Is Nepotism So Bad for Family Firms? A Socioemotional Wealth Approach

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Abstract

This paper focuses on the issue of nepotism or the practice of hiring and managing family members in family firms. Extant research suggests that while nepotism is related to numerous problems, it also offers some unique advantages to family owned firms. We use a socioemotional wealth (SEW) perspective to develop a theoretical framework that explains how nepotism influences firm performance. In doing so, we rely upon a nuanced conceptualization of SEW to clarify why some family firms are more likely to engage in nepotism than others, as well as explain the contingencies under which nepotism may prove beneficial or detrimental for family firms. Finally, we explore how human resource practices might impact the interplay between nepotism, environmental contingencies, and firm performance.

Keywords: family firms; nepotism; socioemotional wealth; mixed gamble; environmental contingencies; human resource practices

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1. Introduction

Nepotism refers to an owner's or manager's preferential treatment of family members within an employment context by giving them positions based on kinship ties rather than merit or abilities (Bellow, 2003, Jaskiewicz, Uhlenbruck, Balkin, & Reay, 2013). Extant literature shows that nepotism is quite prevalent in family firms, where members of the owning family are treated favorably relative to non-family members when exposed to hiring, performance appraisal or promotion decisions (Cruz, Firfiray, & Gómez-Mejía, 2011; Gersick, Davis, Hampton, & Lansberg, 1997; Jaskiewicz et al., 2013). Yet, although anecdotal and empirical evidence shows that some families are more likely to engage in nepotism than others (Vinton, 1998), the drivers of nepotism in family firms remain unclear (Jaskiewicz et al., 2013).

While nepotism can assume several forms (Jaskiewicz et al., 2013) and can exist at various levels within a firm, for the purpose of the conceptual framework presented in this paper, we utilize a dichotomous conceptualization of the construct which defines nepotism as the hiring of family managers within the top management teams (TMTs) of family firms for the following reasons. First, in line with the upper echelons perspective (Hambrick & Mason, 1984), which emphasizes that the strategies and performance of firms are a reflection of the values and mindsets of powerful actors at the top, it might be particularly useful to understand the impact of nepotistic practices in the TMTs of family firms. Also, given that most upper echelons research has focused on large public companies, it may be worthwhile to explore the impact of nepotistic practices in the TMTs of large and medium family firms that often combine the characteristics of large public corporations with the attributes of family firms such as an emphasis on family control, altruism, and emotional attachment (Miller & Le Breton-Miller, 2006).

The bulk of studies on nepotism focus on understanding the advantages and disadvantages of practicing nepotism for family owners. For instance, some scholars (e.g., Bellow, 2003; Ford & McLaughlin, 1986) have suggested that nepotism is associated with highly committed family talent and access to a dedicated and affordable workforce. Such characteristics are likely to provide family firms with a significant competitive advantage relative to non-family firms (Dyer, 2006; Dollinger, 1995), implying a positive effect of nepotism on firm performance. However, the preferential treatment of family members based on relationships rather than merit has long been questioned on business grounds (Bloom & Van Reenen, 2007; Cialdini, 1996). For instance, many researchers argue that nepotism may in fact harm the durability and economic viability of family businesses (Dyer, 2006; Schulze, Lubatkin, Dino, & Buchholtz, 2001).

In addition to analyzing the impact of nepotism on firm financial outcomes, family business studies suggest that the practice of nepotism may also affect the family's socioemotional wealth (SEW) (Cruz et al., 2011; Naldi, Cennamo, Corbetta, & Gómez-Mejía, 2013). SEW refers to the collective set of non-economic utilities that family owners derive from firm ownership (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007), including aspects such as family control, a sense of identity, emotional ties and the ability to transfer a healthy business to the next generation (Berrone, Cruz, & Gómez-Mejía, 2012). Extant research provides compelling evidence that for family owners the pursuit of socioemotional utilities takes place at the expense of financial gains (Cruz, Larraza-Kintana, Garcés-Galdeano, & Berrone, 2014; Naldi et al., 2013).

As in the case of financial outcomes, the impact of nepotism on SEW is unclear. While some suggest that the practice of nepotism may enhance SEW by strengthening family influence (Gómez-Mejía, Patel, & Zellweger, 2015) and/or facilitating the transition of firm leadership on to the next generation (Le Breton-Miller & Miller, 2006), others highlight the potential negative effects of nepotism on family SEW. Among these, nepotism may bring conflicts of interest between family members (Zellweger & Astrachan, 2008) or between family members and other stakeholders (Fan & Wong, 2002), as well as identity conflicts (Schulze et al., 2001) and reputational concerns (Dyer & Whetten, 2006).

The aforementioned discussion suggests that in deciding whether or not to practice nepotism, family owners would assess the potential gains and losses of nepotism *both* in the firm's financial performance *and* in the family's stock of SEW. Hence, a theoretical framework that predicts variations in nepotistic practices among family firms as well as its performance implications should be able to explain how socioemotional and financial motives interact when family owners face the nepotism decision. In this paper, we develop a refinement of the SEW framework which builds on the recent concept of "mixed gambles" (Bromiley, 2009) to explain the choices family owners face when making strategic decisions (Gómez-Mejía, Cruz, & Imperatore, 2014; Gómez-Mejía et al., 2015).

Specifically, we argue that given the potential for both positive and negative outcomes associated with nepotism, family owners are likely to view it as a "mixed gamble" in which they would have to weigh the likely gains and losses of nepotism in financial and socioemotional terms in tandem (Gomez Mejia et al., 2015). Consequently, we analyze how financial and socioemotional goals of family firms inter-relate to predict the prevalence of nepotism among family firms. Moreover, consistent with research highlighting SEW as a multi-dimensional as opposed to a monolithic construct (Berrone et al., 2012), we examine which family firms would be more likely to take the “nepotism gamble”, depending on how family owners prioritize among the different family SEW dimensions.

Our proposed theoretical framework also attempts to contribute to the debate on the impact of nepotism on firm performance. Building on contemporary research portraying SEW as a “situational” framework (Cruz et al., 2014), we reexamine the nepotism-performance relationship using a contingency approach based on environmental characteristics. According to this perspective, some environmental and organizational variables should be aligned together in order to attain a fit that leads to better organizational performance (Lawrence & Lorsch, 1967; Powell, 1992). Our theoretical framework aims at identifying such variables that make some family businesses engaging in nepotism highly successful while leaving others at a disadvantage, depending on the specific contingencies that the family firm confronts. Lastly, following the contingency logic, we examine how specific human resource (HR) practices interact with environmental contingencies to influence the relationship between nepotism and performance.

