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A Conceptual Study on Nepotism and Effects in Family Enterprises

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Abstract: An important part of the businesses in the world and in Turkey is a family business. In this context, the economy is largely dominated by family businesses. Literature studies showed that nepotic approaches are more common in family businesses than in other businesses. Nepotism, the problems that the family business has caused; non-institutionalization, increase in labor turnover rate, decrease in organizational commitment, decrease in productivity. It is directly related to the solution of nepotism problems in the family business, the increase of the market share, and the extension of the life span. This article is about nepotism and family businesses; success in family business, failure, strategy, etc. aims at conceptual evaluation of the effect in a holistic approach from the angles and within the frame of institutionalization.

Keywords: Family enterprises, Nepotism, Management

1. Introduction

95% of US businesses are family businesses, representing 40% of the top 500 businesses (Conway, 2004: 133). According to ASO (2005) data in Turkey, this rate is 90%. Given these figures, the solution of the problems of the family business means the solution of the problems of the enterprises.

Among the problems of family businesses, short life spans, transfer problems, and non-institutionalization problems are in the first place. In this study, the problems mentioned and each period underlying these problems will be examined in a conceptual and holistic framework, taking into account the relation with the concept of nepotism which sustains its existence.

2. The Concept of Family Enterprises

There are different definitions in the literature related to the question "What are family businesses?" These are some of them. Barnes and Hershon (1976: 106), and Shanker and Astrachan (1986), while Alcorn (1982: 230) stated that "a part of the shareholding of a profit-making enterprise which is a property, partnership or business belongs to the family, Davis (1983, 47), "family businesses", in which family members belong to the family, the existing management is in the hands of the family, voting control, family members of founders and different generations actively participate in the administration or more family members are governed by policies and directives at significant levels; these enterprises are shaped by ownership and sometimes by the involvement of family members in government. "Sternise (1986: p. xxi) defines family businesses as" businesses owned and operated by members of one or two families ".

When the definitions are examined, it seems to be agreed that a family-run business, in general, is a family business. It can be said that these enterprises have the following characteristics

(Yiþleroglu, 2006: 7, Özkaya and Şengül, 2006: 110, Özler et al., 2007: 441-448, Asunakutlu and Avcı 2010: 95)

• Family rector and family member are responsible for management;
• One or more of the family members participate in the business process as an idea or body;
• It is the institutional structure initiated by an entrepreneur from the family and then continued by the family;
• The family is a social structure whose culture and tradition reflects;
• It is a union of solo entrepreneur family leaders or versions of various family members such as leader, wife, children, siblings, cousins, grooms and brides;
• The concept of ownership is important and property belongs to the family;
• Family and business interact;
• The culture of the family is largely influenced by the cultures of family businesses;
• Businesses where "social capital" is concentrated rather than "economic capital";

2.1 Worldwide Family Enterprises

When family business statistics on a global scale in different countries are examined, family businesses generate about 70% -90% of global GDP annually and 50-80% of employment globally in the world (European Family Business, 2012).

There is a general consensus that a definition of family operation should include three basic elements: family, work, and property. This was first shown in 1982 by the "three-ring" family business model developed by Tagiuri & Davis. Other definitions in the literature support the use of the 3-circle approach when examining the case of family businesses.

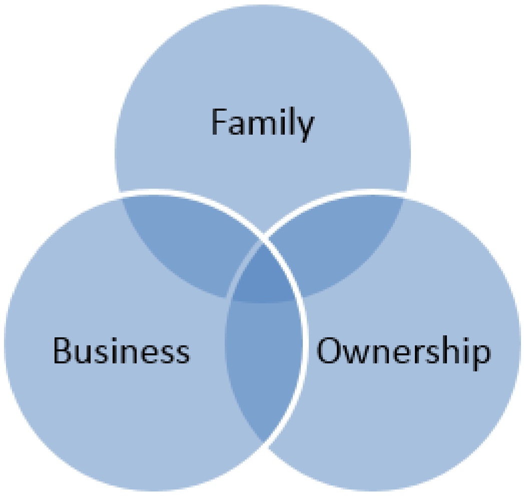

Figure 1: "3 Circle " Family Business Model (Tagiuri ve Davis, 1982)

About 70% - 90% of the GDPs of the countries on a global scale is created by family companies annually. Worldwide, 50-80% of jobs in the majority of countries are made by family businesses. 85% of newly established businesses are family-based (European Family Businesses Statistics, 2012). In many countries of the world, family business accounts for 70% to 95% of all businesses (European Family Business, 2012).

Figure 2 shows the percentage of family businesses belonging to different countries in the world as a percentage of other businesses in the private sector. In the United States, the ratio of private-sector enterprises to family businesses is 80-90%, 96% in Germany, 93% in Italy and 85% in China.

