 1988; Handler 1989; Bird et al. 2002). This is evident not only in the literature being produced, but also in the enormous increase in the number of family business programs at colleges and universities. Prior to 1985 there were only two family business programs in the country, but today they are a popular niche throughout the world with programs existing in at least ten countries including the United States which hosts over one hundred programs alone (Frishkoff 1998).

The field attracts a wide array of disciplines including business management, economics, finance, law, psychology, anthropology, and sociology; and many schools of thought within these disciplines have contributed to the establishment and growth of the

field of family business. Although each of these fields are important to the base of knowledge that is now known as the family business field, this research will concentrate on those concepts and theories derived from the social sciences. Concepts from the social sciences that focus on family businesses can be applied to micro, meso, and macro levels. At the micro level the focus is on interactions and social practices of individuals within the family, business, or both. At the meso level the focus is on the family, business, or both. And at the macro level the focus shifts to the relationship between family business and other social and cultural practices or structures in society. Social science theories may be applied to areas such as human development and personality, family and group dynamics, communication and conflict management, power, human diversity, and organizational behavior and culture. In the beginning, most of the research in the family business field focused on the overlapping boundaries between its two most obvious systems—the family and the firm, and the conflict that results from their interaction (Hollander and Elman 1988; Handler 1989). However, the research scope has since broadened to include issues such as succession, business performance and growth, consulting family firms, gender and ethnicity issues, legal and fiscal issues, estate issues, organizational change and development, governance and more (Dyer and Sánchez 1998).

Some of the major challenges faced by family businesses include ownership, leadership, management, employment, compensation, strategic planning, growth, succession, building strong relations, and conflict management. And although family businesses deal with the same issues that all businesses are confronted with, they also encounter many unique challenges. According to Tagiuri and Davis (1982), these unique and inherent challenges which they call “bivalent attributes” include simultaneous roles

(family members may be owners, managers, and/or employees); shared identity (all actions carry both business and family meanings); a lifelong common history; emotional involvement and confusion; private language (gained from a lifelong common history); and meaning of family company (an identity based on the duration of the business and the generation involved in the business). However, before discussing the issues that are most pertinent to this research, it is important to define family business. Not only is this a critical step in the field's development, it is also a necessary component in the theoretical and methodological process of this research.

There are countless definitions of family businesses—some from within the field and some from outside the field. Definitions range from broad to narrow and vary by the degree of family involvement, the degree of ownership and/or management by family members, the potential for generational transfer, or some combination of these or other conditions (Handler 1989; Heck and Scannell Trent 1999). Broad definitions are most inclusive and generally consist of little direct family involvement, although the family usually has effective control of strategic direction and the business intends to remain in the hands of family members (Shanker and Astrachan 1996). For example, Handler (1989) offers this broad definition to distinguish between family businesses and other types of organizations, “an organization whose major operating decisions and plans for leadership succession are influenced by family members serving in management or on the board” (p. 262). Narrow definitions are less inclusive and include those businesses that require involvement of multiple generations of family members, direct involvement in daily operations, and more than one family member having significant management responsibilities (Shanker and Astrachan 1996). While most of the definitions focus on

the structure of the family business, some also highlight the goals of a family firm adding yet another dimension to conceptualizing family businesses. For example, in a definition of family business taken from a strategic management perspective, the structure is identified but the definition implies that goals are being pursued, a strategy has been designed to fulfill these goals, and mechanisms are in place to implement these goals (Sharma, Chrisman, and Chua 1997). And although family business scholars lack consensus in conceptualizing the family business, some common criteria has been identified—percentage of ownership, voting control, power over strategic direction, involvement of multiple generations, and active management by family members (Shanker and Astrachan 1996).

While a more consistent family business definition would simplify matters, help establish a more unified conceptual framework for the field and allow for comparative studies and greater reliability (Heck and Scannell Trent 1999), diversity among definitions increases flexibility in measuring variations in family businesses, and adds validity to the research. As with all research, what is most important is not that the same definition is used, but that the researcher clearly specifies why and how the definition is being used (Handler 1989). For the purposes of this study, family business is defined as an organization in which ownership is held by one or more family members; the majority of voting control is in the hands of a member or members of the family; major operating decisions and plans for leadership succession are influenced by family members actively serving in management positions; and there is active involvement of multiple generations. This definition of family business distinguishes sole proprietors and entrepreneurs, who often use both paid and nonpaid family labor, from those businesses who intend to pass

on the business to other family members. Furthermore, because this study examines the effects of nepotism, it is necessary to include multiple generations in the definition so that the interpersonal relationships and success of members of the family business can be analyzed.

Nepotism

Although there is substantial theory and research on family business in general, studies on nepotism in businesses are lacking with existing literature focusing mostly on legal issues, anecdotal opinions, and creating and implementing human resource policies (Vinton 1998). Nepotism is defined in the tenth edition of the Merriam-Webster's Collegiate Dictionary as "favoritism based on kinship (as in the appointment to a job)." However, public attitudes towards nepotism in the United States often view the practice as "undue" favoritism or as preferential treatment for relatives that are incompetent. In fact, in an article by Wong and Kleiner (1994:10), they refer to nepotism as the "hiring and advancement of unqualified or underqualified relatives simply by virtue of their relationship with an employee, officer, or shareholder." Interestingly, their assumption is based on the third edition of the Webster's International Dictionary,² which defines nepotism as "favoritism shown to nephews and other relatives (as by giving them positions because of their relations rather than on their merits)." However, if this is how nepotism is defined, what then would one call the hiring and advancement of relatives who are qualified?

2. Note that this definition comes from the international version of a much older edition of the dictionary; therefore there may be cultural and historical implications that may be interesting to explore. The term nepotism is derived from the Latin word *nepot* meaning nephew.

In theory and practice, organizations that have nepotism policies define nepotism as neutral and simply identify rules regarding the hiring, supervision, and advancement of relatives. For example, according to the Code of Federal Regulations (National Archives and Records Administration 2003), nepotism refers to the appointment, employment, promotion, or advancement of relatives in the same chain-of-command as a management official or supervisor with authority to take personnel management actions; it says nothing of merit. In other words, nepotism policies are created to prevent negative consequences, not because nepotism is negative. Nonetheless, the tone of the meaning evoked in the origins of nepotism has lingered since it seems to be accepted wisdom³ that nepotism has more negative than positive consequences. But this is not always the case; Molofsky (1999) says that his company has redefined nepotism in a manner that has nothing to do with hiring favorites. According to this view, nepotism is seen as an opportunity that benefits all employees and the company rather than a relationship void of merits.

Both negative and positive consequences of nepotism have surfaced in the literature.⁴ There are a number of reasons why nepotism may be viewed negatively. One of the main concerns cited by those opposed to nepotism is that it makes attracting and sustaining professional managers problematic (Toy, Brown, and Miles 1988; Kets de Vries 1993; Wong and Kleiner 1994; Nelton 1998; Yeung 2000). Another common fear

3. In America, this accepted wisdom likely stems from three core values—individualism, achievement and success, and equality; and they are identified and described in more detail in *American Society: A Sociological Interpretation* (Williams 1970).

4. Note that most of this literature is not supported by scientific research; rather it is based on anecdotes and commentary of individuals involved in the field of family business.

among business owners and their advisors is that family members may be incompetent, lazy, and have attitudes of entitlement (Nelton 1998). Therefore “undue” favoritism can lead to hiring unqualified and keeping incompetent family members in supervisory positions (Kets de Vries 1993; Yeung 2000). In addition, Nelton (1998) believes business owners and their advisors worry that nonfamily employees would view family members as an impediment to their promotion and success. Other problems associated with nepotism include unequal sanctions (Kets de Vries 1993); exposure of business to family quarrels and sibling rivalry (Wong and Kleiner 1994); fear that nonfamily employees would resent the employment of family members and as a result treat them unkindly if brought into the business (Nelton 1998); and limitations to company growth (Yeung 2000). Furthermore, in two studies that surveyed human resource managers/personnel administrators from family and nonfamily businesses on nepotism practices, respondents reported that overall the disadvantages of nepotism strongly outweighed the advantages (Ford and McLaughlin 1986; Hayajenh, Maghrabi, and Al-Dabbagh 1994).

While negative consequences may occur, nepotism also has benefits. Proponents of nepotism cite better performance and greater loyalty and long-term commitment to the company (Molofsky 1998; Nelton 1998); a shorter learning curve, lower risk, lower turnover, ability to fulfill needs at peak times (Molofsky 1998); successful generational transition (Danco 1982); exceptional dedication among all employees and elevated levels of innovation and entrepreneurial energy (Molofsky 1999); as well as a feeling of solidarity and sense of ownership among all employees (Wong and Kleiner 1994; Molofsky 1999). Ivan Lansberg, an expert in the field of family business, believes that

firms that practice nepotism have longer strategic plans and that nepots have a stronger work ethic and are more concerned about quality since their name is on the product (Toy et al. 1988). Fischetti (1992) also comments that nepots provide customers with a sense that they are dealing with someone who is “in charge,” and that nepots are often more committed to helping the family succeed and better equipped to see the big picture than nonfamily employees resulting in better decisions, and more stable progress.

However, I contend that nepotism in itself is not inherently problematic or beneficial to the family business, that the outcome is dependent upon nepotism policies and practices. This assumption is supported by Aronoff and Ward (1993), Astrachan and Kolenko (1994), Nelton (1998), and Molofsky (1999) who all believe that the key to positive outcomes is to discuss, monitor, develop policies, and clearly communicate and practice established policies. Furthermore, Aronoff and Ward (1993) and Molofsky (1999) specify that regardless of the policies established, it is most important to clearly communicate policies and practices openly, and to apply them in a manner that is fair. As a result of these conclusions, many have proposed guidelines for dealing with negative consequences and encouraging positive outcomes of nepotism.

Most of the policies and practices suggested in the literature are based on the personal experiences of consultants and advisors to family businesses, rather than systematic empirical research. Recommendations usually include policies aimed at nepots involving some combination of appropriate education, dedicated time period between education and entry, outside work experience, entry into an existing and needed position that fits qualifications with precedents for training, performance, and pay (Hayes 1987; Le Van 1990; Fischetti 1992; Aronoff and Ward 1993). In general, human

resource practices (such as nepotism practices) are positively linked with the gross revenues of the business (Astrachan and Kolenko 1994). According to Astrachan and Kolenko (1994), this is consistent with Ulrich and Lake's postulation on organizational capability that businesses that establish organizational and management specific policies and practices have an advantage in the marketplace. Yet only a little more than half of all businesses have some type of formal nepotism policy (Ford and McLaughlin 1986), and as business size decreases so does the number of firm's having formal policies (Ford and McLaughlin 1986; Fischetti 1992).

This research seeks to expand this body of knowledge and identify policies and practices that will best benefit family businesses by scientifically studying the existence, form, and application of nepotism policies, as well as the consequences these practices have on members and the family business. To accomplish this, it is necessary to explore the conditions under which nepotism is problematic or beneficial. This means understanding the role that structural and cultural characteristics of family businesses may play in developing nepotism practices, as well as the impact nepotism has on the interpersonal relationships, success of members of the family business, and the overall success of the business. The following section elaborates on these concepts and provides a visual display to assist the reader in understanding the logic of this study.

Conceptual Mapping

A conceptual model of the variables in this research necessary for studying the impact of nepotism on family business is featured in Figure 3.1. The diagram also demonstrates the relationships among and between variables. Although each variable is

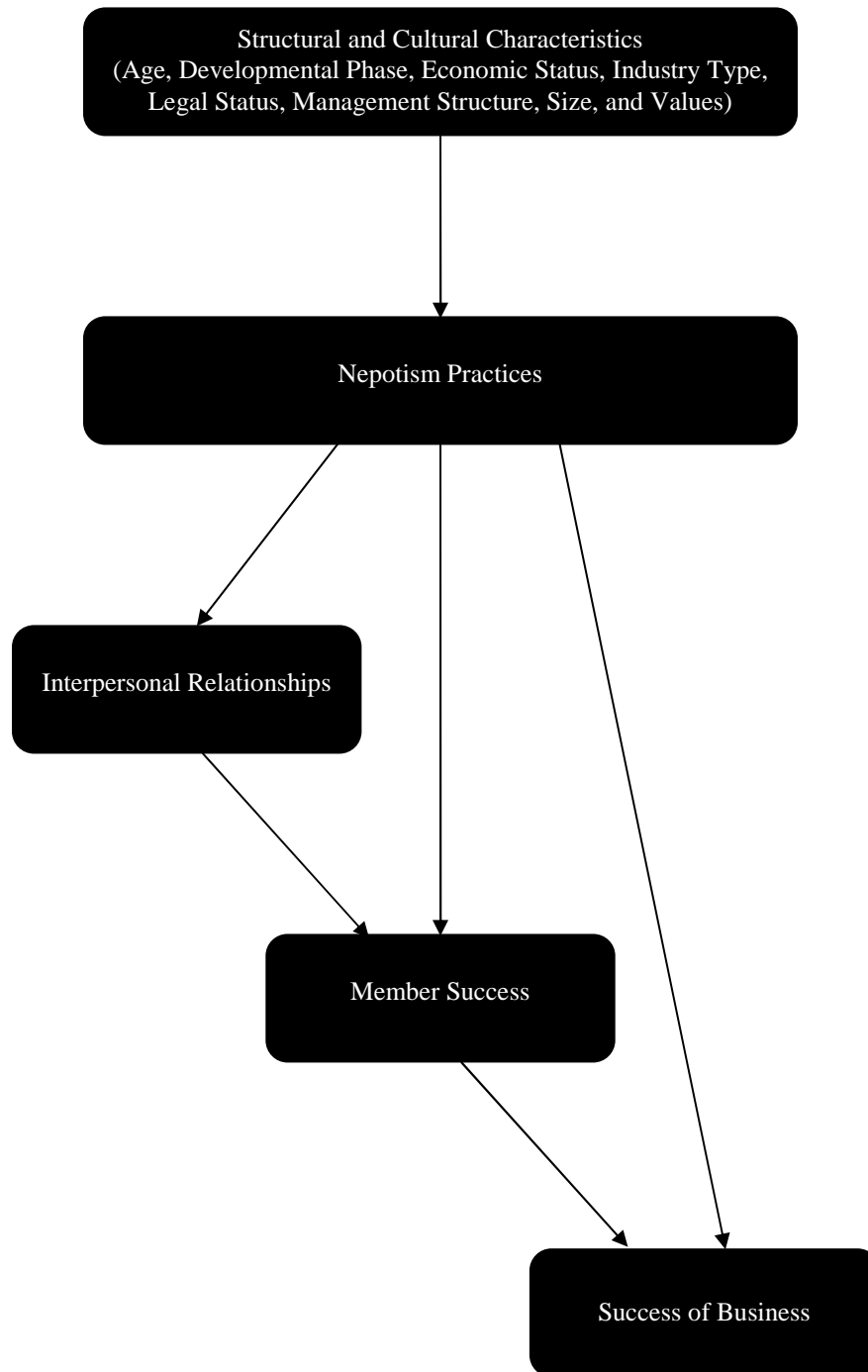


Figure 3.1: Conceptual Mapping of the Impact of Nepotism on Family Businesses

conceptualized and the relationships between them are identified, it should be noted that the focus of this study is on nepotism practices and the impact they have on interpersonal relationships.

As stated previously, family business⁵ is defined in this study as an organization in which ownership is held by one or more family members; the majority of voting control is in the hands of a member or members of the family; major operating decisions and plans for leadership succession are influenced by family members actively serving in management positions; and there is active involvement of multiple generations. One way of describing family businesses is to identify its structural and cultural characteristics. These characteristics provide the foundation for studying family firms. In Figure 3.1, age, developmental phase, economic status, industry type, legal status, management structure, size, and values make up the structural and cultural composition of a family firm.

Age refers to the number of years the business has been in operation. The developmental phase refers to varying stages of growth and change that occur in the family, business, and ownership segments of a family business. Economic status refers to a combination of gross revenues in relation to the firm's industry, growth in sales, assets, and/or equity of the firm, as well as the debt structure of the family business. Industry type refers to the type of work or economic activity the family business is engaged in. The legal status of the business refers to the type of business ownership the company elected when they established the business. The management structure refers to the ways

5. The term "family business" and "family firm" are used interchangeable throughout this study.

in which power is situated and organized in the firm. The size of the firm refers to the number of full-time and part-time personnel. And the last characteristic making up the structural and cultural foundation of family businesses is values. This concept refers to the standards or principles of importance to individuals and the organization in regard to power (influence, control, and decision making) as well as issues of trust, support, and loyalty.

Also featured in Figure 3.1 are nepotism practices, interpersonal relationships, member success, and the success of the business. As stated previously, nepotism is defined as favoritism based on kinship (as in the appointment to a job). However for this study, nepotism does not simply refer to practices of favoritism, rather it refers to the existence of formal and informal human resource policies as well as the application of these policies which determine the actions of members regarding employment of family. Both ideal and real norms associated with nepotism are included. Interpersonal relationships refer to the relationships among family members as well as between family and nonfamily members. These relationships are defined by the attitudes and actions of members regarding the worth and acceptance of other members or potential members of the firm. And the last variable included in the conceptual mapping is success. Success is defined as the ability to accomplish an aim. Therefore, in this study member success refers to an individual's ability to effectively meet job expectations and sustain employment. And for the business, success refers to the firm's ability to effectively maximize utility.

Although a multitude of relationships may exist between the variables described above, the framework used in this study to understand these relationships is displayed in

Figure 3.1. According to the diagram, nepotism practices impact the interpersonal relationships of members which in turn impact member success which ultimately affects the success of the business. However, because this study recognizes that structural and cultural characteristics impact the existence of nepotism and nepotism policies and practices, this relationship is also expressed. In addition, this study also assumes that certain variables are mutually related. Age, size, industry type, legal status, economic status, developmental phase, management structure, and values are all said to be interrelated. While other variables besides those included in this model may influence the success of a family business, this study concentrates on the role nepotism plays and the consequences it has on interpersonal relationships while recognizing the impact this has on member success, and ultimately, the success of the family business. This aim is reflected in the goals of this research as well as the guiding principles set forth below.

Guiding Principles

Nepotism is inherent and necessary to sustain a family business. Although nepotism is often perceived as a negative practice, I contend that nepotism in itself is not intrinsically negative or positive; the outcome is dependent upon nepotism policies and practices (Aronoff and Ward 1993; Astrachan and Kolenko 1994; Nelton 1998; Molofsky 1999). Therefore, I have identified four categories to express the character of nepotism practices—open, closed, equal, and unequal. “Open practices” are identified as disclosed or openly communicated nepotism policies and practices. Its polar opposite, “closed practices,” will therefore be identified as undisclosed or not openly communicated nepotism policies and practices. “Equal practices” are practices that are uniform in

application or effect. This means that regardless of one's status, the policies for members are identical and the treatment is the same. "Unequal practices" are practices that are uneven in application or effect, meaning that the policies for members differ, and treatment is the not the same.

To illustrate the intersection of these categories, I have created a typology of nepotism practices (Figure 3.2). As is evident in the diagram, I propose that the "most beneficial" nepotism practices are those that are both open and equal since these practices are most likely to be perceived as fair. "Fair practices" refers to perceived interpersonal equity and will be determined by member's attitudes about nepotism and nepotism practices based on their interpretation of given situations. Its polar opposite will be considered "unfair practices." Unfair practices will therefore be defined as perceived interpersonal inequity.

	Equal Practices	Unequal Practices
Open Practices	Most Beneficial (most likely to be perceived as fair)	Beneficial (may or may not be perceived as fair, but more likely to be perceived as fair than equal practices that are closed)
Closed Practices	Problematic (likely to be perceived as unfair, but more likely to be perceived as fair than unequal practices that are closed)	Most Problematic (least likely to be perceived as fair)

Figure 3.2: Typology of Nepotism Practices

Therefore, in this study, nepotism practices that achieve a perception of interpersonal equity are said to be "fair," and nepotism practices that fail to achieve a

perception of interpersonal equity are said to be “unfair.” The “most problematic” nepotism practices are those that are closed and unequal since these practices are least likely to be perceived as fair. Furthermore, I believe that nepotism practices that are open and unequal are more beneficial than practices that are closed and equal since they are more likely to be perceived as fair than practices that are closed and equal. Due to the negative connotation of nepotism, it is believed that firms that practice equal but closed practices are more problematic than firms that practice unequal but open practices since it is likely that members, especially nonfamily members, will assume that the practices are unequal even when they are not. That said, these practices are viewed as less problematic than practices that are unequal and closed because even though they are not openly communicated the practices are equal so they are more likely to be perceived as fair. Since nepotism practices are integral to the success of the family firm, those that are perceived as fair are considered to be most beneficial, and those that are perceived as unfair are considered to be the most problematic to the success of the firm.

Another guiding principle of this study involves the attitudes and actions of members of the family business who face or have been faced with nepotism. Both family and nonfamily members are included in this scenario. Those family members who started the business are generally referred to as “founders.” Founders are considered first generation. Those family members who are not founders, but are currently in control and active in the everyday operations of the firm are called the “senior generation.” Those family members who are active in the everyday operations of the firm, but are not currently in control are considered the “junior generation.” Therefore, any family member besides the founding generation who enters the family business is considered a

nepot. The term “nonfamily member” is used to identify an employee in the family business who is not a member of the family and who may or may not hold ownership in the family business. Therefore, the term nonfamily member is considered synonymous with “nonfamily employee.”

In this study, the foci are the attitudes and actions of members surrounding the onset of the practice of nepotism. Such attitudes and actions will be examined among family members, specifically founding or senior generation and junior generation, as well as between family and nonfamily members, especially nepots and nonfamily managers. And these attitudes and actions may vary. Individuals may be valued or devalued, and welcomed or resisted. When an individual is said to be “valued,” this implies that other members have an attitude or perception that the individual is worthy or desirable to the family business or has qualities on which these characteristics depend. When an individual is labeled as “devalued,” this implies that other members have an attitude or perception that the member is less than valuable, or unworthy, and undesirable to the family business. When an individual is “welcomed,” this identifies actions by other members that have a positive impact upon that individual. Thus, when an individual is “resisted,” this refers to actions by other members that have a negative or harmful impact on that individual. When attitudes and actions are positive this indicates a strong interpersonal relationship. And when attitudes and actions are negative, this indicates a weak interpersonal relationship.

A typology representing the intersection of the attitudes and actions of individuals encountering nepotism or nepotism practices is displayed (Figure 3.3). Individuals who

		ATTITUDES	
		Valued (+)	Devalued (-)
ACTION	Welcomed (+)	Asset Strong Interpersonal Relationship (Positive Attitude and Action)	Clown Strained Interpersonal Relationship (Negative Attitude and Positive Action)
	Resisted (-)	Competition Strained Interpersonal Relationship (Positive Attitude and Negative Action)	Reject Weak Interpersonal Relationship (Negative Attitude and Action)

Figure 3.3: Typology of the Social Component of Member Success

are valued and welcomed are seen as an “asset.” The attitudes towards these individuals are considered positive, and the actions towards such individuals have a positive impact indicating a strong interpersonal relationship between members. Individuals who are valued, but resisted are viewed as “competition.” The attitudes towards these individuals are considered positive, but the actions towards such individuals have a negative impact indicating a strained interpersonal relationship that is perceived as weak by members. Individuals who are devalued, but welcomed are labeled “clowns.” The attitudes towards these individuals are considered negative, but the actions towards such individuals have a positive impact. This also indicates a strained interpersonal relationship, but in this case the relationship is perceived as strong by members. And those individuals who are devalued and resisted are seen as “rejects.” The attitudes and perceptions towards these

individuals are considered negative, and the actions towards such individuals have a negative impact indicating a weak interpersonal relationship between members.

The most successful members are those who are valued and welcomed, while the least successful are those who are devalued and resisted. Thus, it is assumed that family businesses benefit when individuals are both valued and welcomed. This is especially true when nepots are valued and welcomed by key nonfamily members since in many family firms the future vitality of the family firm often depends on the successful transition of nepots into the business (Chua, Chrisman, and Sharma 2003). The rationale behind this assumption is that at the management level nepots typically replace family not nonfamily members. Furthermore, when there are no family members to replace family members, usually the firm is either sold or goes out of business. And as a result, these key nonfamily members are often left without a job. So it is in the nonfamily member's best interests to help nepots become successful. Therefore, when nepots are successful, nonfamily employees benefit. It is also in the best interests of nepots to help nonfamily members become successful (Chua et al. 2003). Without the help of nonfamily members, the business will suffer. And when the business suffers, the success of everyone is at stake. Therefore, when nonfamily members are successful, nepots benefit. And when both nepots and nonfamily members are successful, the business benefits.

CHAPTER 4

RESEARCH METHODS

This chapter outlines the research methods used to conduct this study. The first section describes the overall research design and rationale for the methodology used. Instruments used to collect the data, as well as descriptions of the variables and their measurements are also included in this section. The next section provides details regarding sampling design and selection, and data collection for both the survey and case study research. The last section expresses how the data was analyzed.

Research Design

Although research published on family businesses is becoming increasingly sophisticated and rigorous (Bird et al. 2002), a large extent has been based on casual observations rather than systematically collected empirical data (Brockhaus 2004). Both detailed explanations of the research design and sophisticated statistical techniques are often lacking in family business research (Alrich 1992). In an effort to improve upon the quality and value of family business research, this cross-sectional study utilizes both quantitative and qualitative methods. Together, these methods provide a better understanding of the research problem than either method would alone. A self-administered questionnaire was used to elicit responses regarding the firm's structural and cultural characteristics, policies and procedures in regard to nepotism, and descriptive data regarding the statuses and roles of family and nonfamily members. Then

select family businesses were targeted to participate in a more in-depth analysis. Using a multiple case study design, data were collected through in-depth interviews, a review of appropriate documents, and observations to verify and corroborate information provided in the questionnaires as well as to obtain a more detailed understanding of the organization, its nepotism policies and practices, the relationships between and among members of the firm, and their attitudes and experiences working in a family business.

The use of written surveys and in-depth interviews is fitting given that they are the most widely used methods for gathering data on family businesses (Dyer and Sánchez 1998; Bird et al. 2002). Furthermore, these methods are appropriate for studying the effects of nepotism in family businesses because they allow the researcher to collect data on the structure, management, values, and human resource practices as well as the interpersonal relationships and success of its members. Self-administered questionnaires provide relatively objective aggregated data using clearly defined indicators, while in-depth interviews provide narratives and quotes which give subjects a voice and offer a more holistic and rich analysis of family businesses. As a result, this study not only allows the researcher to act objectively, it also enables the researcher and subjects to play an active and more reflexive role in the process.

The methods used in this research also increase the reliability and validity of the study. Alone, surveys are generally strong on reliability and weak on validity, but when combined with in-depth interviews in a multiple-case design, validity is improved. The use of in-depth interviews, observation, and review of relevant documents enhance the validity since these methods all provide rich data from a real-life setting. In addition, by combining quantitative and qualitative evidence, internal validity is strengthened since

using multiple methods helps ensure that conclusions drawn in the research are warranted from the data collected. And finally, studying family businesses in their real-life setting also strengthens the research in that it yields results with broader applicability than artificial settings found in experimental designs or surveys alone.

Instruments

Data were collected primarily through a self-administered questionnaire and in-depth interviews. The thirteen-page questionnaire (Appendix A)⁶ was printed in booklet form and included a letter introducing the study, its purpose, and incentives for responding as well as the mechanics for returning the questionnaire. The purpose of the questionnaire was to gather descriptive information about the structure of the business and family as well as the ascribed and achieved statuses of key members. The first section of the questionnaire, “Company and Member Characteristics,” contained questions regarding the year the firm was founded, industry type, legal status, economic status, size, management structure, and developmental phase. In addition, descriptive information was asked about the person completing the survey (ideally a family member and owner of the firm), as well as other family members and key nonfamily employees. The second and third sections asked questions regarding the firm’s strategies and succession plans. The fourth and sixth section, using a Likert scale, inquired about the

6. Portions of the questionnaire and questionnaire responses were extracted from the 2002 American Family Business Survey designed and conducted by the MassMutual Financial Group and Robin Raymond Family Business Institute, directed and supported by the Loyola University Chicago Family Business Center, the Cox Family Enterprise Center at Kennesaw State University, and Babson College. See Appendix D for letter authorizing its use.

values of the family and leadership towards the family, the business, and its members. And the fifth section addressed the firm's nepotism policies and practices.

To facilitate the in-depth interviews, four separate interview guides were used—one for founding family members, one for senior generation family members, one for junior generation family members, and one for nonfamily members. A sample of one of these interview guides is provided in Appendix B. Each interview focused on five major topics—the history of the business and their role in the firm/employment in the firm; personnel policies and practices; the role of the next generation/leadership in the firm; relationships with family and nonfamily members; and their overall experience working in a family business. Although the topics were generally the same for each interview, separate guides were used to more accurately capture the distinctions between the member's positions in the firm and the family. Furthermore, each guide was personalized prior to the interview to reflect information derived from the genograms as well as their responses regarding organizational and individual characteristics and other opinions cited in the survey.

Variables and Measurements

To report and interpret the data, it is necessary to understand how the variables identified in this study were measured. The following is a list of these variables and their measurements:

Attributes of Organization

Age: refers to the number of years the business has been in operation. Age is a ratio measure and was identified by a key member of the firm in the survey (Appendix A, I.1).

Developmental Phase: refers to Gersick et al.'s (1997) classification of three axes—family, business, and ownership, which each vary by growth and change. The family axis progresses from the “young business family” phase, to the “entering business” phase, to the “working together” phase, to the “passing the baton” phase. The business axis begins with the “start-up phase;” and then progresses to the expansion/ formalization” phase, and then the “maturity” stage. And the ownership axis includes the “controlling owner,” “sibling partnership,” and “cousin consortium” phases. To qualify for this study, the family business must be at least at the “entering business” stage on the family axis, but can be at any stage along the business and ownership axes. To measure this nominal variable, a key member of the firm was asked in the survey to look at descriptions of each stage under each axis and identify the stage from each axis that most closely resembled their situation (Appendix A, I.25). The data were also confirmed through the case studies.

Economic Status: refers to a combination of gross revenues in relation to the firm's industry, growth in sales, assets, and/or equity of the firm, as well as the debt structure of the family business. Four closed-ended questions in the survey regarding economic status were used to identify this variable (Appendix A, I.12, 13, 14, and 15).

Industry Type: refers to the type of work or economic activity the family business is engaged in. Based on the 2002 North American Industry Classification System (NAICS), which is now consistent with an international agreement with Canada and Mexico, the U.S. Census (2002b) classifies industries into 21 major categories—retail trade; professional, scientific, and technical services; construction; health care and social assistance; accommodation and food services; finance and insurance; wholesale trade; manufacturing; administration, support, waste management, and remediation services; real estate, rental and leasing; transportation and warehousing; information; arts, entertainment, and recreation; educational services; management of companies and enterprises; forestry, fishing, hunting, and agricultural support; mining; utilities; other services; auxiliaries; and unclassified establishments. Note that other services includes industries typically associated with family businesses such as automotive, electronic, and household goods repair and maintenance, as well as personal care services such as beauty salons, pet care, funeral homes and cemeteries, vending machine merchandisers, and dry cleaning and laundry services. However, in some instances, industry type was further collapsed into white-collar and blue-collar. In open-ended questions in the survey, a key member of the firm was asked to identify their company's industry and principal product or service (Appendix A, I.2 and 3). Then based on the categories listed above, their industry type was determined.

Legal Status: refers to one of the six legal forms a company can elect when establishing a business. They include individual proprietorship (an unincorporated business owned by an individual); general partnership (an unincorporated business owned by two or more

persons where partners generally divide responsibility for management and liability equally); limited partnership (an unincorporated business owned by two or more persons where partners have limited liability in regards to their investment and management decisions); LLC or limited liability company (a hybrid business structure that combines limited liability features of a corporation and the tax efficiencies and operational flexibility of a partnership); C corporation (a legally incorporated business, except subchapter S, under state laws); and Subchapter S corporation (a legally incorporated business with a special IRS designation for legally incorporated businesses with 75 or fewer shareholders who, because of tax advantages, elect to be taxed as individual shareholders rather than as corporations). For the purposes of this research, only firms that are privately held (implying no public trading) were selected. This is a nominal variable that was identified in the survey by a key member based on their filed legal status (Appendix A, I.11).

Management Structure: refers to the ways in which power is situated and organized in the firm. To best understand the management structure of the organization, Elliott Jaques (1976) recommends that one not only examine the manifest social structure (indicated by the organizational chart, bylaws or other documentary evidence), but also the assumed social structure (what participants assume to be the current situation), the extant social structure (how things actually function), and the requisite social structure (a conception of organization as it would need to be to maximize effectiveness). Therefore, indicators of the management structure include the firm's organizational chart, company goals, statuses and roles of family and nonfamily members, as well as management styles and

strategies of control. The management structure was measured by questions from the survey (Appendix A, I.4, 22, 23, and 24) and interviews regarding the title/position and responsibilities of key family and nonfamily members, what members assume to be the current management situation, how management actually functions, and what strategies management has regarding control in the future, as well as relevant documents such as the firm's organizational chart and company by-laws.

Size: refers to the number of full-time and part-time personnel. Size is a ratio measure and was identified by a key member of the firm in the survey (Appendix A, I.16).

Success: refers to the ability to accomplish an aim. Therefore, success of the business refers to the firm's ability to maximize utility. It is measured at the organizational level by its ability to maintain a stable and friendly environment, and its propensity to continue to operate as a family business. Since nepotism practices are integral to the success of the family firm, those that are perceived as fair are considered to be most beneficial, and those that are perceived as unfair are considered to be the most problematic to the success of the firm. Interview questions were used to measure success based on these indicators.

Values: refer to the ideology that defines and explains the characteristics of the family and business in relation to other organizations (Whyte and Whyte 1991). Therefore, values are considered the standards or principles of importance to individuals and the organization in regard to power (influence, control, and decision making) as well as issues of trust, support, and loyalty. This concept is tied to the management structure since the ways in which power is situated and control is exercised is related to the values

of the firm. Types of management approaches and strategies of control are indicators of such values. Values were measured by statements in the survey and in the case-study using a five-point Likert-scale (Appendix A, IV and VI). Response categories were presented in a manner that implied meaningful and equal distances between categories. As a result, data are treated as an interval level of measurement.

Nepotism Practices (Organizational and Individual)

Nepotism Practices: refer to the existence of formal and informal human resource policies as well as the application of these policies which determine the actions of members regarding employment of family. Both ideal and real norms associated with nepotism are included. Therefore, to measure this variable, documents based on policies dictated by the human resource or personnel department of the business were collected to identify ideal nepotism practices. Furthermore, survey (Appendix A, V.6, 7, and 8) and interview questions were asked to confirm these ideal norms and to gain knowledge regarding the real norms associated with nepotism. Nepotism practices are categorized based on two major dimensions—open or closed and equal or unequal.

- Open Practices: refer to disclosed or openly communicated nepotism policies and practices. Its polar opposite will be considered “closed practices.” These policies and practices were measured by questions in the survey and interviews regarding human resource policies and the subject’s perceptions and interpretations of these policies and practices.

- Closed Practices: refer to undisclosed or not openly communicated nepotism policies and practices. Its polar opposite will be considered “open practices.” These policies and practices were measured by questions in the survey and interviews regarding human resource policies and the subject’s perceptions and interpretations of these policies and practices.
- Equal Practices: refer to nepotism policies and practices that are uniform in application or effect. This means that regardless of one’s status, the policies for members are identical and the treatment is the same. These policies and practices were measured by questions in the survey and interviews regarding human resource policies and the subject’s perceptions and interpretations of these policies and practices.
- Unequal Practices: refer to policies and practices that are uneven in application or effect, meaning that the policies for members differ, and treatment is not the same. These policies and practices were measured by questions in the survey and interviews regarding human resource policies and the subject’s perceptions and interpretations of these policies and practices.

Although survey and interview questions were asked to confirm ideal nepotism practices and gain knowledge regarding the real norms associated with nepotism, it is important to note that the term “nepotism” was purposely absent in the self-administered questionnaire. There are two main reasons for this. First, in discourse about my dissertation I found that many people were not familiar with the term “nepotism.” And second, as discussed previously, nepotism is a loaded term that often conjures up strong

attitudes and I wanted to eliminate any preconceived notions about the concept that may influence the subject's responses. However, the term was used and addressed head-on in the interviews so the concept and perceptions of the concept could be explored in more detail.

Attributes of Individuals/Members and their Relationships

Interpersonal Relationships: refer to the relationships among family members as well as between family and nonfamily members. These relationships are defined by the attitudes and actions of members regarding the acceptance of other members or potential members of the firm. This study is primarily interested in the interpersonal relationships that result at the onset of nepotism. Therefore, interpersonal relationships are said to be strong when members are valued and welcomed; and interpersonal relationships are said to be weak when members are devalued and resisted. Interpersonal relationships were measured by questions in the interviews regarding their attitudes and actions as well as their perception of attitudes and actions of other members of the firm.

Attitudes: refer to real or perceived orientations towards a person, situation, organization, or social process that is held to be indicative of an underlying value or belief. More specifically, this refers to those attitudes regarding the worth of other members or potential members of the firm. Positive attitudes are defined as those that value other members, whereas negative attitudes are defined as those that devalue other members. Interview questions were used to measure this variable.

- Valued: refers to attitudes or perceptions that view an individual as worthy or desirable to the family business or having qualities on which these characteristics depend. Its polar opposite will be considered “devalued.”
- Devalued: refers to attitudes or perceptions that view an individual as less than valuable, or unworthy and undesirable to the family business. Its polar opposite will be considered “valued.”

Actions: refer to those behaviors that have a positive or negative impact on members.

More specifically, this refers to those actions regarding the acceptance of other members or potential members of the firm. Positive actions are defined as those that welcome other members, whereas negative actions are defined as those that resist other members.

Interview questions were used to measure this variable.

- Welcomed: refers to actions by members that have a positive or comforting impact on another member. Its polar opposite will be considered “resisted.”
- Resisted: refers to actions by members that have a negative or harmful impact on another member. Its polar opposite will be considered “welcomed.”

Success: refers to the ability to accomplish an aim. Therefore, member success refers to an individual’s ability to effectively meet job expectations and sustain employment. It is measured at the individual level by informal perceptions regarding the member’s value to the firm and their ability to maintain stable and friendly relationships. Interview questions were used to measure success based on these indicators.

Sampling Design and Data Collection

Phase One: Survey Research

In the first phase of the research, convenience sampling enhanced by systematic random sampling procedures was used to elicit a sample of 500 firms. Then data were collected through a self-administered questionnaire.

Sampling Design and Selection

Identifying family businesses for participation in research is typically problematic since a comprehensive sampling frame of family firms in the United States does not exist. This is not surprising given the absence of a commonly accepted definition of family business, and a lack of variables and secondary data sources classifying firms as a family business (Brockhaus 2004). Therefore, as in most empirical studies of family business, this research relies on a convenience sample extracted from voluntary membership organizations (Chua et al. 2003). Although this threatens the generalizability of the study, using multiple methods diminishes the impact and provides an appropriate and feasible solution.

The sample was drawn from the membership lists of state and local chambers of commerce located in the greater Baltimore-Washington metropolitan area. The decision to enlist the assistance of state and local chambers of commerce was made for a number of reasons. First, because chambers of commerce are a prominent advocacy organization representing the interests of businesses at the local, state, and national level, they sustain sizeable memberships. Second, these organizations maintain comprehensive membership lists. Third, because most chambers include an educational component as part of their

mission and member services, I thought that they may be more willing to share their membership lists with me, especially if I offered them access to my final report and was willing to present an educational lecture at one of their events and/or write an article on family business for their monthly newsletter. Fourth, because they may be more familiar with their members, I was hoping they would be able to assist me in identifying members who participated in family businesses. And finally, I thought that if I gained the support of the chambers in the form of a letter on their letterhead, encouraging family business members to participate in my study, it would help elicit greater participation.

The greater Baltimore-Washington metropolitan area was selected as the research site because, like every metropolitan area in America, it encompasses an abundance of family businesses. The area is also diverse in terms of race, ethnicity, and gender, ranking fourth among U.S. metropolitan areas with the largest number of minority and women-owned firms (U.S. Census Bureau 1997). Furthermore, it is a convenient site due to its physical proximity to the researcher. Nine counties in Maryland plus the city of Baltimore, four counties in Northern Virginia including the independent cities of Alexandria, Fairfax, Falls Church, Manassas City, and Manassas Park, and the District of Columbia were selected to represent this locale⁷. These areas were selected because they are the counties and cities considered by area residents to be within a reasonable commute of either Baltimore or Washington. According to the state chambers of commerce, there are approximately forty local chambers of commerce in Maryland,

7. The Baltimore-Washington metropolitan area is officially designated by the U.S. Census Bureau (2004) as the Washington-Baltimore-Northern Virginia, DC-MD-VA-WV Combined Statistical Area and includes three additional counties from Maryland, eight from Virginia as well as the independent city of Fredericksburg, and two from West Virginia.

twenty in Northern Virginia, and five representing the District of Columbia. Of these, eleven chambers of commerce were targeted based on their influence and size of membership including one in the District of Columbia, seven in Maryland, and three in Northern Virginia. The DC Chamber of Commerce was selected to represent the District of Columbia.

In Maryland the chambers targeted were the Baltimore City Chamber of Commerce; the Baltimore County Chamber of Commerce; the Baltimore-Washington Corridor Chamber of Commerce—the only regional chamber in Maryland consisting principally of Anne Arundel, Howard, Montgomery, and Prince George’s counties; the Calvert County Chamber of Commerce; the Carroll County Chamber of Commerce; the Charles County Chamber of Commerce; and the Frederick Chamber of Commerce. In Virginia, the Fairfax County Chamber of Commerce⁸, the Loudoun County Chamber of Commerce, and the Prince William County Chamber of Commerce were targeted. I then visited all eleven chambers and provided the appropriate contact with a packet of information including a cover letter detailing my request, background on the study, and what I was prepared to offer the chamber for their assistance, as well as a copy of my resume and transcripts for verification of my credentials, and a draft of the questionnaire that I planned to send to their members.

