

# Nepotism

Is hiring your nephew good for your company?  
What are the hidden costs and benefits?  
What policies should public companies follow?

**By Ron Prokosch**



*The word “nepotism” in the business community originally referred to the hiring of relatives of the owner of the business. Today, this word has been extended to refer to the existence of employees within any organization that are related to each other either by blood or marriage. Is nepotism a cost or a benefit for an organization? How does it impact morale, loyalty, employee satisfaction, and a firm’s ability to service their customers? These are critical questions that nearly every business must address. Researchers and business leaders agree that there are both costs and benefits to nepotism. However, there is disagreement on its overall impact on the bottom line of a business.*

Research on the effects of nepotism has been opinion-based, rather than fact or incident based, and therefore views on the subject vary.

## Nepotism pros and cons

The support for nepotism generally presents the following points:

- **Lower recruiting costs:** Nepotism allows firms to inexpensively identify a pool of candidates for positions (i.e. relatives of current employees). Firms that encourage hiring of relatives let their own employees do much of the recruiting for the company. However, where the objective is to hire the most qualified person for the job, limiting your market focus may not accomplish this objective.
- **Lower training costs:** Family members usually know a great deal about the company they are joining, and are more likely to be satisfied with what they find. It has been said that newly hired relatives are more dedicated to learning the job in order to “make their relatives proud”.
- **Lower employee turnover:** It is suggested that family members are often the most dedicated employees. At several of the large businesses with whom we spoke, relatives of current employees are sought out because past experience has shown them to be the most motivated, conscientious workers. These firms have also found that related employees have significantly lower absenteeism.
- **Higher level of commitment and a sense of ownership:** Working on the same team with other relatives creates a greater sense of commitment and personal interest in the success of the company. Employees who know that their family members may be impacted by their actions have an extra reason to want the company to grow and prosper.
- **Higher level of loyalty:** The opportunity to work with one's son, daughter or cousin is considered by most employees to be an intangible benefit of working for a company. However, in this day it would be very rare indeed, that a valued employee would stay with a company so that they might have an opportunity later to mentor their son or daughter as employees of the same firm.
- **Higher level of morale:** A “family-type” environment can boost the morale of all employees, and positively impact customer relations. Thomas Publishing, a large media company in New York City, views an employee's desire to bring another relative to the company as a great endorsement of the business. “It means that Thomas Publishing is a good, caring place.” (Molofsky, 1999) However, for this to happen it is critical that such climates exist for all employees at all times, which requires strict guidelines.
- **Higher trust levels:** In organizations with a high degree of family involvement, there is often a higher level of commitment to “working through problems.” As one executive stated, “at the end of the day they are all family, and they have to get along ...”

In theory, this may support the case for employment of relatives. In practice though, there are many problems and difficulties with managing the trust factor so that it is consistent across all employees and the entire organization and not just reserved for the “inner circle.”

## Issues raised by nepotism

- **Favouritism:** Nepotism provides opportunities for favouritism in hiring, promoting and salary and bonus decisions. For this reason, companies with formal policies would generally not allow for family members to make such decisions.
- **Discipline:** Nepotism can create disciplinary problems for managers if they have to deal with a relative of another employee. Problems involving family members will often lead to a “polarization of perspectives” within the workplace, producing economic inefficiencies.
- **Fraud:** Nepotism can break down the system of “checks and balances” that are established in businesses. Some argue that this increases the likelihood of employee fraud. I recall one example from my own career where 19 employees had to be terminated. They worked in a large retail organization and would discount merchandise to a fellow employee/relative.
- **Confidentiality:** It is assumed that family members will be more likely to share confidential information with other family members which they might not otherwise do. This can result in suspicion, mistrust and paranoia or resentment and the general withdrawal of other employees in providing key information.
- **Empowerment:** Life as the “supervisor’s son” can be difficult. Performance expectations are higher; and often nepots have a hard time determining if their success was due to their performance or because they are the boss’ son.
- **Personal issues:** Firstly, not all family relationships are positive and mutually respectful. Personal issues and difficult relationships at home can make it difficult to work and interact effectively at work. Or, when workplace differences occur, inappropriate workplace behaviours such as shouting or pouting often arise and when such differences enter the home it can put a strain on the marriage or family relationships too. These behaviours are, of course, unprofessional and inappropriate and have a negative effect on the other employees who have to cope with this uncomfortable atmosphere.