The paper is organized as follows. First, it elucidates which specific characteristics of family firms as embodied in the SEW concept will influence the practice of nepotism when it comes to hiring family members to executive positions within family firms. Whereas previous research has revealed mixed findings on the relationship between nepotistic hiring at the top and firm performance, with a few exceptions it has not provided theoretical explanations about the contextual conditions that influence the relationship between nepotism and firm performance (Jaskiewicz & Luchak, 2013; Naldi et al., 2013). Specifically, we examine the influence of two contingencies (environmental uncertainty and institutional environment) on the relationship between nepotism and firm performance. Finally, we explain how the use of certain HR practices might impact the relationships between nepotism, environmental contingencies, and firm performance. Figure 1 summarizes our proposed framework.

Insert Figure 1 about here
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2. Nepotism as a mixed gamble: A socioemotional wealth perspective

2.1. Nepotistic practices in family firms

Despite the dearth of studies focusing explicitly on nepotism in family firms, the literature on family business is full of anecdotal evidence showing how family presence allows kinship ties to conflict with business values of profitability and efficiency when it comes to human resource practices for relatives (Dyer, 1988). Among others, studies highlight family firms' difficulty in dealing objectively with a family member's performance and qualifications (Crane, 1985), a lack of rational systems based on merit (Kanter, 1989), incompetent family members on the payroll (Claessens, Djankov, Fan, & Lang, 2002; Volpin, 2002), pay decoupled from firm performance for family CEOs (Gómez-Mejía, Núñez-Nickel & Gutierrez, 2001), and the design of "caring" contracts for family managers (Cruz, Gómez-Mejía, & Becerra, 2010). These studies suggest that the various degrees of practicing and defusing nepotism in a firm should be given consideration while attempting to "unpack" nepotistic practices in family firms. For instance, Jaskiewicz and colleagues (2013) argued that finer distinctions of the underlying exchange relationships developed between the family owners and nepots are needed to understand "the widespread use and consequences of nepotism" (p.133).

The abovementioned discussion suggests that a nuanced conceptualization of nepotistic practices is needed to get a complete picture of the complexity associated with nepotism in family firms. While not neglecting this, in our paper we adopt a simplified definition of nepotism that implies the hiring (or not) of family members on key positions within the firm. As explained in the next section, this dichotomous definition of nepotism is needed, given the mixed gamble logic that supports our theoretical reasoning. Using the integrated SEW mixed gamble framework, we focus on predicting the conditions under which family owners will favor nepotism and how nepotism by and large results in better or worse outcomes for family firms.

2.2. Family owners' decision-making as "mixed gambles"

The socioemotional wealth perspective emphasizes the non-economic endowments –the unique set of affective utilities – family owners have embedded in the firm as an important factor that differentiates family firms from other organizational forms (Gómez-Mejía, Cruz, Berrone, & De Castro, 2011). As such, SEW is an umbrella concept that comprises of collective family goals including the provision of employment to family members, granting family members with job security and financial benefits, and passing the firm to the next family generations (Berrone et al., 2012; Gómez-Mejía et al., 2007). Based on the Behavioural Agency Model (BAM) (Wiseman & Gómez-Mejía, 1998), the SEW perspective predicts that when it comes to assessing the value of a business decision and deciding whether or not to take risk, the preservation of SEW represents the main reference point for family firms when making strategic decisions (Gómez-Mejía et al., 2007). That is, family owners are averse to SEW losses and thus will trade off economic and non-economic goals to protect SEW and maintain control over the family business even when these actions may be detrimental to the firm.

Although extant empirical studies generally support this view (Berrone, Cruz, Gómez-Mejía, & Larraza-Kintana, 2010; Chrisman & Patel, 2012; Gómez-Mejía, Makri, & Larraza, 2010; Martin, Campbell, & Gómez-Mejía, 2016), they tend to simplify family owners' decisions by referring to it as a "pure gamble", focusing solely on SEW loss outcomes. In contrast, recent research portrays family owners´ decision making under risk as a "mixed gamble", one with the possibility of both SEW losses and gains (Gómez-Mejía et al., 2014). Further, contemporary research suggests that what makes the gamble unique for family owners is that they have to weigh the likely outcomes of strategic decisions in terms of *both* the current SEW endowment *and* future financial wealth (Gómez-Mejía et al., 2015). Given that a change in one utility could lead to an opposite change in the other utility dimension (Chrisman & Patel, 2012), family owners often face a dilemma when it comes to strategic decision making, trading off financial and socioemotional wealth considerations. In a similar fashion, in the next section we theorize that nepotism will pose a dilemma for family owners: one in which they will have to weigh the likely outcomes of favoring the hire of relatives on key positions within the family firm in terms of their impact on both current and future socioemotional and financial wealth. Hence, we propose that nepotism could be seen as a mixed gamble for family owners.

Further, our model contends that in playing the nepotism gamble, family owners would elicit heterogeneous responses depending on their most salient SEW referent point. We build on a more nuanced conceptualization of SEW that disaggregates it into five dimensions, referred to as the FIBER model (Berrone et al., 2012). The FIBER model distinguishes between five different aspects of the SEW utilities family owners derive from owning the firm: "Family Control and Influence", "Family Identity", "Binding Social Ties", "Emotional Attachment" and "Renewal of Dynastic Bonds". These dimensions represent distinct reference points which may justify family principals' heterogeneous responses to different internal and external challenges (Berrone et al., 2012; Gómez-Mejía et al., 2014; Morgan & Gómez-Mejía, 2014).

As explained in the next section, while taking the nepotism gamble may help family owners preserve some aspects of their SEW (i.e. family control), it may also result in substantial SEW and financial losses in others, mainly caused by a decline in firm reputation and family image (Naldi et al., 2013). It follows that the question of whether or not family owners should take the nepotism gamble remains open to further investigation; consequently, we address it within the next sections.