Ideally, I asked that each chamber of commerce provide me with access to and assistance with their membership list, as well as a letter encouraging their members to participate in my study. The letter would be copied and mailed by me along with the

8. Arlington County’s chamber of commerce was not targeted due to the county’s relatively small size and close proximity to more influential chambers of commerce such as the Fairfax County Chamber of Commerce and the DC Chamber of Commerce.

survey to select members. However, not all of the chambers agreed to assist me. Five chambers declined (DC, Baltimore City, Calvert, Carroll, and Frederick), four agreed to provide both the letter of support and access to their membership lists (Baltimore-Washington Corridor, Charles, Fairfax, and Loudoun), and the remaining two (Baltimore County and Prince William) provided access to their membership lists, but were not willing to provide a letter of support.

Once the membership lists were obtained, systematic random sampling procedures with a random start based on the percentage of establishments⁹ in each county were used to select a sample of 500 companies. While a larger sample size would have been more desirable, this number was realistic given the costs and resources available to the researcher. Furthermore, according to Gay (1996), when the population size is beyond 5,000, as it is with family businesses, a sample size of 400 should be adequate. There are a total of 119,840 establishments (U.S. Census Bureau 2002a) in the counties of the participating chambers. Of the counties represented by these chambers, 50.58 percent of the establishments are located in Anne Arundel, Howard, Montgomery, and Prince George's counties; 21.68 percent of the establishments fall within Fairfax County, 16.52 percent in Baltimore County, 4.55 percent in Loudoun County, 4.44 percent in Prince William County, and 2.22 percent in Charles County.

The Baltimore-Washington Corridor Chamber of Commerce submitted a membership list of 620 firms, eleven of which they identified with certainty as being a

9. Establishments are defined by the U.S. Census Bureau (2002a) as a single physical location at which business is conducted and/or services provided in each county or district, unlike "firms," which according to the U.S. Census includes one domestic establishment (location) or more under common ownership or control.

family business. I then eliminated those firms that I knew were not privately-owned or family-owned businesses narrowing the list down to 471. Because the sample size was 500 and because it was determined that 50.58 percent of the establishments in participating counties are from the four counties represented by this chamber, 253 firms would need to be selected from this list to represent these counties. Therefore, to reach this number, I selected every other firm on the list starting with the second firm until I reached 242. Then I added the eleven family firms identified by the chamber to get a total of 253 firms.

The Fairfax County Chamber of Commerce submitted a membership list of over 1000 firms. I narrowed this list down to 518 by eliminating those businesses that I knew were not privately or family-owned. Then I selected every fifth firm starting with the fifth firm on the list for a total of 108 firms or 21.68 percent of the establishments.

Although the Baltimore County and Prince William County chambers of commerce were not willing to provide a letter of support, they were extremely helpful with identifying family businesses from their membership list. The Baltimore County Chamber of Commerce provided me with a list of 91 family businesses from their membership list. Since they had already taken out all of the nonfamily businesses, I simply eliminated every eleventh firm starting with the sixth firm on the list to produce the needed sample of 83 (16.52 percent of the establishments). And the Prince William County Chamber of Commerce identified 248 family businesses, from which I selected a total of 22 firms (4.44 percent of the establishments), choosing every eleventh firm starting with the sixth firm on their list. Loudon County accounted for 4.55 percent of the establishments, so only 23 firms from the Loudoun County Chamber were needed. With the help of

employees at the Loudoun County Chamber, 23 family firms were identified. The membership list from the Charles County Chamber totaled 904, but because I only needed 11 firms (2.22 percent of the establishments) I asked the President if she could provide me with a list of eleven members that she knew were family businesses. All 11 of these firms were included in the sample. Together this added up to the total of 500 firms.

Data Collection

In the first phase of the research, data were collected through a self-administered questionnaire (Appendix A). Because response rates to business surveys are generally low, ranging from 10 percent to no higher than 50 percent (Tarnai and Paxson 2004), the method one chooses for collecting data from businesses is extremely important. By offering alternative response modes and multiple follow-up procedures, the response rates of business surveys can be improved (Dillman 2000; Willimack, Nichols, and Sudman 2002). Therefore, I employed a tailored approach including different survey modes and numerous follow-up methods. The initial mode of distribution of the questionnaire was by mail. However, the survey was also available online to accommodate those who may prefer to complete the survey electronically. While it would be easier and more cost effective to conduct the survey entirely online, Tarnai and Paxson (2004) found that businesses, regardless of industry group, prefer mailed questionnaires to other modes.

One of the primary concerns with online surveys is non-coverage error; businesses establishments are especially prone to this since most businesses, especially

family businesses, are small and may not have Internet access (Melevin 2004). Other concerns with establishment surveys conducted online include confidentiality and Internet security, vulnerability to viruses and “spam,” and technical difficulties (Couper 2000; Sills and Song 2002). Nonetheless, web based surveys were the second most preferred method by businesses (Tarnai and Paxson 2004), and in populations in which each member has Internet access, a web survey mode can achieve comparable response rates to mailed questionnaires (Kaplowitz, Hadlock, and Levine 2004). Therefore, as Tarnai and Paxson (2004) suggest, an online survey was offered in conjunction with the mailed questionnaire to increase response rates. The online survey was provided through SurveyMonkey, a professional online survey software and service company. For a monthly fee, the service allows customers to design a survey, send emails to respondents with links to the survey website, track the identities of respondents, and collect, view, and even download survey results into statistical packages such as SPSS. To help satisfy any concerns about confidentiality and Internet security, I paid an additional monthly fee for the online survey to feature secure sockets layer (SSL) encryption for the survey link and survey pages during transmission.

In addition to the various survey modes, a number of follow-up methods were employed. Follow-up emails as well as a follow-up postcard were sent periodically as reminders. And two of the participating chambers of commerce, the Baltimore-Washington Corridor and the Loudoun County Chamber of Commerce, announced the study to their members via their monthly newsletter. Furthermore, to encourage businesses to reply, those who completed the survey were offered a three-month complimentary subscription to *The Family Business Advisor* (a \$50 value), an eight-page

monthly newsletter that provides practical tips, ideas and insights to assist family businesses with their special needs.

Prior to administering the questionnaire, the measurement instruments were pre-tested. This is done to ensure that the instruments are clearly understood and interpreted similarly by respondents, thus improving the validity of the instrument and the reliability of the data. Six individuals, who were either knowledgeable about family businesses or about survey construction, were asked to complete and evaluate the survey. Although Sheatsley (1983) states that it usually takes twelve to twenty-five cases to reveal any problems or weaknesses in an instrument, because a majority of the questionnaire had been tested and used previously by over a thousand family businesses in the *American Family Business Survey* (MassMutual Financial Group/Raymond Institute 2002), additional testing was not necessary. After evaluating the responses of these questionnaires, and taking into consideration any additional comments or suggestions regarding the construction of the questionnaire, revisions were made and any problems or weaknesses found during the pre-tests were corrected. Similarly, once these changes were made and the questionnaire was placed online, several test runs were conducted online to ensure its accuracy, ease, and reliability.

Five-hundred questionnaires were mailed along with a self-addressed stamped envelope and a cover letter on August 12, 2005. The cover letter was either a letter of encouragement and support written by the chamber of commerce from which that business held membership, or a flyer encouraging participation written as a substitute for those firms that belonged to chambers that were unwilling to provide a support letter. To track responses and substantiate the confidentiality of the survey, each questionnaire was

numbered. In addition, the website for the online version of the survey was printed on the cover page to announce its availability to participants. Six days later an email was sent to 437 of the 500 firms (50 did not provide an email address; the remaining 13 had already replied) to alert them of the mailed survey. This email also provided a link for taking the survey online. Together the mailed survey and email elicited a total of 41 responses, 18 of which either declined to participate or were not family businesses.

Then, on September 7, a follow-up postcard was mailed as a reminder to those who had not yet responded. The postcard included the web address for completing the survey online as well as contact information in case they misplaced the hard copy of the survey and wanted another mailed to them. Although the literature (Dillman 2000) suggests that follow-up mailings be sent two to three weeks after the survey is mailed, Labor Day weekend fell around the preferred time so I opted to wait until after the holiday. Six days later, a reminder email was sent as a companion to the postcard mailing to reiterate the message sent in the postcard. As expected, the follow-up mailing of the postcard and the reminder email stimulated a resurgence of responses. I received 18 more responses, 4 of which either declined to participate or were not family businesses.

And finally, nine days prior to the close of the survey, a final plea was sent via email to those who had not yet replied asking for their participation. Following this, I received 21 additional responses, 15 of which either declined to participate or were not family businesses. The survey closed on September 30, 2005. Thank you emails or postcards were sent to all that replied, and the first of three complimentary copies of the newsletter, *The Family Business Advisor*, was mailed to those who completed the survey.

Altogether, I received a total of 80 replies from my sample of 500 firms. Unfortunately, only a little more than half (43) resulted in a returned survey. Thirty of the surveys were completed by mail and 13 were completed online. Of the remaining replies, 15 declined to participate for unknown reasons, and another 22 informed me that their firm was not a family business. Although it is not accurate to report response rates when it is unclear whether or not the entire sample consists of the targeted population, some family business researchers (Chua et al. 2003; King 2003; Murphy 2005) have done so. If it is assumed that this sample was comprised entirely of family businesses, the response rate would be 8.6 percent. Knowing that at least 22 of the firms sampled were not family firms, the return rate would increase to 9 percent. Furthermore, if it is assumed that even more firms in the sample were not family firms, the return rate would be even greater. This is not bad considering that response rates to business surveys are generally low (Tarnai and Paxson 2004).

In fact, one of the largest survey research projects of family businesses, the *American Family Business Survey* (MassMutual Financial Group/Raymond Institute 2002), yielded a response rate of only 3 percent. However, because a response rate cannot be reported, the best I can do is simply state that a total of 43 surveys were returned. Of the 43 questionnaires, six had to be eliminated because the business failed to meet the criteria outlined in this study. Needless to say, 37 returns are not sufficient to warrant valid statistical analyses and reporting. Therefore, the manner in which this information is used is somewhat different than what was initially planned.

Phase Two: Case Study Research

The second phase of the research involved a more in-depth analysis of family businesses and their members. Originally, I had planned on utilizing purposive sampling techniques to identify a smaller, more informative sample that would be extracted from those firms that completed the questionnaire. However, when the questionnaire failed to yield an adequate number of responses, an alternative plan was used. Rather than extract a subset of firms from the 37 questionnaires, additional firms were selected to complete the questionnaire and participate in the more in-depth analysis. By targeting additional firms, it was hoped that the number of completed questionnaires would be increased substantially and this would afford more reliable statistical analyses and reporting. Therefore, in the second phase of research, quota sampling techniques were used to target a sample size of 30 firms, and data were collected through in-depth interviews, a review of appropriate documents, and observations.

Sampling Design and Selection

In an analysis of family business research, Wortman (1994) and Bird et al. (2002) found that sample sizes varied anywhere from one individual or firm to over 250 individuals or firms. However, among qualitative research, the median sample size was 8 firms, and the mode was 2 firms (Wortman 1994). For this research, 30 firms from the greater Baltimore-Washington metropolitan area were targeted to participate in the case study. This number was chosen because committee members agreed that this would be a reasonable sample size to reveal a full range of responses. Firms were selected using quota sampling methods based on area and industry type (Appendix C). To determine

the number of firms that would be needed from each area and industry type, statistics were once again drawn from the 2002 Economic Census (U.S. Census Bureau 2002a).

Table 4.1 illustrates how this was determined.

Table 4.1. Distribution of Establishments in Baltimore-Washington Metropolitan Area and Needed Sample Size per County/City Based on U.S. Census Data (2002a)

County/City	Total Establishments	Establishments as a % of the Research Site	Establishments as a % of the Sample (N=30)	Number of Firms Needed for Case Study
District of Columbia				
Washington	19,930	11.78	3.53	4
Maryland				
Anne Arundel County	13,017	7.70	2.31	2
Baltimore City	12,830	7.58	2.27	2
Baltimore County	19,803	11.71	3.51	3
Calvert County	1,631	.96	.29	0
Carroll County	4,195	2.48	.74	1
Charles County	2,665	1.58	.47	0
Frederick County	5,434	3.21	.96	1
Howard County	7,560	4.47	1.34	1
Montgomery County	25,824	15.27	4.58	5
Prince George's County	14,211	8.40	2.52	3
Northern Virginia				
Arlington County	5,298	3.13	.94	1
Fairfax County	25,987	15.36	4.61	5
Loudoun County	5,449	3.22	.97	1
Prince William County	5,324	3.15	.95	1
Total	169,158	100.00	30.00	30

According to these data, there are a total of 169,158 establishments in the counties and cities representing the greater Baltimore-Washington metropolitan area defined in this research. The largest percent of establishments in this locale are situated in Fairfax County (15.36 percent), followed by Montgomery County (15.27 percent), the District of Columbia (11.78 percent), Baltimore County (11.71 percent), Prince George's County (8.40 percent), Anne Arundel County (7.70 percent), Baltimore City (7.58 percent), Howard County (4.47 percent), Loudoun County (3.22 percent), Frederick County (3.21

percent), Prince William County (3.15 percent), Arlington County (3.13 percent), Carroll County (2.48 percent), Charles County (1.58 percent), and Calvert County (.96 percent). Therefore, to achieve a representative sample, five firms were needed from Fairfax and Montgomery counties, four from the District of Columbia, three from Baltimore County, two from Prince George's County, Anne Arundel County, and Baltimore City, and one from Howard, Loudoun, Frederick, Prince William, Arlington, and Carroll counties. None were needed from Charles or Calvert County.

Then, using the same Census data, industry types (based on the NAICS) were rank ordered for the United States, the MSA (Washington-Baltimore-Northern Virginia, DC-MD-VA-WV Combined Statistical Area), participating chambers (those areas represented in the sample in phase one), and the research site (greater Baltimore-Washington metropolitan area) to determine similarities and differences among these locales (Table 4.2). As is evident in Table 4.2, there is little variance in the rank order of industries among these locales, especially among the MSA, participating chambers, and research site. Within these three locales, the majority of establishments are found in the professional, scientific, and technical services sector. Retail trade ranks second with other services (except public administration), construction, and health care and social assistance ranking third, fourth, or fifth. Accommodation and food services ranks sixth; followed by the administration, support, waste management, and remediation services sector, finance and insurance, real estate and rental and leasing, wholesale trade, information, manufacturing, transportation and warehousing, educational services, the arts, entertainment, and recreation sector, the management of companies and enterprises, unclassified establishments, and auxiliaries (executive, corporate, subsidiary, and

Table 4.2. Rank Order of Industry Type (NAICS) Among Different Locales (U.S. Census Bureau 2002a)

<u>United States</u>		<u>MSA</u>		<u>Participating Chambers</u>		<u>Research Site</u>	
NAICS	%	NAICS	%	NAICS	%	NAICS	%
Retail	15.63	Professional	18.92	Professional	17.51	Professional	17.47
Professional	10.73	Retail	13.09	Retail	13.87	Retail	13.49
Other	10.28	Other	11.70	Construction	10.29	Other	11.17
Construction	9.86	Health Care	9.82	Health Care	10.23	Health Care	10.24
Health Care	9.77	Construction	9.32	Other	9.61	Construction	9.33
Accom. Food	7.85	Accom. Food	7.17	Accom. Food	6.56	Accom. Food	7.17
Finance	6.26	Administration	5.62	Administration	5.91	Administration	5.64
Wholesale	6.07	Finance	5.38	Finance	5.91	Finance	5.61
Manufacturing	4.78	Real Estate	4.58	Real Estate	4.54	Real Estate	4.49
Administration	4.77	Wholesale	3.26	Wholesale	4.39	Wholesale	4.00
Real Estate	4.49	Information	2.87	Information	2.47	Information	2.60
Transportation	2.71	Manufacturing	1.93	Manufacturing	2.29	Manufacturing	2.31
Information	1.93	Transportation	1.73	Transportation	1.96	Transportation	1.98
Arts	1.53	Educational	1.60	Educational	1.47	Educational	1.55
Educational	1.02	Arts	1.32	Arts	1.35	Arts	1.34
Management	0.69	Management	0.84	Management	0.88	Management	0.84
Unclassified	0.50	Unclassified	0.43	Unclassified	0.37	Unclassified	0.38
Forestry	0.37	Auxiliaries	0.18	Auxiliaries	0.19	Auxiliaries	0.19
Mining	0.33	Forestry	0.11	Forestry	0.09	Utilities	0.09
Utilities	0.26	Utilities	0.10	Utilities	0.07	Forestry	0.08
Auxiliaries	0.19	Mining	0.04	Mining	0.04	Mining	0.04

Note: See Appendix C for NAICS codes and complete titles. Total may not sum to 100 percent due to rounding.

regional management). Utilities or the forestry, fishing, hunting, and agriculture support sector are next with the mining industry ranking last. This information served as confirmation that the locale of participating chambers and the research site defined in this study were representative of the MSA, and in many ways the entire country.

Then, using the rank order of industries found in the research site, the number of firms per industry needed for a sample of 30 firms was determined (Table 4.3).

According to these calculations, five firms would need to be targeted from the professional, scientific, and technical services industry; four firms from retail trade; three firms from other services, health care and social assistance, and construction; two firms from accommodation and food services, the administration, support, waste management,

Table 4.3. Number of Firms from Each Industry Needed for Case Study

NAICS Industry Type	%	% of Sample (N=30)	Firms Needed
Professional, Scientific, and Technical Services	17.47	5.24	5
Retail Trade	13.49	4.05	4
Other Services (except public administration)	11.17	3.35	3
Health Care and Social Assistance	10.24	3.07	3
Construction	9.33	2.80	3
Accommodation and Food Services	7.17	2.15	2
Administration, Support, Waste Mgt., and Remediation Services	5.64	1.69	2
Finance and Insurance	5.61	1.68	2
Real Estate and Renting and Leasing	4.49	1.35	1
Wholesale Trade	4.00	1.20	1
Information	2.60	0.78	1
Manufacturing	2.31	0.69	1
Transportation and Warehousing	1.98	0.59	1
Educational Services	1.55	0.47	0
Arts, Entertainment, and Recreation	1.34	0.40	0
Management of Companies and Enterprises	0.84	0.25	0
Unclassified Establishments	0.38	0.11	0
Auxiliaries (executive, corporate, subsidiary, and regional mgt.)	0.19	0.06	0
Utilities	0.09	0.03	0
Forestry, Fishing, Hunting, and Agriculture Support	0.08	0.02	0
Mining	0.04	0.01	0
Total	100.01	29.99	29

Note: Total may not sum to 100 percent or total sample size due to rounding.

and remediation services sector, and finance and insurance; and one firm from real estate and renting and leasing, wholesale trade, information, manufacturing, and transportation and warehousing. However, due to rounding, this only amounts to a total of 29 firms. To reach a total of 30 firms, the number of firms for other services was increased by one since this category encompasses industries that are typically associated with family businesses such as automotive, electronic, and household goods repair and maintenance, as well as personal care services such as beauty salons, pet care, funeral homes and cemeteries, vending machine merchandisers, and dry cleaning and laundry services.

Once the appropriate proportions for both location and industry were determined, firms were selected using the technique of snowball sampling. Snowball sampling uses a

process of chain referral where members of the target population, once identified, are asked to provide names of other member of the target population. This method of sampling is often used to reach populations that are not easily recognized, as in the case of family businesses. To initiate the search, I called upon family businesses that I knew or had encountered and worked with during the time I was employed in my family's business. Many of these businesses were aware of my research and had expressed interest in participating in the past. It was hoped that these businesses would not only participate, but also provide a starting point that would lead to the recommendation of additional firms. While this method did secure some initial participants, it did not really help much in providing additional firms since the businesses they were most familiar with were from their own industry and locale. Also, many of the businesses that they suggested did not meet the criteria outlined in the study. And since my objective was to try and obtain a representative sample of counties and industries in the research site, I had to employ other methods to find appropriate participants.

Through newspaper articles, ads, and a review of websites and chamber of commerce databases as well as numerous individual and mass emails sent to appropriate persons, groups, and organizations, I started identifying firms that I believed fit the criteria outlined in the study. As mentioned previously in Chapter 3, the criteria specifies that: (1) ownership is held by one or more family members; (2) the majority of voting control is in the hands of a member or members of the family; (3) major operating decisions and plans for leadership succession are influenced by a family member or family members actively serving in management; and (4) there is currently active involvement by multiple generations in the business. In addition, a website was set up to

be used as a reference for interested parties as well as to help solicit participation. The site provided information about the study, credentials and biographical information about the researcher, a list of the criteria the firm had to meet to participate, as well as details about what was involved and how to participate. Careful attention was also given to select firms that were diverse not only in locale and industry, but also in race, ethnicity, and gender. To help ensure inclusion of both minority and women-owned businesses, gatekeepers of these populations, such as the Hispanic Chamber of Commerce of Montgomery County, the Caribbean Voice, Prince George's Black Chamber of Commerce, and Asian Fortune, were contacted, and the names of the firm's leadership were examined to help ascertain gender.

Once it was determined that a firm met the needs of the sampling design and study, they were added to a list of potential participants. To keep track of these firms, two charts were created—one listed companies by area and the other by industry type. When enough firms were identified in an area (typically double the number of firms needed for that area), they were then strategically targeted a few at a time and contacted either in-person, by phone, email, or mail. For example, two companies were needed from Baltimore City, so I selected two firms from my list of potential participants that were from different industries and located in that area and presented them with a proposal requesting their participation. The proposal included a cover letter, a FAQ sheet about the study detailing what would be involved to participate, how long it would take, and what I was prepared to offer them for their participation, as well as a copy of my resume and transcripts for verification of my credentials. If one of the companies agreed to participate and one declined, I would then target another company in that area, continuing

that process until I reached my quota. This process was replicated for each area and simultaneously crossed with industry type until I received enough participants from each area and industry type to meet my goals. After the initial contact, usually in-person, I followed-up with phone calls, emails, and postcards until I heard back from them. If several weeks had gone by without a response, I would target another company and start the process over again.

Keep in mind that this was an ongoing process of locating and targeting family firms, contacting and presenting them with a proposal, and waiting for their response, while at the same time initializing case study research with those who already agreed to participate. Unfortunately, the process took a very long time and I was unable to reach the desired sample size. Although locating family firms was relatively simple, identifying firms with multiple generations actively participating in the business proved to be quite challenging. And even though I believe my status as an “insider” (currently a family member and previously an employee in my family business) enabled me to develop a comfortable rapport with most of the members of these firms making it easier to gain access, convincing family businesses to participate in a case study in which they are asked to reveal private information about the firm as well as the interrelationships of the family and employees in the business was not an easy task. As expected, it was met with some resistance. Some companies never responded at all, others took weeks and even months to get back to me, and others initially agreed but after a lapse of several months stopped communication altogether. One person I contacted declined to participate because he said that he had always tried to downplay the “family” aspect of his business and he did not want to stir anything up. Another person was afraid that the

information I obtained from their company would be used by competing firms to buy-out their company even though I assured them of confidentiality and discretion.

Furthermore, because I was trying to attain a certain quota within each locale and industry type, I had to wait to hear back from companies I had already contacted before searching for another firm in that area or industry to eliminate duplication of locale and/or industry. This also lengthened the process. Eventually I had to take whatever I could get; so in some cases even though the quota for that area or industry had been met, the target number was exceeded. All in all I contacted and presented proposals to 78 family firms over a period of approximately eight months. Of these, 24 agreed to participate in the study, however four of these companies reconsidered and dropped out completely at a later time, and another two failed to complete any interviews due to scheduling difficulties.

Of the participating firms, five were based in Prince George's County, four came from Anne Arundel County, two were located in Montgomery County, another two were from Fairfax County, and one firm came from each of the following areas—Arlington, Baltimore City, Baltimore County, the District of Columbia, and Prince William County. Similarly, among industry types, four of these firms came from other services; three came from the professional, scientific, and technical services sector; two came from retail trade; two came from wholesale trade; another two came from construction; and one firm came from each of the following industries—health care and social assistance; the administration, support, waste management, and remediation services sector; finance and insurance; real estate and renting and leasing; and the transportation and warehousing sector.

Although careful attention was given to select firms that were diverse in race, ethnicity, and gender, only a few of the companies that agreed to participate were from minority populations. This stems primarily from the fact that fewer minority-owned businesses were established long enough ago to fully satisfy the criteria outlined in this research. To be included in this study, family businesses needed to have active involvement of multiple generations. Of course, it is possible for newly formed businesses to satisfy this requirement, but many of these businesses have not yet reached a point where they define themselves as a family business, and as a result are less likely to be identified as such. In fact, most family businesses still in existence were established prior to 1980 (Laird Norton Tyee 2007), and thus were primarily founded by white males of European descent. Furthermore, it was not until the 1980s and 1990s that the United States saw a surge in minority-owned businesses (Lowrey 2007). So even though female-owned business have increased by 20 percent since 1997 (U.S. Census Bureau 2002c), and racial and ethnic minority groups now make up approximately 22 percent of the business establishments in the research site (U.S. Census Bureau 2002a), such businesses are more likely to have been established in more recent years, and thus would be less likely to meet the criteria needed for inclusion in this study.

Data Collection

Using a multiple case study design, data were collected through in-depth interviews, a review of appropriate documents, and observations. Interviews were conducted with a total of 52 individuals consisting of both family and nonfamily members. At least three members from each of the participating firms were targeted for

the in-depth interviews—one family member from the founding/senior generation, one family member from the junior generation, and one key nonfamily member. The purpose of the interviews was to verify and corroborate information provided in the questionnaire, as well as to gain a better understanding of the company's policies and practices on nepotism, their relationship with family and nonfamily members, and their attitudes and experiences working in a family business. In addition to the interviews, written documents such as a family genogram, the company's organizational chart, and human resource policies and procedures were obtained. Observations of the firm's physical environment as well as any social factors revealed before, during, or after the interview that had a bearing on the research were also recorded so that more informed conclusions could be drawn.

Throughout the study, careful attention was given to address any ethical issues related to research on human subjects. Approval for the project was obtained from the Institutional Review Board for the Protection of Human Subjects at American University by completing the Human Participants Protection Education for Research Teams online course sponsored by the National Institute of Health, and filling out a Research Proposal Review. Participants were briefed prior to the interview on the purpose of the research, and its importance to the scientific and applied community. They were provided with written documents and informed orally that their participation was strictly voluntary and that they retained the right to refuse to answer any question and/or to terminate the interview at any time. They were also told that the data collected from them would be used for research purposes only, and that all information, both written and verbal, would remain confidential and would not be able to be traced to their business or any

participants in the study. Furthermore, it was made clear that no identifying information would be released to anyone, including other members of the family business; and only fictional names, if any, would appear in the research report. Finally, to ease any other concerns about confidentiality, participants were assured that all sensitive information and documents would be kept in a secure location, and informed that a copy of the final report would be available to them if requested. Interviews were conducted only after participants were briefed, questions were answered, and an informed consent form (Appendix D) was signed.

Once a firm agreed to partake in the case study, an instructional packet was mailed to them including a letter thanking them for participating, a checklist of required documents and activities needed for the study, the questionnaire (the same one administered in phase one), information regarding their interview, and a consent form for participation in the interview. After the questionnaire was completed and returned to me, the firm was again contacted to schedule the interviews. Additional packets of information were then mailed or emailed to the remaining participating members (typically junior and nonfamily) to prepare them for the interview. The packet included a cover letter confirming their interview date and time, information on what to expect during the interview, a copy of the consent form for the interview, and a short pre-interview survey (derived from the questionnaire completed previously by another member of their firm) consisting of questions regarding individual characteristics as well as values of the family and leadership toward the family, the business, and its members. For participating, each firm received a three-month complimentary subscription to a monthly newsletter that provides family businesses with practical tips, ideas and insights

to assist them with their special needs (succession, settling disputes, preserving personal wealth and fostering multi-generational family business success) as well as a book on family business succession written by renowned family business experts.

Interview guides were utilized to ensure that the same basic information was attained while still allowing the interviewer to probe and explore areas that broaden and shed light on the subject. As stated previously, four separate guides were used to facilitate the interviews—one for founding family members, one for senior generation family members, one for junior generation family members, and one for nonfamily members. Before initiating the second phase of the research, three pilot interviews were conducted to ensure that the instruments were clearly understood and interpreted correctly by respondents. These pilot interviews were completed with a family member from the senior and junior generations, and a key nonfamily employee from my family's firm. My family's business was used to make it easier to assess the instrument's validity since I had prior knowledge of the dynamics of the firm and individual members. Without such knowledge, it would have been difficult to determine whether or not interview questions were eliciting the information that was intended. After evaluating each interview, adjustments were made to the format and substance of the questions. One outcome that surfaced was the need for more direction during the interview. As a result, the format of the interviews was altered and, as stated previously, an informational packet including a brief survey derived from the questionnaire (for those members, typically junior and nonfamily, who did not fill out the initial questionnaire) was included for the participants to complete prior to the interview.

When conducting research in an applied setting, especially among business establishments, a degree of flexibility is required. Therefore, interviews were conducted whenever and wherever the firm and individual deemed appropriate and convenient. Most of the interviews took place at the workplace, but a few were conducted in the homes of family members. In a business setting, it is also very important to value the firm's time constraints, therefore the interviews were designed to last no longer than one hour at a time. In most cases the length fluctuated between sixty to ninety minutes, however, follow-up conversations were scheduled when the initial interview warranted it and the firm and individual agreed to it. With the exception of four interviews, all conversations were audiotaped. Once the interviews were completed, thank you notes were mailed to all participants as well as any individuals who helped facilitate the process.

Data Analysis

Although this study utilized mixed methods to generate data, the information collected through in-depth interviews holds the greatest weight since the questionnaire used in the first phase of the research did not elicit enough responses. As a result, the data from the questionnaire along with documents and observations collected during the case study research were used to supplement the information obtained from the in-depth interviews. The data from the questionnaires were analyzed separately and then integrated with the case study data at the point of interpretation.

To analyze the data from the 13-page questionnaire, a codebook was created and the data were entered into SPSS, a statistical software program. After entering all of the

data, the responses from the open-ended questions were recoded to better fit the data. Then descriptive statistics were generated to provide a summary of the properties observed among responses from all the questionnaires. Similarly, a separate analysis was conducted among responses from questionnaires completed only by those participating in the case study. Because the sample size was not adequate enough to produce meaningful statistical analyses, only frequency statistics were generated. In addition, since some of the questions from the survey were administered to all the individuals participating in the in-depth interviews, a separate database was created to compare responses among founding family members, senior family members, junior family members and nonfamily members as well as between these groups.

In the second phase of the research, relationships and patterns were identified through interview transcripts, observation notes, and written text from relevant documents rather than through numbers. The focus, however, was on the transcripts taken from the in-depth interviews. To save time, a transcription company was hired to assist with this process. Prior to employing their services, a statement of confidentiality for transcription was signed. Those interviews that were transcribed by the transcription company were carefully checked for accuracy against the recorded data, and then transferred into a standardized interview protocol. Those interviews transcribed by the researcher were placed directly into the standardized interview protocol. The standardized interview protocol was created to make it easier to identify patterns and interpret the data. Even though an interview guide approach was used to collect data, the interviews were somewhat standardized since it was advantageous to have the same information from each person interviewed and because the time period allotted for each

interview was somewhat restricted. This made it possible to create and then transfer the responses into a standardized protocol.

Then to further organize the data, the information was again transferred into a comprehensive file—one for founding family members, one for senior family members, one for junior family members, and one for nonfamily members. Each document contained a list of questions by topic along with corresponding and relevant responses and observation notes from each interview in that response category. Compiling the responses in one comprehensive document for each category of respondents made it easier to locate answers to the same question quickly and then compare responses among categories and between them. By combining the flexibility of an interview guide approach with a systematic semi-standardized line of questioning the analysis was simplified while simultaneously increasing the comprehensiveness of the data.

CHAPTER 5

STRUCTURAL AND CULTURAL CHARACTERISTICS

The following four chapters present the empirical findings. This chapter describes the structural and cultural characteristics of the firms and provides a context for exploring the conditions in which nepotism may be beneficial or problematic for the family business (See Figure 3.1 in Chapter 3). Since the sample size was not adequate enough to produce meaningful statistical analyses, a discussion of the statistical significance of the relationships between these variables and nepotism policies and practices is not included. As a result, the foci of this research lie in the findings presented in Chapters 6, 7, and 8.

Chapter 6 provides data on policies and practices related to nepotism and member perceptions about these practices. Chapter 7 follows with an assessment of the equality and openness of these policies and practices. And Chapter 8 provides a window to the formation and perception of these practices as well as the perceptions of each other upon the nepots entrance into the family business. Together, these chapters provide insight into how nepotism and nepotism practices impact the interpersonal relationships, which in turn impacts the success of members, and ultimately the overall success of the business (See Figure 3.1 in Chapter 3). And this provides a platform for understanding the conditions in which nepotism is beneficial or problematic for the family business.

This chapter is divided into eight sections and each section describes one of the structural and cultural characteristics identified in the study. The characteristics include age, size, type of industry, legal status, economic status, development phase, management structure, and values of the family business. Much of the data presented in this chapter were derived from responses elicited through the self-administered questionnaire, and further supported by information obtained from the case studies. Fifty-seven (57) firms completed the self-administered survey. Of these, 18 participated in case studies which provided observation notes, documents, and interviews from founder/senior and junior family members, as well as key nonfamily members of the firm.

Company Characteristics

Age

As stated in Chapter 4, age refers to the number of years the business has been in operation. Although age is a ratio level measurement, the median is used instead of the mean because the data are skewed by some very early dates of establishment. Therefore, the median better represents the typical firm in this study. The year of establishment and age of firms are presented in Table 5.1. Most of the businesses represented in this study were formed after WWII, however a fifth of the firms were established prior to that time. The median year of establishment reported was 1980, with a majority of the firms starting some time during that decade. However, amongst firms participating in the case studies, the median year of establishment is two decades earlier in 1960¹⁰, with the bulk of firms

10. This is in line with findings from the *American Family Business Survey* (MassMutual Financial Group/Raymond Institute 2002), a national study on family businesses of 1143 companies which reported a median year of establishment of 1959.

Table 5.1. Company Characteristics: Year of Establishment and Age of Firm

Company Characteristic		All Firms (N=56)	Case Study Firms (N=18)
<u>Year Business Founded</u>	<u>Number of Years in Business</u>		
Prior to 1900	> 106	3.57%	11.11%
1900's	97-106	1.79%	0.00%
1910's	87-96	5.36%	11.11%
1920's	77-86	5.36%	11.11%
1930's	67-76	1.79%	5.56%
1940's	57-66	3.57%	5.56%
1950's	47-56	3.57%	5.56%
1960's	37-46	7.14%	5.56%
1970's	27-36	17.86%	27.78%
1980's	17-26	25.00%	5.56%
1990's	7-16	21.43%	11.11%
2000's	< 7	3.57%	0.00%

Note: Total may not sum to 100 percent due to rounding.

starting up some time during the 1970s. As a result, the median age of the firms is 46 years. The majority of these firms (72.22 percent) have two generations actively involved in the family business, while the remaining firms (27.78 percent) claim active involvement from three generations.

According to information derived from the case studies, many of the firms were started out of necessity. Some of the founders were immigrants who were simply trying to pursue the “American Dream,” while others had just returned from military service and needed work. In one case, a husband and wife had agreed to help three investors build another company that needed their expertise in working with unions. The investors had promised to give the couple the option to buy the business after several years of service. When the time came, the husband and wife made arrangements to buy the firm. However, unbeknownst to them two of the investors had made a deal to sell their shares to the third investor. That person now held the majority of shares, and as a result decided not to sell, and fired the couple as well as their son. Devastated, they went home and

tried to figure out what to do next. Two weeks later, they decided to start a business of their own (without partners) so that this would never happen again. With the exception of this business, none of the firms were started with the intention of becoming a family business.

Happenstance played a role in the origins of several of the other businesses. In some cases an opportunity arose through the founder's workplace, and in others a need for a product or service presented itself. In one of the businesses the founder was originally a blacksmith by trade. As the story goes, one day a group of gypsies were traveling through the blacksmith's town when one of their children died. At the time there were no undertakers or funeral homes in the area; and certainly none that would assist a group of gypsies. The gypsies came to the blacksmith with a string equaling the height of the child and asked him if he would build them a casket. He agreed. Soon after, others started making similar requests, and eventually the blacksmith gave up his hammer and anvil, and opened up a full-time funeral home.

Size

The size of the firm is another characteristic that may influence nepotism practices. Interestingly, size standards and categorizations vary greatly among different data gathering organizations. Some include only a headcount of employees (this is how size was measured for this study), while others factor characteristics such as industry type, turnover, or financial amounts in the equation. For research purposes, the United States Small Business Administration (SBA) (2008) defines "small" business as having fewer than 500 employees. However, the SBA's Office of Size Standards has separate

definitions for government purposes which are based on industry type. For example, according to these definitions, companies in the wholesale trade industry are considered “small” if they have less than 100 employees, while engineering firms and dry cleaning services are considered “small” if they have annual business receipts of less than \$4.5 million.

Another standard used in research is the European Commission’s (EC) definition of small- to medium-sized enterprises, commonly known as SMEs. The EC (2003) defines businesses with a headcount of less than ten employees as “micro,” those with less than 50 employees as “small”, and those with less than 250 employees as “medium.” This designation seems more practical since it unlikely that the average person would consider a company with 499 employees a small company. Furthermore, since compliance with numerous federal and state regulations, such as the Family and Medical Leave Act (FMLA) and the Occupational Safety and Health Act (OSHA), are required once a firm reaches 50 employees, this size is often considered a benchmark by owners for viewing their company as substantial and no longer a small “ma and pa” business. Thus, when discussing the size of a firm in this study, those with less than ten employees will be considered “micro,” those with 10 to 49 employees will be identified as “small,” those with 50 to 250 will be considered “medium,” and those firms with more than 250 employees will be designated as “large.”

Size distributions of family businesses participating in the study are illustrated in Table 5.2. Although a few of the firms participating in this research have either less than ten employees, or more than 250, the focus is on small to medium-sized businesses (SMEs). Two-thirds of all of the firms in this study are considered either small or

Table 5.2. Company Characteristics: Size (Full-time and Part-time Employees)

Size	All Firms (N=57)	Case Study Firms (N=18)
< 10 (Micro)	28.07%	5.56%
10 – 49 (Small)	38.60%	44.44%
50 – 250 (Medium)	28.07%	33.33%
> 250 (Large)	5.26%	16.67%

Note: Total may not sum to 100 percent due to rounding.

medium, with 30 employees being the median size. However, amongst firms participating in the case studies, over 75 percent are small or medium businesses, with businesses employing a median of 45 employees. Although size is considered a ratio level measurement, the median is once again used instead of the mean because the data are skewed by a couple of extremely large companies. Therefore, the median better represents the typical size of a firm in this study.

Type of Industry

Firms were then asked to indicate their company industry and principal product or service. Based on the information provided, firms were categorized using the 2002 North American Industry Classification System (NAICS) as expressed previously in Chapter 4. Table 5.3 illustrates the breakdown of these categories. Here the distinction between all firms and case-study firms is not as stark. The majority of firms are concentrated in retail trade (19.30 percent) and the professional, scientific, and technical services (19.30 percent) industry. They are followed by real estate and renting and leasing (12.28 percent), other services, and construction, each accounting for 10.53 percent of the firms. Next are wholesale trade, and the administration, support, waste management, and remediation sector with 7.02 percent each. This is followed by health care and social

Table 5.3. Company Characteristics: Industry Type

NAICS Industry Type	All Firms (N=57)	Case Study Firms (N=18)
Professional, Scientific, and Technical Services	19.30%	16.67%
Retail Trade	19.30%	11.11%
Other Services (except public administration)	10.53%	22.22%
Health Care and Social Assistance	3.51%	5.56%
Construction	10.53%	11.11%
Accommodation and Food Services	1.75%	0.00%
Administration, Support, Waste Mgt., and Remediation Services	7.02%	5.56%
Finance and Insurance	1.75%	5.56%
Real Estate and Renting and Leasing	12.28%	5.56%
Wholesale Trade	7.02%	11.11%
Information	1.75%	0.00%
Manufacturing	3.51%	0.00%
Transportation and Warehousing	1.75%	5.56%

Note: Total may not sum to 100 percent due to rounding.

assistance, manufacturing, accommodation and food services, finance and insurance, information, and transportation and warehousing, all with 3.51 percent or less.

Amongst all participants, 61.40 percent come from industries that employ what the U.S. Department of Labor (2007) refers to as blue-collar and service occupations. Similarly, two-thirds of the firms that participated in the case studies are from blue-collar and service occupations. Most of the case study firms come from other services (22.22 percent). This was expected given that other services includes industries typically associated with family businesses such as automotive, electronic, and household goods repair and maintenance, as well as personal care services such as beauty salons, pet care, funeral homes and cemeteries, vending machine merchandisers, and dry cleaning and laundry services. Another 16.67 percent come from the professional, scientific, and technical services sector. Retail trade, wholesale trade, and construction each account for 11.11 percent; and 5.56 percent of the firms come from each of the following industries—health care and social assistance, the administration, support, waste

management, and remediation services sector, finance and insurance, real estate and renting and leasing, and transportation and warehousing.