Figure 2: Percentage of Private Sector Family Businesses (Source: Family Firm Institute)

However, the lifetime of these family businesses is unfortunately not long. It is seen that 30 percent of family businesses live up to the second generation, 14 percent cannot go beyond the third generation, and smaller family businesses can only live for 5-10 years (Venter, Boshoff and Maas, 2005: 283-284).

2.2 Family Enterprises in Turkey

The situation in Turkey is not different from that of family businesses around the world. According to a report prepared by the Ankara Chamber of Industry in 2005, the ratio of all enterprises to family businesses in Turkey is 90% (Ankara Chamber of Commerce, 2005: 4).

Family businesses are similar to family businesses in the world in terms of their life span. There are only two family enterprises in Turkey that have survived for 150 years. These are Kurukahveci Mahmut Efendi and Cağaloğlu Hamamı. Major businesses such as Ankara Gaziosans, Emsan, Şakir Zümre and Erenyol Group can be considered among the enterprises that cannot go from a typical paternal family management type of government to a non-institutionalized, professional management form and end their life cycle after a certain time in our country (Pazarcık, 2004: 35).

3. Nepotism

Nepotism simply means "favor relatives and close friends" (TDK, 2017). The concept comes from the Latin word "Nepot" and the English equivalent is Nephew (nephew). (Abdalla et al., 1998: 555, Ford and McLaughin, 1985: 57, Garih, 2000: 79, Asunakutlu and Avci 2010: 96). As can be understood from this, the relation of word meaning with word root is quite strong.

Nepotism is the preferential treatment of family members in the context of employment by giving a position of a property owner or manager based on relative kinship relationships from a talent or talent (Bellow, 2003; Jaskiewicz, Uhlenbruck, Balkin, & Reay, 2013). It is more prevalent in the family businesses of countries where traditional ties and relations are intensive and the market mechanism is less developed along with developed countries (Özsemerci, 2002: 13).

4. Nepotism in Family Enterprises

While the importance given to separation of work and family life in modern societies is high, some sources suggest that nepotism is quite common in family businesses where employed family members are more advantageous than non-family workers in employment, performance evaluation or decision making mechanisms (Firfiray and Others, 2017: 1; Gersick et al., 1997). Family members are seeking to strengthen their familial, social and political ties in the process of recruitment and commercial ties, and to transform power balances within the enterprise into their own interests - not as well as "economic-institutional rationality". In a family business, in addition to the family members, employment is also given to the family members of the employees and their relatives in the same time (Özler and Others, 2007: 444). Empirical studies; some families tend to be closer to nepotism than others (Vinton, 1998).

Family members are brought to key positions in employment, promotion, or family business, without determining the competencies and qualifications of employees. The reason can be explained as the fact that the bond of trust comes before the expertise (Bütte and Tekarslan, 2010: 5). People are afraid of working with unfamiliar people, preferring to work with familiar people to work according to expert people. This leads to many unfavorable situations, from job to job, by reducing the loyalty of non-family members to work and reducing job satisfaction and further reducing work efficiency. When Nepotism is in operation, domestic conflicts can occur, organizational commitment decreases, and social capital declines. The production of administrative incentive and solution to family income and status distribution, intergenerational and intra-organizational conflicts begin to take place more and more. Meanwhile, the share of the success of other individuals working in the business is relatively reduced. The paid worker begins to see more labor spend as unreasonable behavior. As the business grows, the nepotist tendencies begin to meet with less tolerance (Özler and Others, 2007: 448). This leads to a decrease in productivity; the drop in the quality of the products or services produced in the business and the reduction of profitability in the business as a loop and thus the loss of the enterprise in the long run.

On the other hand, people feel safer and more comfortable while working with a familiar name or coin. Nepotist tendencies are welcomed when the management of the family business is thought to be able to sustain the vision of the new generation family members more successfully because of the better recognition of the business (Özler and Others, 2007: 438).

5. Results and Recommendations

It is not always possible to think separately about the concepts of family and business in the concept of family businesses, where the family and the enterprise are involved in a holistic approach, and often it is not possible. However, the very good analysis of these two concepts in management and employment will be a decisive factor in the life of the business. As in other businesses, the family business is not the family ties and relationships that make the business work, but the individual itself.

In the 21st Century, the quality of employees, their commitment to business is a very valuable social capital, together with important issues such as employment and promotion; steps taken without respect for competence, merit, skill and determination of the individual may reduce the organizational commitment and increase the turnover rate. This leads to a decrease in productivity. In addition, the reduction in the participation of people in the labor force is also another issue that reduces productivity.

This may lead to a decrease in the competitiveness of family operations in the market, thus reducing the life span. On the contrary, it can be said that nepotism is a phenomenon as good as its bad aspects and it should be evaluated together with its positive and negative results.

When assessed from these perspectives, family businesses, business managers, entrepreneurs, and academicians have important duties in order to reduce the nepotic approaches of family businesses, and related ministries should continue to work as policy recommendations.

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