2.3. The nepotism mixed gamble for family owners

The aforementioned discussion suggests that although family firms may be just as rational as non-family firms when making strategic decisions, the criteria for judging whether these choices are good or bad for the firm vary between the two types of firms (Gómez-Mejía et al., 2007; Gómez-Mejía et al., 2011). Extending the idea of the nepotism gamble, it seems fair to assume that in family firms with a strong desire for maintaining family control and influence (a key SEW dimension), family owners will weigh more the SEW gains associated with favoring family members (rather than unrelated applicants) for key positions within the firm. This is because nepotism represents a unique gamble in which family owners encounter a highly certain SEW gain, resulting from the enhanced family control and influence derived from the appointment of a family member. On the contrary, the recruitment of an outsider may lead to certain SEW losses since hiring someone who is an expert in specialized knowledge areas beyond the comprehension of family owners may dilute family power and influence in the firm (Cruz et al., 2011; Gómez-Mejía et al., 2014; Neacsu, Martin & Gómez-Mejía, in press).

The appointment of a family member could also help the family fulfill its emotional desire for "transgenerational intentions" (Morgan & Gómez-Mejía, 2014; Zellweger, Kellermanns, Chrisman, & Chua, 2012), representing the aspiration to transfer the firm to the next generation.

According to the succession literature, families groom heirs to occupy main managerial positions to maintain the family legacy, even when they may not be the best prepared for the job (Handler, 1994). Nepotism may also be highly valuable for family owners who place a strong emphasis on the renewal of family bonds since it signifies an unusual ability to develop and pass tacit knowledge between family members (Le Breton-Miller & Miller, 2015).

Hence, from a socioemotional point of view, behaviors favoring nepotism may not be irrational for family owners as they may help family owners maintain family control and influence and renew the family dynasty. Yet, this behavior resembles a risky strategy connected with the probability of negative socioemotional and financial outcomes associated with nepotism (Hauswald, & Hack, 2013). On the financial side, making recruitment decisions based on family ties may translate into lack of talent and/or managerial entrenchment (Cruz et al., 2011; Gómez-Mejía et al., 2001; Neacsu et al., in press; Stulz, 1988), dysfunctional conservatism, unqualified management, and strategic involution (Miller & Le Breton-Miller, 2014) that could tear the firm apart and ultimately damage firm performance.

It follows that, in addition to the potential financial losses associated with nepotism, hiring relatives may also imply potential SEW losses. As rumors of nepotistic practices become widespread, the family image may be harmed since nepotism is often perceived as unethical (Perez-Gonzalez, 2006). Building a favorable reputation may involve short-term costs (Berrone et al., 2010) that result from the implementation of fair recruitment, selection, performance management and promotion practices that do not discriminate against non-family employees. Yet these costs may be offset by the long-term reputational benefits that can contribute to the longevity and prosperity of the family firm (Deephouse & Jaskiewicz, 2013). Furthermore, nepotism is often associated with sibling rivalry (Schulze et al., 2001) and conflicts of interests between family members (Zellweger & Astrachan, 2008) or between family owners and external stakeholders (Berrone, Cruz, & Gómez-Mejía, 2014; Fan & Wong, 2002), which could negatively affect the family image and reputation.

The aforementioned discussion suggests that despite the non-pecuniary benefits family firms obtain from appointing family members within the firm - the highly certain SEW gains - nepotism may also imply *potential financial losses* when the appointment of the family member is not successful. Hence family owners will take the nepotism gamble only when they estimate large prospective SEW gains stemming from the decision to hire relatives compared to potential SEW and financial costs. Aspiring for family centric SEW benefits, families in which the SEW dimensions of control and renewal of family bonds are very strong may neglect these negative financial and SEW consequences. In other words, when these two SEW dimensions are salient for family owners, their decision making will shift toward appointing family members within the firm (i.e. taking the nepotism gamble) even if there is a possibility that the appointment will eventually result in prospective SEW (i.e. reputational costs) and financial losses if the family employee does not meet the family owners´ expectations. On the contrary, when assessing the nepotism mixed gamble, family owners for whom the family identification dimension of SEW is more salient are likely to give strong weight to the potential reputational costs associated with favoring the hire of relatives and thus are less likely to take the nepotism gamble.

The aforementioned discussion leads us to formulate the following propositions on the relationship between SEW dimensions and the prevalence of nepotism among family firms:

Proposition 1. *Family owners who emphasize the "family influence and control" dimension of SEW will show a higher propensity to engage in nepotism.*

Proposition 2. *Family owners who emphasize the "renewal of family bonds" dimension of SEW will show a higher propensity to engage in nepotism.*

Proposition 3. *Family owners who emphasize the "family identification" dimension of SEW will show a lower propensity to engage in nepotism.*

3. The link between nepotism and performance: Exploring contingencies

As previously mentioned, there is no theoretical or empirical consensus between family business scholars regarding the effect of nepotism on family firm performance. On one hand, as a practice that uses a nonobjective measure of employment - based on family ties rather than objective measures such as professionalism - (Yeung, 2000), nepotism is often contrasted against meritocratic and fairer systems of employment (Poza, Johnson, & Alfred, 1998; Sundaramurthy, 2008) that promote suitably qualified people to fill job positions (Chrisman, Chua, & Sharma, 1998). On the other hand, nepotism may also offer family firms unique advantages that would be unavailable otherwise. For instance, it may foster an unusual ability to develop and pass tacit knowledge between family members (Le Breton-Miller & Miller, 2015), as well as favor the development of long-term relationships with family firm stakeholders (Arregle, Hitt, Sirmon & Very, 2007). To help resolve this debate, we build on the previously explained SEW mixed gamble logic to argue that the specific contingencies family firms confront will affect not only the likelihood of taking the nepotism gamble, but also the success or failure of the family firm´s decision to appoint employees (particularly to key positions) on the basis of blood ties.

Empirical evidence from the family business literature suggests the need to adopt a contingency view to account for the potential benefits of hiring relatives. For instance, research by Cruz, Justo and De Castro (2012) in the context of micro and small enterprises (MSE) shows that family employment seems to be a profitable strategy for MSEs' family owners. This is because MSEs possess limited resources that hinder their ability to reach quality applicants through their more sparse networks. Further, the MSEs' context reduces the owner´s ability to enforce the commitment of those with whom he shares weak ties. According to the authors, the presence of SEW imprints the family employment practice with two features that have a direct positive impact on an MSEs' performance: "collective social capital" (Coleman, 1990) and "strong ties" (Nahapiet & Ghoshal, 1998). These features would not be so salient in large companies.

Furthermore, in a study conducted across two types of business environments - industrial districts and publicly listed firms in Italy – Naldi et al. (2013) compared family firms with a CEO who was a member of the controlling family and family firms with a non-family CEO in terms of performance results. Their findings suggest that firms with a family member CEO outperform firms with a non-family member CEO when the analysis was done using a sample of firms in industrial districts, and underperform them when the analysis was done based on a sample of publically traded family firms. Thus, the results imply that having a family CEO improves performance in industrial districts led by social norms and tacit rules, whereas it diminishes performance in publicly traded firms where stakeholder management plays a more important role.