Legal Status

Firms participating in the study were also asked to indicate their legal status. Legal status refers to one of the six legal forms a company can elect when establishing a business. Definitions for each of these forms were provided previously in Chapter 4 under variables and measurements. Statistics regarding the legal status of firms are included in Table 5.4. The majority of participants amongst all firms (59.26 percent) as well as those participating in the case studies (64.71 percent) conduct business as S corporations, while 29.63 percent of all firms and 35.29 percent of those participating in case studies conduct business as C corporations. Proprietorships (5.56 percent), limited liability companies (3.70 percent), and limited partnerships (1.85 percent) round off the remaining forms of business cited by all participating firms.

Table 5.4. Company Characteristics: Legal Status

Legal Status	All Firms (N=54)	Case Study Firms (N=17)
S Corporation	59.26%	64.71%
C Corporation	29.63%	35.29%
Individual Proprietorship	5.56%	0.00%
Limited Liability Company	3.70%	0.00%
Limited Partnership	1.85%	0.00%

Economic Status

To understand the economic status of firms, four survey questions were asked of respondents. The first question asked companies to approximate the previous year's gross revenues. The next two questions inquired about their growth over the past three

years and how this compared with other firms in their industry, and the last question dealt with company debt. Table 5.5 reports the findings of these questions. Based on data

Table 5.5. Company Characteristics: Economic Status

Economic Characteristic	All Firms	Case Study Firms
Gross Revenues	N=56	N=17
< \$100,000	5.36%	0.0%
\$100,000 - \$249,000	5.36%	0.0%
\$250,000 - \$499,000	7.14%	5.88%
\$500,000 - \$999,000	8.93%	0.0%
\$1,000,000 - \$4,999,999	33.93%	29.41%
\$5,000,000 - \$9,999,999	16.07%	29.41%
\$10,000,000 - \$50,000,000	14.29%	11.76%
> \$50,000,000	8.93%	23.53%
Revenue Change Past 3 Years	N=56	N=17
Increased more than 10%	44.64%	47.06%
Increased 6-10%	14.29%	17.65%
Increased 1-5%	17.86%	17.65%
No Change	16.07%	11.76%
Decreased 1-5%	3.57%	0.0%
Decreased more than 5%	1.79%	5.88%
Not Applicable (operating < 3 years)	1.79%	0.0%
Compared with Industry	N=56	N=17
We fared better than the industry average	42.86%	52.94%
About the same as the industry average	33.93%	35.29%
We fared worse than the industry average	1.79%	0.0%
Don't Know	21.43%	11.76%
Company Debt	N=52	N=16
No Debt	40.38%	31.25%
1-25%	38.46%	43.75%
26-50%	11.54%	6.25%
51-100%	9.62%	18.75%

Note: Total may not sum to 100 percent due to rounding.

obtained from the first question, almost 40 percent of all firms reported revenues greater than 5 million. One third reported gross revenues between \$1 and \$5 million, and the remaining firms (26.79 percent) indicated they brought in less than \$1 million in revenues. Amongst firms participating in the case studies, more than half (58.82 percent) reported revenues between \$1 and \$10 million. Four businesses (23.53 percent) reported

revenues greater than \$50 million, two (11.76 percent) reported revenues between \$10 and \$50 million, and the remaining firm (5.88 percent) reported annual revenues between \$250,000 and \$500,000.

The majority of the firms indicated that their sales revenue had increased over the past three years. Amongst all firms, 44.64 percent reported revenue increases of more than ten percent, and 32.15 percent claimed increases between 1 and 10 percent. Only a small percentage (5.36 percent) reported a decrease in revenues, and 16.07 percent indicated that there had been no change in revenues in the past three years. The remaining firm (1.79 percent) had been in business for less than three years, so this question was not applicable. Similarly amongst firms participating in the case studies, 47.06 percent reported revenue increases of more than ten percent, and 35.30 percent claimed increases between 1 and 10 percent. Only a small percentage (5.88 percent) reported a decrease in revenues, and 11.76 percent indicated that there had been no change in revenues in the past three years.

When asked how their growth compares with other firms in the industry, the majority stated that they “fared better than the industry average.” Amongst all firms, 42.86 percent “fared better,” 33.93 percent “fared about the same as the industry average,” and only one firm (1.79 percent) indicated that they “fared worse than the industry average.” Similarly, 52.94 percent of the firms participating in the case studies stated that they “fared better than the industry average,” 35.29 percent indicated that they “fared about the same,” and none of the firms stated that they “fared worse.”

And finally, to further understand the economic status of the participating firms, respondents were asked to approximate their average debt as a percent of equity, but

exclude trade payables. Here, a slight difference is found between all participating firms and those that participated in the case studies. Amongst all firms, the majority (40.38 percent) reported having “no debt,” and slightly less (38.46 percent) reported having a debt of “1-25%.” Amongst case study firms, this is reversed with the majority (43.75 percent) indicating debt of “1-25%,” and 31.25 percent reporting “no debt.” This is not surprising since the median age of companies participating in the case studies is slightly older. Overall, the economic status of the firms participating in this research appears to be relatively stable. The majority of firms fared better than their industry average, reported increases in revenues over the past three years, and had little or no debt.

Developmental Phase

The developmental phase is another characteristic that may impact nepotism practices. As discussed previously in Chapters 2 and 4, this characteristic is based on a structural-functional approach to family business and refers to Gersick et al.’s (1997) classification of the phases of development within the family, business, and ownership axes. Table 5.6 displays the distribution of firms amongst these phases of development. Respondents were presented with descriptions of each developmental stage and asked to identify the stage from each axis that most closely resembles their situation. This information was then confirmed through discussions with those participating in the case studies. Within the family development axis, most firms in this research indicated that they are in the “working together” phase (47.37 percent for all firms and 55.56 percent for case study firms). That means that the senior generation is approximately 50 to 65 years old and the junior generation is between 20 and 45 years old. Their key challenges

Table 5.6. Company Characteristics: Developmental Phase

Developmental Axis/Phase	All Firms N=57	Case Study Firms N=18
Family Developmental Axis		
Young Business Family	15.79%	0.00%
Entering the Business	10.53%	0.00%
Working Together	47.37%	55.56%
Passing the Baton	26.32%	44.44%
Ownership Developmental Axis		
Controlling Owner	77.19%	72.22%
Sibling Partnership	19.30%	16.67%
Cousin Consortium	3.51%	11.11%
Business Developmental Axis		
Start-up	8.77%	0.00%
Expansion/Formalization	52.63%	50.00%
Maturity	38.60%	50.00%

Note: Total may not sum to 100 percent due to rounding.

include fostering cross-generational cooperation and communication, encouraging productive conflict management, and managing the roles of each generation.

The majority of firms also indicated that they are still at the “controlling owner” phase of the ownership development axis (77.19 percent for all firms and 72.22 percent for case studies). Therefore, in most of the firms in this study, ownership is consolidated in one individual or couple, and their main challenges are capitalization, balancing unitary control with input from key stakeholders, and choosing an ownership structure for the next generation.

However, in the business axis, the results vary. Amongst all firms, the most frequently cited developmental phase is the “expansion/formalization” phase (52.63 percent), while amongst firms participating in the case studies, both the “expansion/formalization” (50.00 percent) and “maturity” (50.00 percent) phases are cited most frequently. The “expansion/formalization” phase is characterized by an increasingly functional structure with multiple products or business lines. Key challenges

include evolving the owner-manager role and professionalizing the business, developing strategic plans, establishing organizational systems and policies, and managing cash flow. The “maturity” stage is the final phase of the business development axis, and in this phase, there are well-established organizational routines. Divisional growth is typically run by a senior management team, the customer base is stable (or declining) with modest growth, and the main purpose of the organizational structure is to support stability, not growth. Major challenges for this phase include refocusing the strategic plan on legacy, family values, and goals of the company, as well as affirming the commitment of management and ownership, and reinvesting in new people, products, and equipment.

Management Structure

Nepotism practices are also influenced by the ways in which power is situated and organized in a firm. Therefore, to identify the management structure of firms (discussed previously in Chapter 4), organizational charts were collected, survey questions were asked regarding the positions and responsibilities of family members and key nonfamily members, and information was gathered during the interviews to better understand the firm’s manifest, assumed, extant, and requisite social structure (Jaques 1976). Based on the data obtained, the majority of firms utilize a simple organizational structure. Simple organizational structures (also known as pre-bureaucratic or entrepreneurial structures) are typical of businesses that are small to medium in size where the owner also manages the company (Robbins 1990). As a result, work is less repetitive in the management core, communication and decision making are informal, and power is highly centralized (Robbins 1990). Since 83.3 percent of the firms in the case studies are considered micro,

small, or medium in size, and almost all (88.9 percent) are managed primarily by the majority owner(s) of the firm, this type of organizational structure was expected.

Those firms that are identified as large (250 employees or greater), utilize either a divisional or matrix organizational structure. These types of structures are typical in larger firms where there is product or market diversity (Robbins 1990). However, although power in these types of structures tends to be decentralized, or rather centralized in division managers or teams of professionals (Robbins 1990), it was evident that in these family businesses, control is still heavy-handed by its owners. This is true even in cases in which the CEO is not a family member and/or the board of directors is allocated an active role in decision making.

Values

The last characteristic examined was the firm's values. This concept is tied to the management structure since the ways in which power is situated and control is exercised is related to the values of the firm. And since values are considered a key component of an organization's culture (Schein 1985) and the culture of the firm is linked to organizational structure (Etzioni 1961; Harrison 1972; Peters and Waterman 1982; Handy 1993; Kunda 2006), a discussion of their relationship is important in understanding the role the management structure and values play in nepotism practices. Furthermore, to understand success, it is necessary to understand the values that influence goal formation (Distelberg and Sorenson 2009).

As stated previously, the majority of firms in this study utilize a simple or pre-bureaucratic organizational structure. Because this kind of structure is typically flat with

few if any levels of management, such organizations epitomize what Roger Harrison (1972) calls a power culture.¹¹ In a power culture, control and influence comes from the top and personal relationships with that individual or group of individuals are ultimately more important than rules, procedures, and one's position and roles (Harrison 1972; Handy 1993). This is consistent with conflict theory in that stability exists through the coercive nature of members holding dominant positions. However, among family-owned businesses, this type of power is exercised with a "velvet glove" since employees are "cared for rather than exploited" (Harrison 1972:121). Not surprisingly, this type of culture is evident in most of the firms in this study, including the large family businesses where the founder or senior family member of the firm still has a tremendous impact on the business.

In addition to being identified as a power culture, most of the family businesses in this study also demonstrate characteristics found in a strong culture. "A strong culture is a system of informal rules that spells out how people are to behave most of the time" (Deal and Kennedy 2000:15). Whereas a weak culture is a system in which informal rules are not well developed and members are not tied to the values of the organization so control is exercised through characteristics found in a bureaucratic structure (Deal and Kennedy 2000). In a strong culture employees are motivated and controlled through an "intense emotional attachment and the internalization of clearly enunciated company values" (Kunda 2006:10) rather than through a complex, hierarchical authority structure that operates under explicit rules and procedures. Furthermore, in a strong culture there

11. Harrison originally used the term "power orientation" to refer to what he called organizational ideology; however Charles Handy (1985) substituted the word "culture" in his adaptation of Harrison's work because he thought it was more appropriate in describing an organization's values and norms.

is often considerable reliance on key charismatic figures (Deal and Kennedy 2000), a common characteristic among founders in family businesses. These key figures not only embody the culture's values, but provide employees with rituals and an institutional history that reveal the types of behavior expected of them (Deal and Kennedy 2000). In family businesses, this is evident in the:

...camaraderie that extends to nonfamily members working in the business. They all usually live in the same community, often working at one location for years. They form strong bonds with the company as well as with its owner. In such a closely knit environment people know the standards and know what is expected of them. Those standards—loosely termed the *corporate culture*—are reinforced in a thousand ways, from wall photographs and company folklore to special needs. (Ward 1987:178)

More specifically for the firms in this study, it was observed in the offices of family members, in the hallways of the firms' buildings, and on the brochures and web sites of the family businesses. At one firm, the photos that graced the entrance told the story of the founders and their dedication and hard work, as well as the proud family members that had followed in their footsteps. In another firm, the original typewriter and first dollar the company made were displayed prominently outside the senior member's office. All of these artifacts provide family and nonfamily members with an institutional history that symbolizes and promotes the company's values. Although a strong culture is usually considered a phenomenon purposely built into the structure or attributed to large bureaucratic organizations that want to replace or supplement strict and rigid external controls with a type of internal normative control (Etzioni 1961; Kunda 2006), it could be argued that the need for and the mechanisms of normative control are inherent in family businesses regardless of size, and that culture has always been used as a form of normative control. This is because in family businesses, the culture of the business does

not operate in a vacuum. The family system also plays an active role in the culture of the business. According to Hollander and Bukowitz (1990:140), family culture is similar to most models of organizational culture, but it “evolves from the establishment of patterns around major emotional issues such as closeness and separation, independence and dependence, and submission and dominance.” In other words, family culture contains an emotional component beyond the values and core beliefs present in a business culture. And in family businesses the culture of the family, viewed as the “generalized other” in Mead’s terms, often permeates the values of that business which in turn influence the structure, roles, rules, and practices of the business regarding authority, equality, and fairness. And as a result, because family culture is built into the family business, so is normative control.

Historically, structural-functionalism and rational choice theory have been combined in family business literature to present two separate approaches for describing the value system of family businesses—family-first and business-first (Ward 1987). In each of these value systems, adaptation, goal attainment, integration, and latency are necessary for its survival (Parsons 1971). However, how these systems cope with external situations, define and achieve goals, regulate and manage relationships, and maintain and renew individuals and cultural patterns may differ. At the same time, rational actors that operate within these systems are making decisions so that they may achieve objectives consistent with their preference hierarchy. In the family-first approach, the goals of the family are dominant; while in the business-first approach, emphasis is placed on maximizing the goals of the business (Ward 1987).

In more recent literature, these ideal types have been presented more as a continuum of values (Distelberg and Sorenson 2009) where one ideally seeks to integrate and/or satisfy and optimize the values present in both orientations. When a family business is able to achieve that balance of optimization, the dichotomy disappears and the family business is viewed as one collaborative system rather than competing systems of values. This thought process does not stray far from the perspective that neither the business nor family system alone reflects the reality of a family business; when discussing family business, both the family and business systems must be taken into consideration and then ultimately viewed as an integrated system. And even though ideal types are discussed and used to identify family businesses, it does not mean that the systems are viewed as separate.

For this research (as identified previously in Chapter 4), values are defined as the standards or principles of importance to individuals and the organization in regard to power (influence, control, and decision making) as well as issues of trust, support, and loyalty. Prior to the interviews, family and nonfamily members participating in the case studies were presented with a number of statements regarding the values of the family and leadership towards the family, the business, and its members, and asked to rate the extent to which they agree with each of the statements given. Response categories were structured using a five-point Likert scale where 1 = “strongly disagree” and 5 = “strongly agree,” with a neutral point in the middle (3). Some of the statements serve as indicators of the consistency and strength of the firm’s culture by focusing on member support and loyalty. Others concentrate on the value orientation of the firm by addressing issues of trust, influence, control, and decision making.

Member Support and Loyalty

The first set of statements focus on member support and loyalty. These statements are divided into two groups—those representing member support and those representing member loyalty. Statements focusing on member support include: 1) Family members share similar values; 2) Family and business share similar values; 3) The family supports the family business in discussions with friends, employees, and other family members; 4) The family is proud to tell others they are part of the family business; 5) The family agrees with the family business goals, plans, and policies; and 6) I understand and support my/the family's decisions regarding the future of the business. Table 5.7 displays the mean rankings for each statement by type of respondent (founding/senior family member, junior family member, and nonfamily member).

A mean rank of “4” or greater (where 5 = strongly agree) was calculated among most of the respondents for most of the statements. This serves as an indicator of both the consistency and strength of the culture of these firms, and reaffirms the presence of a strong culture in these family businesses. Consistency also symbolizes consensus building among members. This is tied to Mead's generalized other since the organized attitudes of members of the entire firm enable one to adopt those values into a conception of the self. In addition, the consistency and strength of the culture demonstrates Parson's general system of action. This is apparent since the values among members are mostly shared. And for this to happen, the cultural system of the firm would not only need to define its primary goals, but integrate and maintain the cultural patterns that create and sustain the system.

Table 5.7. Company Characteristics: Values Focusing on Member Support

Statement	N	Mean
Case Study Respondent		
Family members share similar values.		
Founding/Senior Family Members	16	3.94
Junior Family Member	19	4.42
Nonfamily Member	16	3.88
All Respondents	51	4.10
Family and business share similar values.		
Founding/Senior Family Members	15	4.33
Junior Family Member	19	4.37
Nonfamily Member	15	4.27
All Respondents	49	4.33
The family supports the family business in discussions with friends, employees, and other family members.		
Founding/Senior Family Members	16	4.37
Junior Family Member	19	4.68
Nonfamily Member	16	4.31
All Respondents	51	4.47
The family is proud to tell others they are part of the family business.		
Founding/Senior Family Members	16	4.69
Junior Family Member	19	4.68
Nonfamily Member	16	4.63
All Respondents	51	4.67
The family agrees with the family business goals, plans, and policies.		
Founding/Senior Family Members	16	4.44
Junior Family Member	19	4.47
Nonfamily Member	16	4.06
All Respondents	51	4.33
I understand and support my/the family's decisions regarding the future of the business.		
Founding/Senior Family Members	15	4.80
Junior Family Member	19	4.47
Nonfamily Member	16	3.81
All Respondents	50	4.36

Note: 1 = “strongly disagree,” 5 = “strongly agree,” and 3 is considered a neutral point.

For most of the statements, the junior family members showed the greatest support, followed by the founding/senior family members and then the nonfamily members. This was evident especially among statements regarding the consistency of values as well as the goals, plans, and policies of the business. The greatest support for any one statement was given by founding/senior family members; for this statement, “I understand and support my family’s decisions regarding the future of the business,” a

mean rank of 4.80 was calculated for founding/senior members. The least support for any one statement was given by nonfamily members (mean rank of 3.81) when asked the extent to which they agreed with the statement “I understand and support the family’s decisions regarding the future of the business.” This statement also had the most variation.

Although generally speaking, the responses given were expected, there is one statement that deserves more discussion due to its importance to this study. The statement is “Family members share similar values.” Although this statement was generally supported, it had the least support among all respondents (mean rank of 4.10). Furthermore, the mean rank for both founding/senior family members and nonfamily members was below 4.00, while the mean for the junior family members was greater at 4.42. While there can be a number of reasons why this is the case, it may indicate that there is some generational tension given that the mean age of founding/senior family members (61.21) and nonfamily members (50.39) are closer and greater than the mean age of junior family members (36.47) who are often the newest full-time members of the group to the family business. The implications of this are elaborated upon at a later time.

The second group of statements focused on member loyalty. They include: 1) The family feels loyalty to the family business; 2) The family feels loyalty to family members in the business; 3) The family feels loyalty to nonfamily members in the business; and 4) The family feels loyalty to family members seeking employment in the business. Table 5.8 displays mean rankings for each statement by type of respondent (founding/senior family member, junior family member, and nonfamily member).

Table 5.8. Company Characteristics: Values Focusing on Loyalty

Statement	N	Mean
Case Study Respondent		
The family feels loyalty to the family business.		
Founding/Senior Family Members	16	4.69
Junior Family Member	19	4.79
Nonfamily Member	16	4.75
All Respondents	51	4.75
The family feels loyalty to family members in the business.		
Founding/Senior Family Members	16	4.31
Junior Family Member	19	4.47
Nonfamily Member	15	4.47
All Respondents	50	4.42
The family feels loyalty to nonfamily members in the business.		
Founding/Senior Family Members	16	4.38
Junior Family Member	19	4.26
Nonfamily Member	16	3.81
All Respondents	51	4.16
The family feels loyalty to family members seeking employment in the business.		
Founding/Senior Family Members	16	4.06
Junior Family Member	19	3.79
Nonfamily Member	16	4.25
All Respondents	51	4.02

Note: 1 = “strongly disagree,” 5 = “strongly agree,” and 3 is considered a neutral point

A mean rank of “4” or greater (where 5 = strongly agree) was calculated among most of the respondents for most of the statements. This indicates that overall there is strong support among founding/senior family members, junior family members, and nonfamily members. Once again, this serves as an indicator of both the consistency and strength of the culture of these firms, and reaffirms the presence of a strong culture in these family businesses. The greatest support for any one statement was given by junior family members. For this statement, “The family feels loyalty to the family business,” a mean rank of 4.79 was calculated for junior members. This statement also had the highest overall mean (4.75) among all respondents. The least support for any one statement was also given by junior family members. When asked the extent to which

they agreed with the following statement “The family feels loyalty to family members seeking employment in the business,” a mean rank of 3.79 was calculated.

While most of the responses were not unexpected, there are two statements regarding loyalty that deserve more discussion due to their importance to this study. The first of these is “The family feels loyalty to nonfamily members in the business.” While the mean rank (4.16) for all respondents indicates a strong level of agreement, what is interesting is not that the nonfamily members had the lowest mean rank (3.81) among respondents, but that unlike most of the statements, the mean ranking of founding/senior family members (4.38) was greater than the junior family members (4.26). In other words, founding/senior family members feel more loyal to nonfamily members than junior family members. While not surprising, this is noteworthy because the relationships among family members as well as between family and nonfamily members are vital when exploring nepotism; and this statement seems to get at the heart of those relationships.

The second statement of importance goes straight to the core of nepotism. When asked to rate the extent to which there was agreement with this statement, “The family feels loyalty to family members seeking employment in the business,” nonfamily members indicated the most support with a mean rank of 4.25, followed by founding/senior family members with a mean of 4.06, and junior family members with a mean of 3.79. This is the only statement in the set in which nonfamily members showed the greatest support; and it is the only statement in the set in which the mean rank for junior members was below 4.00. Again, it is not surprising that nonfamily members would have the strongest agreement with this statement, but it is noteworthy. It is also

worth mentioning that the founding/senior family members reported greater support for this statement than junior family members. The implications of these perceptions are expounded upon at a later time.

Trust and Power (Influence, Control, and Decision Making)

The second set of statements regarding the values of the family and leadership towards the family, the business, and its members concentrate on issues of trust and power (influence, control, and decision making). Individually, the responses to these statements serve as indicators of the family business' value orientation, but together they provide a barometer for how well the systems have been balanced and thus integrated. Therefore, both rational-choice theory and functional-structuralism are utilized. These statements are broken down into two groupings—those that represent trust, and those that represent power (influence, control, and decision making). The statements focusing on trust include: 1) Leadership places a lot of trust in family members in the business; 2) Leadership places a lot of trust in nonfamily members in the business; 3) Leadership places more trust in family members (regardless of their position) than they do in nonfamily managers. Table 5.9 displays mean rankings for each statement by type of respondent (founding/senior family member, junior family member, and nonfamily member).

The three statements on trust serve as indirect indicators of the family business' value orientation. The last statement here also reflects the level of equity perceived by members in the business which will be highlighted at a later time. By and large, responses to these statements indicate an attempt, at the very least, to satisfy and optimize

Table 5.9. Company Characteristics: Values Focusing on Trust

Statement	N	Mean
Case Study Respondent		
Leadership places a lot of trust in family members in the business.		
Founding/Senior Family Members	16	4.31
Junior Family Member	19	4.68
Nonfamily Member	16	4.06
All Respondents	51	4.37
Leadership places a lot of trust in nonfamily members in the business.		
Founding/Senior Family Members	16	4.06
Junior Family Member	19	4.53
Nonfamily Member	16	3.75
All Respondents	51	4.14
Leadership places more trust in family members (regardless of their position) than they do in nonfamily managers.		
Founding/Senior Family Members	16	3.69
Junior Family Member	19	3.84
Nonfamily Member	16	3.44
All Respondents	51	3.67

Note: 1 = “strongly disagree,” 5 = “strongly agree,” and 3 is considered a neutral point.

both the family-first and business-first value orientations. Both family and nonfamily members agreed that “leadership places a lot of trust” in both family (overall mean rank of 4.37) and nonfamily members (overall mean rank of 4.14) in the business. In other words, both family and nonfamily members believe that leadership trusts members whether they are family or not.

Interestingly, this is further supported by the third statement. When respondents were asked to rate their level of agreement with this statement, “leadership places more trust in family members (regardless of their position) than they do in nonfamily managers,” the overall mean rank reported was 3.67. This is slightly lower than the overall mean rank for the other two statements on trust and has the least support of the statements. This signifies that although respondents are still supportive, a greater number were either neutral or in disagreement with this statement. Because the overall mean

ranking was slightly lower, and because this statement specifically asks respondents to consider all family members regardless of their position, this suggests that when it comes to trust, one's position in the firm may be more important than their status as a family or nonfamily member. Had there been greater agreement, it would have indicated that family members are more likely to be trusted by leadership than nonfamily members just because they are family. Furthermore, what is even more interesting is the fact that nonfamily members were least likely to agree with this statement. This means that when it comes to trust, nonfamily are more likely than family to believe that members are treated equally. Overall, responses to this statement indicate that although the family businesses in this study may have a tendency to trust family members even when they have a lower status in the business, the perception, especially among nonfamily members, is that the firm does not go overboard and there is still an attempt to balance the goals of both the family and the business.

The next grouping of statements focuses on power (influence, control, and decision making). Statements on decision making are discussed first because the response pattern was similar to those on trust (Table 5.9). They include: 1) Leadership encourages family members to participate in decision making; 2) Leadership encourages nonfamily members to participate in decision making; and 3) Leadership is more likely to encourage other family members (regardless of their position) to participate in decision making than nonfamily managers. Table 5.10 displays mean rankings for each statement by type of respondent (founding/senior family member, junior family member, and nonfamily member).

Table 5.10. Company Characteristics: Values Focusing on Power (Decision Making)

Statement	N	Mean
Case Study Respondent		
Leadership encourages family members to participate in decision making.		
Founding/Senior Family Members	16	4.13
Junior Family Member	19	4.21
Nonfamily Member	16	3.88
All Respondents	51	4.08
Leadership encourages nonfamily members to participate in decision making.		
Founding/Senior Family Members	16	4.00
Junior Family Member	19	4.05
Nonfamily Member	16	3.62
All Respondents	51	3.90
Leadership is more likely to encourage other family members (regardless of their position) to participate in decision making than nonfamily managers.		
Founding/Senior Family Members	16	3.31
Junior Family Member	18	3.39
Nonfamily Member	16	2.81
All Respondents	50	3.18

Note: 1 = “strongly disagree,” 5 = “strongly agree,” and 3 is considered a neutral point.

Like the statements on trust (Table 5.9), junior family members reported the greatest level of support followed by founding/senior family members, and then nonfamily members. Thus, the findings in Table 5.9 and 5.10 are consistent. Family and nonfamily members agreed that “leadership encourages [both family and nonfamily members] to participate in decision making” (overall mean rank of 4.08 for statement on family and 3.90 for statement on nonfamily). However, the mean ranks among all respondents are greater for encouraging participation of family members (mean rank of 4.08) than for encouraging participation of nonfamily members (mean rank of 3.90).

Yet, when asked to rate their level of agreement with the statement that “leadership is more likely to encourage other family members (regardless of their position) to participate in decision making than nonfamily managers,” the response was more neutral (overall mean of 3.18). In fact, out of all of the statements related to values,

this statement had the least support among all respondents. Furthermore, this statement had the least agreement by any one group; the mean rank given by nonfamily members for this statement was only 2.81. And as with the three statements on trust, the fact that nonfamily members were least likely to agree with this statement means that when it comes to decision making, nonfamily are more likely than family to perceive a level of equity between members. Along with the data from the two previous statements, this clearly suggests that although respondents believe that leadership is slightly more likely to encourage family members to participate in decision making than they are nonfamily members, when it comes to decision making the firms in this study do not sacrifice the goals of the business for just any family member.

The last three statements involving power focus on the family's influence on and control of the business. They include: 1) Family has an influence on the business; 2) There is nothing wrong with hiring family members; and 3) Taking care of family members is *one* of the primary purposes of the business. Table 5.11 displays mean rankings for each statement by type of respondent (founding/senior family member, junior family member, and nonfamily member).

Like the previous statements on trust (Table 5.9) and decision making (Table 5.10), these statements signify the family business' value orientation but it is more explicit here. Based on the responses to these statements, family businesses participating in the case studies appear to lean towards a family-first approach where maximizing the goals of the family are emphasized. On a side note, it is important to point out that it is not really surprising that those firms that agreed to participate in the study would see family as an asset. One of the reasons often cited by family businesses for not

Table 5.11. Company Characteristics: Values Focusing on Power (Influence and Control)

Statement	N	Mean
Case Study Respondent		
The family has an influence on the business.		
Founding/Senior Family Members	16	4.44
Junior Family Member	19	4.63
Nonfamily Member	16	4.50
All Respondents	51	4.53
There is nothing wrong with hiring family members.		
Founding/Senior Family Members	16	4.19
Junior Family Member	18	4.17
Nonfamily Member	15	3.53
All Respondents	49	3.98
Taking care of family members is <i>one</i> of the primary purposes of the business.		
Founding/Senior Family Members	16	3.69
Junior Family Member	19	3.79
Nonfamily Member	16	3.38
All Respondents	51	3.63

Note: 1 = “strongly disagree,” 5 = “strongly agree,” and 3 is considered a neutral point.

participating was because they wanted to downplay the family aspect of the business and did not really want their employees to participate in a study in which their business was labeled a “family” business.

In the first statement, it is clear from the responses that the “family has an influence on the business.” Both family and nonfamily members strongly agreed (mean rank of 4.53) with this statement. In addition, family members agreed (mean rank of 4.19 and 4.17 for founding/senior and junior family members respectively) that “there is nothing wrong with hiring family members.” However, as expected, nonfamily members were least supportive of this statement reporting a mean rank of 3.53. The last of these first three statements, “taking care of family members is *one* of the primary purposes of the business,” elicited the least support among all respondents with an overall mean rank of 3.63. This statement, more than any one statement, tackles the issue of nepotism head on. Had respondents strongly supported this statement, it would have signified a strong

tendency towards a family-first approach exacerbating the negative impacts of nepotism. And although the mean rank calculated for family members was greater than the mean rank for nonfamily, there tended to be less agreement with this statement than with the other statements focusing on the family's influence on and control of the business. Again, this suggests that although there is a tendency towards a family-first approach, the firms in this study do attempt to balance the needs of both the family and the business. A more detailed discussion on this topic using data collected from the interviews appears in the next chapter.

Overall, it appears that the values of the family firms participating in the case studies are generally consistent among family and nonfamily members. While there was some variation, there was also a consistent pattern in that variation. Junior family members were most likely to agree with the statements, followed by founding/senior family members and then nonfamily members in eleven of the nineteen statements on values in this section. Furthermore, this pattern was evident in all six statements on trust and decision making. Nonetheless, there appears to be enough evidence to suggest that a strong culture is present in these family businesses. Furthermore, it appears that while there are some indicators that these businesses may have a tendency to view themselves as having a family-first value orientation, overall, the members of the family business at least attempt to integrate and/or satisfy and optimize the values in both orientations.

Summary

In this chapter, family businesses participating in the study are characterized by both structural and cultural traits. However, because the focus of this study is on those

firms who took part in the case studies, only those statistics are highlighted here. As reported previously, most of the businesses participating in the case studies were established around 1960. These firms tend to be much older than the firms that did not participate in the case studies, and this is reflected in the data presented on the other structural characteristics as well. The majority of the firms (72.2 percent) have two generations actively involved in the family business, while the remaining firms claim active involvement from three generations.

Over 75 percent of the firms are small or medium in size (employing a median of 45 employees), and two-thirds come from industries identified by the U.S. Department of Labor as blue-collar and service industries. The majority are involved in what the NAICS labels as other services (22.2 percent). This includes industries engaged in activities such as automotive repair and maintenance, death care services, vending machine merchandising, dry cleaning and laundry services and other services excluding public administration that are not specifically provided for elsewhere in the classification system. Other industries represented by the family businesses participating in the case studies include retail trade, the professional, scientific, and technical services sector, wholesale trade, and construction. Also included are firms from the health care and social assistance sector, the administration, support, waste management, and remediation services sector, finance and insurance, real estate and renting and leasing, and transportation and warehousing.

Almost two-thirds of the firms operate as S corporations, and the economic status overall is relatively stable with the majority of the firms faring better than their industry average, reporting increases in revenues over the past three years, and having little or no

debt. When asked to identify the developmental phase within the family, business, and ownership axes that most closely resembled their status, the stages most frequently cited were the “working together” phase of the family development axis, the “controlling owner” phase of the ownership development axis, and both the “expansion/formalization” and “maturity” phases of the business development axis. The majority of firms utilize a simple organizational structure, and exhibit traits attributed to power cultures. And the values of the firm in regard to power (influence, control, and decision making) as well as issues of trust, support, and loyalty are generally consistent among family and nonfamily members in the firm. The evidence not only suggests the presence of a strong culture in these firms, but also indicates that the members of these family businesses at least attempt to integrate and/or satisfy and optimize values in both the family-first and business-first value orientations.

This information is useful to this research because it provides a snapshot of those characteristics that best represent the firms in this study. Furthermore, it sets the stage for exploring the conditions in which nepotism may be beneficial or problematic for the family business. However, to understand the role the structure and culture of the business may play in developing nepotism practices, it is necessary to also examine the policies and practices related to nepotism. Through these data, relationships between the structural and cultural characteristics and nepotism policies and practices are revealed. While not all of the structural and cultural characteristics are salient, some will stand out. Type of industry appears to be most prominent, but age, size, development phase, management structure, and values are also notable characteristics. Chapters 6 and 7 explore these relationships.

CHAPTER 6

POLICIES AND PRACTICES RELATED TO NEPOTISM

This chapter provides data on policies and practices related to nepotism and member perceptions about these practices. As a result, it also provides insight into how nepotism practices impact the interpersonal relationships of members. And this in turn, lays the foundation for understanding the conditions in which nepotism is beneficial or problematic for the family business. Data elicited from firms that participated in the case studies are used to explore and discuss nepotism practices and member perceptions about these practices. Conversations with senior and junior family members, as well as key nonfamily members of the firm are the primary source of these findings. In addition, information obtained from observation notes, documents, and self-administered questionnaires completed by members of the firm are also utilized.

This chapter is divided into two sections—the first section presents findings from the survey regarding the firm’s structure and level of formalization of personnel policies. The second section discusses the hiring policies and practices of the firm. This section includes data from the survey and interviews on entry requirements and qualifications such as whether or not a position existed or was created for family members, whether or not certain positions were reserved for family members, logistics involved in hiring, employee credentials, and the most important qualities for family and nonfamily occupying leadership positions.

Firm Structure and Level of Formalization of
Personnel Policies

To understand the impact nepotism and nepotism practices have on the interpersonal relationships and success of members, it is necessary to explore the formal and informal personnel policies of the firms. To obtain this information, several questions were asked in the survey to establish the firm's structure and level of formalization regarding company policies. The results are presented in Table 6.1. The first question asked

Table 6.1. Firm Structure and Level of Formalization of Personnel Policies

Question	N	Yes	No
Full-time Employee Primarily Responsible for Human Resource Management	17	58.8%	41.2%
Human Resource Full-time Position Occupied by Family Member	10	50.0%	50.0%
Written Employee Manual	18	77.8%	22.2%
Formal Job Descriptions	18	66.7%	33.3%
Set Compensation Plans	17	52.9%	47.1%
Formal and Regular Employee Review Process	18	50.0%	50.0%

whether or not the firm retains a full-time employee whose primary responsibility is human resource management, and if so are they a family member. Of those firms participating in the case studies, almost 60 percent indicate that they employ such a person, and of these, half are family members. They were also asked whether or not the company has a written employee manual, uses formal job descriptions, have set compensation plans, and whether or not they have a formal and regular employee review process. The majority of firms have a written employee manual (77.8 percent), formal job descriptions (66.7 percent), and set compensation plans (52.9 percent), but only half have a formal and regular employee review process. Based on these data, at least half of the firms appear to have a business structure with formalized personnel policies in place. This is consistent with the responses reported previously in Table 5.6 regarding the

business developmental stage of the firm; half reported having reached a level of maturity with well-established organizational routines, and the other half indicated that they are in the process of expansion and formalization. This is important to this study because it demonstrates the need to probe respondents about the informal nepotism practices.

Hiring Policies and Practices

The next set of survey questions delved deeper into the personnel policies by inquiring about the hiring policies and practices of the firm. Respondents were asked if there are any special entry requirements or qualifications for family members who want to work in the business full-time, such as age, education, skills, and experience, and whether or not there must be an existing and/or needed position to hire a family member. Two-thirds of the respondents indicated that their firm does not have any special entry requirements or qualifications for family members, and that their entry requirements and qualifications are the same for both potential family and nonfamily employees. The remaining third acknowledged that special requirements for family members exist, but the majority (66.7 percent) stated that they are only informal.

When a comparable question was asked in the *American Family Business Survey* (MassMutual Financial Group/Raymond Institute 2002), almost 75 percent of the respondents indicated that they did not have a policy regarding qualifications family members must meet to be employed in the family business full-time. In that survey, respondents were asked if they had a “policy” and were given the option to reply only “yes” or “no.” Because the word “policy” infers at least a formal if not written course of action, and because it is uncommon for most family firms to have formal written policies

regarding entry requirements or qualifications for family members (MassMutual Financial Group/Raymond Institute 2002), questions and response categories in my own survey were carefully constructed to exclude the word “policy” and include the terms “formal” and/or “informal” to render a more thoughtful and accurate response. However, even though a greater percentage acknowledged that their firm has some special entry requirements or qualifications for family members, as expected most of the respondents still indicated that family and nonfamily are treated the same. For this reason, I knew it would be necessary to follow-up on these questions during the in-depth interviews.

Entry Requirements and Qualifications Revisited

Throughout the interviews, respondents were probed with a number of questions regarding their hiring practices to determine whether or not firms actually have the same entry requirements and qualifications for family as they do for nonfamily members. Interestingly, like the concept of nepotism, the word “different” in these circumstances seemed to carry a negative connotation implying that some sort of “unearned benefit” was awarded to the family member. And because of our adherence to core cultural values of individuality and equality as well as America’s self-proclaimed system of meritocracy, any *undeserved benefit* was seen as taboo and any *difference* in treatment appeared to be interpreted as inappropriate and unethical. As a result, initially, most of the respondents including the nonfamily managers held their ground insisting that all of the entry requirements and qualifications were the same for potential employees regardless of whether they were family members or not. However, slight differences

began to reveal themselves the longer the conversation ensued, and the differences were not always to the benefit of the family member.

Existing Position

One of the first questions asked of the respondents was whether or not a position would be created for a family member who needed a job. For most of the firms, especially those categorized as blue-collar industries, there always seemed to be opportunities and work that needed to be done at the entry level. As a result, family members secured jobs easily and almost always started at an entry level position. However, in some cases, the entry level work was not always something the company would have necessarily hired someone from the outside to do. In other words, the work was sometimes part-time, temporary, and/or intermittent, and emerged as necessary or important either when a family member was in need of a job and/or an existing employee was temporarily overburdened. For example, in one company, they hired a family member who was home from college for a few weeks to clean out all the storage rooms in their offices. In another instance, a family member stated,

When I was just out of college and looking for a job, they kind of created a position to a degree for me in the office here, just so I would be, you know, actively employed while I was looking for a job....It was a kind of bookkeeping/accounting function. So it needed to be done, but they wouldn't have necessarily hired somebody. (J515)¹²

12. This is a field note. It identifies the member's status in the family business as it relates to this research as well as the member's firm. Members are identified in the following manner: F=founders, S=senior family members; J=junior family members; and NF=nonfamily members. The number which follows is a code given to each firm after they agreed to participate in the study. These field notes appear throughout the document after each quote to provide context for the reader.

At least one nonfamily manager conveyed to me that family members were also brought in to help “in a pinch” whenever they were shorthanded. This supports Molofsky’s (1998) claim that one of the benefits of nepotism is the ability to fulfill needs at peak times. So, although entry level positions were readily available in most cases, sometimes positions or opportunities were created for family members because they were beneficial to the family as well as the most viable option for the firm. That said it seems as though a number of firms, regardless of their structural and cultural characteristics, were equally as likely to create entry level positions or opportunities for nonfamily as they were for family members, especially for relatives of existing employees. Here’s what one nonfamily manager had to say:

I think a family member has the opportunity to work here at some level. They’ll find a place for them whatever their business is and that’s a great thing. You know, I have kids. I’ve got [several] sons and they’ve all come in. As they come of age, they get a summer job. They get a free drug test and they get summer employment. [Laughter.] I am all for it. The door’s open. Cause with a company like [this], we have a lot of employees and a lot of lower level positions....if you can pass a drug test and you’ve got a car, you got a job. (NF520)

When asked if the firm created positions for family members who needed a job, another nonfamily manager replied,

Absolutely. But actually, if I told [the founder] that I had a daughter that, you know, needed a position, they would probably find something for her. And actually I think some of the people have had their kids work here in the summer and stuff as, you know, we call them interns or, you know, I mean, they would just do the phones, do some filing, do this or that. There are always things that can be done, whether you need that position or not. (NF517)

In another instance, a family member even went so far as to say that they give preferential treatment to family of nonfamily employees. She explained that by hiring the son of a key nonfamily manager and paying him for other work that needs to be done,

they are funneling more money to an employee who they would like to pay more but is tapped out financially.

So based on the data, it is evident that entry level positions were created for family as well as for relatives of nonfamily employees. But what about key positions in the family business? Were positions created beyond the entry level for family members who needed a job? Generally speaking, the answer is no. Respondents agreed that the positions that were created existed only at the entry level and that this practice did not extend to key positions in the company. Instead, it appears as if the key positions were filled by existing employees, family and nonfamily, who served a sufficient tenure with the company. This is contrary to claims that companies that practice nepotism hire unqualified family members just to serve in key supervisory positions (Kets de Vries 1993; Yeung 2000). One junior family member commented that “family members would definitely be given an opportunity for part-time or summer labor, and that sometimes a job would be created to take a load off of someone else to try and help out, but that they have never hired a new person, family or nonfamily, to take over a key position” (J517). Similarly, a nonfamily manager of another firm said, “We don’t hire upper level positions; you got to work into upper level positions” (NF520). However, when the family member joined the business at an entry level, the position was very different than other entry level jobs.

