



Effects of kin density within family-owned businesses

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ABSTRACT

We examined how kin density within family-owned firms related to perceptions of nepotism and organizational justice; we also examined the moderating role of family membership in these relationships. In a sample of 79 family employees and 299 non-family employees in 21 family-owned businesses, both kin density and family membership were found to be related to nepotism perceptions. Additionally, family membership moderated the relationships of kin density to nepotism and justice perceptions, as well as the relationship between nepotism and justice perceptions. Finally, nepotism perceptions provided a partial mediating link between kin density and organizational justice perceptions. These results suggest that kin density and family membership are important variables to consider in understanding the experiences and attitudes of employees in family-owned businesses.

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Introduction

Many firms throughout the world are family-owned businesses (FOBs), and they exist across a broad range of industries (Schulze, Lubatkin, & Dino, 2003). In the US, approximately 62% of the workforce is employed by family firms (Astrachan & Shanker, 2003). FOBs also account for up to 64% of the gross domestic product in the US, and as of 2000, there were approximately 24.2 million FOBs in the US (Astrachan & Shanker, 2003). Thirty-five percent of Fortune 500 companies are family-owned, and FOBs generate 60% of employment and 78% of all new job creation (Perman, 2006). Research on FOBs has provided important insights on how they function, perform, and compete (for examples, see Harris, Martinez, & Ward, 1994; Le Breton-Miller & Miller, 2006; Miller, Le Breton-Miller, & Scholnick, 2008). Yet, there has been less research on how employees might experience working in a family-owned business, and how this experience might differ between family and non-family members.

Although employees can move towards closer relationships with their leaders and their organization through social exchange processes and extended role taking (Ilies, Nahrgang, & Morgeson, 2007; Sparrowe & Liden, 1997; Wayne, Shore, & Liden, 1997), this may be more difficult in FOBs. FOBs are by definition composed

of: (1) those that are members of the ownership family and (2) those that are not. This distinction can limit the ability of non-family employees to move into preferred membership in the organization—because nothing short of marriage to a family member could give a non-family employee in-group status. On the other hand, family members attain in-group status by virtue of birth. This may benefit family members and (possibly) the organization (Jones, Stout, Harder, Levine, & Sanchez, 2008). However, it can also be a source of inequity to non-family employees. Such effects could be even stronger among organizations where family members represent a larger percentage of the workforce, as non-family employees find themselves among a group that is in the minority as well as potentially less privileged (Muchinsky, 2011).

The distinction between family and non-family members can result in individuals receiving preferential treatment that is based less on behaviors or exchanges and more on family ties (Chapais, 2001; Moore, 1992), which may lead to perceptions of injustice or nepotism on the part of those individuals who are not part of the owning family (Muchinsky, 2011). This is important because FOBs are both pervasive, can provide social and organizational benefits, and employ a large portion of the workforce. Therefore, a greater understanding of the potential effects of nepotism in FOBs may lead to improvements in how these firms are managed and organized; this may also increase our understanding of in-group/out-group functioning in situations where mobility between these groups is limited.

The research reported here investigated how FOB employees perceive justice and nepotism, based on family membership and kin density; in addition, we investigated the relationship between

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nepotism perceptions and justice beliefs. First, we examine definitions of FOBs and family, argue that a more precise conceptualization and measure of family membership in FOBs is needed, and introduce the concept and measure of *kin density* (an improved approach to quantifying familial relatedness in such organizations). This is followed by a discussion of kin selection (i.e., favoritism towards kin) and nepotism. We then develop hypotheses specifying links among family membership, kin density, nepotism, and justice perceptions. Next, we present the results of a field study conducted to test these hypotheses. Finally, we discuss the limitations of our study and potential implications of our findings for future research and practice.

Family-owned businesses and families

Most definitions of FOBs contain elements relating to ownership, influence, involvement and succession (e.g., Astrachan & Shanker, 2003). At a general level of analysis, definitions stipulate that the family has some degree of strategic control over the direction of the business, and that the business is intended to remain within the family. More narrow definitional criteria may specify that multiple generations are involved, more than one family member has significant management responsibility, and there is direct family involvement in daily operations (Shanker & Astrachan, 1996). A definitional limitation in the FOB literature is the treatment of the term “family.” Although it is an important definitional component of a FOB, the FOB literature is typically unspecific about “family” or “family member” other than acknowledging or implying that family members are kin. In addition, most definitions treat family membership as *categorical*: an employee or owner either is or is not a family member (Miller, Le Breton-Miller, Lester, & Cannella, 2007).