Lastly, at a theoretical level, a recent study by Jaskiewicz et al. (2013) distinguished between two types of nepotism - reciprocal and entitlement nepotism. Entitlement nepotism is associated with familial altruism and can result in short-term focused family exchanges that may destabilize family relationships (Long & Mathews, 2011). On the contrary, reciprocal nepotism is associated with family conditions such as interdependence, previous interactions and norms that encourage a sense of responsibility toward family members and result in generalized trust-based exchanges that aim to strengthen the underlying relationship. According to the authors, reciprocal nepotism could be a valuable resource for an organization in contexts where tacit knowledge is important (i.e. in small or medium firms and/or specific sectors based on craftsmanship).

The abovementioned discussion suggests that given the degree of “fit” between SEW objectives and environmental attributes, nepotism may represent both an asset and a liability in relation to financial outcomes. These arguments are in line with the core elements of contingency theory, suggesting that firm performance is determined by a good fit between strategic and environmental features (Lawrence & Lorsch, 1967; Powell, 1992); therefore, a lack of fit may lead to suboptimal operations and in extreme cases failure to survive (Gómez-Mejía, 1992; Balkin & Gómez-Mejía, 1987). Drawing on this view, we provide insights regarding the performance benefits and challenges derived from the appointment of family members within the firm by examining the influence of two critical environmental conditions: environmental uncertainty and the type of institutional environment. Given the concerns raised within the literature about family firms' abilities to deal with environmental uncertainty (Sirmon & Hitt, 2003) as well as the mixed evidence on whether family involvement is advantageous in weak institutional contexts (Gedajlovic, Carney, Chrisman, & Kellermanns, 2012), it might be particularly worthwhile to focus on these contingencies.

3.1.Environmental Uncertainty

It is often argued that family firms are purported to have some unique resources (Habbershon & Williams, 1999) that contribute to greater overall utility for all controlling shareholders (Amit & Villalonga, 2014; Bertrand & Schoar, 2006; Villalonga & Amit, 2010). Some scholars have argued that because of these unique family-related resource advantages, family firms might do better in some industries versus others (Le Breton Miller & Miller, 2015; Wright, Chrisman, Chua, & Steier, 2014). Given that industries differ considerably with respect to the challenges posed by their product and market constraints, the demands on the resources required to compete effectively are also likely to vary (Lawrence & Lorsch, 1967; Thompson, 1967). Hence, the resources present within family firms may be particularly useful for adaptation in specific environments and industries while in others they may not necessarily translate into a competitive advantage (Le-Breton Miller & Miller, 2015). Specifically, previous studies show that in industries with established and undifferentiated product markets (e.g., commodities, grocery businesses etc.), resources typically fostered in family firms such as sophisticated tacit knowledge and reputation may not play a very important role. On the contrary, in industries with a high degree of uncertainty and product market differentiation (e.g., wine industry, luxury goods etc.), tacit knowledge and reputational resources are quite valuable (Le Breton-Miller & Miller, 2015; Pennings, Lee, & Wittleloostuijin, 1988). Given that tacit knowledge is difficult to access by outsiders, it is often restricted to people who are familiar with it and have experience in its application (Jaskiewicz et al., 2013; Turner & Makhija, 2006). That is, tacit knowledge can only be learnt through close personal interactions between individuals over time (Kogut & Zander, 1993). Therefore, long-term trust-based relationships that are found among close-knit family members are essential for developing and managing tacit knowledge (Jaskiewicz et al., 2013).

As family managers are socialized into the business from an early age, they develop firm-specific tacit knowledge about how the firm's internal capabilities and strategies can be matched to environmental contingencies (Sirmon & Hitt, 2003, Naldi et al., 2013). In addition, family managers will have a better understanding of the firm's human capital owing to the close ties that they share with their workforce (Donnelley, 1964; Horton, 1986). Such in-depth understanding can prove especially useful in evaluating the value of the firm's intangible resources (Miller & Shamsie, 1996). As family managers are more concerned about the long-term viability of their firm, they may be more likely than non-family managers to form alliances with external stakeholders who might supply important information and knowledge (Berrone et al., 2010; Miller & Le Breton-Miller, 2005). As such, the stable nature of the relationships shared between family managers and external stakeholders enables these firms to develop social capital and to survive during volatile periods that are often experienced in uncertain environments (Minichilli, Brogi & Calabro, 2015).

It follows that, from a contingency theory perspective, family firms operating in industries with a high degree of uncertainty may obtain higher financial payoffs from taking the nepotism gamble relative to family firms operating in industries with lower uncertainty given the negative financial consequences of appointing family members on key positions within the firm (as opposed to appointing non-family employees). Formally stated:

Proposition 4. *Nepotism will be more positively related to performance in industries with a higher degree of environmental uncertainty relative to industries with a lower degree of environmental uncertainty.*

3.2. Institutional Environment

Prior research has acknowledged the presence or absence of formal institutions and investor protection environment as a key contingency variable that influences the family ownership-firm performance relationship. However, results are contradictory with some authors suggesting that when property rights protection is weak or nonexistent, family ties may provide the best alternative for the development of economic activities (Bertrand & Schoar, 2006; Burkart, Panunzi, & Shleifer, 2003; Caselli & Gennaioli, 2004), while others argue exactly the opposite (Chang, 2003; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). The lack of consistent results reinforces the need to further explore the specific family resources that make some family firms outperform. In the particular case of nepotism, we argue that family firms that favor the employment of relatives will perform better in countries with weak institutions since the absence of formal institutions would reduce the opportunity cost of hiring relatives for several reasons, as follows.

First, in countries with weak institutional protection mechanisms, the risk of experiencing managerial opportunism when hiring non-family managers is much higher than in countries with strong institutions. Whereas in the latter intermediaries provide shareholders information on the performance of firms and their managers (Luo & Chung, 2013), in the former the market intermediaries that supply credible information are either missing or underdeveloped (Leff, 1978). Hence, the recruitment of a non-family manager largely increases information asymmetries in countries with weak institutions (Gómez-Mejía, Berrone, & Franco-Santos, 2010). The practice of nepotism at the top also increases behavioral uncertainty (Cruz et al., 2010) given that the costs of monitoring non-family managers and implementing arms-length contracts in these contexts are extremely high. As such, weak external monitoring along with information asymmetries may allow non-family managers to distort, delay or conceal information from family owners and thus engage in opportunistic behaviors likely to hurt firm performance (Ling, Ki, Chua, Kirkman, Rynes & Gómez-Mejía, 2015; Luo & Chung, 2013).