For family members in all of the firms, entry level positions often entailed greater pressure and additional responsibilities not expected of nonfamily employees hired for that same job. These family members were, in essence, being groomed to replace the current family leadership. As one founder puts it,

You like them to start at the bottom doing stuff so at least they can learn everything. And they know and you know that they're going to end up [taking on more responsibility], that they're going to end up running with you at one time, and you feed off of them, and they'll feed off of you.... You know that they are potentially going to be along at the top for the ride. And sometimes you're a little harder on them maybe early in the game cause you want to make sure that they understand that, yeah, they are getting a free pass in one way, but they still got to show that they deserve it. And you have to show it just for the rest of the employees around. (F527)

While this does provide junior members with greater access to the leadership of the firm, it can be difficult and awkward at times. They are hired to do the same job that any other entry level employee is doing, yet they are expected to not only do that job better, but to stay around after those duties are complete, working longer hours so they can take on additional responsibilities and learn other facets of the business.

For example, in one of the firms the junior family member was expected to come to work at 9 a.m. along with the rest of the employees, and at first he obliged. But as time progressed, he was asked to stay longer and longer to work on extra projects after hours. According to his uncle, the junior family member worked all the time—days, nights, and weekends. Eventually the junior member stopped coming in at 9 a.m. even though he continued to complete all of the work required of the entry level position in addition to the other responsibilities he had taken on. As one can imagine, this did not sit well with the other employees, so his grandfather had a talk with him and told him that he needed to be there on time from now on. It did not matter that he was still completing all of his work, and working later hours and on weekends, it was reflecting poorly upon management. As a family member, his grandfather told him, he had to be visible to the other employees. This situation exemplifies what Goffman called “impression management.” Another family member placed in a similar predicament stated,

...I'm not even in a position right now which is the oddest thing. They've got me on sort of this extended tour where I'm spending a couple months in each of the five operating divisions...I'm having low level responsibilities but I'm allowed access to higher up people, and as a result, am learning things that I wouldn't if I were just a new hire, any old new hire. And that was something that I actually *did* anticipate. That was one of the things that really troubled me. (J523)

There were also some nonfamily members that seemed to be savvy to this whole process and even accepting of it. One nonfamily chief financial officer (CFO) of a large white-collar firm explains it this way:

The family members coming in the organization are coming in with a goal or purpose, and there is an objective....These are young kids, bright kids, and they are clearly the next generation of this family that are in the business world per se, so they have been placed in positions that have a direct path; they are being groomed. (NF523)

But others failed to recognize or accept the unique position the junior was placed in. This was demonstrated by nonfamily members from the blue-collar firm in which the junior family member stopped being punctual. They just wanted the family member to keep the same hours they did. Of course that probably would have been fine with the family member, if only that was the case. Needless to say, not all family members who enter the business are placed in this unique position, and not every family member who is given this opportunity has the desire to advance to the top. Furthermore, not every family member placed in this position is guaranteed a position at the top. However, in most cases, it seems that this unique position—a sort of entry level floater, or “CEO in training,” is reserved only for family members. It is also important to note that there was not a single case in this study in which a nepot replaced or was being groomed to replace a position held by or open to a nonfamily member. All of the nepots (seniors and juniors) were groomed or were being groomed to replace family members.

Reserved Positions

Later in the conversation, respondents were asked directly whether or not there were positions in the company that were reserved only for family members. Even though many had just spoken about the junior family member who was a sort of entry level “CEO in training,” not one mentioned this position. Part of this may be because titles seemed to be of little importance to most of the family businesses participating in this study. This sentiment was expressed frequently by respondents—“around here, titles don’t mean a whole lot” (S520) or “we don’t give out job titles—you can work for a bank and you have a job title, senior associate, assistant, vice president, but no, we don’t have those job titles here” (S532). In some instances it appeared as though executive titles like president simply implied ownership, while in other instances titles really did not exist at all. Although a few of the respondents indicated that leadership positions like CEO or president would remain in the hands of family, the great majority of respondents agreed that ownership was the only position reserved for family members. Here are some typical responses from family and nonfamily members:

Ownership; I think ownership needs to stay where it is. (F517)

Oh, yes, ownership would be the one it would be. Ownership is really the only thing. I’m not saying there couldn’t be a chance, but I don’t think we’d let anybody in to own a part of the business. (J528)

Just ownership....I think that is the only one. I think they would keep that in the family, but everything else is open. (NF 524)

There really did not appear to be any disillusion as far as ownership. This is evident by the responses of nonfamily members. One nonfamily manager of a large blue-collar company explained it this way:

My dad told me that when I was probably eighteen years old. He said, you know – don't ever think that you'll be an owner of [this company]. No matter what else happens; it's never going to happen....At another company, this position would be a vice president position but in a family business it will never be.

And you could see it. I mean, I have no illusions I'll become a vice-president. So, in a sense, you're tapped out title wise. But they've never really held you back as far as what you accomplish. And [the majority stock owner] has always been one for new ideas and growth, whether we're looking for plants down south or, you know. I'm involved with some development stuff we're doing with the plants and there's always something going on and there's more and more levels. You get more and more trust the more you do. You do something and they give you two more things to do so it's, which keeps you going. So, it's not a stagnant position at all but you're never going to become an owner of the company. So ownership is pretty much the only thing not open to me. (NF 520)

Interestingly, even though most had stated that ownership was the only position reserved for family members, quite a few of the family members in leadership positions also commented that they would not rule this option out in the future. Even more interesting is the fact that such comments were made by family members from companies in which the nonfamily members were most adamant about the fact that ownership would always remain in the family. Among the possible reasons cited by family members for opening up ownership outside the family were modifications in tax laws, growth or changes in the industry, and lack of interest by family members. Here's how one family member expressed this sentiment when asked if there were any positions reserved for family members:

Not really. I could actually see the next president being a nonfamily member. It [ownership] is a possibility in the future. It's hard to say, the new laws really dictate a lot of what we do and how we do things. And if they come up with a law or retirement plan that makes sense where we could sell 50 percent of the company to the employees and there is a tax benefit, you know we would probably do something like that. I would like to say no, we wouldn't, but you don't know. (J520)

Of course, one of the reasons why families want ownership to stay in the family is because in family firms, unlike nonfamily firms, the business *is* the family member's retirement. As one junior family member reminds us, "...this is my dad's retirement so he can't just shut it down and walk away. This has to go on to support him" (J517). Furthermore, in one of the firms in which the founder had stated that he did not plan on giving anybody any stock, it was later revealed that he had offered ownership to a nonfamily manager in the past, but the nonfamily manager turned it down. Instead the nonfamily manager requested a cash reward that he used for a down payment on a house. There were also other cases in which nonfamily managers were offered ownership, but opted against it. For example, in one of the smaller firms a nonfamily member that was brought in to manage the business stated:

...but if I had wanted a portion of [the ownership] when I drew up the succession plan, it appears that they would have been willing to part with some of the shares. I just never had an interest in that. (NF 531)

According to him, he just did not want the risk, liability, and headaches that go along with owning a business. And in a few instances, stock options were either awarded or there were plans to give ownership stock to nonfamily managers. In one company, family members owned 75 percent of the shares, and the rest were held by nonfamily members. And in another firm, one of the founders revealed that he planned to let one of their nonfamily managers earn ownership interest which would result in that individual becoming the third largest stockholder in the company. However, it seems that in all of these cases as well as those in which nonfamily opted out of ownership stock, family members would remain the majority owners.

For most of the nonfamily managers interviewed, ownership did not seem to be a contentious issue. In fact, only one nonfamily member expressed any dissatisfaction with the firm's decision not to offer ownership stock to nonfamily members. The nonfamily manager stated that it was not immediately apparent when he joined the company, but after one of the partners retired, and the other partner bought his shares and transferred them to his children it became evident. This action seemed to sour not only him, but other employees as well. He felt that the decision prevented some of the brightest candidates from joining the firm. This clearly reflects one of the concerns cited as a negative outcome of nepotism (Toy et al. 1988; Kets de Vries 1993; Wong and Kleiner 1994; Nelton 1998; Yeung 2000). Unlike most of the other firms, in this type of white-collar industry, ownership is often a part of the compensation package for executives. So it is likely that his dissatisfaction stemmed from a state of relative deprivation rather than simply an individualistic desire.

Besides ownership, a few firms also indicated that leadership positions were reserved only for family members. However, as stated previously, often a leadership position was really just a pseudonym for ownership. Nonetheless, there were some firms that indicated nonfamily members probably would not occupy leadership positions. However as with ownership, this was not entirely ruled out. This is indicated by senior family members in both of the cases given below:

Well, I mean, I don't think that the president, whatever, CEO of the company would ever be a non-family member. But you never know. In a business like this you got to be prepared for anything. You got to adapt yourself....I mentioned my grandfather's silly stupid but true statements; one of them is that "If it's good today, there is a hundred percent chance that it will be shit some day in the future." It's just a matter of when....So if you're going to hang onto the past, you're going to hang onto being out of business. (S516)

Or in this firm, where the junior family member now leads the company, the senior member stated:

We got no laws or rules saying that you got to be a [family member] in order to – and if anybody’s going to change it, it’d be [the junior family member]. [He’s] already started something now. It didn’t used to be that way. We had our board meeting, it was strictly just me, and [the other family members] sitting here with closed doors and we made a decision....We didn’t want no input from that side really. [The junior family member] is not that way. [He] has an executive committee and he’s put [nonfamily managers and family members] on his committee which meets once a month....He lets them know. I mean he just shows them all the books and everything and as if to say we’re in this together. It ain’t just me and [the other family members]. It’s us. If you don’t do your jobs, we’re not going to succeed and vice-versa. And it’s worked. (S520)

There was only one company where ownership was not mentioned when asked if there were any positions reserved for family members. In this white-collar company, both the founder and nonfamily member agreed that the only positions reserved for family members were “money positions.” By this they meant any position where the main responsibility was handling money. The founder explained that “we trust family in those positions” but also added that “if it goes wrong, it can go terribly wrong” (F518). Ironically, the nonfamily manager interviewed from this firm was in a “money position,” and when I pressed her on this, she stated, “...but they trust me so much I may as well be their family” (NF518). So it seems that even amongst nonfamily members, there are exceptions—situations in which certain nonfamily members may be treated the same as family and thus different than other nonfamily members. Such circumstances will be explored in more depth in a later chapter.

So far, in reviewing the data collected on hiring practices of family firms, it is evident that entry jobs in most of the cases were readily available regardless of the structural characteristics. Although positions were created for family members, with the

exception of the unique “CEO in training” position, they appear to be just as likely to be created for relatives of nonfamily members. Furthermore, the practice of creating positions does not extend to key leadership positions for either family or nonfamily members. Family members may eventually replace other family members in key positions, but new key leadership positions were not created. And although most of the respondents indicated that ownership was the only position reserved for family members, some indicated that they would not rule this option out in the future. Next, some of the logistics involved in hiring—applying for the job, filling out an application, and the interview process, are examined. It is here where the majority of differences emerge.

Logistics in Hiring

Amongst the firms participating in the study, almost all of the respondents stated that family members who were hired did not have to formally apply for the job, fill out an application, or interview for the job. According to this founder:

[Family members] pretty much just started working, coming in with my husband and helping out, and then the hours just expanded. There weren't any interviews or applications, they just came in. It was just expected from them to help out. (F534)

And one nonfamily manager, who stated in the same breath that there were no differences in the hiring practices, remarked that:

...I do most of the hiring. But family I don't interview; they are just put in positions. I am just told they are going to be working here. When they graduate from school, you kind of start to think they might be coming in, and sure enough they are. (NF532)

These sentiments were confirmed by conversations with senior and junior family members about their own experience when hired to work in the family business. Here are a few of their remarks:

I didn't have to come in for an interview or anything, I just kind of came in after our discussion. (S515)

Well, I didn't have to come in and fill out an application, and other people would [have]. (J499)

There wasn't anything formal. I just came to work and started to try and fit in. (J516)

For family members, the hiring process was very informal. They would just come in and start working. It was expected of them. In fact, for most family members, working in the family business had been a revolving door that started in childhood or adolescence and culminated with them joining the firm on a full-time basis after high school or college. This is reflected in the numerous stories told by senior and junior members about their experiences growing up. Several excerpts from these stories are expressed below:

Well, you know. I mean we always worked when we were kids. And so there was that whole era. My father expected me to be at work every weekend; every Saturday from the time of I was as young as I can remember. (S516)

I was involved when I was five years old, four years old....So instead of spending summers going to camp and doing other things that a lot of kids will do I worked. So I was from that generation which basically learned to work as your primary responsibility and that was what was expected. And then I came in full-time right after high school. (S532)

...[When] I was young, I used to ride around with [my father] a lot... doing odds and ends, maybe checking in trucks or sweeping the floor, whatever they want me to do on Saturdays, but full-time I came here right out of high school, which I always figured that's what I would do even as I was going through school. (S520)

No [no job interview]. In construction, it is basically, be at this job at this time. So at 7 a.m. in the morning I showed up. The foreman knew I was going to be there. Okay, come on this is what you are doing today. I was 14 at the time so it was a little different. Most of our family members started the same way – you show up to work. This is what you are doing. You don't have a choice. With everybody else, they come in. We sit down. We interview them and talk about what they want to do, which direction they want to go. And try to put them on a crew that would work best for them because we're looking at them more as a career opportunity. For us it was just a summer job. (J520)

However, as stated in this last sentiment, nonfamily members seem to have very different rules when it comes to the logistics of the hiring process. In most cases they were required to apply for the job, fill out an application, and then interview for the job. In fact, there were only two nonfamily managers who were hired without an interview. Although most of the nonfamily managers did have to come in for an interview, almost half of them stated that they were very informal meetings. And in most of these cases, the nonfamily member was hired right on the spot. Furthermore, only three stated that they responded to an ad and had no knowledge of the family, company or any of its employees prior to being hired. This means that the majority of nonfamily managers had some sort of relationship, either directly or indirectly, with the business or some member of the firm. This is not unusual; in fact, most jobs are found informally through friends or personal contacts (Granovetter 1995). So even with nonfamily members, it is apparent that social networks are at play during the hiring process. As a result, almost all of the nonfamily managers in this study were recruited by either the owner or a manager from the family firm. Here are some of the responses given by the nonfamily members when asked to describe the circumstances under which they were hired:

...A friend of my brother's worked for the company, and they were looking for somebody and I had just graduated from high school so she said something to me

about it. And the same day I started work – I came and talked to [the owner] and they hired me the same day. (NF524)

[The owner] recruited me. I didn't know him; I guess he just knew [me] from being in the business. So I came over and interviewed and, anyway, got the position. (NF521)

I kind of became friends with [a nonfamily employee] that came into [my workplace]....And I guess they needed some help. So, he had asked me if I was interested. The first time, I didn't take him up on it. But then some situations changed at the job there, so then I ended up asking if he still needed somebody, and he said yeah. So, he brought me out, and talked to [the owner]. It was just informal. It wasn't like a big interview process, but just came out, and talked with him and [the owner] for a few minutes, and they basically just hired me right then. (NF527)

Based on the evidence presented thus far, it is apparent that family members seeking employment in their family's business did not have to apply for a job, fill out an application or participate in an interview, whereas potential nonfamily employees did. However, this is deceiving for two major reasons. First, as learned earlier, most family members tended to start in entry level positions as part-time or temporary help. And often these positions did not follow any formal hiring procedures regardless of whether or not one was a family member or a relative of a nonfamily manager. Take this firm, for example, in which both family members and relatives of nonfamily employees were hired for part-time work during the summers:

...So like when my niece came to work over the summer, she got hired, she got paid and, you know, there was no interview process; that's my niece and she did a great job. But, then again, [nonfamily manager's] sons have both worked here at different times as well....And it was the same for his sons – no interview or anything. (J528)

As is evident, in these situations, there was little difference in the hiring procedures between family members and relatives of nonfamily employees who enter employment part-time and at the entry level. Instead, the main difference here between part-time

family and nonfamily employees is that family members often returned at a later time for full-time employment, whereas nonfamily did not. In other words, relatives of nonfamily employees who were hired to work part-time were less likely than family members hired part-time to continue in the family business in a full-time capacity since ultimately there probably would not be a place for them later down the line that was not an entry level position. The primary reason for this is because, as stated in Chapter 5, the majority of the firms in this study utilize a simple organizational structure. And these structures are typically flat with few if any levels of management.

The second reason why it is deceiving to state that family members are not required to apply for a job, fill out an application, and interview for the job is because of the manner in which the process is defined and interpreted. The hiring process may not be the same as it is for nonfamily members, but family members do participate in this process. In fact, they have been applying and interviewing for the position their entire life. This sentiment was expressed repeatedly by family and even some nonfamily members when they were asked whether or not family members had to fill out an application or go through the interview process. When respondents initially heard the phrase “interview process” most immediately thought of the conventional interview process, the one in which nonfamily members tend to participate in, and responded accordingly with an affirmative “no” when asked this question. However, they quickly followed up with an anecdote about the “family member version” of the interview process. Here are a few responses from family and nonfamily members when asked whether or not family members had to fill out an application or go through the interview process:

No. They had an interview, but it was a sixteen-year interview. [Laughter.] (F518)

When I came in I had to fill out an application like everyone else.

Interviewer: But you were hired basically over the phone – you didn't have to come in here and apply for a job?

Right, but you could argue that my discussions with [my uncle] over time qualified as an interview. That's the way I've – and knowing me personally their whole life. But no, I didn't have to come in for a formal interview. (J523)

Family members wouldn't have to come in for an interview or anything; they would just start working. And yes, you would have already had that interview process, and you would already know what their level of comprehension is, or their job history was, but...well, it's not rocket science what we ask people for around here. (NF516)

Or in the sentiments of this junior family member who discusses the hiring process for family members while expressing the complexity of this two-sided coin:

True, family members don't have to go through an interview process, but dad may wake up and change his mind one day. But no, at this point family just has to go and show up for work. Even people that are referred by family still have to go through an interview process. I guess part of the thing when you are interviewing someone you are just hearing their bullshit and trying to figure out who they are and how they will be. With a family member, you already know. It's almost like they have been interviewing for the job their whole life. But by the same token, whatever the situation is with a family member, I mean you might know something about a family member that if a nonfamily interviewee told you, you would be like, that rules you out. The family member would still at least get the job or at least the opportunity. (J516)

In other words, just because the interview did not occur in the conventional way does not mean that it did not occur. The point of an interview is to obtain information about the candidate, evaluate their credentials, assess their future goals and plans, and determine if they are a good fit for the company and its current employees. With family, the assumption is that one already knows these things. They know which family members would be a good fit and which positions their credentials qualify them for. As this senior family member states:

Family members are just – versus the fact they're family, you already know what they're good at and what they're not good at, what their weaknesses and strengths are already. The attitude is some are more capable than others, some are more educated than others and this is the way it's going to be. (S532)

Furthermore, since most of the family members have worked for the firm in some capacity since childhood or adolescence, you not only know them, but you know if you can trust them. As one founder states:

Well you don't have to ask for any references when they start. And they don't have to present the driver's license. They don't have to do all that stuff. It's your son. They're your cousin or your nephew and you know them, and you trust them. And, so they get to skip a few things probably. (F527)

They have already had a trial run in the business—you know how reliable they are, how they act around the other employees, and how they respond to pressures on the job. You know them in ways you could never know someone just by conducting an interview. And this practice is not just reserved for family members; it is also afforded to nonfamily members who are known entities. In two of the firms, the nonfamily manager had worked for the family business at an earlier time, left for reasons unrelated to the firm, and then was recruited by the owner years later. In both cases when the nonfamily member was asked to return to the firm, they simply came in and started working. They did not have to fill out an application, or go through the interview process. There was no need—you already knew them and trusted them. So, it is not simply because one is a family member that the hiring procedures are different, it has more to do with the fact that they are a known entity.

That said—if leadership felt that a family member was not a good fit or they did not measure up, they were not brought in full-time. Every family firm in this study provided instances in which family members who may have worked in the business when

they were younger were not brought in full-time because they did not think the individual was a good fit. This was further confirmed by nonfamily members as exemplified in this statement, “if they gave them a chance and they couldn’t do it, they would get rid of them” (NF524). And if a family member was brought in but was unable to meet expectations in a certain position, the leadership either found another position better suited to their abilities or they were terminated. And this was true for nonfamily members as well. The following two quotes exemplify this reality:

...No one is going to be put in a position where they’re set up to fail if someone isn’t right for a level of responsibility, family or nonfamily. People who have been with us awhile, we’re going to find a place to put them where they can do what they can do.

For the family members you give them as much responsibility as they can handle and they’re willing to accept....But if they can’t handle it find them a position where they’re able to do the things they’re good at....you find them a place where they can use their talents without impacting other things.

But I think we do that for nonfamily as well. Yeah, we have, and we do....I’ve actually sat in people’s offices a couple of times while they called and asked hey, do you have any use for this person? They’re not working out for us by they’re good in these ways. Maybe we can send them down to [this area] and they’ll find a way to be utilized there. (S520)

If they [nonfamily employees] can’t do their job, my father would try to work with them and find a position that is better suited for them, and if they don’t work anywhere then they would be fired or replaced. (J499)

This indicates that maximizing the goals of the business are just as important as maximizing the goals of the family. Thus, members of the family firms in this study do attempt to integrate and/or satisfy and optimize values in both the family-first and business-first value orientations. As one senior family member so succinctly expressed, “unless you can do the job, you don’t get a very responsible position. And if you elevate someone just because they’re family, its failure” (S523).

Employee Credentials

After discussing the logistics involved in the hiring process, respondents were asked to comment on the credentials of family members entering the firm. More specifically, both family and nonfamily were asked whether or not a family member had to have more or less credentials (education, special skills) than a nonfamily member applying for a job. Not surprisingly, knowing that most family members start in entry level positions, the initial reply echoed from many of the respondents was that the credentials needed were the same for family as for nonfamily when applying for a job. In fact, the majority of these respondents stated that no credentials at all were required at their firm. Here are a couple of responses that best exemplify this view:

The same. Most anyone could get a job here. (J516)

To work here, you don't really need to have any credentials or experience, so the same would apply for family and nonfamily. (S524)

Furthermore, in situations in which a family member was placed in a position that may require a special license or certificate, such as a Commercial Driver's License (CDL) or Funeral Director's License, respondents also agreed that the credentials needed by family were the same as nonfamily. However, in many of the firms, there seemed to be an expectation among founders/senior family members for the next generation to come in with more education than would be required for the job. This is reflected in the following response by a junior family member of one firm:

To work here you really don't really have to have any credentials or experience, but my parents made sure me and my sister had an education. That was the most important thing to them. (J524)

And this was especially true, if the family member had any intentions in staying in the family business, as expressed by junior and senior family members of different firms:

We'll pretty much hire anyone. Well, for us as long as obviously they're legal, number one; and, number two, their driving record is completely clean....But for us (me and my brother), part of our deal was that I get at least an associates degree, not to work here, but to take over anything. So for me, of course, I was going to do that. So I think that's important. (J527)

There's not a position here that you need a college degree; there's nothing here....But, on the other hand, I'm glad I have my college degree...because you still need somebody in the business who's a family member who can read the balance sheet who knows what's right and what's wrong as far as financial responsibility....How many times have I heard somebody say, "oh, my accountant never warned me and now we're out of business?" What do you mean your accountant didn't warn you? You should have had the intelligence to know what was going on. (S532)

This expectation can be explained by a branch of rational choice theory called human capital theory (Becker 1993) since investing in the education and training of family members helps maximize utility for the family firm. And this expectation was further reflected in those interviews in which respondents indicated that family members possessed greater credentials than nonfamily as well as in the data elicited from the pre-interview surveys given to junior family and key nonfamily members. Here is what a founder and senior family member from separate firms had to say about this topic during their interviews:

[My daughter] is 29 years old and has more credentials than a lot of the people here making the same money. Eventually, I may pay her more because of her education and background, but that depends on what she can accomplish here and how strong she is going to end up being. (F517)

...We only have two family members coming in and we don't hire those that aren't qualified. And both [junior members] were over-qualified. [My son-in-law] was way over-qualified....Well, he was well too qualified for what he was brought in to do and [my daughter] was well over qualified...she's made more of the job than it is, so that position she was well over qualified.

Interviewer: Had you hired someone from the outside to fill those positions would they have had to have the same qualifications as [the junior members]?

Well, they would probably have to have fewer qualifications. [My daughter has] got too many qualifications. (S515)

In the pre-interview survey, junior family members and key nonfamily members were asked to indicate their education level. Although these data do not reflect a comparison between all junior family members and nonfamily members at varying levels, they do demonstrate a difference in credentials between junior members and key nonfamily members. The results are provided in Table 6.2. On average, junior family

Table 6.2. Individual Characteristics: Education Level of Junior Family and Key Nonfamily Members

Education Level	Junior Family Members (N=19)	Key Nonfamily Members (N=18)
High School Graduate or Less	5.3%	22.2%
Some College	26.3%	29.6%
College Graduate or Post-graduate	68.4%	33.3%

members attained a higher level of education than key nonfamily members regardless of the type of industry. Again, this reflects an investment in human capital (Becker 1993) of the future generation. Furthermore, when comparing the education level of junior and key nonfamily members within each firm, the junior family member had more education than the key nonfamily member in two-thirds (66.7 percent) of the firms. However, this must be tempered with the fact that the mean age of key nonfamily members was 50 while it was only 36 for juniors. This means that on average key nonfamily members were 14 years older than junior family members. And since generally speaking,

education level is inversely correlated with age¹³ (U.S. Census Bureau 2008), it is not entirely unusual for junior members in this study to have attained a higher level of education than key nonfamily members. Age also plays a role in the amount of experience one has in the industry. As expected, the older key nonfamily members typically had more experience in the industry than the junior family member.

In many of the firms, determining whether or not family members had to have more or less credentials than nonfamily was not an easy task. To better understand the complexity involved in answering this question, interview data on this topic were analyzed and an example was extracted. Here is what one junior family member and key nonfamily member from the same firm had to say when asked about this issue:

Typically others would have to have more experience and background in construction and possibly a degree in project management/construction management. It is certainly helpful, but again learning on the job is not out of the question....We certainly look at that avenue of bringing someone on who doesn't have lots of experience because they are more affordable than others....That is not to say that I had no experience, I read plans, did things on site during the summer, and did estimating, so by no means did I have zero background. (J517)

Well, I don't know if how [the junior family member] came in was typical. He came in as sort of an assistant project manager and I would say with some construction credentials, but not a lot....But we would hire [someone] from different backgrounds for an assistant project manager or admin or those types of positions, you know, without five, ten years of construction background. So it wasn't unusual at all for someone to come in to his position with his credentials. But, I don't know, they might have expected more background from someone who wasn't a family member, maybe, but not necessarily. (NF517)

In this firm, both the junior and nonfamily member seemed to be a little unsure. This was not surprising given that this was one of six companies that did not have formal job

13. According to the U.S. Census (2008) the percentage of those age 25 to 44 who have a Bachelor's degree or higher (32.7%) is greater than those age 45 to 64 (30.3%) and those age 65 or more (20.4%).

descriptions. However, in the end, both concluded that it would not have been completely unusual to hire a nonfamily member with comparable credentials as the junior member for that position.

While determining whether or not family members had to have more or less credentials than nonfamily was not clear cut for most of the firms, there were a few firms in which respondents (primarily nonfamily members) definitely felt that family members came in with fewer credentials than nonfamily. In each of these firms, the responses of the nonfamily members contradicted statements made by family members. In the first example, when asked if family members had to have more or less credentials (education, special skills) than a nonfamily member applying for a job, the key nonfamily member of a blue-collar business simply stated that, "Family wouldn't have to have any qualification. Others would" (NF516). Whereas family members from this firm stated that the qualifications would be the same. In this particular business, the junior family member who was interviewed had a bachelor's degree, substantial experience inside the family business as well as outside the family business in a related industry where he worked his way up from sales to regional manager. The nonfamily member completed some college, had entered the firm at an entry level with little if any experience in the business and after ten years was promoted to the office manager. Although there were other family members in the business, all were still in entry level positions and like other nonfamily members and positions at that level, none seemed to have or require any special skills or experience in the industry prior to their employment at this company.

In another blue-collar firm, the nonfamily member had this to say when asked if the credentials needed for family were the same as for nonfamily:

No. Take [one of the junior family members], for example. Do you think if [senior family member] had brought in someone else from the outside with that same intention who wasn't family, they would have advanced as quickly? Yeah, probably. But, if he brought somebody else in, he would have brought somebody in who already knew the business. He would have gotten somebody who already had [industry] experience, I don't think he would have just said, "Hey, you're a smart kid," you know, I think you will advance to president.

They [family members] don't have to have the experience in the industry that someone else would have had to have if they were brought in to lead the company. (NF515)

In this example, the nonfamily member brings up some interesting points and as a result, the complexities of this question start to emerge. Are nonfamily members looking at the position the junior member came in at or are they looking at the current position of the junior member? How is the word "credential" being interpreted? Does evidence of one's achievements include only education and special skills or does it also include experience and trustworthiness? Do the junior family members in this firm have experience in the industry? Do they need experience in the industry?

In this firm, the senior family member claimed that both junior members in the firm were grossly overqualified for the positions they were first hired for; they both had bachelor's degrees and had worked outside the firm in managerial positions. Although neither worked in the industry full-time prior to working here, both entered the family business at entry level positions (more along the lines of the "CEO in training" capacity discussed previously), and received "on-the-job" training for several years before being promoted to executive positions. Based on the nonfamily member's response, it seems that they were looking primarily at the current position of junior family members, and defined credentials in terms of experience in the industry. Yet, in their assessment, they appeared to ignore the junior members' tenure at the company and their previous

management experience in other industries. This was not unusual; in fact, many of the nonfamily members seemed to discount any experience that junior members had either outside or within the family business, especially when their experience inside the company was intermittent and part-time.

In this next example, similar questions are raised by a nonfamily member of a white-collar business, but a second layer of complexity is added. Here, when asked if the same qualifications are needed by family members as nonfamily members, the key nonfamily member questions the skill set of the junior member. This is what he said:

Less! Look at [junior family member]. He's not a [specific industry title]. He didn't even graduate with a [specific industry] degree. (NF522)

This particular situation indicates a level of conflict and competition that was not noticeable in firms identified as blue-collar industries. It was clear through the discussions with the members of this firm and other white-collar firms that there was a culture of competition not present in blue-collar firms. However, it should be noted that most of the positions that the junior member occupied in this firm were managerial. Although he was hired at the entry level to do industry specific work, most of his years at the company were spent heading the human resource department, and later as a chief operating officer (COO) and then CEO. Ironically, the junior member he is referring to also had issues with hiring family members who did not have the appropriate skill set. However, this junior member was not referring to himself, he was referring to a sibling who currently served on the board of directors and was considering coming on full-time at the request of their father. It never even crossed his mind that others may think that he lacked the appropriate credentials. This brings us to one of the key points of this

discussion and a point of contention in many firms—to lead a company, that is to work in an administrative and management capacity—is it necessary to have credentials (education, skill set, and experience) in the industry in which the family business is engaged in? In other words, does the CEO of a dry cleaning business or engineering firm have to have been a dry cleaner or engineer to run the business?

To answer this question, the description and credentials identified by the Occupational Information Network (O*Net) for a chief executive are examined. According to O*Net OnLine (2010), it is the responsibility of the chief executive (and related job titles such as president, vice-president, and general manager) to:

Determine and formulate policies and provide the overall direction of companies or private and public sector organizations within the guidelines set up by a board of directors or similar governing body. Plan, direct, or coordinate operational activities at the highest level of management with the help of subordinate executives and staff members.

Furthermore, this position requires a general knowledge of administration and management, economic and accounting principles, law and legal codes, sales and marketing, as well as knowledge of personnel and human resource policies and practices (O*Net OnLine 2010). In addition, chief executives typically require a bachelor's degree or greater and extensive work-related experience (O*Net OnLine 2010). Unlike the job descriptions of employees that this position provides leadership for, this job does not include tasks or work activities specific to the industry. In other words, nowhere in the summary of a chief executive does it refer to, for example, the ability to “mix and add detergents,” and “operate extractors and driers” (O*Net Online 2010a) or to “read blueprints, test soils and materials to determine the adequacy and strength of foundations” (O*Net OnLine 2010b). Yet, these are precisely the criteria upon which

nonfamily were judging family members. Instead of assessing junior members on the tasks and work activities of the leadership position they occupied, these nonfamily members were evaluating family members on the skills and experience specific to their industry.

If the work activities of the junior member involve such tasks as getting information and analyzing operations to evaluate performance of one's company and staff, communicating and maintaining interpersonal relationships with employees and persons outside the organization, and making decisions and solving problems (O*Net OnLine 2010), then should not one's assessment be based on credentials fitting of those responsibilities? Furthermore, if one's judgment is going to be based on skills and experience specific to the industry, why does one's tenure in the family business not get factored in? It was not as if any junior family member of any of the firms in this study never performed industry specific tasks in the family business.

So, based on the data collected on credentials, it is apparent that the process of assessing one's credentials and the relationship these credentials have on one's responsibilities is an ambiguous and complicated task. Although on average, junior family members had achieved a greater level of education than key nonfamily members, and nonfamily members had more experience than junior family members, age factors into both of these findings so neither is particularly useful. And when initially asked whether or not a family member had to have more or less credentials (education, special skills) than a nonfamily member applying for a job, most family and nonfamily members responded that the credentials were the same. In fact, a majority of the respondents stated that no credentials at all were required at their firm. As stated previously, this was not

surprising given that most of the family members start at entry level positions.

Furthermore, as mentioned previously, two-thirds of the firms participating in the case studies are considered blue-collar industries, so employment in most of the firms in this study does not typically require extended training or education. However, if special skills were required in the company, such as a license or certificate, it was apparent that both family and nonfamily would have to meet this requirement. So in these cases, it was clear that the credentials of family and nonfamily were the same. That said, on a surface level it is easy to see why there might be some ambiguity in other situations. In many of the firms job responsibilities were not clearly defined or standardized, and as a result the credentials required for a position were not easily recognized. Furthermore, since most of the firms utilize a simple organizational structure, work is less repetitive, especially in the management core. Consequently, the responsibilities of the junior family members and key nonfamily members vary to a great degree, and members tend to “wear lots of hats.”

When examining cases in which respondents later claimed that the credentials were not the same, it became evident that additional questions needed to be raised to properly assess the situation. To determine whether or not a family member had to have more or less credentials (education, special skills) than a nonfamily member applying for a job, it would be necessary to understand the following: How is the word “credential” being interpreted? Does one’s perception of a person’s achievements include only education and special skills or do they also factor in experience and trustworthiness? Was the respondent’s judgment of a person’s credentials based on the responsibilities of that person’s current position or was it based on positions in the company that required

industry specific skills? Does one have to have experience in the industry to work in management or run the business? While most of these questions were not specifically answered in this study, any assessment of one's credentials should be based on those fitting the actual job responsibilities of that position and not on what other members of the firm (especially those that fulfill entry level or industry related roles) are expected to do. Furthermore, positions outside the industry that relate to the responsibilities of one's current position should not be disregarded, and when assessing one's experience, tenure in the family business should not be ignored as experience in the industry.

Important Qualities for Leadership

Now that member credentials and their relationship to the member's position have been examined, it would be useful to find out what family and nonfamily members think are the most important qualities for leadership. Two questions were asked to elicit information on this topic. The first question asked both family and nonfamily members what they thought were the three most important qualities for "family members" to be effective leaders in the business. The second question asked both family and nonfamily members what they thought were the three most important qualities for "nonfamily members" to be effective leaders in the business. Among all respondents and regardless of the ranking of the leadership quality, "people skills" was cited most frequently for both family and nonfamily to be effective leaders, followed closely by "general management skills." This sentiment from a founding family member captures the essence of many of the replies, especially from those that are considered blue-collar industries:

[My son] definitely needs people skills. Uh, now I mean it's like, if I was out the door tomorrow it'd be a little different than me still here. So I mean, if I'm

getting out, he'd have to have management skills; and if I'm still here, loyalty is very important to me. So, people skills, general management skills, and loyalty. And the education doesn't really matter. I mean you don't have to be a brain surgeon to be in this business. Knowledge of other industries doesn't matter. Knowledge of the competition—you just pick that stuff up. It's like you don't have to be in this business that long to sort of start realizing that a strong relationship with family leaders...that doesn't really matter. If I'm here, he and I are close. So that's no problem. If I'm not here it's a different set. Education? Financial skills? I mean we have an accountant; we have a lawyer; we have somebody who does payroll, so I mean that's it. You can hire people to do those things. Technical skills—he doesn't need any really; I mean he's going around [currently doing the work most of our employees do], but we have people to do that. (F527)

For family members, the most common leadership quality mentioned was “general management skills” followed by “people skills” and then “general knowledge of the industry.” For nonfamily members, the leadership quality most frequently cited was “people skills” followed by “general management skills” and then “loyalty and trustworthiness.” However, for both family and nonfamily members, “general management skills” was named most frequently as the leadership quality that was most important. And “people skills” was listed most frequently for both the second and third most important quality for family and nonfamily leaders to possess. So generally speaking, it is fair to say that “general management skills” and “people skills” are viewed as the qualities most important to be an effective leader in the company regardless whether that leader is a family or nonfamily member. In fact, many of the respondents stated that they thought that the qualities needed to be an effective leader would be the same whether one was a family member or not. Here are a couple of typical responses expressed by a family and nonfamily member:

I don't know that it would be any different. Loyalty, people skills, and general management skills would have to be the most important. (J523)

I would say the same – management, people skills, and well the last one would be different. [For family members] you have to have a relationship with the rank of file whether it is family or nonfamily....[For nonfamily members] I am going to say it's either sensitivity or relation [to family members] or loyalty. I mean you have got to know the family you're working for. (NF520)

While many of the respondents were able to reflect on this question in terms of the position and general leadership in the company, it should be noted that in several cases, the respondent was clearly focusing on a specific individual and their position at the time.

However, the commonality between family and nonfamily leadership only extends to two of the qualities. For family members to be effective leaders, “knowledge of the industry” is the third most common quality cited, whereas for nonfamily members it is “loyalty.” Here are a few statements that demonstrate the importance of each of these qualities:

[For family members] it is just general management skills and then people skills. Knowledge of the industry – maybe some knowledge of the industry to be a leader would be important. (NF533)

[For a nonfamily member, I would say] loyalty plus people skills and general management skills. (S524)

It should also be noted that there were a number of family members who stated that “loyalty” was a given for family members, and as a result they did not feel the need to identify this quality as a requirement for family members. So, in conclusion, to be an effective leader, respondents thought that family members should possess general management skills, people skills, and knowledge of the industry, and nonfamily members should possess people skills, general management skills, and loyalty.

Now that there is an understanding of what respondents perceive as the most important qualities for leadership, the relationship between this and some of the data

reported previously on credentials is explored. According to key nonfamily members who claimed that family members possessed fewer credentials than nonfamily members, having an educational background and the technical skills fitting for the industry, as well as having enough experience (applying these technical skills) were cited as qualities that family members lacked. And this was the perception even though the family members in question were not typically in industry specific positions. Stated another way, education and technical skills fitting for the industry and experience in applying these technical skills were considered by nonfamily members to be important credentials for these members.

Yet when asked about leadership qualities—educational background, technical skills, and experience in (not knowledge of) the industry were not among those qualities cited most frequently by respondents, including nonfamily members. In other words, even though the family members that the nonfamily members were referring to when they were making a judgment on their credentials were in leadership positions, they were not really considering the qualities required for a leadership position; instead they were thinking of the qualities that would be needed for positions in the firm that required a specific set of technical skills and education for working in the industry. Of course this leads back to the question, does one have to have credentials (education, skill set, and experience) in the industry in which the family business is engaged to work in management or run the business? It appears that the respondents in this study, including nonfamily members, would say, no; that to be effective in a leadership position one would not necessarily have to have technical skills fitting to the industry and experience applying those skills in the industry to manage or lead a company. In fact, it has been

suggested that family members are better successors when idiosyncratic knowledge and stakeholder relationships are important (as they often are in blue-collar firms); and in firms where educational and technical skills are important (as they often are in white-collar firms), it is appropriate to consider both family and nonfamily successors (Royer, Simons, Boyd, and Rafferty 2008).

Conclusion

Based on the data presented in this chapter, several conclusions can be drawn about the policies and practices related to nepotism and member perceptions about these practices. It is clear that differences between family and nonfamily members exist. Differences were revealed primarily in the logistics involved in hiring members, although differences were also noted when assessing whether or not certain positions were reserved for family members. And when differences were noted, it was determined that the degree, direction, and complexity of these differences varied.

When assessing entry requirements and qualifications, such as whether or not a position existed or was created for family members, it was determined that the practices were for the most part the same. This is largely due to the fact that entry level positions were readily available in almost all of the firms. Given that most family members start in entry level positions, and the fact that two-thirds of the firms participating in the case studies are considered blue-collar industries, this finding was not surprising. Although some entry level positions were created for family members, with the exception of the unique “CEO in training” position, they were just as likely to be created for relatives of nonfamily members. And even though these practices were primarily the same, it should

be noted that the expectations of family and nonfamily members differed. Key leadership positions, however, were not created for either family or nonfamily members. These positions were usually filled by existing employees, family and nonfamily, who served a sufficient tenure with the company.

Assessing the difference between family and nonfamily member credentials and their relationship to member responsibilities proved to be an ambiguous and complicated task. In some cases, such as entry level positions and positions in which a license or certificate was required, it was apparent that family and nonfamily members were treated the same and required the same credentials. However, when assessing family members in managerial or leadership positions, this comparison became more difficult.