## Spouses in the workplace

One of the most challenging components of the nepotism debate is how to deal with spouses in the workplace.

Some large international corporations actively recruit married couples to work for the company as they believe it leads to happier marriages, healthier families, and ultimately, more motivated employees. But in these cases there are well-established and formal policies that are applied equally to all employees and which are often designed to address “conflict of interest” concerns.

Many more companies actively discourage spouses from working in the same company, as they believe it increases the opportunity for workplace tension and inefficiencies. This would be particularly so if the home relationship is under stress (i.e. pending separation or divorce).

Most intermediate and large organizations we researched have a written nepotism policy designed to avoid husbands and/or wives from supervising one another or being in a line of influence or the same chain-of-command. If employees choose to marry, one of the two is encouraged to transfer to a new department and out of the chain-of-command.

While it is illegal to terminate or otherwise discriminate on the basis of marital status, in the best interests of all concerned, most organizations draft their policies around an effort to avoid conflicts of interest.

Queens University, one of Canada's premier schools of industrial relations has a succinct policy on the employment of relatives. Their policy states:

"The University does not discourage, not prohibit the employment of more than one member of a family. However, due to the potential for conflicts of interest, the appointment of an immediate relative of a current employee to the same department is discouraged and requires prior declaration to the appropriate authority (usually the department head or director). This policy is in accordance with the 'Conflict of Interest and Conflict of Commitment' policy."

### **Procedure**

Normally, such appointments should not occur in circumstances where one member of a family would exercise any form of supervision or direct influence over an immediate relative. For the purpose of this policy, an immediate relative is defined as spouse, common-law spouse, same sex partner, child, stepchild, sibling, parent, sister/brother-in-law, mother/father-in-law, grandparent and grandchild. This policy should also be applied in circumstances involving familial or intimate personal relationships.

Examples of conflicts of interest related to the employment of relatives include:

- Hiring decisions
- Promotions
- Renewal of contracts
- Performance evaluation
- Disciplinary procedures
- Salary considerations
- Respect for confidentiality

In the event that this situation does occur, the supervisor in the relationship will not be the sole decision-making authority.

### **What is appropriate?**

As dual-career couples become a larger part of the worldwide workforce, an increasing number of firms are forced to consider what should be an appropriate nepotism policy. If a policy is not in place, and enforced uniformly, legal issues, low morale and productivity and loss of staff can result.

The degree to which nepotism is an acceptable practice is based largely on what boundaries/guidelines are defined and applied consistently and equally across the entire organization and includes all employees. There are three "golden rules" regarding nepotism within an organization:

- The first is that the primary criteria when hiring or promoting must be finding the most qualified person for the job regardless of their relationship to members of the company.
- Second, every effort should be made to avoid potential conflict of interest situations. This is usually accomplished by ensuring that there is not direct line of influence or same chain-of-command of one relative over the other.

BP Canada in their policy explicitly states, "Employment of relatives of employees in salary grades 17 and above is prohibited and is applicable to all categories of employment, including summer hiring."

- Third, policies and practices must be applied consistently and equally across the entire organization and be applicable to all employees.

Our literature research and survey of a variety of companies (beyond family-owned businesses) suggest that almost all have a policy or a least a practice that include these three principles.

A family-owned and operated business is nepotistic by nature, but even here owner-managers will testify to the difficulties of managing nepotism. However when the firm grows beyond the family or is held by multiple shareholders nepotism can lead to difficulties where the atmosphere is highly charged and suspicion and mistrust abound. It is extremely difficult to hold the talent required for a growing enterprise when by default (of a clear consistent policy) a climate of second-guessing, mistrust and concern for competence emerges.

Policies and practices around nepotism usually grow out of experience and the fact that most of Canada's top corporations have policies regarding nepotism would suggest that each must at some time have consumed a significant amount of management time to deal with issues of nepotism. So much so, that they found it necessary to have a policy to guide and pro-actively prevent nepotistic practices and potential conflict of interest situations.



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