Second, the family labor supply provides family firms with a trustworthy and loyal workforce that may be particularly valuable in the absence of strong institutions. Kin networks may instill in family workers a sense of family obligations and a disincentive to opportunistically trade off stockholders' welfare (Cruz et al., 2010). Furthermore, given their long-term perspective, family managers may provide the firm with strong and enduring relationships with external stakeholders (Berrone et al., 2010) that facilitate access to strategic resources difficult to obtain in contexts experiencing institutional voids (Acquaah, 2012; Arregle et al., 2007; Vassolo, Decastro & Gómez-Mejía, 2011).

The aforementioned discussion suggests that in countries with weak institutional protection mechanisms, characterized by high monitoring costs and difficulties in implementing arm´s length contracts, the "amenity potential" of hiring a family manager will be especially high (Burkart et al., 2003). In line with this view, Lee, Lim, and Lim (2003) propose that the appointment of offspring is not always caused by favoritism, but rather belongs to an economic rationale related to the appropriation of risk and the agency paradox that would justify such behavior. Furthermore, prior research has recognized that better access to financial, human, and technological capital can bring unique advantages to family firms in weak institutional contexts (Miller et al., 2009).

It follows that the effect of nepotism on firm performance is likely to be positively moderated by weak institutional protection mechanisms. That is, family firms that hire family managers may obtain a performance premium over firms that hire non-family managers in countries with weak institutions. Formally stated:

Proposition 5. *Nepotism will be more positively related to firm performance in countries with weak rather than strong institutional protection mechanisms.*

4. The impact of HR practices on the relationship between nepotism and firm performance

In the prior sections we have argued that nepotistic practices at the top will benefit firm performance when SEW objectives and prevailing environmental contingencies are in alignment.

Building on it, we further propose that the presence of HR practices may influence the interface between nepotism, environmental characteristics, and performance.

We build our arguments on previous research in the area of strategic human resource management, which shows that HR practices may result in superior firm performance when they are aligned to develop critical resources or competencies (Wright, Dunford, & Snell, 2001). Following this reasoning, we propose that HR practices are likely to strengthen the competitive advantage that is created through the hiring of family members at the top management levels within family firms. Further, in line with the contingency approach, empirical evidence proposes that HR practices also provide several dimensions of "fit", including how different individual characteristics may fit into distinct organizational settings (person-organization fit), how different strategies require different HR practices (strategic fit), as well as how different HR practices may be adopted due to the environmental constraints firms experience (environmental fit) Leung, Zhang, Wong, & Foo, 2006). Following this logic, we propose a model that explains how human resource practices may impact the nepotism-performance relationship under the two specific environmental conditions previously identified: environmental uncertainty and the type of institutional environment.

To do so, we draw on the ability-motivation-opportunity (AMO) model of HRM. According to this perspective, HR systems designed to maximize employee performance can be perceived as a composition of three dimensions intended to enhance human capital: ability-enhancing, motivation-enhancing, and opportunity-enhancing dimensions (Appelbaum, Bailey, Berg, & Kalleberg, 2000; Gerhart, 2007; Lepak, Liao, Chung, & Harden, 2006). Ability-enhancing HR practices are designed to ensure appropriately skilled employees; they include comprehensive recruitment, rigorous selection, and extensive training. Motivation-enhancing HR practices are implemented to enhance employee motivation and typically include developmental performance appraisals, competitive compensation, performance-related pay, other incentives and rewards, a wide range of benefits, career development, and job security. Lastly, opportunity-enhancing HR practices are utilized with the intention of empowering employees to use their skills and motivation to achieve organizational objectives.

The AMO model is suitable to our analysis given that our framework uses a mixed gamble lens to explore how the positive effects of nepotism can be enhanced and the negative effects mitigated when employees within family firms have the ability, motivation, and opportunity to engage in actions that help them meet firm goals. When employees in family firms possess the necessary skills to enact organizational capabilities, have the motivation to apply their skills to reach organizational goals, and are given the opportunity to apply those skills towards the fulfillment of organizational goals without undue constraints, we expect nepotistic hiring decisions to result in more positive organizational outcomes. Next, we analyze how the different types of HR practices will interact with the contingencies affecting the nepotism-performance relationship.

4.1. Ability-enhancing practices

Family firms can choose various human resource practices to enhance employee abilities and skills. These practices can both improve the quality of the individuals hired and raise the skills and abilities of current employees. Indeed, previous research indicates that it is possible to improve the quality of existing employees by using competitive recruitment procedures, as well as providing comprehensive training and development activities after selection (Bartel, 1994; Knoke & Kalleberg, 1994; Russell, Terborg, & Powers, 1985).

In this section, we propose that ability-enhancing practices would be particularly beneficial for accentuating the positive aspects of nepotism in weak institutional and uncertain environments.

4.1.1. Institutional environment and competitive recruitment policies

Competitive recruitment policies are reported to be associated with a number of organizational advantages such as the attainment of legitimacy through the social construction of reality (Huselid, Jackson, & Schuler, 1997). Although rational perspectives suggest that firms pursue economic advantage through decisions and actions that are shaped by unambiguous preferences and bounded rationality, the new institutionalism perspective challenges the rational models and highlights the pressures faced by firms when trying to acquire legitimacy (DiMaggio & Powell, 1983; Gooderham, Nordhaug, & Ringdal, 1999; Powell & DiMaggio, 1991). According to this perspective, certain features of the institutional environment may either encourage or inhibit the adoption of specific human resource practices. Indeed, human resource practices are often subjected to distinctive national regulations and influences deriving from the scrutiny of labor unions (Gooderham et al., 1999).

In countries with strong institutional environments, regulatory pressures will oblige firms to adopt selective recruitment policies to avoid damaging their corporate image and legitimacy within the institutional field. Conversely, in weak institutional environments where regulatory and legitimacy concerns are either lower or altogether absent, firms will not experience the same levels of pressure to adopt competitive recruitment practices. In many cases, recruitment in these contexts relies upon mechanisms that are accessible, inexpensive, and easily controllable by the firm such as personal referrals. Given that regulatory pressures will incline firms towards implementing merit-based recruitment policies in countries with strong institutional environments, adoption of these policies cannot serve as a source of competitive advantage.