True, most of the respondents initially insisted that the policies and practices were the same for family and nonfamily members. However, ultimately it was concluded that the hiring practices for family and nonfamily were unequal regardless of the direction of that inequality.

On a number of occasions, the data also revealed some negative and positive consequences of nepotism. By highlighting these patterns, the foundation for understanding the conditions in which nepotism is beneficial or problematic for the family business starts to become apparent. One of the main concerns cited by those opposed to nepotism is that it makes attracting and sustaining professional managers problematic (Toy et al. 1988; Kets de Vries 1993; Wong and Kleiner 1994; Nelton 1998; Yeung 2000). Evidence supporting this statement was only found in one firm. In this particular white-collar firm, competition is fierce and unlike most of the other firms in this study, ownership in this industry is often a part of the compensation package for

executives. This did not seem to be the case for any of the blue-collar firms since leadership is rarely hired from outside the firm. Based on this information, it appears that industry type may be an especially salient factor for firms concerned with attracting and sustaining professional managers.

Two other negative consequences cited by those opposed to nepotism are the hiring and continued employment of unqualified family members in supervisory positions (Kets de Vries 1993; Yeung 2000) and unequal sanctions (Kets de Vries 1993). These consequences were not found. On the contrary, it was determined that if family members were not qualified they were not brought in and they were certainly not hired for a key leadership or managerial position. Furthermore, if a family member was brought in but was unable to meet expectations in a certain position, the leadership either found another position better suited to their abilities or they were terminated. And this was true for nonfamily members as well. Once again, this indicates that maximizing the goals of the business are just as important as maximizing the goals of the family for most of these firms.

Data revealing one of the positive consequences of nepotism were also noted in this chapter. In many cases, family members were brought in to help “in a pinch” as part-time, temporary, and/or intermittent employees. And this emerged as necessary or important either when a family member was in need of a job and/or an existing employee was temporarily overburdened. According to Molofsky (1998), this is one of the advantages of nepotism.

CHAPTER 7

EQUALITY AND OPENNESS OF POLICIES AND PRACTICES

This chapter provides an assessment of the equality and openness of policies and practices related to nepotism. Data elicited from firms that participated in the case studies are utilized to determine whether the policies and practices are equal or unequal and open or closed. This information is central to understanding the conditions in which nepotism is beneficial or problematic for the family business.

The chapter is divided into two sections—the first section presents findings regarding the equality of the firms' policies and practices. It includes data on promotion and compensation and concludes with an assessment of these findings. The second section provides data pertaining to the openness of the firms' policies and practices. Included in this section are findings regarding the presence of formal policies, the openness of leadership in sharing information, familial norms for sharing information, and communication practices surrounding the nepot's entrance into the firm. It concludes with an assessment of the openness of firms' policies and practices and the relationship between these findings and the data on equality.

Equality of Policies and Practices

As identified previously in Chapters 3 and 4, equal practices are defined as practices that are uniform in application or effect. This means that regardless of one's status, the policies for members are identical and the treatment is the same. Unequal

practices are defined as practices that are uneven in application or effect, meaning that the policies for members differ, and treatment is not the same.

After extensive discussions with members regarding the entry requirements and qualifications highlighted in Chapter 6, it was evident that differences between family and nonfamily members exist. Following these discussions, family and nonfamily members were also asked to consider differences in employee evaluations, promotion and advancement, and compensation and benefits. As one may suspect, the area that generated some of the most interesting perspectives involved differences in promotion and compensation. As a result, these topics are explored in more detail below.

This dialogue also revealed a number of advantages and perks for family members. Those mentioned included quicker promotions, higher salaries, paid health insurance, advanced sick leave, greater flexibility in their schedules, and perks such as a company car, use of a corporate credit card, the ability to borrow company equipment, free services or products (offered or sold by the company), paid club fees, tuition reimbursement, and gifts from clients such as tickets to entertainment events. Some of these advantages and perks were actually afforded to family members, and others were just assumed. Nonetheless, they shape perceptions about family members and impact the interpersonal relationships of members, and this in turn influences the success of members and the firm. Chapter 8 elaborates on this subject matter.

Promotion

Although respondents often grouped promotion and compensation together, some observations were specifically related to promotion. For instance, it was clear that a

nepot's tenure at the firm was the greatest denominator for assessing differences. And this was more salient in blue-collar firms than in white-collar firms. It was also apparent that nepots were being judged based primarily on the time period that they worked full-time; any prior work (temporary or part-time) seemed to be discounted. Furthermore, it seems that both founding/senior family members and nonfamily members often underestimated the age and tenure of junior family members, as well as how long it took for them to be promoted into positions of leadership. Take this example in which a senior member was discussing the tenure and promotion of his son:

...My son's been here, you know, going on – when did he graduate? Ten years ago? How long has he been out of school?

Interviewer: It has been over fifteen years.

Oh, time goes too fast. [Laughter.] Has it been that long? I guess so. He has a 10 year old son himself. (S520)

As a result, nepots were viewed as lacking experience in the business, and this had a negative impact on how promotion and compensation were perceived in regard to equality.

On average, the full-time tenure for junior family members before being promoted to a leadership position was about ten years. Interestingly, in positions outside the family business, it took these same junior family members only about three years of employment before being promoted to a leadership position. And although tenure was mentioned frequently when discussing the equality of policies and practices, it was not among one of the characteristics found (and reported previously in Chapter 6) to be most important for effective leadership. In addition, it is important to point out that many junior family members were conscious of the importance of tenure in gaining respect and ultimately being promoted; and in cases in which a senior family member wanted them to move up

more quickly, they discouraged it. The following excerpt from a senior family member expresses this view:

My son had to stop me at times when he first came in the business because I would be like, you should be in the office doing this or that. And he would say, “Mom, please. I want to start at the bottom,” and he was the one that really fought me on that. (S524)

The need to work from the bottom up was a sentiment heard frequently by both family and nonfamily members, and it would be a worthwhile subject to explore in greater detail in future studies.

When asked whether or not family members were treated differently when it came to promotion, about half of the nonfamily members felt that family members were promoted more quickly than nonfamily members. That said, many also stated that they understood the rationale behind this. Here are a couple of the conversations with nonfamily members who expressed this view:

Uh, yeah, they do. Take [one of the junior members], for example, I mean they brought him in and they ran him very quickly through the ranks. Well, he started at the bottom, but this was the plan all along. The plan was that he would be president of the company, and when he started he went from store manager, to general manager right to the president in a short order.

Interviewer: Were there others in the business that were qualified to be in that position?

No, probably not. Well, you know a lot of people want to, but it takes a person with some intelligence, some business savvy to understand the business, and to be able to be in his position. And really there wasn't anybody, if you will, next in line. And I think it kind of made [the senior member] a little nervous...

Interviewer: Do you think if [the senior member] had brought in someone else from the outside with that same intention who wasn't family, they would have advanced as quickly?

Yeah, probably. But, if he brought somebody else in, he would have brought somebody in who already knew the business. He would have gotten somebody who already had [industry] experience, I don't think he would have just said, “Hey, you're a smart kid,” you know, I think you will advance to president. (NF515)

Um hmm. They are typically promoted quicker. And I think some of that's because ownership; I won't say bias, but you trust your kids. More than anybody else, you trust your kids. Blood's thicker than water. So if you've got a business, you've got somebody who's gonna have your back, you want family in there. And I can understand that. I do the same things with my kids and our family. But employees don't see that. (NF520)

As one would expect, the responses were a little different when family members were asked questions regarding promotion. Although there were some family members (less than a third) that agreed that family members were promoted quicker than nonfamily members, most answered the question by replying that there was little room for promotion. As a result, many of the family members equated increases in compensation with a promotion. This is evident in the following excerpt from a senior family member:

The way we promote people is by giving them more money. We don't give out job titles...you get promoted by getting more compensation; basically through a year end bonus system. (S532)

Therefore, to better understand any differences noted by family members regarding promotion, it is necessary to also examine data collected on compensation.

Compensation

The issue of compensation was addressed in a number of ways during the study—respondents were asked about compensation on the survey as well as at several points during the interviews. Although a certain level of subjectivity is needed to compare compensation rates within and outside the firm, it is important to keep in mind that most of the nonfamily members were not privy to salaries of other members and most of the family members were. Therefore, responses given by nonfamily members regarding compensation are based largely on speculation, whereas responses given by family

members are based largely on factual information. Furthermore, it is easier to assess and compare positions held by nonfamily members with those outside the firm than it is to assess and compare positions held by family members since it has been found that positions held by family members often entail additional responsibilities beyond their stated/assumed position.

Prior to the interviews, respondents were presented with two statements and asked to rate the extent to which they agreed with each statement. The statements were as follows: 1) The company compensates family members at the market rate for their position; and 2) The company compensates nonfamily members at the market rate for their positions. Response categories were structured using a five-point Likert scale where 1 = “strongly disagree” and 5 = “strongly agree,” with a neutral point in the middle (3). Table 7.1 displays mean rankings for each statement by type of respondent (founding/senior family member, junior family member, and nonfamily member).

Table 7.1. Compensation of Family and Nonfamily Members

Statement	N	Mean
Case Study Respondent		
The company compensates family members at the market rate for their positions.		
Founding/Senior Family Members	16	3.63
Junior Family Member	18	3.72
Nonfamily Member	15	3.33
All Respondents	49	3.57
The company compensates nonfamily members at the market rate for their positions.		
Founding/Senior Family Members	16	4.19
Junior Family Member	18	4.39
Nonfamily Member	15	3.80
All Respondents	49	4.14

Note: 1 = “strongly disagree,” 5 = “strongly agree,” and 3 is considered a neutral point.

By and large, more members agreed with the statement that the company compensates “nonfamily” members (overall mean rank of 4.14) at the market rate for their positions than agreed with the statement that the company compensates “family” members (overall mean rank of 3.57) at the market rate for their positions. Responses by family and nonfamily members were somewhat neutral when it came to assessing compensation of family members; they neither agreed nor disagreed with the statement. Although there was little variance between members, nonfamily were least likely to agree with the statement (mean rank of 3.33), followed by founding/senior family members (mean rank of 3.63) and then junior family members (mean rank of 3.72). Responses regarding the compensation of nonfamily members showed greater agreement and more variance between members. Again, nonfamily were least likely to agree with the statement (mean rank of 3.80), followed by founding/senior family members (mean rank of 4.19) and then junior family members (mean rank of 4.39). However, because it is not possible to ascertain the direction of one’s views from these responses, it is difficult to speculate what all of this means. If respondents agreed with the statements, it is clear that they believed that members were compensated at the market rate. But if they disagreed with the statements, it is difficult to determine whether they disagreed because they thought members were compensated at a rate greater or lesser than the market. Fortunately, responses from the interviews shed light on this.

When asked during the interviews whether or not family members were treated differently when it came to compensation, about half of the nonfamily members responded that they believed that family members were compensated at a greater rate than nonfamily members. The other half either believed that family members were

compensated the same as nonfamily or that they were compensated differently, but less than nonfamily. The following response from a nonfamily member represents the view that family members were compensated at a greater rate:

I don't have an issue with compensation. Yes, family members are paid more than someone would be if they weren't family. Not a lot more, but definitely more. They start off higher, and their bonuses are higher, and they get cars and all that kind of stuff. So, yeah. They all have cars, and some of us do too. But, again it took me 20 years to get a car here [note: nonfamily member's position never required the use of a vehicle]. They got them when they started. Well [one junior member] has a car and [another junior member] doesn't, but [the one that has a car] is in sales and is out on the road all day and [the other works in the office]. (NF532)

Most family members found compensation practices to be equal or in favor of nonfamily members. For those who stated that the practices were equal, examples were shared to demonstrate how they had treated family and nonfamily members the same. The below excerpt from a founding family member (and confirmed by both the junior family and nonfamily member) provides one such example:

Yeah, the same. I think I pushed [my son's] salary up a lot faster than everyone else, but part of that is father and part is meritorious cause of what he has been able to do that no one else has been able to do. So he moved up a lot faster and gained the respect of a lot of tough guys to work for, that were floored by his ability to do the things he was doing at such a young age....[My son] is a sweeper, he is doing a lot of things that haven't been done by the others – he has cleaned up a lot of dirty laundry from other jobs cause others didn't do their job.

But I think I would have done the same thing, and I have done the same thing with other parallel type people. [One of our nonfamily employees] is three years out of college and her salary is almost at par with people who have been here 10 or 12 years, but she has run circles around what the others here are able to do. (F517)

There were also a number of cases in which family members (founding/senior and junior) stated that compensation practices were different, but that nonfamily members were compensated at a greater rate than family members. Several junior family members

that had worked outside the family business also commented that when they returned to the family business to work full-time, they took a pay cut. The following statements made by junior and senior family members from various firms express these sentiments:

I took a little bit of a cut when I came here – overall if you just look at salary, bonus and benefits I took a little bit of a pay cut. If I worked here and was going out to the market and get a job after my MBA, the gap would be bigger but to me it was worth it to come and work here and to take the pay cut. (J523)

Well, as I said, I actually got paid less than the secretary even though I was [in a position] that required special training and talent. But after the management consultant came in that changed. (J531)

...family starts from the bottom and we make sure we don't overpay you, I think we even lean harder towards not overpaying to – I don't know how to put it. Just to make sure we don't do that....I think sometimes we'll do just the opposite. Instead of paying [family] five [as we would nonfamily], we pay [family] three just to prove a point.

...But the thing is, it doesn't matter what you do or what you make, they [nonfamily] think you're making twice as much anyway. (S520)

Interestingly, as expressed by the senior family member in the quote just given, it does not seem to matter what family members actually make; nonfamily members always think family gets paid more. Here is another quote by a family member as well as a few sentiments representative of nonfamily members that also support this view:

We just started doing profit sharing and everyone gets exactly the same amount. And it is funny because we have heard employees talk saying "they probably get more than we do." And we don't, and that's just the way my mom is. She has always been a fair person, and that just goes back to the idea that we want to treat others like we would want to be treated. (J534)

I mean, I don't know what they make, but I would guess they make more. Yes, but I don't know. I would assume that they do. (NF527)

As far as [the junior family members] getting anything extra, well, I don't know. Well, do I see any? No. Would I think they'd be given some? Yeah, why wouldn't they. Absolutely, I think that's fair. (NF528)

It would be interesting to explore whether or not nonfamily would change their view if the firm openly shared information on salaries with members. While this would be unusual in a privately-owned business (and even in most publicly-owned firms), it would help provide evidence for the premise that firms that openly communicate policies and practices are more successful than those that do not. While this question cannot be specifically addressed in this study, the openness of firms' policies and practices are elaborated upon later in this chapter.

When reviewing data on compensation, it is important to again point out that when nonfamily members were comparing family to nonfamily, they were often making judgments based on the belief that since their designated/assumed position was the same, the responsibilities of family members were the same. In almost all of the cases, this was not true; family members typically had additional responsibilities. As discussed previously in Chapter 6, family members typically worked longer hours and were not only expected to do the job they were hired to do, but to also complete other tasks assigned to them by leadership. For example, after completing the duties as a driver (the family member's designated/assumed position) he would have to spend several additional hours counting the money that the drivers brought in that day. This is relevant because such explanations are at the heart of determining not only whether policies and practices are equal, but also whether or not they are perceived as fair.

Assessment of Equality

After a thorough examination of the entry requirements and qualifications in Chapter 6 as well as the practices regarding promotion and compensation in this chapter,

it can be stated with confidence that all of the firms in this study have some nepotism practices that are different. This knowledge is important in beginning to assess the impact these policies and practices have on interpersonal relationships and member success, and in identifying the conditions under which nepotism practices are beneficial or problematic to the firm.

Four categories were identified in Chapter 3 to describe the character of nepotism practices—open, closed, equal, and unequal. Two of these categories (equal and unequal) are relevant at this point in the discussion. A typology of these practices (Figure 3.2) was also presented to express the intersection of these four categories. Because it is evident that the practices of every firm in this research are considered unequal, there are only two types identified in Figure 3.2 that are fitting. The first type is labeled as “beneficial” to the firm. These practices are unequal and open, and as a result may or may not be perceived as fair. The second type is identified as “most problematic” to the firm. These practices are unequal and closed, and consequently are the least likely to be perceived as fair. However, to assess whether the firms in this study utilize practices that are “beneficial” or “most problematic” to the firm, it is also necessary to determine whether the practices of these firms were open or closed.

Openness of Policies and Practices

As identified previously in Chapters 3 and 4, open practices are defined as disclosed or openly communicated nepotism policies and practices. Closed practices are defined as undisclosed or not openly communicated nepotism policies and practices. To determine whether a firm’s policies and practices are perceived as open or closed, survey

data regarding the level of formalization were examined along with content analyses of employee manuals as well as other survey and interview data. Data pertaining to the presence of formal policies, the openness of leadership in sharing information, familial norms for sharing information, and communication practices surrounding the nepot's entrance into the firm are included in this assessment.

Formal Policies

As discussed previously in Chapter 6 (Table 6.1), at least half of the firms appear to have a business structure with formalized personnel policies in place. These policies are in the form of written employee manuals (77.8 percent), formal job descriptions (66.7 percent), and set compensation plans (52.9 percent). This information is also consistent with other data reported previously regarding the business developmental stage of the firm (Table 5.6); half reported having reached a level of maturity with well-established organizational routines while the other half were in the process of expansion and formalization and developing such routines. That said, even though many firms had some formalized policies in place, with the exception of the employee manual, most of these policies were not readily available. And through content analyses of employee manuals along with data gathered from the interviews, it was clear that no one had any formal rules specifically addressing the family member's role in the business. Although there was one company that had a formal policy stating that family members could not supervise other family members, this was directed at and confined to family members of nonfamily employees.

So even though the presence of formal policies does indicate some degree of transparency, these openly communicated policies did not include any nepotism policies. The lack of openly communicated formal nepotism policies was also confirmed by additional responses from the survey and follow-up questions asked during the interviews. These questions focused on the existence of formal and/or informal requirements and/or qualifications for family members that want to work in the business full-time as well as rules regarding supervision, evaluations, promotion and advancement, and compensation and benefits for those currently working in the business.

Openness of Leadership in Sharing Information

In addition, family and nonfamily members were presented with four statements prior to the interviews to gauge the openness of the family and leadership within the business. Respondents were asked to rate the extent to which they agreed with each of the statements given. The statements included: 1) The family feels it is important to openly share feelings and concerns with one another; 2) Leadership shares information with other family members in the business; 3) Leadership shares information with nonfamily members in the business; and 4) Leadership is more likely to share information with other family members (regardless of their position) than with nonfamily managers. Response categories were structured using a five-point Likert scale where 1 = “strongly disagree” and 5 = “strongly agree,” with a neutral point in the middle (3). Table 7.2 displays mean rankings for each statement by type of respondent (founding/senior family member, junior family member, and nonfamily member).

Table 7.2. Values Focusing on Openness

Statement	N	Mean
Case Study Respondent		
The family feels it is important to openly share feelings and concerns with one another.		
Founding/Senior Family Members	15	4.13
Junior Family Member	19	4.16
Nonfamily Member	16	3.81
All Respondents	50	4.04
Leadership shares information with other family members in the business.		
Founding/Senior Family Members	16	3.94
Junior Family Member	18	4.39
Nonfamily Member	16	4.06
All Respondents	50	4.14
Leadership shares information with nonfamily members in the business.		
Founding/Senior Family Members	16	3.56
Junior Family Member	19	4.05
Nonfamily Member	16	3.75
All Respondents	51	3.80
Leadership is more likely to share information with other family members (regardless of their position) than with nonfamily managers.		
Founding/Senior Family Members	16	3.88
Junior Family Member	19	4.11
Nonfamily Member	16	3.00
All Respondents	51	3.69

Note: 1 = “strongly disagree,” 5 = “strongly agree,” and 3 is considered a neutral point.

Although these statements do not directly measure the openness of nepotism practices, they do provide some insight into member perceptions regarding firm norms for sharing information. Generally speaking, responses to these statements indicate that the family and leadership of the firm share information with one another as well as nonfamily members. Founding/Senior and junior family members agreed (mean rank of 4.13 and 4.16 respectively) that “it is important to openly share feelings and concerns with one another.” While nonfamily members (mean rank of 3.81) were less supportive than family members, they were not in disagreement with the statement. Next respondents were asked to rate the extent to which leadership shares information with other family and nonfamily members. The overall mean rank reported by family and

nonfamily members for leadership sharing information with other family members (4.14) was greater than for leadership sharing information with nonfamily members (3.80). Furthermore, it appears that in both cases, junior family members (mean rank of 4.39 for sharing with family members and 4.05 for sharing with nonfamily members) and nonfamily members (mean rank of 4.06 for sharing with family members and 3.75 for sharing with nonfamily members) were more likely than founding/senior family members (mean rank of 3.94 for sharing with family members and 3.56 for sharing with nonfamily members) to believe that leadership shared information. In other words, founding/senior family members did not believe they shared information with other family or nonfamily as readily as junior family and nonfamily members believed they did.

The last statement, “leadership is more likely to share information with other family members (regardless of their position) than with nonfamily managers,” provides the most noteworthy results. As with the previous three statements, junior family members reported the greatest agreement with a mean rank of 4.11. Also, like similar sets of statements in which the treatment by leadership towards family members, nonfamily members, and family members (regardless of position) were compared, the overall mean rank for this statement (3.69) was lower than the overall mean rank for the first two statements (4.14 and 3.80 respectively). However, what is interesting is the variance between the highest mean rank and lowest mean rank. For this statement, the highest mean rank (reported by junior family members) was 4.11 and the lowest mean rank (reported by nonfamily members) was 3.00. That is a difference of 1.11 between the highest and lowest mean rank. This is a much greater variance than reported for any one statement on information sharing, and it is a much greater variance than any of the

previous sets of statements (on trust and decision making) comparing family, nonfamily, and family regardless of position. Although this suggests that when it comes to information sharing, one's position in the firm may be more important than their status as a family or nonfamily member, it is evident that junior family members are much more likely than nonfamily members to believe that leadership shares information with other family members (regardless of position). Furthermore, since nonfamily members were least likely to agree with this statement, this also indicates that when it comes to information sharing, nonfamily are more likely than family to believe that members are treated equally. Nonetheless, the responses to these four statements signify that members perceive firms as being relatively open when it comes to sharing information with family and nonfamily members.

Familial Norms for Sharing Information

To gain further understanding on the openness of policies and practices, additional questions were asked of family members during the interviews regarding familial norms for sharing information about the business. While questions on familial norms do not directly measure the openness of nepotism practices in the firm, the family's openness in sharing information in the home is seen as a barometer for sharing information in the firm since it is believed that the culture of the family permeates the values of the business which in turn influences the norms (Chapter 5). Founding family members were asked how open their parents/guardians were in sharing information about their work and the financial state of the family, while senior and junior family members were asked if and how frequently their family shared information about the business with

them and their siblings. Then all of them were asked how often they shared similar information about the business with their own family.

Data were compared between firms as well as within firms among founding/senior and junior family members to verify consistency in responses. Very little disagreement (three firms) was found among family members in the same firm; and when there was disagreement, it was evident why family members perceived things differently. In two of the firms, junior family members initially stated that their family did not share information about the business even though the founding member stated that they did. However, both of these junior family members contradicted themselves since following their initial response they provided examples of personal experiences that reflected the infiltration of the business into the family. Both also stated that their father had told “stories” about the business; apparently these junior members did not view “telling stories” as discussing the business. In the third firm, it was clear that the reason family members perceived things differently was due to the relativity of their experiences. When the senior member grew up, his home was also the location of the business; this was not true for his children. Therefore, comparatively speaking, the senior felt like he had kept the business very separate from his children, and had never shared information or experiences about the business with them.

In almost all of the firms, family members agreed that information was openly shared in both their family of orientation and their family of procreation. In these firms, the business and the family were very much intertwined, so much so that the business seemed to dominate all aspects of their lives. Below are some of the responses from

founding, senior, and junior family members from different firms that clearly express this sentiment:

Very open. Yeah. It was something that was shared at the dinner table. (F527)

Yeah, like I said they would come in the store and work, and learn the machines, so it was around them. It was talked about all the time – I mean your business kind of consumes you. It is all you talk about – it is your life. I always say it owns me instead of me owning it. (F534)

It gets to the point where that dominates everything in your life. Like we would go to my daughter's recitals when she was little and we would talk about that for a few minutes but then when you start thinking about things to talk about it went back to business. This is what your life was all about. You start thinking about how you can improve things. It always was forced into the conversation somewhere down the road. (S524)

Family business was all I knew – I didn't really realize that I was being socialized through action and role-modeling....There are no start and stopping points in the day; it is with us, around us, even if we try to block it out. The phone rings, and it's a client. And even now, we all go to this sushi restaurant on a regular basis to have a family dinner, and we always say no business talk. But this never happens. (J519)

In addition to information being shared verbally, most of the family members commented that they were exposed and/or exposed their own children to the business on an everyday basis, and that through these experiences they learned about the business through osmosis. Here are a couple of the responses that highlight these experiences:

Business was always discussed at home when I was younger....So even though I never really wanted to be in the business, it was a big part of my life; we talked about it a lot and I took great pride in it....As a little kid he'd take me, I had a little hard hat, and he'd take me out to the different sites. (J523)

My son would ride around with me a lot, more than probably should have, and in doing so he sometimes went in peoples' offices with me and he seen how – and, again, I didn't realize how valuable it was until he come in. It was like on the job-training. He was getting it and I didn't know it and he didn't either. But when he came out of college to go to work, it amazed me how quick and fast that he caught on and then I realized where he got his experience from....Like I said, I didn't realize it at first, and I'm not even sure – well, I know he does now because we've

talked about it, but – because, you know, you got a kid along with you at the time, most likely they're not paying attention, you know, but you're soaking it in whether you know it or not. And that's what I did with my father. (S520)

The only information that did not seem to be discussed readily was financial information about the business. The comments below represent the sentiments expressed by most family members:

[My father] didn't share the financial information with us. Definitely not. (S520)

Yes, we talked about it often. But, the financial side of things I didn't want them to worry about. And I have learned a long, long time ago that if you make things look like it's too difficult, nobody wants to do it. (S523)

I don't share really profit and loss. I share more business experiences and life experiences meaning we've been blessed....I talk to my kids about trying to get them to realize that my mom and dad are successful, but that there were many years that we struggled. It's hard work. And my kids see that. My kids see me getting up at eleven thirty, twelve, one o'clock when the alarm goes off and coming down here. They've seen me for years and years and years coming in on Saturday. (J533)

However, many of the family members said that as children they always sensed when the financial state of the business (and thus the family) was not good. And in one instance, even though the junior family member stated that her father did not discuss the financial side of the business, she was clearly exposed to it as a child and was even an active participant as a teenager. Here is what she had to say:

Our lives were very much centered around the business. We talked about everything. I mean, not the financial stuff as much, but definitely when I started working here. But he would say somebody didn't pay him. My dad's more about stories...so we knew what was going on; and then, even being fifteen, I was paying the bills. And soon after, I was able to sign paychecks and bills. I was doing it all. (J528)

There were only two firms in which family members stated that they did not share information or experiences about the business with their family. This did not come as a

huge surprise given the structure and history of these firms. One of the firms operated more like two separate companies that occupied the same office and shared expenses, personnel, and a common company name. The other firm was founded by the senior member's father-in-law, and the amount of time they spent working together was fairly short. Consequently, the senior member had never viewed the business as a family business until his own children joined the company. Below are responses from the senior and junior member of this firm when asked whether or not information was shared with family about the business:

Never brought it home. No, I never brought it home. Yep, kept it completely separate. I still do. (S515)

No. My dad never talked about it, and my mom never did either. (J515)

As one would expect, both of these firms also provided evidence previously indicating a tendency towards a business-first approach rather than a family-first approach. However, in the second firm, when the junior member and her spouse joined the family business, it was apparent that the business was now viewed more as a family business. As a result, the junior member stated that although information about the business had not been shared with her as a child, she and her husband often discussed the business with their own children.

Communication Practices Surrounding the Nepot's Entrance

The last set of data pertaining to the openness of policies and practices involves communication practices surrounding the nepot's entrance into the firm. To accomplish this, the circumstances under which the nepot entered the firm are described and plans

regarding the nepot's future status are discussed. The manner in which such incidents were communicated to nepots and nonfamily employees of the firm is included in this dialogue. Although the circumstances under which the nepot entered the firm and plans regarding the nepot's future status appear in this section, knowing this information enhances discussions in Chapter 8 regarding the interpersonal relationships of members.

Communication with Nepots

As learned in Chapter 6, most of the family members started working in the business in some capacity as a child or teenager. As a result, the work was usually part-time and temporary, and at an entry level. And later, when the family member came on full-time, most still started in entry level positions; but the entry level positions often entailed greater pressure and additional responsibilities not expected of nonfamily employees hired for that same job. Senior family members were more likely to join the family business full-time after high school sometime in their early twenties, while juniors tended to join after college sometime between their mid and late twenties. Junior family members were also more likely to have worked outside the family business than senior family members.

For many of the family members that joined the firm full-time after high school, the transition was gradual; basically they just started taking on more hours. As a result, there were not any formal conversations about their responsibilities or future status in the firm. Whereas family members who joined the firm later had to have some sort of conversation regarding their return to the business after a hiatus in college and/or other

employment. Here is how one such instance transpired for a junior family member that entered the business full-time in his late twenties:

I told him that I was interested in joining the company and that I just wanted to get some outside experience. It didn't seem like we were having the conversation all the time but maybe every year or two. I can't recall exactly who called who, but I think it was – I had always thought about getting my MBA anyway. But I think it was his idea, go get the MBA then come join us. It wasn't a requirement or anything. It was just something we agreed on. So, I'm not sure who called who or what, I can't recall because it's a pretty casual relationship. That fall I started looking at the schools and applying and his advice there was just try to get into the best school that you think you can get into. So that's what I did. (J523)

Most of the time this was initiated by the nepot, but in a few instances the founding/senior generation requested their services. This however, does not mean that the nepot always wanted to join the company. Nor does this mean that the founding/senior generation had never talked to them about the possibility or tried to convince them to come in, it just implies that when the nepot finally decided to join, it was they who initiated the conversation.

However, as with those who joined the company full-time after high school, few conversations ensued regarding their future status in the company. Most of the founders/seniors had taken the "let's see how it goes and then we'll talk" attitude whereby the nepot would enter and then they would consciously or subconsciously start grooming them. Here are few representative responses given by family members when asked if there were any discussions about their responsibilities or future status prior to joining the firm full-time:

I was just offered a job. I wasn't really offered a position so to speak. It wasn't like my uncle said one day you are going to be the boss around here. (S523 p 15)

My future role wasn't really discussed at the time – my dad just wanted me to try it out and see if I liked it, but it was clear that if it worked out and I wanted to stay that there would be opportunity for me there. (J524)

When my son got out of college I told him, give me one year working for me. He had worked for me in the summertime and when he came out a college and wasn't sure exactly what he wanted to do, and I told him give me one year here and after one year we will sit down and if this is what you want to do you can continue here. If you want to go and try something else I will help and support you. But see if you like it here first – I know you have been here in the summer and you see certain things, but give it a year of seeing all the sides of the business. (S524)

For most of the family members, there seemed to be an understanding between the generations that there was an opportunity to lead and/or own the company, but that there were no guarantees. No one sat down with them before they entered and told them that the company would be theirs one day, nor did they give them a map for navigating the intricacies of a family business. There was simply an assumption that they had to prove themselves and that if they wanted to take over the company one day they had to learn all aspects of the business and work harder and longer than anyone else.

So for nepots, very little seemed to be communicated to them prior to joining the firm full-time; they enter the business equipped primarily with a bunch of assumptions. Was this the same for nonfamily members? How was the situation communicated to them? Were there any discussions beforehand about the nepot joining the company full-time, the nepot's responsibilities, or how the nepot's entrance into the firm may impact their position?

Communication with Nonfamily Employees

Generally speaking, the answer is no. In most cases, there were no formal discussions about any of these things; certain nonfamily members were told maybe a few

days or weeks before they came in, or the nonfamily just assumed that when a family member was about to finish school they may be coming in. Here is how several nonfamily members responded to this question:

No. Like I said, when I was thinking about leaving, [the founder] said that things will change. Well, when he brought [his daughter] in, yep, things changed. So I was like all right, well, I wasn't expecting that one. But I was – I just didn't have a problem with her coming in. I mean she's his daughter, it's a family. We knew it was going to be passed down, and she was probably the most likely one. (NF515)

...I mean, it's just expected that the family's going to come in, and all the children now are starting to come in...I am just told they are going to be working here. When they graduate from school, you kind of start to think they might be coming in, and sure enough there they are. (NF532)

Family members seemed to agree that the situation was not really discussed with nonfamily members either; however from their replies many seemed to think that it did not really need to be formally stated. They assumed that nonfamily would make assumptions and thus it would not be a surprise. Here is how a founder and junior member, respectively, put it:

You know it's tough when you bring in, you know, your twenty-something year old kid, and guy's forty he's been working with you a long time. But most people understand the old blood's thicker than water, and whatever. And so you know that your kid's going to end up, and it's like everybody I know who's in this business, their kids aren't going to be [doing the entry level work] for the whole time. I mean they're going to... yeah. I mean and it only makes sense, because who else can I leave it to? You know?...But everybody who works for a family business knows that it's going to happen (your kid coming in) – I mean family always comes first, you know. (F527)

Again, I think they just assumed that I would join since I was doing an apprenticeship here as part of my degree requirements. It probably wasn't a surprise – it wasn't like I had never worked there. They had known me since I was younger. (J531)

Of course, the fact that it should not have been a surprise was not really the point. From a nonfamily member's perspective, they felt like they had no voice, and that the family member would be entering regardless of what they thought. And in some cases, these nonfamily members had been in the company for fifteen or twenty years, and to not have a say on a major business decision seemed disrespectful to them. Especially since most nonfamily members actually took this assumption one step further; for them when the nepot entered full-time it was not viewed merely as an opportunity for the family member to work in the business, it was also assumed that the plan for succession was sealed. Of course, in many cases they were correct in their assumptions, but this is a very different message than the one that the founding/senior generation family members presented to the next generation. As a result, from the very beginning, nonfamily are put on the defensive and pitted against nepots, and this sets the stage for conflict. And the nepot is not even there yet. This not only makes the nonfamily member feel devalued and powerless, it sets the nepot up for rejection and failure. And this is often compounded by the fact that nepots are usually younger than the key nonfamily member. This situation clearly reflects conflict theory and the importance of one's position in deriving, exercising, and maintaining power in the system (Dahrendorf 1959).

Questions were also asked to determine whether or not there were any conversations with nonfamily about the nepot's future status. For nonfamily members, a discussion with family about succession seemed to be somewhat off limits. The assumption by most was that it would be a family member, but this was not a conversation they were willing to broach. And apparently family members never really

brought it up either. Here are a few of the reactions from nonfamily members when asked if they knew if a successor had been selected:

Not that I know of, but if it has I don't know about it. I just assumed it would be [Junior] since he is here everyday...running the day to day things since he has been working here...I don't think they would ever have someone not in the family in that position. (NF524)

Well, it's not been said, but you just kind of assume that it's going to be [Junior]. Nobody ever said anything, just kind of... I know that [Senior] is still young and so is [his son], but it's not something that's ever been, I guess... I guess at some point [Junior] became officially vice president. And at that point that it happened, it was kind of like, "Oh, here it comes!"

I think it's just going to be like a slow transition. I don't think he's ever just going to be just like a drastic thing, where he says, "I retiring tomorrow, and here you go." I guess it would be about 20 years because 20 years I guess puts [Junior] in his 50s. Because, if you think about it, I mean, he's probably been training him for that ever since he's gotten here, you know. He's probably getting him ready for it, just like a slow process. Whenever he's ready finally to step down, and it'll just be like a smooth transition. (NF527)

Many nonfamily members also noted that although it had not been discussed, it was clear that the transition was in process. However, the transition was gradual, and most indicated that it had only become noticeable when the founding or senior member started coming in to the office less and less, and started spending more time at their vacation home. Here are a couple of excerpts from nonfamily members that represent these sentiments:

It actually came longer after they were here than I thought. I thought it would happen within three or four years. You knew it was coming when [the owner] started spending most of the time [at a vacation home]. It was only a matter of time. And I think a lot of it was just getting all the wheels in motion and that type of thing, but the topic didn't really come up until the last three years (NF515)

So even though he really hasn't retired, there has been a change....And [Senior] will tell you that. He said, "You need to talk to my son. He now runs the company."

He only talked about it for maybe a month. And we never believed him. Ah, I'm going to slow down. I'm going to retire....I guess when he put his

paperwork in for social security, that's when he said, "Ah, I'm going to work two or three days a week. I'm going to take Wednesdays off." Well, now he'll come in, like if [his son or daughter] is not going to be here or is sick, he'll fill in. (NF528)

Even in cases where the transition was announced, key nonfamily members had not been privy to the conversations that led to the decision or those that occurred before the announcement was made. A key nonfamily member describes how this transpired at his firm:

There was a moment, I think it was an announcement at one of the annual parties or one of our Christmas parties or something, but it wasn't a surprise. It was just a matter of when and how they were going to do it. They didn't really have a lot of behind-the-scenes planning with outside members.

I knew about it only by, you know, speculation and you get to catch a phrase here and there but it wasn't like they came and said, here we're going to do this, what do you think. You know, you weren't that involved in those kinds of decisions. (NF520)

So, in reviewing the data collected on communication practices surrounding the nepot's entrance into the family business full-time, it is apparent that few if any formal discussions take place. Rather than being presented with a clearly articulated plan (or at the very least a conversation about that vision), both family and nonfamily come into the situation with a lot of assumptions. And these assumptions set the stage for what is to come after the nepot enters the firm. This is discussed in detail in Chapter 8 when exploring the interpersonal relationships of members.

Assessment of Openness

Based on the data presented on the openness of policies and practices, it is evident that the firms in this study lack openly communicated formal nepotism policies.

However, most of the members believed that the leadership openly shared information

with its members. Furthermore, almost all of the family members agreed that information about the business was shared openly in their family of orientation as well as their family of procreation. Most of this information seemed to be shared through informal mechanisms rather than formal conversations or documentation. In other words, information in general was informally shared with family and nonfamily within the business as well as with family members not necessarily in the business. But when discussing communication practices surrounding the nepot's entrance, few if any formal conversations took place. And although there were some informal conversations, various assumptions were made by all parties.

However, this does not necessarily imply that nepotism practices were closed. It appears that in many cases, family leadership had not really made any conscious decisions regarding the nepot's responsibilities or future status in the firm. As stated previously, most of the founders/seniors had taken the "let's see how it goes and then we'll talk" attitude. So it was not as if they were purposely withholding information, they just had not made any conclusions about the roles and status of the nepot. This lack in planning is consistent with family business literature, especially on generational transition planning (Rue and Ibrahim 1996; Leon-Guerrero, McCann, and Haley 1998; Sharma, Chrisman, and Chua 2003). As a result, it is difficult to assess whether or not nepotism practices surrounding the nepot's entrance were openly communicated or not.

Therefore, in reviewing the data regarding the openness of nepotism policies and practices, it is unclear whether or not the nepotism practices of firms are open or closed. In other words, the data are inconclusive. This means that it is not possible to fully categorize the nepotism practices of firms into the typology (Figure 3.2) expressed in

Chapter 3. What is known is that the practices of firms in this study are unequal and as a result fall into two of the four categories expressed in the typology—practices that are “beneficial” to the firm and practices that are “most problematic” to the firm.

Although inconclusive evidence on the openness of firms makes it difficult to address the overarching query of this study, all is not lost. Additional data were collected on the perceptions of members since the actual practices of the firm are in some ways less important than how these practices are perceived. Why? Because it is these perceptions that determine whether or not members identify the practices as fair. And this in turn affects how members treat one another and is ultimately related to member success and the success of the business. Member perceptions of interpersonal equity related to nepotism and nepotism practices are examined in greater detail in the next chapter. And this will shed light on the interpersonal relationships and help identify some of the conditions under which nepotism practices are beneficial or problematic.

CHAPTER 8

PERCEPTIONS OF NEPOTISM AND NEPOTISM PRACTICES

To understand how nepotism and nepotism practices impact interpersonal relationships, it is important to examine member perceptions. This chapter provides a window to the formation and perceptions of nepotism practices as well as the perceptions of members upon the nepot's entrance into the family business. These perceptions are central in determining whether or not members identify nepotism practices as fair. Furthermore, because these perceptions are integral to the interpersonal relationships of members, they also affect member success, which in turn impacts the overall success of the business. And all of this is important in understanding the conditions in which nepotism is beneficial or problematic for the family business.

The chapter is divided into three sections—the first section presents findings regarding member perceptions on the fairness of nepotism policies and practices. The second section provides data pertaining to the attitudes and actions of members surrounding the onset of nepotism. In the third section, nepotism is addressed head-on. Member perceptions of the term itself, its meaning, and practice are included in this discussion. It concludes with suggestions for developing nepotism policies and practices that benefit the family, business, and all of its members.

Fairness of Policies and Practices

Although fairness is considered an outcome in the typology of nepotism practices (Figure 3.2), respondents were asked during the interviews to directly assess the equity of nepotism policies and practices. As identified previously in Chapter 3, fair practices are defined as perceived interpersonal equity, whereas unfair practices are defined as perceived interpersonal inequity. When answering the questions on fairness, family and nonfamily members from 17 firms were asked to consider differences in employee evaluations, promotion and advancement, and compensation and benefits in addition to the hiring policies and practices. Only one-fifth of the individual members (including family and nonfamily in equal distributions) stood by their original claim that there were no differences between family and nonfamily members. The rest all ended up concluding that the practices were unequal. However, most members perceived these practices as fair, and within most of the firms the founding/senior, junior, and nonfamily members all agreed that the practices were fair.