Most scholarly definitions of a family include a breeding pair (parents) and their offspring (Davis & Daly, 1997); they may also include continued interaction among parents and offspring (Emlen, 1995; Trivers, 1971) and non-linear kin, such as uncles, aunts, and cousins (Hamilton, 1964). These general definitions can apply to all animals, including humans. Thus, family members are kin, and are, *for the most part*, genetically related (Neyer & Lang, 2003). This is important for the study of FOBs because being related and sharing genetic interests have implications for how family members behave toward one another, as we discuss below (Emlen, 1995; Fitzgerald & Colarelli, 2009; Hamilton, 1964). However, family membership need not be exclusively based on genetic relatedness. Evidence for non-genealogically related individuals being classified as a “relative” or included in kinship term systems is found in various cultures (e.g., Bloch, 1971; Fox, 1980).

Individuals can still be strongly bonded even when they do not share genes. Members of a mating pair may be inclined to view one another as kin, especially when they reproduce together, have filial descendants in common (Daly, Salmon, & Wilson, 1997), and generally provide high levels of emotional and social support (Korchmaros & Kenny, 2001). Adopted children are not usually genetically related to their adoptive parents and siblings, yet adoptive parents treat them similarly (though not identically) to genetic offspring (Case, Lin, & McLanahan, 1999, 2000; Case & Paxson, 2001). Indeed, many non-human animals adopt young and care for them as their own (Packer, Lewis, & Pusey, 1992).

Kin selection

Evolutionary biologists refer to favoritism toward kin over non-kin (and favoritism of close kin over distant kin) as “kin selection.” The core idea behind kin selection is that natural selection favors individuals who incur costs to help kin when it is in their

self-interest.² By helping (close) kin they are increasing the likelihood that a portion of their own genes will survive into the future (Hamilton, 1964). People are more likely to bequeath their estates to kin than non-kin (Smith, Kish, & Crawford, 1987). Parents typically invest more resources, such as food and health care expenses, in genetic offspring than step, adopted, or foster children (Case & Paxson, 2001; Case et al., 1999, 2000).

It is not entirely clear what mediates the relationship between relatedness and helping behavior. However, there is mounting evidence that emotional closeness (i.e., interpersonal warmth), which correlates strongly with genetic relatedness, may play an important role (Daly et al., 1997).³ Bressan, Colarelli, and Cavalieri (2009) found that genetic relatedness was not the principal predictor of ordinary helping behavior; rather, it was mediated by interpersonal warmth and perceived physical similarity. Similarly, Korchmaros and Kenny (2001) found that emotional closeness was a partial mediator between genetic relatedness and willingness to help kin. However, the relationship between emotional closeness and helping is not straightforward. Although people are more likely to engage in low and medium cost helping behavior (such as buying someone lunch or driving someone to work) towards others to whom they feel emotionally close, emotional closeness does not appear to mediate high-cost helping (such as loaning someone a large amount of money or risking one's life to save another; Bressan et al., 2009). High-cost helping behavior appears to be mediated by reliable cues of genetic relatedness (e.g., co-residence, morphological similarity). Yet even reliable cues of relatedness tend not to result in high cost helping when the beneficiary has substantial reproductive limitations (Fitzgerald & Colarelli, 2009).

We expect that kin selection occurs in FOBs, and that it influences behavior and perceptions of both family members and non-family employees. For example, family members should show greater favoritism toward one another than toward non-family employees; owners should be more likely to favor their adult children over more distant kin such as nephews, nieces, and cousins with respect to ownership, succession, and wealth transfer (Bellow, 2003). In addition, non-family members should perceive that owners treat family members more favorably than non-family members.

Kin density

Although the conceptual and methodological foundation for assessing the (kin) relationship between two individuals has long existed, this is not the case for relatedness within and between groups. The most common index of relatedness is the coefficient of relatedness (coefficient r). However, using r (the coefficient of relatedness) to examine possible effects of relatedness in FOBs is problematic on two accounts. First, it is limited to dyads, and FOBs typically involve more than two family members (Smith, 1985). Second, with r , it is not possible to calculate the relative amount of a family's genes in the firm when the firm includes both family and non-family members. In studying the effects of relatedness in FOBs, we need to move beyond dyadic relationships and examine

² In the evolutionary biological and evolutionary psychological literature, the term “altruism” is often used to mean helping behavior. Altruism is defined as helping another when the cost of behaving altruistically is less than the benefits, multiplied by the relatedness between the actor and recipient ($c < br$). This is the meaning we refer to in this paper when we use the terms “helping behavior” or “altruism.” A second concept of altruism used in these fields is “reciprocal altruism” (Trivers, 1971), meaning tit-for-tat helping behavior (this is what social scientists typically call “social exchange”).

³ We use the term “emotional closeness” because it is commonly used in the evolutionary psychological literature on altruism. However, if one views emotions as expressions of motives (e.g., Jones, Chomiak, Rittman, & Green, 2006), then “emotional closeness” may be something of a misnomer.

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