It follows that, in strong institutional contexts firms will have little choice but to conform to compliance pressures, leaving little room to differentiate themselves on the basis of their HR offering. Although selective recruitment practices can also be beneficial in firms operating within strong institutional environments, the widespread presence of such policies in these contexts means that employers' ability to attain a competitive advantage on the basis of this policy will be limited. However, in countries with weak institutional environments the adoption of selective recruitment policies may enable a firm to portray itself as an employer of choice and exhibit proactivity in using ethical and fair means to attract workers. This may not only help them attract more talented workers, but can also result in a more motivated workforce and facilitate employee retention (Heneman & Berkley, 1999).

The discussion above suggests that it is within countries with weak institutional contexts that competitive recruitment policies will reap the greatest benefits for employers. Extending this view, we argue that in family firms with nepotistic hiring practices that operate in weak institutional environments, the use of competitive recruitment practices will encourage both family and non-family employees to adopt a more lenient stance toward the nepotistic practices of their employer, enhance commitment, as well as encourage them to reciprocate the firm by performing well. Formally stated:

Proposition 6. *The use of competitive recruitment practices will more strongly enhance the positive effect of nepotism on performance in family firms that operate in weak institutional environments relative to family firms that operate in strong institutional environments.*

4.1.2. Environmental uncertainty and the use of training and mentoring

In firms with a high degree of environmental uncertainty, the ability to build tacit knowledge and strong social norms can help in assembling a unique resource configuration that leads family firms to achieve a competitive advantage relative to non-family firms (Gómez-Mejía & Wiseman, 2007; Gómez-Mejía, Wiseman & Johnson, 2005. Prior literature suggests that HR practices such as training and mentoring may be particularly relevant in this regard because they play a major role in providing the channels through which capabilities are brought together and transmitted across the firm domain. Such practices may encourage, support, and sustain innovation able to lead to effective strategy development and implementation (Burt, 1992). These HR practices may also help firms build tacit knowledge (Nonaka, 1994) and social capital by improving the strength of the relationships developed between employees, as well as the ability to facilitate knowledge sharing (Messersmith & Guthrie, 2010).

In the context of family firms, we expect training and mentoring activities to be particularly beneficial in fostering the positive effects of nepotism in firms that compete in environments characterized by a high degree of environmental uncertainty. The ability to preserve and utilize tacit knowledge or knowledge that is present in individuals and work groups - but not easily codified or communicated - (Knott, Bryce, & Posen, 2003; Nahapiet & Ghoshal, 1998) is the key to achieving competitiveness in such environments. In such contexts, the use of extensive training and mentoring can facilitate close relationships and repeated interactions among family members, favoring the transfer of in-depth knowledge about their products, customers, and competitors (Edwards & Meliou, 2015). Mentoring and training the younger generations extends the depth and diversity of this tacit knowledge given that it would be difficult to pass otherwise from one generation to another (Le Breton Miller & Miller, 2015).

Family firms run by family managers will also have long term horizons and will not be as susceptible to pressures for short-term results as many non-family firms or family firms managed by non-family managers; hence, they will have added incentives for effective management of capital (Gallo & Vilaseca, 1996; McConaughy & Philips, 1999). This long-term orientation coupled with the incentive to manage capital effectively implies that family managers are not subjected to short-term goals imposed by capital markets (Dreux, 1990) and might be particularly well-positioned to pursue more innovative strategies (Teece, 1992) that are able to improve firm performance.

In addition, well-trained employees are also instrumental in developing and commercializing significant innovations, thus contributing to performance outcomes. According to prior research, employee training is positively associated with innovation (Laursen & Foss, 2003) and can enable organizations to gain tacit information from customers as it facilitates socializing and establishing relationships between employees and customers. It follows that providing training to employees can facilitate the sharing of tacit knowledge through collaborative relationships (Greer & Stevens, 2016), which may bring greater performance improvements for firms facing higher levels of environmental uncertainty.

Hence, we expect that the use of training and mentoring will accentuate the positive effect of nepotism on firm performance in family firms that face high levels of environmental uncertainty.

Proposition 7. *The use of training and mentoring activities will more strongly enhance the positive effect of nepotism on performance in family firms that face a higher degree of environmental uncertainty relative to family firms that face lower environmental uncertainty.*

4.2. Motivation enhancing practices

In addition to developing employee abilities and skills, organizations can also implement several HR practices to motivate employees to perform effectively in their jobs. For instance, a large body of theoretical and empirical research supports the idea that incentive compensation has a positive impact on firm performance (Gerhart & Milkovich, 1992; Gómez-Mejía et al., 2010). First, organizations can use individual or group pay-for-performance schemes to provide employees with rewards for meeting specific goals. In addition, job security policies may encourage employees to reciprocate by working harder due to the belief that the employer is genuinely concerned about their wellbeing or because of a lower possibility of being faced with future layoffs (Ichniowski, Shaw, & Prennushi, 1997).

In line with evidence focusing on the relationship between uncertainty and incentives (Holmstrom & Milgrom, 1991; Prendergast, 2002) and the influence of institutional contexts on employment security (Muller, 1999), in this section we explore how the contingencies in our model interact with motivation enhancing practices such as individual-performance-related pay and job security and explain its impact on the nepotism-firm performance relationship.

4.2.1. Environmental uncertainty and individual pay-for performance

Extant literature has explained why incentive pay may be more prevalent in uncertain environments (Prendergast, 2002). Whereas in stable environments it is easier for firms to allocate specific tasks to their employees and afterwards monitor their efforts, in firms operating within uncertain environments monitoring the employees´ efforts is extremely challenging. As a result, individual pay-for-performance (IPFP) contracts are more common within firms operating in uncertain environments; this happens because employers prefer transferring some of the risk they face to employees in response to increased uncertainty. Notwithstanding the prevalence of

IPFP plans in firms facing a high level of environmental uncertainty, we argue that these plans will be perceived as more unfair within these firms for the following reasons.

First, if IPFP plans are used in family firms facing high uncertainty– where the employees have little or no control over their performance–, the criteria utilized for assessing employee performance may be considered unfair and may hurt employee morale. Second, IPFP plans could lead employees to withdraw effort and hurt the owning family's credibility, resulting in an increased likelihood of employee turnover. Lastly, as the level of uncertainty increases, IPFP plans will been seen as more risky; as employees cannot easily control their outcomes, they will prefer higher base salaries instead of incentives (Eisenhardt, 1989; Miller, Wiseman & Gómez-Mejía, 2002).