Fair Practices

Of the firms (approximately 70 percent) in which all members agreed that the practices were fair, there was only one out of twelve in which all of the members also believed that the policies and practices were equal. More than half of the firms had at least one member who perceived the firm's policies and practices as equal for family and nonfamily members. And in the remaining five firms, both family and nonfamily members viewed the policies and practices as different but fair. To understand the rationale beyond their conclusions, members were prompted with additional questions.

One of the questions asked was whether or not they thought it was fair to treat family different than nonfamily members. Here are some representative responses given by members:

Yeah, absolutely. It's your birthright. Blood's thicker than water. You need succession and you need somebody who's going to...have a vested interest in the business. (S532)

Yeah – it's still a family business; if it makes the most sense for the company, for the future of the company and for the potential success of the company then I think it's fair and it makes sense....It is to the benefit of everyone for the business to continue, and the best way to do that is to find a person that can contribute to and benefit the company. (J523)

In some ways, yeah, like I said, they have a much more vested interest in this place than I do....Yeah, absolutely; I could leave tomorrow and get another job, you know. They could get another job too, but they would lose, you know, they have got a lot invested in this company. (NF515)

When you are an owner you have a huge responsibility. You are responsible for 20 or so other people and at the moment of truth you have to pay everyone else before you pay yourself, so you are the one who can end up losing your house, your car, everything. They may get some extra benefits, but the moment of truth, they have to be there to work 24/7, to cover hours in a pinch, etc. and sometimes other people don't see those things. (NF534)

Unfair Practices

There were only five firms out of 17 in which one or more member perceived the firm's policies and practices between family and nonfamily as unfair. In four of the five firms, the only individual that perceived the firm's policies and practices as unfair was the nonfamily member. And of these four firms, only two of the nonfamily members believed that the policies and practices must be equal to be fair; the other two said that although they did not think things were equal or fair, they understood why there were differences and would have done the same thing if it was their family business.

Furthermore, one of these nonfamily members added that although she did not believe things were fair for most of the other nonfamily employees, this was not true for her; she believed that she was treated like family. The following sentiments from nonfamily members represent these views:

No. Being equal is fair. (NF522)

Let's just say I've heard employees complain about it, but I said to them, "You have options. You can always leave."

So yeah, they get treated differently I guess just by virtue of who they are, but for me it doesn't really apply because [the owner] treats me almost like family. I go to all the functions. I go to all the parties....Of course, they make more than me, but it's their company. Without them, you wouldn't have the company. So, I don't view it as anything other than that. I have heard people that work here complain about it. And, they may have some justification. It's very hard when you work really hard and you're smart and you're capable of doing a lot, and one of the family members isn't and all that family member does it beat the hell out of you. And that has happened here in the past.

I knew it was a family business coming in, and I came from one too. So, I knew that there were going to be certain things, and anyone who is naïve enough to think that there isn't, then that's kind of their problem I think. And, that's what I tell them. Family is family, and blood's thicker than water. (NF532)

In the remaining firm, all of the members perceived the policies and practices as both unequal and unfair. This firm was one of two firms (both of which are considered white-collar industries) in which all of the members believed that policies and practices must be equal to be fair. Here is what the founder of this family business had to say when asked whether or not it was fair to treat family different than nonfamily members:

It depends on what side of the question you are on. Probably not; generally speaking it is probably not fair. I would say that it doesn't go on as often as I might have given you the idea it does. I think that we, pretty much across the board, are a fair company, and I'm sure that some of the other people might think that the family members are getting a better ride; maybe it's true, maybe it's not true, but there's a little bit of jealousy in there which, again, is something that I'm sure is the norm. (F518)

In the other firm, it was only the nonfamily member that saw the policies and practices as unequal and thus unfair; the two family members thought the practices were equal and thus fair.

Frustrations of Nonfamily

To better understand how these perceptions impact the relationship between family members, especially nepots, and nonfamily members, a couple of excerpts from nonfamily members are provided that convey the frustrations that develop when practices are (or are viewed as) uneven or different:

You get certain privileges when you are family. You get more flexibility....I could get a person to do what [junior family member] does for probably \$60,000 and I wouldn't have to put up with, "Well, my mom has chemo tomorrow; I need to be there. I'm on my honeymoon. I'm getting my nails done. My dog is sick." All these things that you can do because that's just going to stay over there, because if I had a \$60,000 administrator I'd say, "You know what? You were off last week so you're going to have to get your nails done another day." (NF518)

And at times, you know, it is frustrating or irritating, or whatever the correct word would be, that you have to put up with a certain level of incompetence. With other employees you could be more blunt about it, "Like c'mon, let's think about this. Why aren't you doing this? You should have known the answer to that." And there's a level of frustration, that with a family member, you cannot do that. You can... it's allegedly expected of you, but the practicality of it is, it isn't. But for the most part, even though that's a level of frustration, I still understand where, if you're the owner of a business, that you would bring your child in. I don't think that it's the smartest thing to do. And then, I think that [the owner] tries to make family members certainly accountable, and more so with his direct family than with the nieces and nephews that were brought up in the family. But then, at other times, he'll back off of that. So it's not a consistent rule, exactly. (NF516)

These frustrations indicate a certain level of conflict and if not properly addressed may lead to instability in the system. If the nonfamily member feels like their authority is being challenged, they may seek change. And this change may come in the form of some

of the negative consequences cited by those who oppose nepotism. For example, nonfamily may view family members as an impediment to their success (Nelton 1998) and either end up resigning or treating the nepot unkindly (Nelton 1998).

The Trade Off

However, for most family members (and even a fair share of nonfamily), any favoritism shown to family is viewed as fair because of the high price they pay. Greater expectations, longer hours, additional duties, fiscal liabilities, and the added sense of responsibility for the livelihood not only of other family members but also nonfamily employees are among some of the trade-offs listed. Here are some of the many responses from family and nonfamily that convey the greater expectations of family members and the consequences of these expectations:

Family members are expected to do more than a nonfamily would be expected to do in that same position. And they put pressure on themselves too....If you're in the family...you don't want to fail while it's on your watch. You've always got... this worry of keeping that image, keeping the business going, and keeping 500 employees working here. I'm sure our [nonfamily] managers work that way too, but I don't think they worry about it as much as I do...it's different. They know that if the company fails, they got to find a job...but I think it stops there. They don't have that fear of the company going down the hole....[My son] worries too much. And [my brother's] son is the same way, so I guess it's bred into them. They've rode with us and they've seen what it means to us, and how important it is and they're worrying about saving a dollar...I mean, you can't control everything. So it's a little bit of pressure there. (S520)

We don't expect people to work as hard as we do since we own the business. I am here 11 to 12 hours a day, but I enjoy what I do so I am not complaining, but that is just what I know I need to do in order to get things done. I come on Saturdays when no one else is here to get paperwork done, but I enjoy doing that. And sometimes after church on Sunday I will come in because that is it. I hope that rubs off on people so they don't say he is one of those owners you only see once a week and he just comes in to get his paycheck and leaves. I am a hands on owner, I am here and will go back in the warehouse if need be and do what he's doing. Basically my son is the same way. If he has to get up at 4 am to go to a

supermarket or late at night he does what he has to do...but I don't expect [nonfamily] to work as hard as I do. But I expect my son to work that hard....to hold on to what you have takes a lot of work. (S524)

Well, [the grandfather of the current owner] compensated his kids pretty well, at the time... in bonus. But he expected an awful lot out of his children. And they produced a lot. You know, [the owner] used to have to get into a fight with his Dad if he wanted a couple days off. [Laughter.] It was very funny! (NF516)

As a matter of fact, sometimes I feel like [senior family members] sometimes will treat the other [family] a little harder than they might have if you were just an employee. They are a little bit more strict with family...I don't feel like [the junior family member] can do something and I can't. I've never felt that. I don't think she has more flexibility in taking off or anything, no. As a matter of fact, I think they're harder on that person, will give me maybe a second chance and sometimes come down on them. (NF533)

In addition to the greater expectations, family members are also expected to work longer hours and take on additional duties. These are some of the trade-offs that were mentioned when members were asked whether or not they thought it was fair to treat family different than nonfamily. Here are some quotes that highlight these responsibilities:

You can come to work here, but you're going to have to be the guy that has to get here early and you're going to have to be the guy who stays late. And you're going to have to outdo everybody else because that's what we do around here. And if you're not going to do that, I would rather you go work somewhere else...you're not going to be the one to upset this cart. And that's what I was told too. I was told you will work 10 hours a day and you will work 6 days a week....Sometimes we sit here and I might be through, I empty my desk, I look up, it's 20 after 5 and since I've been doing it for 45 years, I'm saying no, I can't go home until 5:30. Even though I'm the boss, I could, but many, many, many days, most days I should put it, [all the family members] are sitting here at 5:30 and it's a ghost town. As a matter of fact, most times at 4:30 we're the last ones here. And that's been bred into us. (S520)

Yes [it is fair], because the price we pay. We get the flexibility in return for taking all of the risks. But we are always available. We can't just go some place without access to a cell phone or laptop. So on the other hand if we take off to go do something, if we get a call from someone in the business, we have to come back. It is flexible, but I am always working. The switch never turns off. I don't

have a lunch. Whereas a nonfamily employee, everything is set. They work from this time to that time; they get their lunch break and their two weeks vacation. And if something comes up, I am not calling them on vacation. (J518)

I have heard recently some of the original family members, like the daughter, wanted to take Saturdays off, but some of the people were complaining about this. But she works every Saturday...and she has worked very hard...and I think that after 20 some years she has earned that right. [However it only lasted a week because she had to be here.] (NF534)

I mean fair and equal aren't the same thing. You can be fair and not equal. Am I paying [my son] more than I would pay someone hired at the minimum to this job? Yes. But he is also doing more than the minimum would do. There's no doubt. (S516)

Advantages and Perks

Nonetheless, as stated previously in Chapter 7, there are some advantages and extra perks afforded to family members. For example, greater flexibility in their schedules, a company car, and gifts from clients such as tickets to entertainment events. But even the extra perks seem to come at a higher price. First of all, not all the advantages and perks were real; some were just assumed. For example, a nonfamily member would say that family members got bonuses each year when in fact they did not. Furthermore, because many of the nonfamily members blurred the distinction between employer and employee, and between owner and parent, they concluded that any material item a family member obtained or accumulated came from the company at the expense of nonfamily employees. In other words, any time family members spent money on themselves nonfamily members saw it as money coming out of their pocket. In the below excerpt, a founder talks about how he could not even buy a nice car without being ridiculed by nonfamily members:

For the first ten years I drove a very modest car, and then I splurged and bought a nice car [with the salary I make as an employee]. And I got all kinds of shit about it. But I earned it. (F517)

In another instance, a junior member talked about how nonfamily members would always say to him, “it must be nice” whether they were referring to a new television he had bought or tickets he had to a sporting event. The nonfamily members had made it clear to him that they thought that he was either making big bucks because he was the owner’s son or that the item had been a perk he received from the company. And each time, they were items the junior member had saved money from his paychecks to purchase. The junior member added that it came down to financial priorities—when nonfamily members would come in to work after each weekend saying they spent all their money going clubbing and gambling, he did not say to them, “it must be nice.” However, there were a few nonfamily members that did understand this distinction. This is evident in the following quote from a nonfamily member:

Well I think “dad” might throw’em an extra nice Christmas bonus or something. Or if business is good, maybe a little bonus; because “dad” has been very successful, he shares it with his kid. Doesn’t bother me at all. I think he’s doing it as a father not as a boss. And honestly I can’t tell you he does it. But if I were in his shoes I’d do it. (NF528)

In a number of cases, it was evident that nonfamily members received similar advantages and perks. Sometimes nonfamily members were afforded the same advantages or extras as family members without realizing it; other times they actually received advantages that were not afforded to family members. Here are a few examples from family members that demonstrate this:

Sometimes when I go on vacation I will get an extra check for some spending money, but I know that my dad does that with everyone else as well. Are there times when my dad will call me to go out to lunch and we drink a bottle of wine,

and are off the rest of the afternoon. Yes. That doesn't happen with all the other employees, but with some it does. I know it happened with [a nonfamily member] on Monday. (J517)

We treat people who are not family a lot better than we treat each other – as far as bonuses, how we say things, compensation, forgiveness for screw-ups, and the way we communicate. We are more professional and courteous to them.

...Family members are all officers and under Virginia law officers are not entitled to same things as nonfamily members (unemployment etc.). Nonfamily employees have security. As family members we are legally responsible for compensating them. We may need to take out a loan to make sure that nonfamily are compensated, they don't have to worry about that. They don't wake up at 2 a.m. worrying about that. That's the trade off. (J519)

In fact, we may even make sure that the superintendent that's not family gets the newest truck all the time, whereas the family member may not. (J520)

Just Like Family

In some cases, these advantages and perks were only given to select nonfamily members. These nonfamily members were generally viewed as and viewed themselves as “part of the family.” But generally speaking, most members believed that the owners treated all their employees like family. This was expressed in numerous sentiments from nonfamily members:

When I got married, [the owner] bought my wedding dress. When you went on vacation, he handed you money. There was the company...and then there was the [man] that put two \$500 bills in your pocket....It got embarrassing at times...and he did it for all of us. So you couldn't help but love him. (NF516)

I was having problems at home and said maybe I'll just go ahead and quit. I gave like a four- or five-month notice. And they asked me if I would consider working part-time, and I said, okay....Then I did part-time and...I said, oh, by the way, is it okay if I stay? And they said, yes. So they never really interrupted anything for me benefit wise or anything. So it was like I never left. Their policy is if you're not happy, then you can go ahead and leave, anybody can. What are you unhappy about? Let's see if we can work it out. And that's their policy. (NF533)

There is no structure – you are supposed to get one week sick leave, but I know [the owner] stretches that for us. Some people use more than others, and I see

them paying for people that at other places they would have said forget it....There was a man who worked here who unfortunately passed away. And [the owner] continued to pay him when he was sick even though he wasn't working all the time. (NF534)

This value and practice of treating employees like family is not particularly surprising in family businesses. Practices are not always consistent given that family businesses are often viewed as power cultures, where control and influence come from the top and personal relationships with that individual or group of individuals are ultimately more important than rules, procedures, and one's position and roles (Harrison 1972; Handy 1993). And because in family businesses, this type of power is exercised with a "velvet glove" (Harrison 1972:121), nonfamily members are not only cared for, but provided with advantages they may not be given in a business that was not family-owned. Here is another example of this sort of treatment, but from the family member's perspective:

When [my son] came in, I am sure the other guys talked about it. I wasn't privy to any of that stuff. But, it's human nature, and I figured they're going to be a little jealous. So I think when he came in I gave them, the other guys, all raises just to sort of nip that a little bit so they wouldn't be crying...maybe they got a company car too. You just do something to show them they weren't being pushed aside because my son was coming in. I mean, it's not like he took anybody's actual job.

...I try to make them feel like they're important and that they're doing something that is beneficial to the company and beneficial to them.....So if you know that somebody's doing a real good job, you throw another fifty dollars at them, or say, "Hey, I got some tickets to the baseball game or I got Redskin tickets." Just little things like that to make them feel good....So if they're good, whatever you want. I'll lend you money, whatever you need. I try to treat them like family.

...You can come into my office and say, "Hey, I got this bill. I got this problem." You need a thousand, fine. Take fifty dollars out a week. I don't care. As long as it helps the company run smooth, keeps their head more focused on this....So you try to help them out if you can. (F527)

In addition to the perks that result from treating employees like family, this value and practice may also result in some of the positive consequences cited by proponents of

nepotism. Some of these positive consequences include a feeling of solidarity and sense of ownership among all employees (Wong and Kleiner 1994; Molofsky 1999), and greater loyalty and long-term commitment to the firm (Molofsky 1999; Nelton 1998).

Why Size Matters

However, even though family businesses do tend to operate as power cultures regardless of size, it does appear that as the size of the company increases, and/or the business progresses to the maturity phase of the business developmental axis where organizational systems and policies are well established, it becomes more difficult for owners to treat employees (family and nonfamily) differently. This is partially attributed to external laws such FMLA and OSHA, but is it also due to the need for a more bureaucratic structure to better manage a company that is increasing in size. As a result, owners can no longer afford to provide perks like a wedding dress or extra cash for a vacation, or do the types of favors like co-signing for loan or advancing sick leave that they used to do. One owner also talked about how he used to be able to keep on employees who could no longer perform the type of manual labor required in the position, but because there are too many employees in a similar predicament and not enough money or side-work, he can no longer continue to carry them. So, being equal, as one may have thought, is not always advantageous for nonfamily members. Here are a few examples from nonfamily who have recognized this:

Well, I guess, sometimes, what is equal isn't always fair....You have an employee that's been here twenty some years or whatever and they need, say, a special favor and [the owners] just won't do it because then they'd have to do it for everybody. I just don't think that the loyalty from the employees is always taken into consideration.

With [their father], it was.... That being said, back when [their father] was making those decisions, we didn't even hear about FMLA, so you didn't have to worry about that stuff. They wouldn't actually hold someone's job for 12 weeks, but when they got better they would find them somewhere in the company to work. But if [the owners] terminated someone who was not able to work and then they got better, they'd probably rehire them, but in order for them to gain their full benefits they would have to work a full year. In the past, they wouldn't have to work the full year to get their benefits back....It just annoys me sometimes, but that's her job. It is all about consistency....Again, sometimes I am like, we're not a Fortune 500 company; people are not numbers out there. (NF515)

And [one of the family members in human resources] especially tries to keep, you know, you can't do for this guy because they don't do for this guy over here on this side of the company. So, she's always trying to keep everybody the same in all divisions....And, I've always been known for bending the rules a little bit because you're trying to keep the guy. I mean he's a great guy. I can't let him go. I can't match his salary but I can give him an extra two days vacation, but I'm not allowed to cause it's against company policy. So you've got to work with those issues. (NF520)

Relation to Typology of Nepotism Practices

In assessing the equity of nepotism policies and practices, members were asked to consider differences in employee evaluations, promotion and advancement, and compensation and benefits in addition to the hiring policies and practices. In doing so, various benefits and costs surfaced for both family and nonfamily members. For example, family members may have greater access to leadership and more flexibility, but they also had additional responsibilities, longer hours, and greater expectations. On the other hand, nonfamily may have less access to leadership and a reduced amount of flexibility, but they also had less responsibilities, fewer hours, and lower expectations. As a result, most of the respondents in this study concluded that the firm's nepotism practices were fair. This does not mean that members never felt frustrated about the

differences that existed, it just means that in the big picture they perceived the practices as fair.

According to the typology of nepotism practices (Figure 3.2) presented in Chapter 3, fairness is considered an outcome. But because respondents were asked during the interviews to directly assess the equity of nepotism policies and practices, it is worthwhile to explore the relationship these data may have to the typology and the data gathered on the equality and openness of firms. Based on the conclusions in Chapter 7, all of the firms were said to have unequal practices. Therefore, firms could be identified as having practices that are either “beneficial” or “most problematic” to the firm. Those practices that are labeled as “beneficial” to the firm are unequal and open, and as a result may or may not be perceived as fair. Whereas those practices that are identified as “most problematic” to the firm are unequal and closed, and consequently are the least likely to be perceived as fair. But because the evidence on the openness of firms was inconclusive, it was not possible to determine which of these two types would be most fitting for each of the firms in this study.

However, if the characteristics of equal and unequal practices were related to the outcome types instead of to the characteristics of open and closed practices, it could be said that most of the firms in this study would be identified as having practices that are “beneficial.” Since practices that are “most problematic” are least likely to be perceived as fair, it stands to reason that if most members perceive their firm’s practices as fair (as they do in this study) they are more likely to be labeled “beneficial” than “most problematic.” Obviously further research on these relationships is needed to be certain, but this does provide some understanding of the conditions in which nepotism is

beneficial or problematic for the family businesses in this study. In the next section, the attitudes and actions of members surrounding the onset of nepotism are explored. This too may enhance our understanding of the conditions in which nepotism is beneficial or problematic since member attitudes and actions influence and are a result of whether or not members perceive nepotism practices as fair.

Attitudes and Actions Surrounding the Onset of Nepotism

Founding/senior members were asked to express how they felt when the nepot actually entered the firm full-time. Most said that they felt proud, but some also acknowledged their fears—they worried that the business would not sustain them; they wondered if things would work out, and they were concerned about the nepot's happiness. Many also mentioned the pride they took in providing opportunities and caring for all of their employees. The following responses best reflect the feelings of these family members:

Well, I was real pleased that he was here, and then when he stayed I was really proud, and I was proud of what he had done and encouraged him all I could. But I didn't tell him, "I love you" and I didn't tell him, "I appreciate you," and he missed that, he needed that, and I just wish I had done that. (F522)

Well, the company's never been in the forefront in our family. I mean, when you make decisions, when you're in the company mode, you make decisions what's the best for the long-term health of the company and if that happens to include family members, great. If it doesn't, that's fine too. When you're dealing with family, you worry about the family. The family serves the business if they're working in the business and when [my daughter] came in my concern was I hope she's happy working here. I said it's great for [the company], there's no question about that. Any time you get somebody as good as she is working here it's got to be great for the business. I just hope she's happy doing what she's doing here. I hope it works out because you never know. (S515)

Oh, we were very happy to think that it was to a point that we could feel comfortable...But you know I think we have as much pride, and you would hear that, in the fact that we take care of eighty-five people and their families. I don't think either of us look at this family or that family on this piece of paper. It's that we've got eighty-five families to take care of; that's where the pride comes. (F533)

Founding and senior members were then asked to speculate on how others (nonfamily and other family members) felt about the nepot joining. A number of questions were asked to help respondents adequately portray their views as well as to gain a comprehensive understanding of how these perceptions were reached. They were asked whether or not they thought other employees welcomed the nepot; they were asked about the general impressions others had of the nepot—whether they thought they were deserving, competent, valued etc.; and if they were a senior family member, they were asked about their own experiences when they first entered the firm as well as after they had been there a while. Similar but more suitable questions on this topic were asked of junior family members as well as nonfamily members.

As expected, a variety of responses were given, but certain patterns did emerge. By and large, founders and senior members viewed the entrance (and employment) of the nepot as a positive experience where they were welcomed, valued, and viewed in a positive light. They believed that others received, perceived, and treated the nepots in a positive manner and that few if any problems emerged. Although some acknowledged that tensions had ensued, most brushed it off as trivial. And some seemed to be in denial questioning the possibility that something could go or had gone wrong. Many of the juniors were equally optimistic, but most had examples in which they were treated unkindly because of their family status. Nonfamily member were also somewhat optimistic, but in their responses they often revealed feelings of resentment. Both of

these views support one of the negative consequences of nepotism in the literature—that nonfamily would resent the employment of family members and as a result treat them unkindly if brought into the business (Nelton 1998). Generally speaking there was also consistency among firms—if the senior’s perceptions were negative, then the junior and nonfamily member’s perceptions were negative.

The Social Component of Member Success

In Chapter 3 a typology of the social component of member success (Figure 3.3) was presented to express the intersection of attitudes and actions of members who face or have been faced with nepotism. According to this typology, individuals may be valued or devalued and welcomed or resisted. When an individual is said to be “valued,” this implies that other members have an attitude or perception that the individual is worthy or desirable to the family business or has qualities on which these characteristics depend. When an individual is labeled as “devalued,” this implies that other members have an attitude or perception that the member is less than valuable, or unworthy, and undesirable to the family business. When an individual is “welcomed,” this identifies actions by other members that have a positive impact upon that individual. Thus, when an individual is “resisted,” this refers to actions by other members that have a negative or harmful impact on that individual. When attitudes and actions are positive this indicates a strong interpersonal relationship. And when attitudes and actions are negative, this indicates a weak interpersonal relationship.

Individuals who are valued and welcomed are seen as an “asset.” The attitudes towards these individuals are considered positive, and the actions towards such

individuals have a positive impact indicating a strong interpersonal relationship between members. Individuals who are valued, but resisted are viewed as “competition.” The attitudes towards these individuals are considered positive, but the actions towards such individuals have a negative impact indicating a strained interpersonal relationship that is perceived as weak by members. Individuals who are devalued, but welcomed are labeled “clowns.” The attitudes towards these individuals are considered negative, but the actions towards such individuals have a positive impact. This also indicates a strained interpersonal relationship, but in this case the relationship is perceived as strong by members. And those individuals who are devalued and resisted are seen as “rejects.” The attitudes and perceptions towards these individuals are considered negative, and the actions towards such individuals have a negative impact indicating weak interpersonal relationships between members.

Three patterns that identify the varying responses given when discussing the entrance (and employment) of nepots emerged from the data. The first pattern describes firms in which all of the members identified positive attitudes and actions, and thus individuals were viewed as an “asset.” The second pattern describes firms in which members claimed that the experience was positive, yet negative incidents were identified and feelings of resentment were clearly present. Individuals in these firms were viewed as “competition.” And the third pattern describes firms in which all of the members viewed the entrance (and employment) of nepots as a negative experience. Thus, in these firms individuals were viewed as “rejects.” The fourth type specified in Figure 3.3, the “clown” was not represented in this study. This type identifies individuals that are welcomed but not valued. In other words, these individuals are embraced but generally

seen as incompetent so they are not valued. However, it should be noted that there was evidence that “clowns” did exist in some of these firms at some point, but that these members were not typically key members in the business and had either left the firm or been fired.

Three firms, each embodying one of the patterns identified, were selected to enhance the understanding of the impact these nepotism practices have on interpersonal relationships and member success. Their stories are described below through citations provided by family and nonfamily members of these firms.

The Asset

The first firm represents those firms in which all three members had a positive outlook. This does not imply that conflict was absent in these firms; but the overall tone was generally optimistic. Nepots as well as nonfamily members (at least those interviewed) were welcomed and valued. Thus members tend to have strong interpersonal relationships. Furthermore, because members are likely to have strong interpersonal relationships it is also feasible that in these firms there is a perception of interpersonal equity among members. Here are some of the responses given by the founder, junior, and nonfamily member that support these conclusions. In this first excerpt the founder is asked if he thought other employees welcomed his son:

Yeah with open arms. For the part, yes, they were willing to help him out, I mean there are a couple of a-holes in every company that want to hold back and not give everything they should. But for the most part, everyone in here embodied him. They all knew him from the time he was born, so when he came in here it was like he was supposed to be here so they all welcomed him. There really wasn't anyone that didn't welcome him – well there is always a couple. My son had his own agenda and worked hard to not make people think that he was the gift horse of the company and did what he had to do. (F517)

In the next passage, the junior member discusses how he felt when he entered the business and the conditions upon which he entered. Then he describes his attitude in approaching employment in the family business, his qualifications, and the willingness of others to help him learn more about the business.

Definitely everyone was welcoming to me. I had come in right after [some key nonfamily employees] had left. It was never told to me, but talking to some of the employees, possibly the VP didn't really care for me knowing I was coming in and...saw an opportunity to leave....[But] everyone has known me a long time and was excited for me to come on board.

...[Nobody said] directly to my face like, "hey you are doing a great job," or "can't wait until you take over." Although I have heard it kind of scuttle butt, and things people have told my wife at Christmas parties and things like that where they would say how much they respect and admire me. So I certainly feel more than welcome in all of their eyes.

I have always taken that into account, and never wanted to come in here and assume VP role and have a title and tell people what to do without any background. I mean I started [doing grunt work] and did manual labor and worked my way up through it to earn where I am today. To actually be an asset to the company, but also to have the employees have an understanding of what I can do and can't do, but kind of be a team member, someone people can count on and to help them in any way I could. Not just take over and take all the money and go away.

I have a double major in business management and marketing and a minor in economics, so I had a business background. And doing work here in the summer I had some knowledge, but once I got here is when the learning curve – and still is today, but yes, they were very helpful. There are a lot of things to learn...and they were very helpful. The first few projects I did under [the nonfamily member who was interviewed], and have done work with a few other guys who were instrumental in teaching me the ropes here. They taught me everything and anything I needed to know. (J517)

In this quote from the nonfamily manager, who unbeknownst to him was soon to be promoted, he describes one of the benefits in hiring family members that nonfamily often overlook. Then he talks about the nepot's positive characteristics, and makes a few comparisons between the nepot and nonfamily members as far as perks.

I think a lot of other people notice more about family members than it seemed we did here in the office. I mean, we'll certainly joke around about him being the

next owner and blah, blah, but a lot of it is just the same joking we give to everybody else too. But, I think sometimes you'll see subs or clients and when he says his name is [family name] and, they know he's a son of – and they do strike a resemblance. [Laughter.] You know, people sometimes kind of pay a little more attention and give him a little more leeway, which personally I don't have a problem with, if he's helping me out and [someone] listens to him because they don't want to hear, [the owner] call and bitch at them, then it works for me. It works to my advantage.

Actually I always thought that he worked pretty hard when he came in, and sometimes harder than some of the other people here. You know, certainly he gets some perks – well, I guess we all have our perks...we go to the golf things with some clients and sometimes he'll just get handed a few more of those I guess...but overall I'd say I don't think anyone ever complained that I ever heard that he didn't work as hard as the other people.

And I think he was probably always a little concerned about that too, that he didn't want to be, you know, construed as just coming in and getting the slot and doing the minimum amount of work or something like that.

I think everybody was pretty helpful and welcoming to him. You know, everybody sort of knew him already from coming to different events and Christmas parties and other times. When he came in, everybody was pretty open to it. I think people were expecting him to come in. (NF517)

Note that the experience of this nonfamily member refutes claims by Nelton (1998) that nepotism would be an impediment to the promotion and success of nonfamily.

Furthermore, it confirms one of the positive consequences of nepotism cited by Fischetti (1992) that nepots provide clients with a sense that they are dealing with someone who is “in charge.” This is not unusual given that in this firm members are viewed as assets.

The Competition

The next firm represents the pattern that was most prominent in the data—in these firms the members were generally optimistic about the experience of the nepot. However there were definite undercurrents of resentment, and junior members revealed some instances in which there was conflict. In this particular firm, nepots were valued, but

they were not always welcomed. Thus members tend to have strained interpersonal relationships.

The senior member was generally optimistic about his own experience as well as his nephew's experience entering the firm; however in both situations, there were structural issues that may have contributed to this. When he entered the firm the company was still fairly small with a limited number of employees, and as a result the people that he ended up supervising were either his peers or had entered the firm after him. In his nephew's case, they were in desperate need of help when he entered, so this also factored into people's perceptions. Nonetheless, his nephew still encountered some difficulty, and clearly the nonfamily member harbored some resentment. In the first excerpt, the senior member comments about the entrance of his nephew into the business full-time:

They didn't find him a threat and he didn't come in with an attitude. Well they looked forward to it because again, with [my nephew] we needed the help. So anything that was going to help was, sure you're welcome. He wasn't displacing anybody so nobody was personally affected. Nobody was being displaced, demoted, or kicked out to make room. We've never done that. (S532)

Although conflict was not noted by the senior member, in the second passage the junior member discusses one of the issues he experienced when he first entered the firm. It has to do with a situation mentioned previously in the study in which he was working long hours, but the hours he was holding were not during regular office hours, so it was assumed by the nonfamily members that he was not working, and that he was lazy and could do whatever he wanted and still get a paycheck.

Well, I think the whole thing about me not being here every morning bothered the non-management people. I think the management didn't give a crap because I was still doing exactly what I had to do. The point was, is, that I'm supposed to

be management or something. I don't know. God forbid they tell me what I'm supposed to be doing around here. (J532)

And in this last excerpt from the nonfamily member it is evident that nepots are merely tolerated; she felt a lot of resentment towards the situation and the predicament this put her in. She also addresses the attendance issue discussed by the junior family member, and mentions that other nonfamily members were not as welcoming.

A little bit of dread. Just because some days it's so hard to deal with everyone—all the different family members. And, I thought oh god no, two more [grandchildren]. I think that comes partially from the conflicts with the one [senior] in the past.

...One of the grandsons was coming in at noon every day. Well, why? He's 22 years old; he's young. We're at the other end. I'm 54 and I'm about ready to keel over here, and I'm still here. And, all the people that work for me are here. No if, ands, or buts about it. So, it makes it very difficult cause a couple of them have said to me how come [Junior] can do that? I said, "You've got to put that aside. That's family." I said, "And, that doesn't concern you."

...It's almost like they have this air of "I only have to do so much." And, that's true. They take off for this, they take off for that...But it's not their fault, which is what I said to [the senior generation's father]. I said, "it's not their fault." I said, "Nobody tells him to be here at 9:00. Nobody says, you can't do that. Everyone just says oh well, that's [Junior]. Yeah, and the same with the other [junior family members]."

...I hope [Junior] is not in a position to tell me what to do; I hope not. He's never said anything like that to me, but he works upstairs and on the road so I don't see him very often...

Interviewer: Do you think you welcomed them?

Uh-huh, [although not all of the other nonfamily members were as welcoming]. I don't withhold things from them. However, there are some things I don't think, family or not, that they are entitled to know.

...I think our whole generation knew what was expected of us, and I'm not sure these kids today know. They've never been given any boundaries. I think a lot of them are at loose ends as to what they are supposed to be doing. (NF532)

A couple of points are worth mentioning here; first, it is evident that there may be some generational tension given that the nonfamily member focused on age when making judgments about junior family members. As a result, nepots are seen as competition even though it was found in Chapter 5 that founding/senior family members feel more loyal to

nonfamily members than to junior family members (Table 5.8). Second, it appears as if the nonfamily member (and other nonfamily members in this firm) considers the junior family members to be somewhat lazy and have attitudes of entitlement as well as unequal sanctions. These traits were all identified in the literature as some of the harmful consequences of nepotism (Nelton 1998; Kets de Vries 1993). Since interpersonal relations are said to be strained when members are viewed as competition, at least some negative consequences were expected.

The Reject

And finally, the last firm represents those firms in which all three members identified both negative attitudes and actions amongst members. Nepots were resisted and devalued, especially in the beginning, and nonfamily members were resentful, resulting in weak interpersonal relationships. Furthermore, because members in these firms are likely to have weak interpersonal relationships it is also feasible that in these firms there is a perception of interpersonal inequity among members. Here are some of the responses given by the founder, junior, and nonfamily member that support these conclusions.

In this first excerpt the senior family member expresses his own struggles (as well as some of his siblings' struggles) when he first entered the family business:

There was a lot of hard work in those days in our company. And, there were a couple of really stinky, shitty jobs. And so I did all those. It wasn't like my father put me in some position of authority. Yeah, one of them was loading the chicken box. You know, we sold a lot of chickens. And I remember one of my first struggles was with this one guy that had been there awhile, and he was a nice enough guy. Couldn't read or write. And, I was back helping him load the chicken box. And I was trying out my authority, and at some point I got my back to him, and he hauls off and just wails, hits me in the back of the head with his

fist. I was like, “Okay, I guess you’re going to load this chicken box by yourself now.” Well, it worked [out] – I mean, my head still hurt. And I laughed and I went back [to work]. He’s still an employee here. You know, that was thirty years ago.

...But, the person in the business that all of my family struggled with was my father’s secretary. And she was – a very smart woman. She had been my father’s secretary for awhile. And my father spent more time with her than he spent with my mom. And my sisters were always sensitive to how appropriate their relationship might have been. But I never had any sense that, I mean I won’t say, well I never had any sense of anything going on other than a very close business relationship. But, she basically blocked all of my sisters from ever feeling comfortable in the office. And they all came to work there, and every single one of them got into some pissing match and made the mistake of going to my father and saying, “Pick me or pick her, but we both can’t live in the office.” And my father always was like, “Well, you know, you’re killing me because this woman is my right hand. And you’re not ready to step up to the plate.” So they all just went, “Okay, fine. I’m done.”

And at a point, I don’t know how long I’d been there, but she would do some wicked shit. You know, she would definitely plant some wicked seeds in my father’s mind about what I was doing, and I’m sure she did the same thing with my sisters. But at some point, I waited for her after work. And I was like, “Here’s how this is going to go. If I ever hear another word that you ever utter to my father that is intended to drive a wedge between me and him, I will run over you.” That’s what I told her. And I was like shaking, and it was like, oh shit... and that was it. That changed our relationship. From that moment on she was the odd man out. And not that that was my intention at all; I just wanted a situation where there weren’t going to be these seeds of discontent planted in my father’s brain that somehow I was doing something that I wasn’t doing, or causing some problems that I wasn’t causing. (S516)

In the next quote, his son describes in detail the circumstances under which he first entered the firm as a child, and then he traces this to the day he returned to work for the company full-time. This is important because it sets the tone for how he was perceived early on and how those perceptions remained when he returned.

I first started when I was 12, [doing menial tasks]. I pretty much worked every week and...in high school I started going in a couple days during the week at early dismissal. As a senior in high school I would work pretty much every day and on Saturdays. I’d work kind of full-time in the summer. I would kind of come and go as I please...I’d be late. College I worked; I closed a couple nights a week and on Saturdays I worked, I was probably supposed to work 8 a.m. to 10 p.m., but I probably worked more like 11 a.m. to 10 p.m. After college I came

back and worked full-time for a while. But then I found a job [in a related business]. I got an interview with them, really because of where I worked and who I am, and had three or four interviews and did really well. And then they asked my uncle, who was [my supervisor] at the time, if it would be a bad thing if they hired me. And he said no, so I went and worked for them.

I guess I worked as a salesperson on the street for two years, and then got promoted to a field sales manager—meaning I had five or six sales guys working for me. I did that for another three years. At that point they wanted me to start traveling more, and at that point dad called and...said he wanted me to come back into the family business....And I felt good because when you are a kid growing up in the family business, you kind of keep that reputation you had—yeah, he's a screw-up. He's a college kid and comes in with long hair and strolls in at 11 a.m. and supposed to be here at 8 a.m. [note he still worked an eleven hour day]. It's just hard to get rid of that reputation; it's a very cool thing then to go away and be really successful somewhere else. That did a lot for my self-esteem and then to be courted by dad to come back...so I decided to do it. (J516)

Then he talks about his experiences when he returned to the business at his father's request. When asked if he felt welcomed, this is what he said:

No, not at all. [Everything I had accomplished outside the business] was all kind of shattered when I came back and people here were like, "welcome back dickhead; don't think you are the big shit around here."

I came back and worked for a couple weeks and it sucked. All the people that worked here basically treated me like shit. And I was used to, I was kind of the man, I was kind of the young, hotshot at [the large corporation], and I was a supervisor to others. It was definitely a culture shock to come back and have high school graduates to be like, whatever. And in terms of any respect I thought I might get from what I had done, [it] just wasn't there.

I called [my previous employer] back and said I think I made a mistake. And they said fine, and offered me a job and offered to pay me more money than dad was paying me (which was more than what I was making at [the company] when my dad offered me the job).

So any rate, I told dad, this sucks. I have got these people here that have been here a long time. They don't want to see me here; they're treating me like shit. I think I made a mistake. And dad didn't offer me more money or anything, but said you have to look at it as a long term thing. And he said, what a shame it would be if I let a couple of these people who aren't a part of the long-term plan chase me away. So I ended up hanging and staying and it definitely took some getting used to. Before that I was out and about, and had people working for me; I had a pretty flexible schedule and now I was working 6 a.m. until we close everyday. It was kind of like punching in for...that's basically it. My horizon went from broad to very narrow, so it was definitely a big adjustment. By the same token, I was definitely a changed person from working with [a large

corporation] and learned that you can't roll in at 11 if you are supposed to be there at 8. You just don't do that. I learned a lot about politics, and getting along with people, and I got a lot of good formal managerial training. So in retrospect, I am glad I stayed here. (J516)

In another passage, the junior member provides some more examples of unkind gestures at his expense. In these examples, he talks about nonfamily members feeling threatened by him. This was a common theme apparent in many of the stories told by nepots.

[Before I came back, there was a salesperson employed there that was a "button-down" guy, and he would get ridiculed a lot]. And they placed that image on to me. And I would do something and they would be like, look at "button-down guy" over there with his post-its. And that was their way of compartmentalizing me and defining me and ridiculing me. That was the MO; that's how they saw me. Certainly people felt threatened. That was the deal.

Interviewer: Why do you think they were threatened?

Yeah, it's just any kind of change, or they may have something comfortable thing going on or a relationship that someone may uncover or undermine or whatever. Maybe they are taking shortcuts that dad doesn't know about. Who knows? There are a whole set of things that go on that play in people's minds and it's just the way it was.

It certainly caused me a lot of personal pain and took lots of time calling dad crying on the phone because someone was just so belligerent to me. And dad's thing to me was always, you have to rise above that. You can't give any power to what they are saying. You have to take the high road. Anytime I was in a dispute with anyone, dad was never like, tell them this...he was like you have to resolve it and you have to be the one that says you are sorry. That was a very tough, bitter pill for me to swallow and I did it over and over again. But over time, I have now developed...the point is it's taken me a very long time because I had to do it without...you know I think it was just a couple years ago that dad said, you are the general manager. This was after I had been back here for six or seven years. And even after that, still (the problems persisted).

It took me a long time to gain people's trust to see that I am not just in here and I want to fire everybody...it took a long time; you had to earn that shit.

Interviewer: Like 10 years?

Really I am still working on it today. (J516)

Besides being asked about his own experiences, the senior family member was also asked to weigh in on the perceptions he thought others had regarding his children.

Much of what he said was reflected in the junior member's account of the situation, however he did add one important point worth mentioning about the necessity of having senior generation support; he said:

[Son], it's your job to earn the respect. To put yourself in a position to – you're going to be the boss. You have to act like the boss. You can't act like anything other than the boss." And, it's mostly like anything else; you just have to be persistent...you have to stick your spear in the ground. You think about what your position is going to be. Then when you've thought about it enough, you take your position....Once you've determined your position, you don't ever move.