However, in firms that operate in relatively stable environments, IPFP plans may be seen as a relatively fairer means of rewarding employees given that employees will have greater control over their outcomes. Therefore, we propose that in highly uncertain environments the use of IPFP plans will reduce the positive effect of nepotism on performance given that the employees´ inability to control their outcomes may trigger perceptions of unfairness, deplete employee motivation, and lead to poor performance. Thus:

Proposition 8. *The use of individual pay-for-performance will more strongly decrease the positive effect of nepotism on performance in family firms operating in industries with a higher degree of environmental uncertainty relative to industries with a lower degree of environmental uncertainty.*

4.2.2. Institutional environment and job security policies

Employers' choices with respect to HR practices are often based on the institutional rules and norms promulgated within various national contexts (Godard, 2002). As such, where strong institutions exist, firms have little choice but to comply with employment protection rules; in contrast, in countries with weak institutions, firms may resist complying with laws and instead engage in behaviors that reinforce prevailing values. The implementation of employment practices should be viewed in light of the overall institutional environment within which firms are embedded and held accountable. Institutional theory suggests that even when firms do not internalize legal rules, they may still comply with them because of the existing normative pressures within the firm's environment (DiMaggio & Powell, 1983). These pressures emanate from the general public, employees, and customers, among other stakeholders, and can induce firms to alter their conceptions of legitimate behavior.

Given these findings, we argue that job security policies will have very different organizational outcomes depending on the employees´ views towards this policy. In contexts where institutions and employment protection laws are strong, job security policies will not be highly valued by employees who may be conscious of the regulatory pressures that compel their employers to adopt these policies. Conversely, in contexts with weak employment protection laws, job security policies will be perceived as a signal of the top leadership's dedication to and genuine concern for employee wellbeing. In line with these arguments, the social exchange perspective also suggests that the outcomes of human resource practices are often dependent on employees' perception of why specific practices exist (Blau, 1964). In addition, institutional weaknesses add a premium to enduring relationships with employees as obtaining a stable and motivated workforce is a challenge (Miller et al., 2009). Within such contexts, a firm's attempts to build a culture of paternalism will make employees feel obliged to reciprocate with positive work behaviors (Nishii, Lepak, & Schneider, 2008) even if their employers are engaging in nepotistic hiring at the top.

Moreover, family managers are better positioned to offer secure long-term contracts to their employees (Belot & Waxin, 2015) because they often have the power to disregard short-term financial concerns and show unusual generosity even during economic downturns (Singal & Gerde, 2015). This type of generosity which is difficult to replicate in economically driven corporations is often a source of competitive advantage in family firms (Habbershon & Williams, 1999) and may be especially valuable in weak institutional contexts as an enhanced sense of security may foster unusual motivation among the workforce. Conversely, in stronger institutional contexts where there are adequate safeguards against unfair dismissals, employees will be less concerned about job security and will focus on higher order self-actualization needs such as opportunities for career advancement.

Thus, we propose that job security policies will enhance the positive effect of nepotism on performance in family firms operating in countries with weak institutional environments relative to family firms operating in countries with strong institutional environments. Formally stated:

Proposition 9. *Job security policies will more strongly enhance the positive effect of nepotism on performance in family firms operating in countries with weak institutional environments relative to countries with strong institutional environments.*

4.3.Opportunity enhancing practices

Finally, the extent to which organizations provide skilled and motivated employees with an opportunity to determine how work gets accomplished and decide what work is performed can also affect family firm performance. That is, HR practices such as flexible job design and employee involvement systems (Wagner, 1994) can positively affect firm performance. Prior literature acknowledges the importance of flexible job designs in adapting to constantly changing environments and recognizes the relationship between institutional structures and employee involvement. In this section, we analyze how opportunity-enhancing practices such as flexible job design and employee involvement interact with the contingencies that influence the relationship between nepotism and firm performance.

4.3.1. Environmental uncertainty and flexible job design

An important feature that defines environmental uncertainty is the need for employees to assume a range of responsibilities, calling for a more flexible job design. Some evidence suggests that practices such as flexible work design can contribute to the development of relational coordination (Gittell, Seidner, & Wimbush, 2010) among employees, which is crucial for firms that want to adapt to changing strategic objectives in highly uncertain environments (Koberg, 1987). Flexible job designs are also well-suited to family businesses in which family members occupy key positions within the firm, as well as share a strong sense of firm and family identification (Dawson, 2012; Hatum & Pettigrew, 2004). In these contexts, family members often share a common language that is both verbal and symbolic, and have a shared understanding and mutual cognitive frameworks (Grant, 1996). Moreover, family members possess deep firm-specific tacit knowledge developed from early involvement in the family business and disseminated through familial networks (Lane & Lubatkin, 1998; Sirmon & Hitt, 2003) which can support the accomplishment of highly ambiguous and interdependent work tasks. Additionally, this knowledge integration among family members who share similar values can reduce the time and effort required to reach an agreement on important issues (Chirico &

Salvato, 2008) which is vital in business environments characterized by high levels of uncertainty.

It follows that a flexible job design will bring more valuable advantages to family firms faced with higher environmental uncertainty relative to firms operating in environments characterized by lower uncertainty. Hence, we expect that nepotism will have a more positive effect on performance in family firms that use flexible job designs and are operating in contexts with high environmental uncertainty.

Proposition 10. *The use of flexible job designs will enhance the positive effect of nepotism on performance in family firms that face higher rather than lower levels of environmental uncertainty.*

4.3.2. Institutional environment and employee involvement practices

Prior research suggests that employee involvement positively influences organizational commitment (Randall & Cote, 1991). Owing to its strong reliance on employee loyalty and trust, this approach may also enhance organizational citizenship behaviors (Williams & Anderson, 1991). In parallel with this line of research, some studies also found that more formalized and structured work environments where employees are given specific instructions may be beneficial in some contexts (Jeanquart-Barone & Peluchette, 1999; Ollo-López, Bayo-Moriones, & Larraza-Kintana; Raghuram, London, & Larsen, 2001) and therefore they do not necessarily reduce organizational commitment. We reconcile these prior findings by suggesting that the institutional environment in which family businesses operate may impinge the relationship between nepotism and performance. That is, in contexts with strong institutional safeguards for employees, increasing rigid control and curtailing autonomy may have adverse effects on employee loyalty and engagement. However, in contexts with weak institutional protection measures we would expect employees to value a more structured work environment and hence reciprocate by showing greater attachment towards their employers. This happens because such environments are characterized by a weaker tolerance for ambiguity (Hofstede, 1991) given that employees often assume that managers should be the ones taking the most important decisions and are reluctant to make decisions without knowing the consequences (Ollo-López et al., 2011).