...The whole thing about putting the spear in the ground, well that only works if he has my support; and he does. (S516)

And finally in the last excerpt from this firm, the nonfamily member provides some insight as to why many of the nonfamily members have the view they do. However the nonfamily member also discusses the nepot's value, competency level, and work load. And at the end, some remarks are made in which the nonfamily member basically emphasizes why ultimately it is important and necessary to support the nepot.

I would say that all employees are much more respectful of [Senior], probably because we grew up and built the business together. And because his son is younger and hadn't been around as long, I don't think that he definitely gets as much respect from the [other employees], you know. Not as much as [Senior].

Yeah—I think [Junior] is competent. I know what his shortcomings are. I don't know that he always knows what they are. He's moody, that's my difficult thing with working with him; then he wants to work together, and I go, "Okay. You pissed me off last time, but I'm going to put that aside." And then, he'll give me another stupid answer. You know... and I don't know that he even knows that he does it. And I think that he is overwhelmed. I mean, he's got an awful lot to do, and could use more staff ... [sighs] to do it. Because he's all over the page.

...I probably have a better respect for [Junior] than I did. You know, for a long time, he would have been a peer. He would have been less than a peer. Then he became a peer and was boss in the office, but not boss of me. I still really think of him as boss in the office and not boss of me, though.

Interviewer: What if [Senior] was no longer here would that change?

Oh yeah. Exactly, which is the other reason why I don't want to undermine him! [Laughter.] I think if that happens we will be a team. (NF516)

In firms in which members are labeled as rejects, it is clear that there are negative consequences. The most prominent is that nonfamily members seem to resent the employment of family members and as a result treat them unkindly (Nelton 1998). This treatment could have detrimental consequences not only for the nepot, but also the other members of the firm and even the business itself. For example, this could result in the nepot leaving, and if they were considered a potential successor, this may lead to the firm being sold or going out of business. That said, it is evident that in this firm the nonfamily member that was interviewed no longer rejects the nepot. That through perseverance and time, the nepot was able to gain the respect of this fellow employee and be viewed as a valuable member of the firm.

Relation to Fairness

While there were no significant structural characteristics separating one pattern from another, a relationship between the typology of the social component of member success and member perceptions regarding fairness was detected. In the 12 firms in which all members perceived nepotism practices as fair, members were identified as either an “asset” or “competition.” However, those that were viewed as “competition” in the beginning were now seen as an asset. In other words, members in these firms were always valued, but in some cases it took awhile to welcome them. In the five firms in which there was one or more member who perceived the firm’s practices as unfair, members were either viewed as a “reject” or “competition.” In these firms, members were always resisted, but in some cases eventually became valued.

Nepotism

Nepotism is clearly situated at the crux of this research. Although the term was purposely excluded from the self-administered questionnaire to prevent any preconceived notions that may influence the subject's responses, the concept was addressed directly in the interviews. However, even in the interviews the ordering of questions was carefully constructed to elicit responses in which the distinction between ideal and real culture was more easily revealed. The first two questions concentrated on nepotism in relation to hiring—one focused on the hiring of friends or acquaintances, and the other focused on the hiring of family. The question regarding friends was asked first to gauge the respondent's perspective on the role of social networks in hiring. Even though this question does not specifically address nepotism, it does tackle its underlying premise. Furthermore, it sets the stage for discussing nepotism in a real and consistent manner by avoiding loaded terms such as "favoritism" and "nepotism." The second question was similar to the first, but it addressed the hiring of family members instead. And the last question on nepotism focused on the concept itself.

Nepotism as it Relates to Hiring

Hiring Friends or People You Know

The exact wording of the first question on nepotism was, "Do you think it is okay to hire friends or people you know?" In answering this question, it became clear that all of the companies had hired friends at some point. This is consistent with research on social networks and employment (Granovetter 1995) that find that applicants as well as employers prefer hiring through the use of personal contacts rather than formal means or

direct application. In fact, some of the key nonfamily members that were interviewed were actually friends of family members when they were hired. Furthermore, it was not just family members who had hired friends; many of the nonfamily members had also hired friends as well as their own family members during their tenure at the firm. A few companies even had an incentive program in place to encourage their employees to find potential hires:

We have a reward system for employees to find other employees, and you know a lot of those turn out to be their friend or a family member. But what we don't allow is for like a mother and daughter to work together. A mother can't manage a daughter, you know. (NF515)

Although all of the businesses had hired friends of family or nonfamily members, when asked whether or not they thought it was okay to do so, a variety of responses were given. While some had no problem hiring friends, most of the respondents that replied "yes" often included conditions in their response; these conditions ranged from the above comment regarding policies and practices for supervision to one's abilities and fit. Here are some of the responses given by family and nonfamily members:

Competent friends, but not friends for friends' sake....In all businesses, in bad times you can't hide bad people; they jump up at you, so there's a heavy cost to bad people. (F521)

Sure, if it is going to be what works for the company...if they're going to be a positive for the company and the company needs them, if there's a need and they fit that need, fine. I don't believe in hiring somebody just to give them a job when you don't have that job. This is true whether it is friends, family, anybody. (S515)

Yes, I mean, I do it a lot and, you know, you get disappointments and what have you.... I am willing to give them the opportunity, but they won't be able to advance [unless they can do the job]. (S523)

Yeah it's okay. And again, only if it's going to benefit the business interest. (J523)

Yes, but it depends on what you are hiring them for. They have to be competent in the work they do. I did hire one of my friends, but the key is always to keep the personal separate from work and that's what I do. My friend says I am a different person outside the office; in the office he says I am like his wife. (NF531)

Those respondents that replied “no” typically had this reaction because they had hired friends in the past and had an unpleasant experience. A founder from a business in the professional, scientific, and technical services industry describes such a situation:

No, because we did and we were sorry, and he's worked for us for thirty-five years and we can't get rid of him....He's got a very mean personality. He probably has more knowledge about this business...perhaps even more so than myself; but, again, his delivery is terrible. He has a disdain for women, which doesn't help matters very much, but he's been fired three times and hired back. He's threatened to leave four or five times which he never would because he can't make it anywhere else because he really has a bad name in the business. Now he has probably lost more business for us than anybody else that's ever been in the company; yet, I don't know what it is; I guess we're afraid to get rid of him. This is a terrible thing to say: sometimes some of us feel that maybe it would be good if he got sick; maybe that way he would leave. (F518)

This comment is especially significant to this research because it also addresses some of the issues often associated with negative outcomes of nepotism—that of keeping incompetent family members in supervisory positions, and providing unequal sanctions for behavior (Kets de Vries 1993). However, in this case the respondent is referring to a friend not a family member. And while the friend may have been qualified and capable, they were clearly not suitable or effective in their position. Furthermore, the company not only failed to impose negative sanctions on this person, but at one point they actually rewarded the individual by promoting them to president of the firm.

There were also a number of respondents who felt torn about the decision of whether or not it was okay to hire friends. Although some stated that it depended upon the individual, the main reason cited for their uncertainty was fear of having to deal with

an uncomfortable situation and the probability that this would ultimately destroy the relationship. Here are a couple of responses from family and nonfamily members expressing their concerns:

I think it could go either way. Well, if you hire someone you know and you think they're going to do a good job and they do it, it's great. But, if you hire someone you know and you have issues with their performance, you have to address it. And then it can be not so pleasant. (NF521)

Yes and no. That's worse than hiring family....But it's scary because if it don't work, you lost a friend and you got to worry with them looking for that extra treatment too....Personally I think it's probably better that you don't. Why put yourself into [a situation where] something might happen? But I would say you got to look at the individual. I mean, God, if one of my friends come in here right now and he's perfect for the job, would help the company, I'd be a fool not to hire him. But, jeez, I wouldn't want to be the guy to say hey, Mike or Bill or Joe, this ain't working. I got to let you go. I mean, jeez, you know. [Laughter.] I would have to, I guess, answer that as it's better not to, but we certainly don't want to close the door on that particular thing, that's for sure, but that's worse than hiring family. (S520)

A somewhat unexpected phenomenon that was discovered while discussing respondents' opinions on hiring friends was that some of the family members viewed members of their extended family as "friends" not family. When asked about friends, they would mention a distant cousin or sometimes an in-law and lump them together with friends separating this group from siblings/aunts and uncles, children, and children of their siblings/aunts and uncles. In other words, what was considered family was not synonymous to all. And although this question was not directly asked, it would have been interesting to see how nonfamily members defined family. Based on other feedback throughout the case studies, it is likely that nonfamily would have considered any person perceived as having a direct or indirect familial relationship to the family as family. This is not to say that they would not recognize that there may be some sort of hierarchy

among family members, but family is family and the perception is that they would be treated differently.

Hiring Family Members

The question regarding the hiring of friends was immediately followed with the same question about family members. However, in some cases, respondents commented on family without even being asked. Surprisingly all of the respondents that answered this question, including nonfamily members, agreed that it was okay to hire family members. Even those who were uncertain or stated that it was not okay to hire friends said that it would be okay to hire family members. Their reasoning was that with family it was different; with friends one could lose the relationship, but with family, they believed that the parties involved had no choice but to work it out. Below are several responses from family and nonfamily members that exemplify these sentiments. Each response addresses the question regarding the hiring of friends and is followed by a discussion about their view of hiring family:

No (laughing). Because a lot of times you can't keep your friendship. For family it is different. I don't feel that way with family because you are blood, and so basically you have no choice but to work it out. (J534)

I think it is okay, but me personally, I wouldn't hire friends. Reason being, usually a lot of times you may know somebody away from the job; it's a lot different than when you work for them, or see them on a daily basis. And it's a good way to not become friends. I think so. I think it doesn't work.

With family it is much better, 'cause family can discipline each other, and they're still going to be family. Whereas friends, if they distance themselves, they don't have to talk to each other on a daily basis, or they don't have to go to family functions. So family has no choice but to work things out. Then you got a matriarch or whoever that may be is going to take over and just do everything. But friends, I don't think is a good idea. (NF528)

No, I would never hire a friend...because they think that they can get over on you. And then it puts you in a terrible position that you can't really supervise them...

I do think it is okay [with family] because family is family. No matter how bad the fights are, they're always going to kiss and make up. With family, you are going to see each other so have to figure a way to make it work. (NF532)

In addition, it seemed to be clear from responses to this question as well as responses to other questions during the interview regarding hiring practices discussed in Chapter 6 that unlike friends, family members may be hired regardless of their qualifications, but they would be placed in positions based on their abilities and fit.

Yeah. I would encourage [hiring family]. I mean, you know, blood's thicker than water. I mean, you know, we wouldn't screw each other. And the thing I do like about the business, as much as I criticize it, is that although [family], as far as pulling weight get compensated the same as other [family] who pull less, there's just enough to go around and it just works out. I mean, even if my cousin ended up not being good with people, there's a place for him to be in the company doing this or that, and if he's good with people, but not good with technical things, I just think there's a place for them to be there and the family always has the family in mind. And, you know, when I do something, I think of everyone else that it may affect, whereas an employee is just thinking of an employee. (J532)

I think hiring family is a little bit different than friends only because I think family sometimes may get hired irregardless and friends would hopefully [not]....You know, I think that some family members would probably be here whether they're a true benefit or not would be my guess. But it hasn't happened here. No, not with [the junior family member]. But I do think that if one of his daughters wanted to work here and they needed the job, he'd have them working here and if we didn't have anything for them to do, they'd be here anyway. And if they weren't doing a very good job, they'd still be here a little bit longer [laughing], but, I mean, that hasn't happened either. I mean, his daughters that have worked here have all done pretty good stuff...just doing miscellaneous crap around the office, but they have done good work.

[Let me clarify] when I say "they," [I mean] some family businesses would hire [family] even if they weren't any good; I would think hiring them for positions that aren't necessarily main positions. Like I don't think if [the founder] didn't think [the junior family member] was a good project manager, he would have hired him to become a project manager. Now, he still may have hired him to be out in the field digging ditches and cleaning up trash, doing whatever. He'd be working for the company somehow, someway, but I honestly think that if he didn't think his kids could do it, they wouldn't be in a key position. (NF517)

Meaning of Nepotism

Next, respondents were asked to elaborate on the meaning of nepotism. They were presented with a definition of nepotism, and asked whether or not they thought it was a positive or negative thing. Although it would have been better in some ways not to provide a definition and just ask them whether they perceived the term as positive or negative, a definition was given because I had found that many people were not familiar with the term and I did not want to embarrass anyone. Here is the exact wording of the question: “According to the dictionary, nepotism is defined as ‘favoritism based on kinship (as in the appointment to a job).’ Do you think nepotism is a positive or negative thing?” Responses generally fell into four categories—those who viewed the concept and practice as positive; those that viewed the concept as negative, but the practice as positive; those that viewed the concept and practice as negative; and those that viewed the concept as neutral, stating that it depended on how it was practiced. Overall the responses within firms were fairly consistent; in other words if a founder or senior family member felt a certain way, so did the junior family member and nonfamily member of that firm. This reinforces earlier findings regarding the presence of a strong culture among these family businesses.

Nepotism: A Positive Concept and Practice

There were two prominent reasons that emerged amongst those that viewed the concept and practice as positive. The first reason cited by respondents centered on the belief that family members were more trustworthy, loyal, and committed than those who were not family. This is consistent with literature on the positive consequences of

nepotism. Both Molofsky (1998) and Nelton (1998) cited better greater loyalty and long-term commitment as positive consequences of nepotism. One senior family member expressed it this way:

I consider it a positive thing. Because there's, I suppose, a greater sense of loyalty. Your family has a much greater sense of loyalty and belonging than if you're a nonfamily member. (S532)

The second reason cited by respondents that perceived the concept as positive was based on the premise that favoritism was merely an opportunity; these respondents basically said that as long as it was practiced appropriately it was a good thing. By this they meant that the favoritism ended with the opportunity, and that family members still needed to be competent or show great potential otherwise they would not get hired. Furthermore, if a family member was hired and did not work out, they were either placed into a more fitting position or terminated. Consistent with rational choice theory, these firms clearly make an effort to satisfy and optimize both the family-first and business-first value orientations. The following responses are representative of this view:

I think of it as a positive thing, meaning giving someone an opportunity and leaving it at that. I haven't been around when someone gets appointed just because of who they are and all of a sudden drawing a six figure salary. And knowing my dad, my dad gave me and my cousin a job, and we were able to run with that avenue. So it is an added bonus, but it is up to us to make it after that. (J517)

...So nepotism done well, I think, is a good thing, so long as all it does is open the door for you. Nepotism to the extreme so that you're put in positions you don't belong in hurts everybody; it hurts the individual who you think you're helping....So I think nepotism is good to the point that it opens that door, and that's what it did. If I would have opened the door here, brought [my daughter] in knowing she couldn't do it and then constantly found ways to get her through things because she couldn't do it on her own, I think it's a terrible thing. (F521)

I think of it as positive because I don't think we've used it for the negative aspects of it; and although we've had some difficulties...[family members stealing], they're gone [fired]. (F518)

There were also a few respondents in this category that were confused by the term nepotism; although they always thought the term was positive, and continue to see the practice as positive, when they heard the definition they did not like what it inferred. That said, these respondents are still grouped in this category since their perception of the term had been positive up until this point. Here is one such response from a junior family member:

That's funny, 'cause our joke is we call this place "Nepotism [Company]." When people ask about the history of the company, 'cause we've been around for so long, and I start to tell them, and we always say, "Yeah, sometimes we call it 'Nepotism [Company],'" but I don't like that now that I know the definition of it – favoritism based on kinship. What is the question again?

I just thought it was a positive thing. You have a bunch of family working for you, which is a great thing because hopefully they're all loyal and motivated people that want the company to forge ahead. (Chuckle) So I always thought it was a good thing.

I think I always thought of "favoritism" as a negative word, so I guess that's why when I read this I was like, that's not a very positive thing. (J518)

Nepotism: A Negative Concept but Positive Practice

Those respondents who viewed the concept as negative, but the practice as positive were really not that different from the previous group. Although they acknowledged that nepotism had a negative connotation, this group also felt that nepotism was positive as long as it was practiced appropriately. In some cases respondents redefined the term by either denying its existence or demonstrating that what they were practicing was not really nepotism; and in other cases respondents simply

stated that nepotism was not a problem at their company. Here are several responses from both family and nonfamily members that reflect this view:

I would say more as a negative. Well, my thinking is that if it's an appointment to a job and you're not qualified, is the appointment more because of the relationship? It wouldn't be for me. [For me] it would be if you were qualified or if you wanted to come in and work your way up to that; that would be great. (F533)

Overall, I would always think of nepotism as a negative thing...but for a father to give his son a job at the office and they can come up through the ranks and the kid earns it, that's not – to me that's not really nepotism. (NF517)

...He's got to be competent. Now if he wasn't competent I would be completely opposed to that. But agree that the word nepotism conjures up a view that it is a negative; that it is always undue favoritism....If you hire somebody you don't know and you look at their resume, you have no idea what they're like, personally or people skills. You know, you're taking a pig in a poke. You have no idea. I'd rather go with somebody that I have confidence they can do the position. (NF520)

Meaning they are in the position because they are family? I think I would look it as a negative but at the same time I understand that it goes on. I could see how at other businesses that that would go on and I understand it. At the same time, if there was [a family member] and another person capable of doing the job, and you gave it to [the family member] because he was a relative, maybe you give it to the relative because you know he would have more loyalty to the company and you could trust him more so in that way I understand why it happens. So in that case it wouldn't be a negative. (J524)

I would think it would be negative. Meaning that if you're a family member, you're going to be treated better? Well, as long as I have been here, I've never really felt that anybody was treated better than anybody else, so that has never been the case here. I've never really felt like that. And that's my honest opinion.

They want to make this company the best. And if it's a family member, that's great. If it's not, it's not. (NF533)

In addition, some of the family members that viewed the concept as negative but saw the practice as positive commented on the drawbacks nepotism may have even when practiced appropriately. Here are a few comments by family members when asked whether they thought nepotism was a positive or negative thing:

Probably a negative because some people think that just because you are a family member you get more benefits. And that was kind of one of those things that when I was working with my father, I was working with another employee and he was like, “you are here just because you are the son of the owner.” So sometimes I think it backfires on you in a way, because they just feel that way. Like I said, my father didn’t do that; we weren’t raised that way. (J534)

Well, you know I mean...it takes a hit on your business. You have to absorb the negative effect of nepotism. It definitely reduces employee productivity, causes there to be chaos or some upheaval in your existing organization. And you have to be prepared to sacrifice that, whatever that cost is to the company. Over time it works out...you just want to make sure that the position that you have put that family member in, that they’re never in a position that they’re not capable of doing....[Otherwise] you end up with problems, because you get credibility problems, and the stuff we talked about where people who want to do their jobs can’t do their jobs. (S516)

Nepotism: A Negative Concept and Practice

The third category of respondents viewed the concept of nepotism as well as the practice as negative. However, once again, even though the respondents in this group viewed nepotism as negative, ultimately they responded in a similar manner as those who felt the practice was positive as long as it is was also based on merit. The difference here was that this group clearly defined nepotism as “undue” favoritism, and as a result adamantly opposed the practice or any sort of favoritism that was not merit based. This was evident because many respondents related the term to situations outside of their business in which family members were incompetent and hired or kept on regardless of their abilities. Furthermore, most of these respondents insisted that decisions in their company were merit based, and as a result seemed to ignore the fact that they had practiced and/or benefited from nepotism. The family members in these firms may have been competent and/or had potential, but they were still favored. Here are a few responses from family members that express these views:

I think it's a negative. I just think people ought to be appointed to a job because of their performance and production not because they're part of the family. And I think that has a lot to do with companies failing. I do think that we are excellent about that. I think we appoint people who we think are going to produce and it's no different [for family]. (J533)

Oh, negative. Because I really do believe that the workplace should be a place based on merit rather than a place where people have to live with a family member regardless of whether or not they have the skills to do the job.

That view that when a younger family member comes in, people are like "that tool, I know how they got this job – they are going to tell me what to do?" That is definitely a part of the view of the family business. So it is interesting that, like you said, the definition doesn't imply undue or incompetence as part of the definition. [And] people do it with friends too and think nothing of it. It's who you know not what you know. But I think broad brush; that was why I had that reaction. I don't like nepotism because I think everything in life should be about merit. You have good friends by being a good friend. You get a promotion by doing good work. (J519)

That's a bad thing. It's a bad thing because merit and ability is what you should use when promoting people or appointing people to things, their capabilities, and not the fact that they're a child. That's a bad thing for the world. (F522)

This last response is particularly interesting because in previous discussions, this founder had expressed some concerns about the level of competence of one of his sons (confirmed by the other members of the firm that were interviewed). So I pressed him about the issue saying "...but you have allowed him to continue in this position simply because he is your son?" Visibly troubled by the situation (as well as the irony of his previous statement), the founder reluctantly replied "Yes, it's a mistake. I'm hoping he will come around. That's a big part of the problem that [another family member in the business] has with him" (F522). Clearly, our ideal culture does not always reflect our real culture, and what one says is not always what one does. Furthermore what one says and does may be dependent upon their position. This situation describes one of the biggest fears cited by opponents of nepotism—that nepotism can lead to hiring

unqualified and keeping incompetent family members in supervisory positions (Kets de Vries 1993; Yeung 2000).

In another instance, a nonfamily member that was adamantly opposed to nepotism concluded that the reason it was negative was because it did not benefit them. This is obviously related to rational choice theory since from the nonfamily member's perspective the practice of nepotism fails to optimize their objectives and is therefore not consistent with their preference hierarchy. According to this member, nepotism was:

Negative because it is unfair; it's not right. Well, it's negative to me as a nonfamily member. It would be positive to a family member. In some sense, it belittles what a nonfamily member brings to the table. That if you had two [Susans] and one was a family member and one wasn't, it's not fair that family [Susan] would get treated different than nonfamily [Susan], when we both bring the same value to the company.

Now, if [Susan] was my child, it would be a positive thing. I'd be glad that [Susan] could work in my business. (NF516)

Another pattern that emerged amongst those that viewed the concept of nepotism as well as the practice as negative was the preponderance of junior family members that felt this way. Furthermore, these junior family members often seemed on the defensive when the question was asked. It was as though they wanted to convince me that nepotism was an immoral and awful practice, and ensure that I (as well as others) knew that they were competent and that their status was not undeserved or unearned. Below is an example of such a response:

I think it's a horrible thing, and questions about family coming into the business for me they've got to – no favoritism, start at the bottom, hard knocks. I think it's a terrible thing. I think it's not terrible for the family; it's terrible for the business.

It's like incest to me; it's like inbreeding. You end up toothless, eventually. [Laughter.] (J522)

This last sentiment also expresses a common defense and rationale given by junior family members (even those who labeled nepotism as negative) as well as other family and nonfamily members when discussing their own situation or business; “you have to start from the bottom and work your way up.” And they state it with such confidence, as if this solves everything, relieving them of their immoral practices and proving that what has happened in their company was not really nepotism. What if a family member was qualified for a top managerial position; would that same person still have to start at the bottom? Would they have to start at the bottom with those same qualifications if they were not a family member? Probably not.

Interestingly, when discussing the practice of hiring friends, the issue of morality was never really brought up like it had been during other discussions on the topic regarding family. For those that saw this practice as unfavorable, the focus was on the fear of negative consequences. Yet, when one uses the term nepotism, which essentially replaces favoritism based on friendship with favoritism based on kinship, it becomes an ethical issue where the assumption is that the family member must be incompetent. Whenever someone hires a family member (or friend) they are, of course, favoring them because of the relationship; what is unknown is whether or not they have the competence to go along with it. This issue is not all that different than what minority applicants are faced with in the job market; instead of “nepotism,” the dirty word is “affirmative action.” Both have negative connotations and imply that any opportunity, promotion, or success was unearned. Even those that appear to accept the merits of a hired family member still seem to have doubts about the family’s motives; and this seems to overshadow any contributions the family member has made to the business. In this

excerpt, taken from two different points during the interview, a nonfamily member expresses these concerns:

...a lot of times they don't volunteer that they're [family members]. It's not that they're trying to hide it, it's just that...and it'd be like "Oh, well, they got into this position because they are [family]." But if they couldn't do the job, they wouldn't have it. If they weren't capable, they would not be here; so they've earned what they've got. [The founder] didn't put people in positions where he didn't think they could handle it....I mean, they are doing a good job and will continue to do a good job long after I retire.

....When I think about [when the junior family member first entered the business], I think of them accepting [a nonfamily member's] resignation so willingly...they accepted her resignation because they already had the plan; they already knew [this junior family member] was coming in. I don't know that for a fact, but that's definitely how it looked....I don't think their actions were intentional; I think things just happened. I think when [the nonfamily member] gave her notice it just made it easier; I mean I don't know, they could have had a plan to bring [the junior family member] in at some other position or had her working in some other capacity doing other things. (NF515)

So, for all intents and purposes, it really does not seem to matter why the family member was brought in or if they are competent or not because if the perception is that the practice of nepotism is negative, no matter what that individual does they cannot escape their ascribed status as a family member.

Nepotism: A Neutral Concept

The last category of responses viewed the concept of nepotism as neutral, stating that it depended on how it was practiced. As with the other categories, the message was ultimately the same; if practiced in an appropriate manner, nepotism can be positive. The difference with this group is that they immediately acknowledged that the definition was neutral. This founder stated it best when he said:

The word nepotism is a negative, but the definition is neither. Well, the word is. It has a negative connotation the way it's been used or the perception of nepotism the way it's portrayed. If you see, well, that was blatant nepotism, well, that's

always bad. Every time you see it written it always is part of a negative paragraph or sentence, but the definition of nepotism by and of itself is neither positive nor negative. It is neutral. It's just always presented as negative. It's always used in a negative context. "Well, yeah, that company screwed up because that guy practiced nepotism and the family couldn't do squat when they got in the business" type of thing. There's always some negative. They never say, "They practiced nepotism and they hired these great people so the company is flourishing." Look at Anheuser-Busch, that's a seventh-generation business, and they've always had Busch family members running it and they don't say, "Well that nepotism sure didn't work there." So it's just the way they – it's always negative when it's presented that way, but if you look at the definition, it's neutral. It could be positive, it could be negative. (S515)

Others in this category expanded on this view by pointing out that it depended on the individual as well as the why the person was hired (in addition to being a family member) and other informal practices adopted by the company. The following sentiments were expressed by a founder, junior family member, and nonfamily member respectively:

I don't think it is either one—I think it could be a little bit of both. Well, for us, I try to keep everyone equal. I don't try to give my family more than anyone else. (F534)

I think it can be good. I think it can be bad too. It can be good if the appointment you're making or the favoritism you're making is going to benefit the organization as a whole, add value as a whole. And you're going to end up better than if you didn't make the appointment. It can be bad if you're just appointing someone and they're going to go the opposite direction. If they're not going to contribute, they're going to drag things down, and they're going to cause conflict. Whatever negative you want to point to. Depending on the person that you're appointing, if you're just appointing them because they are of kin then it's probably not a good thing but I don't think that that happens here. (J523)

I mean I think it could go either way. I think it just depends on the person; meaning that you know if the person is capable and wants to be in the business or not. So if they're competent, I think they can work out great. If they're just there to claim a paycheck, and they're struggling, then it can be a real negative thing. (NF521)

In summation, most of the respondents accepted the premise that forms the base of this study; nepotism in itself is not inherently negative or positive, and the outcome is dependent upon the manner in which it is practiced. Under certain conditions, it is acceptable to hire friends and family of both family and nonfamily members of the firm. This was evident in the dual nature of the responses given to the various questions specifically focusing on the topic of nepotism as well as other conversations throughout the interviews.

Those who viewed the concept and practice as positive also acknowledged the negative effects hiring family or even friends could have on individuals and the business. Those that viewed the concept as negative, but the practice as positive as well as those that viewed the concept as neutral visibly noted that the outcome was dependent upon the manner in which it was practiced. Even those that viewed the concept and practice as negative often unintentionally demonstrated that hiring family was acceptable to a certain degree and under certain circumstances. It was also evident that many of the respondents, especially family members, struggled with their participation in the practice and societal values that regard “favoritism” and perceive “nepotism” as negative. For nonfamily members the struggle had nothing to do with their participation, rather it had to do with their exclusion from the practice and the perception that the practice was unequal and thus unfair to them. Of course, in most of these cases the costs that go along with the benefits were not factored into the equation, and nonfamily did not really recognize the benefits that may come from this exclusion.

Policy Implications

Based on the limited knowledge gained from this study, it is clear that member perceptions of nepotism, nepotism practices and the perceptions of members upon the nepot's entrance into the family business have consequences. To prevent negative consequences and ensure positive results it is important to put policies and practices in place that diminish the impact of these negative perspectives and encourage a culture that does not regard these policies as lip service but common practice.

To start, one should consider putting policies in place that define and address nepotism (as well as favoritism based on friendship), and then articulate the unwritten conditions for practicing nepotism expressed by so many of the respondents in this study. In doing so, one should be candid; for example, actually state that the firm will favor family and friends of family or nonfamily members, but only if the person has the appropriate skills or capability. One should also detail how this is determined including any qualities that are valued that may not be obvious from a resume, such as trust and loyalty. Other conditions and specifications could be added that express the form favoritism will take, for instance, favoritism is only afforded as an opportunity; and then one could lay out the consequences, both positive and negative, based on performance. If desired, such conditions could be specific, stating for example, that those (whichever groups one wanted to include) that do not perform well in their initial position will be kept on in some capacity if another position is available (or if there are existing suitable tasks that need to be performed for the business).

It is also important to communicate the philosophy behind these rules; for example, this policy is in place because one of the company's objectives is to help family

and friends by placing them in positions that they will be successful and that will ultimately help the business. One firm's ideal culture may differ slightly from another, but the point is to express the firm's values, turn norms into formal rules, and ultimately put these values and norms into practice. Of course, the policies do not mean a thing if they are not followed or exceptions are consistently granted.

CHAPTER 9

CONCLUSION

In this final chapter, the empirical and theoretical contributions of the study are synthesized and discussed. The chapter is divided into three sections. The first part presents a summary of the findings in relation to existing literature on nepotism. It also explores some of the potential practical outcomes of these findings. The second section provides a discussion of the theoretical contributions to the field of family business and the impact this research may have on scholarly activities in sociology. In the last section, several implications for future research are proposed.

Empirical Findings in Relation to the Literature

The purpose of this study was to explore the consequences of nepotism and nepotism practices on family businesses and their members. In keeping with this purpose, the main objective of the research was to gain knowledge regarding the conditions in which nepotism is beneficial or problematic to members and the family firm. To accomplish this, the study explored the role structure and culture plays in developing nepotism practices as well as the impact these practices have on the interpersonal relationships of members. A discussion of the empirical findings addressing each of these objectives in relation to the existing literature on nepotism follows.

Negative and Positive Consequences

Although nepotism is often viewed with negativity, this research suggests that it is not inherently negative or positive to the family firm and that the outcome is dependent upon nepotism policies and practices. Throughout the study, both negative and positive outcomes surfaced in the data. The most prominent negative consequence observed was the fear that nonfamily employees would resent the employment of family members and as a result treat them unkindly if brought into the business (Nelton 1998). This was evident in numerous responses from senior, junior, and nonfamily members and was typically found within firms in which members were resisted at the onset of nepotism. According to the typology of the social component of member success (Figure 3.3) presented in Chapter 3, these members were labeled as either “competition” or “rejects.” Members viewed as “competition” were resisted, but valued. Whereas members perceived as “rejects” were resisted, but devalued.

In both cases, the practical implications of this negative outcome can be detrimental to the success of members and the firm. When nepots and nonfamily members are resisted, the interpersonal relationships between members are either strained or weak. Consequently, the member’s experience at the firm is unpleasant and this has both short-term and long-term consequences for all parties. One likely outcome of this experience could be the loss (either through a resignation or firing) of the resisted member or the member who resisted them. In the short-term, if it is the nonfamily member that is being resisted, this individual may choose to resign or the newly employed nepot may be terminated. This was exemplified by the firm in which the father chose his long-time secretary over his daughters. In the long-term, the nepot risks

alienating the nonfamily member and losing someone who may be potentially valuable to their success and the future success of the business. In addition, the nepot may lose the respect of founding/senior family members who tend to feel more loyal to nonfamily members than to junior family members. Therefore, as supported by rational choice theory, it is in the best interests of nepots to treat nonfamily members in a positive manner and help them become successful (Chua et al. 2003). Without the help of key nonfamily members, the business will suffer. And when the business suffers, the success of everyone is at stake. Therefore, when nonfamily members are successful, nepots benefit.

If it is the nepot that is being resisted, this individual may choose to resign or the nonfamily member may be terminated. In the long-term, the consequences for resisting a nepot may be more detrimental than resisting nonfamily members since in many family businesses the future vitality of the firm often depends on the successful transition of nepots into the business (Chua, Chrisman, and Sharma 2003). When there are no family members to replace the founder/senior family member, firms are frequently sold or go out of business. As a result, these key nonfamily members are often left without a job. So it is in the nonfamily member's best interests to help nepots become successful. When nepots are successful, nonfamily employees benefit. And when both nepots and nonfamily members are successful, the business benefits.

Other negative consequences supported by the data include the belief that nonfamily members would view nepots as an impediment to their promotion and success (Nelton 1998), the worry that family members may be lazy and have attitudes of entitlement (Nelton 1998), and the concern that nepotism makes attracting and sustaining

professional managers problematic (Toy, Brown, and Miles 1988; Kets de Vries 1993; Wong and Kleiner 1994; Nelton 1998; Yeung 2000). Although attracting and sustaining professional managers was one of the main concerns cited in the literature, there was only one white-collar firm in the study in which members identified this as a problem. Furthermore, none of the members of the blue-collar businesses seemed to think this was an issue. Therefore, it is likely that this concern is industry specific. There were also two other negative consequences cited by those opposed to nepotism that were not supported by this research; they include the hiring and continued employment of unqualified family members in supervisory positions (Kets de Vries 1993; Yeung 2000) and unequal sanctions (Kets de Vries 1993). Although unequal sanctions were observed, they were not always to the benefit of family members as suggested by the literature.

Positive consequences were also observed. Among those supported by the data were the ability to fulfill needs at peak times (Molofsky 1998) and the belief that nepots provide customers with a sense that they are dealing with someone who is “in charge” (Fischetti 1992). However, the most commonly observed benefits were that nepotism fosters exceptional dedication among employees (Molofsky 1999), promotes a feeling of solidarity and sense of ownership (Wong and Kleiner 1994), and incites greater loyalty and long-term commitment to the company (Molofsky 1998; Nelton 1998). These qualities were evident in countless stories told by nonfamily members and the frequently expressed sentiment that they are treated “just like family.”

The size of the firm appears to be particularly relevant in these cases. Small to medium sized firms typically utilize a simple or pre-bureaucratic organizational structure and have not yet reached the developmental phase in which formal policies are

established. Consequently, control and influence typically comes from the top and personal relationships with that individual or group of individuals are ultimately more important than rules, procedures, and one's position and roles (Harrison 1972; Handy 1993). In family businesses, this type of power is exercised with a "velvet glove" since employees are "cared for rather than exploited" (Harrison 1972:121). Therefore in the absence of formal policy, the values and culture of the firm become increasingly important to the type of social behavior exhibited by members and the subsequent success of the firm. Although this study advocates for the establishment of formal nepotism policies, the absence of such policies is what allows the leadership to be more flexible in their treatment of members. And it is precisely this flexibility that enables members to feel a sense of solidarity, ownership, and loyalty to the firm. Knowing this, it is important for family firms to balance the need for formal policies while at the same time maintaining the flexibility that exists in their absence.

Structural and Cultural Conditions

Although the strength and direction of the relationship between nepotism policies and practices and the structural and cultural characteristics could not be analyzed, empirical data from the case studies indicated that at least some of these characteristics play a role in their development. Industry type appeared to have the greatest impact. Members of white-collar firms often had very different expectations and perceptions than members of blue-collar businesses. As a result, the behavior and interpersonal relationships differed at the onset of nepotism and in the years that followed. This

evidence is supported by conflict theory since white-collar firms tend to have different power structures than blue-collar firms.

Age does not appear to directly influence nepotism practices, but it is related to the developmental phase since as the firm ages it is more likely to reach the stage in which formal and thus more open policies are established. Size is somewhat relevant since as the firm increases in size so does the likelihood of having equal as well as formal and thus open nepotism policies. Both of these findings are consistent with structural-functionalism since allocation, adaptation, integration, and self-maintenance of the system and its subsystem are necessary if family businesses are to survive.

Values are also important. Members seem to be more likely to perceive practices as fair when the values among family and nonfamily members are consistent. From a rational-choice perspective, this stands to reason since consistency in values is also indicative of firms that tend to integrate and/or satisfy and optimize values in both the family-first and business-first value orientations. When a family business is able to achieve that balance of optimization, the dichotomy between the family and the business disappears, and the family business is viewed as one collaborative system rather than competing systems of values. This not only promotes member success but also the success of the business. From a practical standpoint, it could be surmised that firms should make an effort to formally and informally articulate their core values and goals to members. This will not only help leadership practice what they preach, but it will also ensure that members perceive the practices as fair.

Nepotism's Impact on Interpersonal Relationships

In Chapter 3 a typology of the social component of member success (Figure 3.3) was presented to express the intersection of attitudes and actions of members who face or have been faced with nepotism. According to this typology, individuals may be valued or devalued and welcomed or resisted. Individuals who are valued and welcomed are seen as an “asset.” The attitudes towards these individuals are considered positive, and the actions towards such individuals have a positive impact indicating a strong interpersonal relationship between members. Individuals who are valued, but resisted are viewed as “competition.” The attitudes towards these individuals are considered positive, but the actions towards such individuals have a negative impact indicating a strained interpersonal relationship that is perceived as weak by members. Individuals who are devalued, but welcomed are labeled “clowns.” The attitudes towards these individuals are considered negative, but the actions towards such individuals have a positive impact. This also indicates a strained interpersonal relationship, but in this case the relationship is perceived as strong by members. And those individuals who are devalued and resisted are seen as “rejects.” The attitudes and perceptions towards these individuals are considered negative, and the actions towards such individuals have a negative impact indicating a weak interpersonal relationship between members.

Only three of these types were observed in the data—those identified as “assets,” “competition,” and “rejects.” Although members identified as a “clown” were not represented in this study, there was evidence that this category exists. However, these members were not typically in key positions in the business and had either left the firm or been fired. The absence of this category among members that are still working in the

family business is important since incompetence and laziness among family members (Nelton 1998) and the belief that such individuals are promoted and kept in supervisory positions (Kets de Vries 1993; Yeung 2000) are some of the most commonly cited qualities associated with family businesses. Contrary to this stereotype, the data indicate that the value orientation of family firms may not be as slanted towards family-first as some might believe.

The Character of Nepotism Practices

In addition to the claim that nepotism in itself is not inherently negative or positive to the family firm, I also argue that family businesses can avoid negative outcomes and ensure positive results by implementing nepotism policies and practices that are both open and fair. In other words, it is under these conditions that nepotism is believed to be most beneficial to family firms.

A typology (Figure 3.2) was presented in Chapter 3 to express the intersection of four qualities used to describe the character of nepotism practices—open, closed, equal, and unequal. According to this typology, the “most beneficial” nepotism practices are identified as those that are both open and equal since these practices are most likely to be perceived as fair. Firms that have practices that are open but unequal are said to be “beneficial” and those that have practices that are closed but equal are said to be “problematic.” In both of these cases, nepotism practices may or may not be perceived as fair. However, due to the negative connotation of nepotism, it is believed that firms that practice equal but closed practices are more problematic than firms that practice unequal but open practices since it is likely that members, especially nonfamily members, will

assume that the practices are unequal even when they are not. Those nepotism practices that are closed and unequal are identified as the “most problematic” since these practices are least likely to be perceived as fair.

According to the empirical data, most of the firms in this study were ultimately identified as having practices that are open but unequal. Although data used to determine whether or not nepotism practices were open or closed were inconclusive, it was clear that all of the firms in this research have at least some nepotism practices that are unequal. As a result, firms in this study were initially identified as having practices that are either “beneficial” or “most problematic” to the firm. However, according to the data elicited from members when asked to directly assess the equity of the policies and practices, it was determined that the practices did not have to be the same to be perceived as fair.

So even though fairness is considered an outcome in the typology of nepotism practices, when the characteristics of equal and unequal practices are related to the outcome types instead of to the characteristics of open and closed practices, it can be said that most of the firms in this study would be identified as having practices that are “beneficial.” Since practices that are “most problematic” are least likely to be perceived as fair, it stands to reason that if most members perceive their firm’s practices as fair (as they do in this study) they are more likely to be labeled “beneficial” than “most problematic.” Obviously further research on these relationships is needed to be certain, but based on this assessment, one could speculate that firms do not necessarily have to employ equal policies to be perceived as fair as long as they are open about such policies and consistent in their practices.

The empirical data in this study also suggest that equity is essential to the interpersonal relationships of members. These relationships impact member success and this in turn affects the overall success of the business. According to the data, firms that perceive nepotism practices as fair identified members as either an “asset” or “competition.” These members were always valued, but in some cases it took a while for them to be welcomed. Therefore, nepotism practices that are viewed as fair result in either “strong” or “strained” interpersonal relationships. Firms that perceive nepotism as unfair identified members as either a “reject” or “competition.” In these firms, members were always resisted but in some cases they eventually became valued. As a result, nepotism practices that are viewed as unfair result in either “weak” or “strained” interpersonal relationships.

Although nepotism may open doors for family members, in most cases the favoritism did not appear to extend much beyond the member’s initial full-time entrance. Therefore, instead of family business practitioners and owners focusing on eliminating nepotism, it seems reasonable to suggest that they concentrate on alleviating the negative impact. From a structural viewpoint it is important to consider the conditions that exist within the family and company prior to the nepot’s full-time entrance or placement in a leadership position. For example, how does the founder’s/senior’s spouse feel about their child’s possible involvement in the family firm? Are there any issues between siblings or other family members in the business that need to be discussed before bringing one of the children into the business? How will you resolve conflicts between family members? Is the business in need of help? Will the nepot be brought in at the ground level or a leadership position? How does the nepot’s age and gender impact all of these decisions?

In addition, owners should establish a plan and some informal ground rules at the very least, and then communicate this information to both the family and nonfamily members before the onset of nepotism and/or before placing a nepot in a leadership position. Based on the discussions regarding the hiring of friends and family members, it is clear that the same basic conditions for friends should apply for family: 1) Their employment should benefit the business; 2) they should be qualified and competent if they are going to be placed in a key position; and 3) boundaries should be established between the status of employee and that of a friend or family member.

Key nonfamily members should be consulted not simply told that a family member is joining the business. It is also important for owners to verbally acknowledge the nonfamily member's value to the company and assure them (if this is the case as it is in most family firms) that the nepot is not taking their job and will not impede their success in the business. While many of the owners in the study did acknowledge the nonfamily member's value to the firm by promoting them or giving them additional perks, most did not communicate this verbally. It is important to actually "say it" so that there are no misconceptions, and promotions and perks are not interpreted as if the owner is trying to buy their loyalty. Furthermore, to avoid speculation it is necessary to be honest with the nonfamily member about their future in the business. For example, even if it seems obvious to the owner, if the nonfamily member will never run or own the company the owner should tell them. Discussions should also ensue regarding the responsibilities and expectations of both the nonfamily member and nepot. If there will be differences (and there will), be up front about these differences and explain the trade offs that inevitably come from these differences. Similar discussions should incur with

the nepot, and then all parties should be brought together prior to the nepot's entrance or rise to a leadership position to converse about the process. While these suggestions may seem apparent, few owners take the time or effort to put these thoughts into practice.

Theoretical Contributions

This study was framed by four major sociological theories—structural-functionalism, conflict, symbolic interactionism, and rational choice theory. While the prospect of utilizing such broad theories to explore any subject matter has little redeeming value among sociologists, the implications of their use in this research are significant. Given that sociology is recognized as a major contributor to the field of family business, and because sociological theory and concepts are noticeably absent in the literature, one of the goals of this study was to expose academics in business and other social sciences as well as practitioners and family business owners to this unique perspective. This research accomplishes that by identifying paradigms and theories of sociological thought and integrating them with the existing body of knowledge found in the field of family business. In addition to expanding cross-disciplinary understanding, it is also hoped that other scholars and professionals that serve family businesses will recognize the value and relevance of sociology in family business research and practice.

Sociology is ideally suited for studying family businesses because it enables scholars and practitioners to connect the private problems and experiences of the individual with the social issues found in the larger society. In sociology this view is known as the sociological imagination (Mills 1959). In other words, sociology approaches phenomena at the micro, meso, and macro levels and highlights the

relationships between them. At the micro level the focus is on interactions and social practices of individuals within the family business. At the meso level the focus is on the structure and culture of the organization itself. And at the macro level the focus shifts to the relationship between the family business and other social and cultural practices or structures in society. Sociologists are experts in human diversity—culture, ethnicity, race, gender, sexuality, age, religion, and more, and this knowledge becomes extremely useful as businesses become more diverse and global in their workforce and customer base. They understand systems and organizational behavior and dynamics (structural functionalism). They are skilled in conflict management and resolution (conflict theory). Furthermore, sociologists recognize the importance of communication and how individuals make sense of and interpret the social world they live in through language and symbols (symbolic interactionism). Together, this provides an ideal platform for understanding family businesses, and this combination of theories may be exactly the paradigm researchers have been searching for to unite the field of family business.

In the same spirit, the absence of family business in sociology is equally relevant. By studying family businesses and nepotism, this research contributes to numerous subfields within the discipline of sociology. Among some of the relevant branches are the study of organizations, occupations, and work; the study of family; international migration; the sociology of culture; and of course, studies that examine the interactive effects of gender, ethnicity, race, sexuality, aging and the life course, and socioeconomic status. And finally, because this work is client-centered and actively seeks to use the sociological perspective and its tools to understand and help professionals intervene and enhance the social life (Steele and Iutovich 1997) of members of family businesses as

well as the organization itself, this research contributes to research and practice in applied sociology.

Implications for Future Research

Because this study is exploratory, it has widened the scope for further research related to nepotism and its consequences on family businesses and its members. In addition to the need for more quantitative research on this topic, which would make findings more generalizable, there are a number of other directions for future studies that should be considered. First, because the data on the openness of firms was inconclusive, it would be beneficial to focus on this characteristic and relate the findings to the typology developed on nepotism practices (Figure 3.2) which illustrates the intersection of open, closed, equal, and unequal nepotism practices. It would also be of interest to conduct a longitudinal study on nepots to determine the conditions and reasons why some nepots stay in the family business even in the face of adversity while others leave or are fired. Longitudinal research would also be useful in connecting nepotism to member success as well as the overall success of the business.

One of the main concerns cited by those opposed to nepotism is that nepotism may lead to hiring unqualified and keeping incompetent family members in supervisory positions (Kets de Vries 1993; Yeung 2000). Interestingly, through the case studies but not the focus of the data presented here, it became apparent that family businesses often hired unqualified and kept incompetent nonfamily members in supervisory positions. It would be interesting to compare family firms with businesses that are not family-owned

to see if there was a relationship between such practices and the value orientation of firms.

Furthermore, based on the data found in this research it became evident that the distinction between white-collar and blue-collar family businesses was worth exploring. It seems that members in white-collar firms have different expectations and perceptions than those in blue-collar businesses and this impacts the conditions in which nepotism is viewed as beneficial or problematic. Industry type may also be salient in other areas of family business research. For example, education was more relevant to white-collar firms in assessing qualifications, and tenure seemed to be much more important in blue-collar companies. And finally, although there were some firms in this study where differences in gender were salient, there were not enough cases for a complete analysis. Therefore, it would be interesting to explore the effects of gender on nepotism. For example if the nepot is a woman and the key nonfamily member is a man, does this affect the perceptions, actions, and interpersonal relationships differently than if both members are men? As more women enter leadership positions in family firms, will nepotism policies and practices become increasing open? These types of studies may be just enough to incite greater interest in the field of family business among sociologists and put sociology on the map in the realm of family business research.

APPENDIX A

QUESTIONNAIRE: BEST PRACTICES IN FAMILY BUSINESS

Dear Family Business Owner:

I am pleased to invite you to participate in the **Best Practices in Family Business Survey**, led by Gina M. Finelli of American University with support from the Kogod School of Business.

As a family-owned business, you play a significant role in the well being of our nation's economy. According to broad estimates, approximately 90% of all business in America are family owned. Family businesses account for as much as 78% of all new job creation, 62% of employment, and create 64% of the U.S. gross national product.*

Unfortunately, we know relatively little about family businesses. This survey will help researchers learn more about the organization, leadership, policies, procedures, and values of family businesses. The findings will not only expand knowledge in the field of family business, but will also provide vital information to assist family businesses, advisors, and consultants of family businesses in developing effective policies and practices for successfully operating their business.

To help us learn more about family businesses, we want you to tell us your story!

To participate in the survey, your business must meet all of the following criteria:

- Ownership is held by one or more family member;
- the majority of voting control is in the hands of a member or members of the family;
- the major operating decisions and plans for leadership succession are influenced by a family member or members actively serving in management; and
- there is currently active involvement by multiple generations in the business.

Please complete the survey as thoroughly as possible. All responses will be **confidential**. A senior ranking family business owner and/or top decision-maker should complete the survey. Please consider "family" to mean family or families that currently control the business and all people related to them by blood, adoption, or marriage.

Please complete and return the survey by September 30, 2005.

If you prefer, the survey may be completed online at www.surveymonkey.com/s.asp?u=133771138932

Thank you for your participation. Upon completion of the survey, you will receive a 3-month subscription to *The Family Business Advisor* (a \$50 value) as a token of my gratitude. The eight page monthly newsletter provides practical tips, ideas, and insights from renowned family business experts to assist family-owned enterprises with their special needs. Should you have any questions or comments, please contact me at xxx-xxx-xxxx or by email at xxxx@xxxx.xxx.

Sincerely,

Gina M. Finelli

* Joseph H. Astrachan (Director of the Cox Family Enterprise Center at Kennesaw State University) and Melissa Shanker (Associate Director of Loyola University's Family Business Center), 1996 and 2003.

Best Practices in Family Business Survey

Directions: Indicate your response by checking the appropriate box, circling the appropriate number, or filling in the blank.



Section I: Company and Member Characteristics

1. Year Business Founded: _____

2. Company Industry: _____

3. Principal Product or Service: _____

4. Your position in the business: (Check all that apply.)

☐ CEO

☐ President

☐ Vice-President

☐ Chairman of the Board

☐ General Manager

☐ Manager

☐ Other _____

5. How many years have you held your current position? _____

6. How many years have you been employed in the family business? _____

7. What is your age? _____

8. What is your gender?

☐ Male

☐ Female

9. What is your race/ethnicity? _____

10. What is your educational level?

☐ Less than high school

☐ High school graduate

☐ Some college

☐ College graduate

☐ Post-graduate

11. What legal form best describes the business?

☐ C Corporation

☐ S Corporation

☐ Limited Liability Company

☐ Limited Partnership

☐ General Partnership

☐ Individual Proprietorship

12. Approximate gross revenues last year:

☐ < \$100,000

☐ \$100,000 to \$249,999

☐ \$250,000 to \$499,999

☐ \$500,000 to \$999,999

☐ \$1,000,000 to \$4,999,999

☐ \$5,000,000 to \$9,999,999

☐ \$10,000,000 to \$50,000,000

☐ >\$50,000,000

13. In the past three years, how has the sales revenue changed?

- | | |
|--|--|
| <input type="checkbox"/> Increased more than 11% | <input type="checkbox"/> No change |
| <input type="checkbox"/> Increased from 6% - 10% | <input type="checkbox"/> Decreased from 1% - 5% |
| <input type="checkbox"/> Increased from 1% - 5% | <input type="checkbox"/> Decreased by more than 5% |

14. How does this compare with your industry?

- | | |
|--|---|
| <input type="checkbox"/> We fared better than the industry average | <input type="checkbox"/> About the same as the industry average |
| <input type="checkbox"/> We fared worse than the industry average | <input type="checkbox"/> Don't know |

15. Excluding trade payables, company debt averages approximately what percent of the equity?

- | | |
|------------------------------------|--------------------------------------|
| <input type="checkbox"/> No debt | <input type="checkbox"/> 51% - 100% |
| <input type="checkbox"/> 1% - 25% | <input type="checkbox"/> 101% - 200% |
| <input type="checkbox"/> 26% - 50% | <input type="checkbox"/> Over 200% |

16. Number of employees: _____ full-time _____ part-time

17. What percentage of the company does the family own? _____

18. Number of generations actively involved in the business? ☐ 1 ☐ 2 ☐ 3

19. Which generation of the family is currently in control of the business?

- ☐ 1st ☐ 2nd ☐ 3rd ☐ 4th ☐ 5th ☐ 6th ☐ 7th ☐ 8th

20. Number of family members currently employed by the company: _____

21. How many family members have ceased employment with the business in the past 5 years and have not returned?

_____ Male _____ Female

21a. Why did the family member(s) leave? (Check all that apply.)

- | | |
|--|--|
| <input type="checkbox"/> Position was only temporary | <input type="checkbox"/> Family disagreement |
| <input type="checkbox"/> Career change | <input type="checkbox"/> Retirement |
| <input type="checkbox"/> Life change (marriage, pregnancy, etc.) | <input type="checkbox"/> Illness/Death |
| <input type="checkbox"/> Not a good fit for the business | <input type="checkbox"/> Other _____ |

22. For each family member currently employed by the company, not including yourself, please indicate current job title/position, age, gender, educational attainment, number of years in current position, and number of years in the business:

[illegible]

23. Number of nonfamily managers (key employees) in the business: _____

24. For each nonfamily manager (key employee), please indicate current job title/position, age, gender, race/ethnicity, educational attainment, number of years in current position, and number of years in the business:

[illegible]

25. Which of the following best describes your family business? (Check one from each section.)

Family Development Phase:

- ☐ Young Business Family (adult generation under 40; children if any, under 18)
- ☐ Entering the Business (senior generation between 35-55; junior generation in teens/early 20s)
- ☐ Working Together (senior generation between 50-65; junior generation between 20-45)
- ☐ Passing the Baton (senior generation age 60+, in process of transferring leadership)

Business Development Phase:

- ☐ Start-up (formation of informal organizational structure, with owner-manager at center; one product or business line)
- ☐ Expansion/Formalization (increasingly functional structure; multiple products or business lines)
- ☐ Maturity (stable or declining customer base with moderate growth, with senior management team; well-established organizational routines)

Ownership Development Phase:

- ☐ Controlling Owner (ownership control consolidated in *one individual or couple*; other owners, if any, have token ownership holdings)
- ☐ Sibling Partnership (effective control in the hands of *one sibling generation*; not necessarily related by blood)
- ☐ Cousin Consortium (many cousin shareholders; mixture of employed and non-employed family owners)

Section II: Strategies and Organization

1. Do you believe that your business will be controlled by the same family(ies) in five years?

☐ Yes ☐ No

2. How does your company plan to distribute ownership to the next generation? (Check all that apply.)

- ☐ Greater ownership for active family members
☐ Equal ownership for active and inactive family members
☐ No ownership for inactive family members
☐ A combination of family and nonfamily members
☐ Not applicable (business to be sold outside the family)
☐ Undecided

3. Does your company have a written business plan? ☐ Yes ☐ No

3a. If yes, how well is it known by company management?

☐ Very well ☐ Not at all
☐ Somewhat ☐ Other _____

4. How successful has your company been in meeting your objectives (either formally outlined in a business plan or informally agreed upon objectives)? (Circle appropriate number.)

Unsuccessful 1 2 3 4 5 Successful

5. In general, how unified is the ownership group in their views about the business (strategy, ownership issues, management, etc.)? (Circle appropriate number.)

Not Unified 1 2 3 4 5 Unified

6. How strongly does the senior generation want the business to stay in the family?

☐ Very much so ☐ Somewhat ☐ Not at all

7. How strongly is the next generation committed to long-term business ownership?

☐ Very much so ☐ Somewhat ☐ Not at all

8. Does your company hold regular board meetings? ☐ Yes ☐ No

9. The board of directors' contribution is:

☐ Outstanding ☐ Poor
☐ Good ☐ No contribution (only symbolic)
☐ Fair

10. Does your company hold regularly scheduled meetings with family members involved in the business?

☐ Yes

☐ No

11. Does your company have a formal way of dealing with disputes among family members?

☐ Yes

☐ No

12. Does your company have a formal way of dealing with disputes between family and nonfamily members?

☐ Yes

☐ No

13. Does your company have a formal way of dealing with disputes among nonfamily members?

☐ Yes

☐ No

Section III: Succession Plans and Leadership

1. Does your company have a written succession plan? ☐ Yes ☐ No
2. In the future the family business will most likely be led by:

<input type="checkbox"/> family member(s)	<input type="checkbox"/> both family and nonfamily members
<input type="checkbox"/> nonfamily member(s)	<input type="checkbox"/> outsider(s)
3. When do you expect the senior generation to shift control to the next generation?

<input type="checkbox"/> Never	<input type="checkbox"/> 6 – 10 years
<input type="checkbox"/> 0 – 5 years	<input type="checkbox"/> 11 or more years
4. At that time, will the senior generation:

<input type="checkbox"/> retire	<input type="checkbox"/> semi-retire	<input type="checkbox"/> Don't know
---------------------------------	--------------------------------------	-------------------------------------
5. Has the successor(s) been selected? ☐ Yes ☐ No
6. Besides you, who else is aware of this decision? (Check all that apply.)

<input type="checkbox"/> No one
<input type="checkbox"/> The successor(s)
<input type="checkbox"/> Other family members currently employed in the business
<input type="checkbox"/> Other family members outside the business
<input type="checkbox"/> Nonfamily managers
<input type="checkbox"/> Other nonfamily employees
<input type="checkbox"/> Professional advisors (accountants, lawyers, business peers, etc.)
<input type="checkbox"/> It is public knowledge—the entire company, professional advisors, and relevant family members all know.
7. If currently working in the family business, identify the current title/position of the future successor(s):

8. How much full-time work experience does the successor(s) have outside the family business?

<input type="checkbox"/> None	<input type="checkbox"/> 3 – 5 years
<input type="checkbox"/> 1 – 2 years	<input type="checkbox"/> More than 5 years

9. For family members to be effective leaders in the business, what qualities do you think are most important? (Select the 3 most important qualities.)

- | | |
|--|---|
| <input type="checkbox"/> General management skills | <input type="checkbox"/> Sensitivity to family members and issues |
| <input type="checkbox"/> Technical skills | <input type="checkbox"/> Strong relation with nonfamily members |
| <input type="checkbox"/> Financial skills | <input type="checkbox"/> Loyalty |
| <input type="checkbox"/> Educational background | <input type="checkbox"/> Knowledge of other industries |
| <input type="checkbox"/> People skills | <input type="checkbox"/> Knowledge of competition |
| <input type="checkbox"/> Tenure with the company | <input type="checkbox"/> Other _____ |

10. What are your greatest challenges working with other family members? (List the top 3.)

- 1) _____
- 2) _____
- 3) _____

11. For nonfamily members to be effective leaders in the business, what qualities do you think are most important? (Select the 3 most important qualities.)

- | | |
|--|---|
| <input type="checkbox"/> General management skills | <input type="checkbox"/> Sensitivity to family members and issues |
| <input type="checkbox"/> Technical skills | <input type="checkbox"/> Strong relations with family leaders |
| <input type="checkbox"/> Financial skills | <input type="checkbox"/> Loyalty |
| <input type="checkbox"/> Educational background | <input type="checkbox"/> Knowledge of other industries |
| <input type="checkbox"/> People skills | <input type="checkbox"/> Knowledge of competition |
| <input type="checkbox"/> Tenure with the company | <input type="checkbox"/> Other _____ |

12. What are your greatest challenges with nonfamily managers? (Select the 3 greatest challenges.)

- | | |
|--|---|
| <input type="checkbox"/> Attracting new managers | <input type="checkbox"/> Retaining |
| <input type="checkbox"/> Motivating | <input type="checkbox"/> Outplacing existing managers |
| <input type="checkbox"/> Providing advancement opportunities | <input type="checkbox"/> Training |
| <input type="checkbox"/> Compensating | <input type="checkbox"/> Other _____ |

13. If business has had a non-family member lead the business in the past, the experience was:

- | | |
|--|--|
| <input type="checkbox"/> Very successful | <input type="checkbox"/> Not at all successful |
| <input type="checkbox"/> Somewhat successful | <input type="checkbox"/> Not applicable |

14. Is stock, or stock options, offered to nonfamily managers? ☐ Yes ☐ No

14a. If yes, what is the average estimated value at time of compensation? \$ _____

Section IV: Values and Family Attitudes Towards the Business (Circle appropriate number.)

Please rate the extent to which you agree with the following statements:	<div style="display: flex; justify-content: space-between; align-items: center;"> <div>Strongly Agree</div> <div>←————→</div> <div>Strongly Disagree</div> </div>				
1. Family has an influence on the business.	5	4	3	2	1
2. Family members share similar values.	5	4	3	2	1
3. Family and business share similar values.	5	4	3	2	1
4. Family members are willing to put in a great deal of effort beyond that normally expected of non-family employees in order to help the family business be successful.	5	4	3	2	1
5. As family, we support the family business in discussions with friends, employees, and other family members.	5	4	3	2	1
6. As family, we feel it is important to always consult one another when making major decisions for the future of the business.	5	4	3	2	1
7. As family, we feel it is important to openly share feelings and concerns with one another.	5	4	3	2	1
8. As family, we feel loyalty to the family business.	5	4	3	2	1
9. As family, we feel loyalty to family members seeking employment in the business.	5	4	3	2	1
10. As family, we feel loyalty to family members in the business.	5	4	3	2	1
11. As family, we feel loyalty to non-family members in the business.	5	4	3	2	1
12. As family, we find that our values are compatible with those of the business.	5	4	3	2	1
13. As family, we are proud to tell others we are part of the family business.	5	4	3	2	1
14. As family, we agree with the family business goals, plans, and policies.	5	4	3	2	1
15. As a single member of the family, deciding to be involved with the family business has had a positive influence on my life.	5	4	3	2	1
16. I understand and support my family's decisions regarding the future of the family business.	5	4	3	2	1

Section V: Personnel Policies and Practices

1. Is there a full-time employee whose primary responsibility is human resource management (for example—recruiting, performance, appraisals, merit raise decision, benefits administration)?

☐ Yes ☐ No

1a. If yes, is this person a family member? ☐ Yes ☐ No

2. Does your company have a written employee manual? ☐ Yes ☐ No

3. Does your company use formal job descriptions? ☐ Yes ☐ No

4. Does your company have a formal and regular employee review process? ☐ Yes ☐ No

5. Does your company have set compensation plans? ☐ Yes ☐ No

6. Does your company have special entry requirements and/or qualifications for family members who want to work in the family business full-time?

☐ Yes, we have formal entry requirements and/or qualifications

☐ Yes, but the entry requirements and/or qualifications are informal

☐ Yes, we have both formal and informal entry requirements and/or qualifications

☐ No, the same entry requirements and/or qualifications apply for family and nonfamily employees

6a. If yes, what are the special entry requirements and/or qualifications? (Check all that apply.)

☐ Must be existing and needed position

☐ Experience outside the family business

☐ Age minimum

☐ Part-time experience in family business

☐ Education requirement

☐ Other

☐ Special skills needed

6b. If age minimum is required for family members to work full time in the business, what is the age minimum? _____

6c. If a certain level or degree of education is required for family members to work in the business, what is the educational requirement? _____

6d. If special skills are required for family members to work in the business, what are these skills? _____

6e. If outside work experience is required for family members to work in the business, how many years are required? _____

6f. If part-time work experience in the family business is required for family members to work in the business, how many years are required? _____

7. Are entry requirements and/or qualifications of family members made available to others in the business?

- ☐ Yes
- ☐ Yes, but not formally
- ☐ No

7a. If yes, who is privy to this information? (Check all that apply.)

- ☐ Other family members currently employed in the business
- ☐ Other family members outside the business
- ☐ Nonfamily managers
- ☐ Other nonfamily employees
- ☐ Professional advisors (accountants, lawyers, business peers, etc.)
- ☐ It is public knowledge—the entire company, professional advisors, and relevant family members all know.

8. Does your company have any special rules regarding who family members report to, performance expectations, promotion/advancement, compensation/benefits, and termination of family members?

- ☐ Yes, we have special formal rules for family members
- ☐ Yes, but the special rules for family members are informal
- ☐ Yes, we have both formal and informal special rules for family members
- ☐ No, the same rules apply for family and nonfamily employees

8a. If yes, are these special rules made available to others in the business?

- ☐ Yes
- ☐ Yes, but not formally
- ☐ No

8a-1. If yes, who is privy to this information? (Check all that apply.)

- ☐ Other family members currently employed in the business
- ☐ Other family members outside the business
- ☐ Nonfamily managers
- ☐ Other nonfamily employees
- ☐ Professional advisors (accountants, lawyers, business peers, etc.)
- ☐ It is public knowledge—the entire company, professional advisors, and relevant family members all know.

Section VI: Values and Leadership Attitudes Towards Business (Circle appropriate number.)

Please rate the extent to which you agree with the following statements:	Strongly Agree	←	→	Strongly Disagree	
1. Taking care of family members is <i>one</i> of the primary purposes of the business.	5	4	3	2	1
2. There is nothing wrong with hiring family members.	5	4	3	2	1
3. Family members who join the business should start at the lowest level and work their way up.	5	4	3	2	1
4. Generally, family members make better employees than nonfamily members.	5	4	3	2	1
5. Generally, family members make better managers than nonfamily members.	5	4	3	2	1
6. Leadership places a lot of trust in family members in the business.	5	4	3	2	1
7. Leadership places a lot of trust in nonfamily members in the business.	5	4	3	2	1
8. Leadership places more trust in family members (regardless of their position) than they do in nonfamily managers.	5	4	3	2	1
9. Leadership shares information with other family members in the business.	5	4	3	2	1
10. Leadership shares information with nonfamily members in the business.	5	4	3	2	1
11. Leadership is more likely to share information with other family members (regardless of their position) than with nonfamily managers.	5	4	3	2	1
12. Leadership encourages family members to participate in decision making.	5	4	3	2	1
13. Leadership encourages nonfamily members to participate in decision making.	5	4	3	2	1
14. Leadership is more likely to encourage other family members (regardless of their position) to participate in decision making than nonfamily managers.	5	4	3	2	1
15. Leadership is sensitive to merging nonfamily member's personal goals with organizational goals.	5	4	3	2	1
16. We compensate family members at the market rate for their positions.	5	4	3	2	1
17. We compensate non-family members at the market rate for their positions.	5	4	3	2	1

Grateful acknowledgment is made to MassMutual Financial Group and the George Robin Raymond Family Business Institute, directed and supported by the Loyola University Chicago Family Business Center, the Cox Family Enterprise Center at Kennesaw State University, and Babson College for permission to use and reprint select questions and response categories from the **2002 American Family Business Survey**.

APPENDIX B

SAMPLE INTERVIEW GUIDE

In-Depth Interview Guide Senior Generation Family Member

Overall Goal:

To gain a better understanding of the company's policies and practices on nepotism, their relationship with family and nonfamily members, as well as their attitudes and experiences working in a family business.

Opening Statement:

Thanks again for agreeing to help me out.

Give them a copy of "Family Business Succession: The Final Test of Greatness," and confirm their free subscription to "The Family Business Advisor."

If not already provided, ask them for:

- *A copy their company's organizational chart;*
- *personnel policies (any documents on hiring practices, performance evaluation, promotion/advancement, compensation/benefits, lines of communication, employee conduct, disciplinary action, and termination); and*
- *a sketch of their family tree (genogram).*

Once this is done we can start the interview.

As you know, one component of my study involves conducting interviews. I already received some information from you in the survey, but now I want to get more in-depth information about your business' policies and practices as well as your experiences working in a family business.

The interview will take approximately 60 minutes and will be audiotaped. The information obtained from you will be used for research purposes only and all information, including the taped discussion, will be confidential. No identifying information will be released to anyone, including other members of the family business. Do you have any questions? Before we began, I need your permission to participate in this study.

Ask them if they had a chance to read over the informed consent form and if they agree to participate, have them sign and date the form. Give them a copy of the signed/unsigned form. Once questions are answered and the form is signed, the interview may begin.

Opening Questions: History of the Business and Your Role in the Firm

The first set of questions focuses on the history of the family business and your role in the company. The purpose of these questions is to gain a general understanding of how your business got started, who you are, and the role you play in the business.

1. Tell me a little bit about your business. When did the family start the business? Who started the business and why?
2. Tell me a little bit about yourself. When did you first start working in the family business? In what capacity—was it temporary or permanent, part-time or full-time and what did you do?

Describe the circumstances under which you were hired. How did you get the job? Was there a position available? Did you have to come in for an interview? What entry requirements or qualifications did you need to have?

Were there any discussions prior to you joining the business either in the business or in the family? Was your future role in the business discussed at this time?

3. Did you always want to join the family business? Explain. If no, what changed your mind?
4. Thinking back to when you joined the company, how did you feel the first day you came to work? Did you feel welcomed by other employees (family and nonfamily)? Explain.

If no other employees at the time, skip to number 7.

- *If yes*—what if anything, do you think the company did to ensure this?
- *If no*—what do you think could have been done to ensure this?

5. How do you think others (other family, nonfamily) felt about you joining the business?

Did they (employees and possibly other family members) know beforehand that you would be joining the company? Were they told formally/informally or do you think they just assumed?

What do you think their general impressions of you were? Did they think you deserved the job? Did they think you were competent? Do you think they valued your opinion? (*For example—did they feel you were cocky, or a know-it-all? Did they feel you listened to them and could learn from them? Were they open to your suggestions?*)

Do you think your age or gender played a role in how you were treated?

What about later—do you think their view of you changed? Explain. What do you think changed their minds?

6. What did you think about them prior to joining the business? Did you think they were competent? Did you think they were productive?

What about after you actually joined the company? What did you think of them? Did you think they were competent? Did you think they were productive? Did you value their opinion? Did you think you could learn something from them?

What about later—did your view of them change? Explain. What changed your mind?

7. Tell me about your current position—how many years have you been in this position? What positions, if any, did you hold prior to this and how long did it take you to advance to your current position?

Have you ever been fired or left the business? Explain.

8. How do you feel about your current salary and benefits? What benefits are included in your compensation package (i.e. company vehicle, gas, credit card use, office supplies, etc.)?

Do you think you have been compensated fairly for your position over the years?

Skip first part of question 9 if person did not grow up in household of family business owner from previous generation.

9. Growing up, did your family share information about the business with you (and your siblings)? If yes, how often did this occur? For instance, was it a common topic at the dinner table, did you have special family meetings about the business, or was information only shared when something big happened?

If applicable—how often do share information about the business with your own family?

10. What do you think are some of the advantages of being employed in a family business as opposed to being employed in a nonfamily business?

What do you think are some disadvantages?

Personnel Policies and Practices:

The purpose of the next set of questions is to gain a better understanding of your personnel policies and practices and to assess your view of these policies and practices.

11. In the questionnaire you indicated that your company:

- ☐ has special formal entry requirements and/or qualifications for family members who want to work in the family business.
- ☐ has special entry requirements and/or qualifications for family members who want to work in the family business, but they are informal.
- ☐ has special entry requirements and/or qualifications, both formal and informal, for family members who want to work in the family business.
- ☐ has the same entry requirements and/or qualifications for both family and nonfamily members.

- *If the same*—let's go over a few scenarios that you may not have thought of.

If a family member needed a job, and there wasn't an existing position, would you create a position for them?

What if there was a position and a family member wanted to work here, would their age matter?
(*May let family members work at younger age than what is legal or may not want family member to join business full-time until they are of a certain age.*)

Do family members have to fulfill special requirements such as working part-time in the family business before they became full-time? What about requiring them to have a certain amount of experience outside the family business?

Do family members have to have more or less credentials (special skills/education) than a nonfamily member applying for a job? (*For example, all family members who want to join the business have to have a business degree.*)

- *If different—go through list below and ask them to discuss why they have these special requirements.*

Using their data from the questionnaire, check and write in requirements, if applicable.

- ☐ Must be existing and needed position
- ☐ Age minimum _____
- ☐ Education requirement _____
- ☐ Special skills needed _____
- ☐ Experience outside the family business _____
- ☐ Part-time experience in family business _____
- ☐ Other _____

12. *If determine that policies and practices are the same—keeping in mind that equal doesn't necessarily mean fair, would you say that your hiring practices are fair to both family and nonfamily who want to enter the business? Explain.*

If determine that policies and practices are different—do you think this is fair? Explain. If no—what do you think would be fair and why?

13. *Were your hiring practices always this way or have they changed over the years?*

- *If the same—do you think they should be changed? Explain.*
- *If they have changed—what changed, who changed them, and why were the requirements/qualifications changed? Explain. Do you think the entry requirements/qualifications are as they should be? Explain. If no—what would you change? Explain.*

14. *Now let's talk about things like who family members report to, employee evaluations and performance, promotion, compensation, and termination.*

For my knowledge only—indicate what they stated on the survey in regard to this question.

- ☐ *Company has special formal rules for family members.*
- ☐ *Company has special informal rules for family members.*
- ☐ *Company has special formal and informal rules for family members.*
- ☐ *Company has the same rules for family and nonfamily members*

- Are there any special rules for **who family members report to**, such as your children can't report directly to you?
- What about **employee evaluations**—do family members go through same process as nonfamily employees? Are different actions taken when a family member's performance is not adequate than when a nonfamily member's performance is not adequate? For example, if the family member is not able to adequately fulfill their job responsibilities, are the responsibilities assigned to someone else, is the person reassigned to another position, are they fired, or something else? And if fired, what is the likelihood that they would be permitted to come back? I realize it may depend on

situation, but given the same situation, what is the likelihood that a person would be rehired if they were a family member? If they were a nonfamily member?

- What about **promotion and advancement**—do family members get treated differently? Who advances quicker, nonfamily or family members? Is there room for advancement for nonfamily members? What about family members?
 - What about **compensation and benefits**—do family members get treated differently? What if the company brought in a family member to perform the same job responsibilities as a nonfamily member, do you think that person would be paid less, more or the same as the nonfamily member to do the same job? What about benefits? Are there any special benefits that family members get that nonfamily employees don't get? Are there any special rules regarding compensation and benefits that family members must abide by that nonfamily members don't have to abide by? (For example, 401K contributions)?
 - Can you think of any other situations in your company where family members get treated differently than nonfamily members? Explain.
15. Do you think it is fair to treat family different than nonfamily when it comes to things like who employees report to, performance expectations, termination, promotion/advancement, and compensation/benefits? Explain. (*Note: equal is different than fair.*) If no—explain what would be fair and why.
16. Has your company always treated family and nonfamily this way, or have rules regarding who employees report to, performance expectations, termination, promotion/advancement, and compensation/benefits changed over the years?
- *If the same*—do you think the rules are as they as they should be or do you think they should be changed? Explain.
 - *If they have changed*—what changed, who changed them, and why were these rules changed? Explain. Do you think the way family gets treated is as it should be? Explain.

Role of Next Generation:

This next set of questions focuses on the junior generation. The purpose of these questions is to get a feel for how this generation entered the business and how they were treated.

17. When did _____ (junior members) join the business?
18. Do you think they wanted to join the business? Explain. If no, what do you think changed their mind?
19. What role in the family business did you envision them playing in the future? Did you discuss this with them or anyone else (family or nonfamily) at the time they were hired?
20. Describe the circumstances under which they were hired. How did it happen? Were there any discussions about this prior to them joining the business either in the business or in the family?
21. How did it make you feel that first day they came to work?

22. How do you think others (other family, nonfamily) felt about them joining the business?

Were other employees told ahead of time that they would be joining the company? Were they told formally/informally or do you think they just assumed?

23. Do you think other employees welcomed them? Explain.

- *If yes*—what if anything, do you think the company did to ensure this?
- *If no*—do you think this affected their success there, especially early on? What could you have done differently to change this?

24. What do you think their general impressions of _____ (junior generation) were? Did others think they deserved the job? Did they think they were competent? Did they value their opinion? (*For example, did they think they were cocky, or a know-it-all? Did they feel threatened by them?*)

Do you think their age or gender played a role in how they were treated by the other employees?

Nepotism and Impact on Interpersonal Relationships and Success:

The purpose of the next set of questions is to get a better understanding of how practices in the business affect your relationship with family and nonfamily members, your success and the success of the business.

25. Do you think it is okay to hire friends or people you know? Do you think it is okay to hire family members?

What if the person isn't qualified or is not competent?

26. According to the dictionary, nepotism is defined as "favoritism based on kinship (as in the appointment to a job)." Do you think nepotism is a positive or negative thing? Why?

27. Are there any positions in the company that are reserved only for family members? *If yes*—is this made clear to others (family and nonfamily) or do you think it is just assumed?

28. Do you think the company should hire family members over others? In other words, if two people are applying for the same job and have the same qualifications, but one is a family member and one is not, who do you think should be hired? Why or why not?

29. Are there any potential problems in hiring family members (either in business or in family)? Explain. How can these problems be avoided?

What about with deciding not to hire a family member who wants to work in the business? Could this cause any problems, especially within the family?

30. Have the family members you have hired lived up to your expectations? What effect do you think hiring _____ (family members) has had on the success of the business? In what ways have they impacted the success of others in the business?

31. Do you think you have lived up to the expectations of other family members? Do you think you have lived up to the expectations of nonfamily members?

32. What effect do you think hiring you has had on the success of the business? In what ways have you impacted the success of others in the business?

33. Focusing on when you first started in the business or when you first came into a position of authority, have you ever had a nonfamily employee do something to diminish your credibility in the business (tattle-telling, setting you up to make you look bad, taking credit for work you did, false accusations, rumors, etc.)? *If yes*—in what ways did it affect you, your position, or your work? How was this situation handled?

What about another family member? *If yes*—in what ways did it affect you, your position, or your work? How was this situation handled?

Ever done anything to diminish someone else's credibility in the business?

34. How would you describe your relationship with _____ (founders)? Was it always this way or did it change over the years? Explain. Did it change when you entered the business and/or when they retired/semi-retired?

How would you describe your relationship with _____ (junior members)? Was it always this way or has it changed over the years? Explain. Did it change when you both started working together in the business?

If other senior family members—how would you describe your relationship with _____ (other senior members in the business)? Was it always this way or has it changed over the years? Explain. Did it change when you both started working together in the business?

How would you describe your relationship with _____ (nonfamily managers)? Was it always this way or has it changed over the years? Explain.

How would you describe the relationship between _____ (junior members) and _____ (nonfamily managers)?

If more than two family members in the business—how would you describe the relationships between other family members in the business?

What was _____ (founders) relationship like with other family members in the business? What about with nonfamily employees?

35. Do you find it difficult to give feedback to _____ (junior members) regarding their performance, attitudes, and behaviors in the business? How open are you to suggestions from _____ (junior members)?

Do you think the gender, age, or birth order of the family member makes a difference in how you treat them?

Do you find it difficult to give feedback to _____ (nonfamily managers) regarding their performance, attitudes, and behaviors in the business? How open are you to suggestions from _____ (nonfamily managers)?

Do you think the gender, age, or race of the nonfamily manager makes a difference in how you treat them?

36. Complete the following sentences:

- Family members who work in the business have it harder than nonfamily members because...
- Family members who work in the business have it easier than nonfamily members because...
- I had it harder than _____ (founder) because...
- I had it easier than _____ (founder) because...
- I had it harder than _____ (junior members) because...
- I had it easier than _____ (junior members) because...

Closing Questions: Overall Experience Working in Firm

We are almost done. The purpose of this last set of questions is to assess your overall experience working in the family business.

37. Knowing that 70 percent of all family firms fail before reaching the second generation and 88 percent fail before the third generation, what would you say is the key to your business' success?
38. What is the most important lesson you have learned about successfully integrating family and nonfamily members in the business?
39. Knowing what you know now, would you (still) want your children to join the business? Explain.
40. Tell me something you would like other family members in the business to know that they don't know or that you think they assume incorrectly about you (in regards to the business)?
What about nonfamily employees?

What about family members **not** in the business?

Summary and Conclusion:

To summarize the participant's main points and confirm accuracy of summary.

41. Is there anything I missed? Is there anything you wanted to say that you didn't get a chance to say?

Then if that's it, this concludes our interview on your experiences in a family business.

Later when I am going over our interview—if there was something I missed, or something I need clarification on, would you mind if I contacted you? On that same note, you are welcome to contact me later if you think of something you want to add.

Thank you for participating in my study. *Give them copy of my business card in case they need to contact me at a later time.*

APPENDIX C

NAICS OFFICIAL CODES AND TITLES

NAICS Code	Abbreviation	NAICS Industry Type Title
11	Forestry	Forestry, Fishing, Hunting, and Agriculture Support
21	Mining	Mining
22	Utilities	Utilities
23	Construction	Construction
31	Manufacturing	Manufacturing
42	Wholesale	Wholesale Trade
44	Retail	Retail Trade
48	Transportation	Transportation and Warehousing
51	Information	Information
52	Finance	Finance and Insurance
53	Real Estate	Real Estate and Renting and Leasing
54	Professional	Professional, Scientific, and Technical Services
55	Management	Management of Companies and Enterprises
56	Administration	Administration, Support, Waste Mgt., and Remediation Services
61	Educational	Educational Services
62	Health Care	Health Care and Social Assistance
71	Arts	Arts, Entertainment, and Recreation
72	Accom. Food	Accommodation and Food Services
81	Other	Other Services (except public administration)
95	Auxiliaries	Auxiliaries (executive, corporate, subsidiary, and regional mgt.)
99	Unclassified	Unclassified Establishments

Source: U.S. Census Bureau. 2002. *2002 Economic Census: North American Industry Classification System (NAICS)*. Retrieved August 7, 2005 (<http://www.census.gov/epcd/naics02.htm>).

APPENDIX D

CONSENT FORM



INFORMED CONSENT TO PARTICIPATE IN RESEARCH ACTIVITIES

Best Practices in Family Business: A Study of Family Businesses in the Baltimore-Washington Metropolitan Area

By signing this document, I agree to take part in a study being conducted by Gina M. Finelli on family business. The study will help researchers learn about the experiences of both family and nonfamily members of family businesses. The results will provide important information to assist family businesses, advisors, and consultants of family businesses in developing effective policies and practices for successfully integrating family and nonfamily employees in family businesses.

Data will be collected in the form of an in-person interview. The interview will take approximately 60 minutes and will be audiotaped. Participants will be asked to share their attitudes towards family business as well as their experiences working in the business. This information will be used for research purposes only. All information, including the taped discussion, will remain confidential and will not be able to be traced to any participants in the study. No identifying information will be released to anyone, including other members of the family business. Only fictional names will appear in all research documents and reports and any sensitive information will be kept in a secure location. In addition, taped information may be transcribed and edited for research use and any research staff member who listens to the audiotape will have signed an assurance of confidentiality agreeing to all of these restrictions.

Any additional concerns, questions, or information about the study may be addressed by contacting [Dissertation Chair] at xxx-xxx-xxxx or the Institutional Review Board for the Protection of Human Subjects at xxx-xxx-xxxx. A copy of the final report will be available to you, if requested.

I understand that although I am volunteering to participate in this study, I have the right to refuse to answer any questions and/or terminate the interview at any time. I have received a copy of this consent form to keep for my records and I have had an opportunity to ask any questions I may have, and have received a satisfactory explanation of information I did not fully understand.

I have read and understand the above information and my signature below represents my informed consent to participate in this study.

Print Name

Signature

Date

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