Moreover, family managed firms often possess structures that stem from paternalistic management styles (Zellweger, Eddleston, & Kellermanns, 2010) and are perceived to be resistant to change and new ways of working (Eddleston, Kellermanns, & Sarathy, 2008). Inflexible structures that arise from affective ties between family managers and owners may give rise to rigid processes that limit the potential for employee participation. When members of the owning family are involved in running the business and perceive it as a source of security and identification, the sense of attachment that these family owners have with their businesses is extremely strong (Arregle et al., 2007). Therefore, family owner-managers are likely to be very concerned about the performance of their business given their cognizance that there are several family-oriented goals at stake such as the preservation of the family reputation and the successful transfer of the business to the next generation (Miller & Le-Breton-Miller, 2005). Given that employee involvement schemes typically devolve additional responsibilities to workers, we expect that in countries with weak institutional structures where family owners and managers are likely to be risk averse, family firms may be highly skeptical of and will arguably show less support for employee participation schemes.

As employee involvement leads to ever-increasing demands to cope with uncertainties, we would expect such practices to lead to better organizational outcomes in countries with stronger rather than weaker institutional protection mechanisms. A sense of psychological safety in contexts with strong employment protection may alleviate employee concerns about making mistakes when taking additional responsibilities, encourage better learning and foster effectiveness. However, it is worth noting that some characteristics of family firms, such as the inclination to hire family managers, may discourage highly ambitious workers (Belot & Waxin, 2015) interested in participatory initiatives given that the potential for participation and ability to contribute to decision-making is extremely limited in such firms especially in weak institutional contexts. In such an environment, non-family employees may perceive family firms as employers where they buy job security at the expense of opportunities for participation (Hauswald, Hack, Kellermanns, & Patzelt, in press). As a result, we do not expect employee involvement practices to positively steer the performance of nepotistic family firms in weak institutional contexts given the owning family's skepticism for employee involvement initiatives and the employees' lower tolerance for uncertainty. Hence:

Proposition 11. *Employee involvement practices will enhance the positive effect of nepotism in countries with stronger rather than weaker institutional environments.*

5. Discussion

In this paper, we develop a theoretical model that reconciles previous contradictory views on the reasons behind the prevalence of nepotism in family firms and its impact on firm performance. By arguing that nepotism poses a mixed gamble for family firms (Gómez-Mejía et al., 2014; 2015), we theorize that family owners are faced with the dilemma of striking a balance between the SEW benefits – offered by the appointment of family members within the firm to ensure family control and the transfer of family legacy across family generations– and the potential SEW and financial losses – given the chances that the appointment of the family member within the firm may not always be successful– and the reputational cost derived from it.

First, we portray nepotism as a rational decision for those family firms in which the associated SEW gains of nepotism clearly outweigh the potential for SEW and financial losses. Relative to previous studies researching family firm strategic decisions such as R&D investments (Gómez-Mejía et al., 2014) or acquisitions (Gómez-Mejía et al., 2015) in which SEW gains are highly uncertain, our theoretical reasoning suggests that nepotism represents a unique gamble in which family owners encounter highly certain SEW gains associated with enhanced family control and influence.

Second, we apply the contingency perspective to the family business field (Le Breton Miller & Miller, 2015) to unravel the differential impact of nepotism across the spectrum of family firms. Specifically, we explain how the relationship between nepotism and performance might potentially be enhanced or hampered due to the presence of critical contingencies. In line with Jaskiewicz and colleagues (2013), our model contends that nepotism has a positive effect on the firm in contexts where generalized social exchanges are critical to firm performance. Building on this idea, we identify and focus our analysis on two contexts in which nepotism can be a valuable resource to the family business: a context characterized by high uncertainty and another one characterized by weak institutional structures.

Finally, our model analyzes how a combination of human resource practices might help family businesses either enhance the positive effects of nepotism on performance or impede the effects of destructive nepotism on performance when considering the effect of the two environmental contingencies. In particular, we have drawn on the AMO model to explain how different types of HR practices: ability, motivation, and opportunity enhancing practices interact with the two contingencies in our model to either enhance the positive effects of nepotism on performance or curb the destructive impact of nepotism. In our theoretical framework, we explain how human resource practices represent an important part of the normative structure that can contribute to accepting the practice of nepotistic hiring in family firms, including policies that take into consideration non-family members and their perceptions of justice. In line with Barnett & Kellermanns (2006), we propose that family involvement may have a positive impact on firm performance if it facilitates a context in which HR practices ensure fairness toward non-family members. Such practices include fairer HR policies with regard to employee development, employee participation, pay and motivation. While these practices may still favor family members, they would also include mechanisms that protect the interest of non-family managers and employees. That is, non-family members may show lower aversion to nepotistic practices when they perceive genuine concern for their wellbeing from the owning family.

Our theoretical model on nepotism provides several opportunities for future empirical research. Future work in this area could utilize our guidelines for operationalizing key variables included in our model and conduct empirical studies based on it. Following the approach taken by previous scholarly work, nepotism may be measured by considering whether the CEO position is held by a family member or an outsider (Perez-Gonzalez, 2006), by measuring family presence on the top management team, or by considering whether several generations of the owning family are actively involved in the firm (Zattoni, Gnan, & Huse, 2015). Measuring SEW would also pose a major challenge; although several studies have made big leaps in the development of SEW as a theoretical construct, the development of measurement scales for the SEW concept is still in a nascent stage (Debicki, Kellermanns, Chrisman, Pearson, & Spencer, 2016). Future research could try to develop measures that tap into the SEW dimensions proposed by prior conceptual work and validate them in a variety of organizational and cultural settings.

For constructing the environmental contingency variables in our model, several measures from the strategy literature might prove to be useful. For environmental uncertainty, indicators of unpredictability in product markets based on sales data from the recent past may be utilized (Krishnan, Geyskens, & Steenkamp, 2015). Another measure by Carpenter and Frederickson (2001) based on the guidance offered by Dess & Beard (1984) and validated by Keats and Hitt (1988) – based on sales data – can also be used to assess the degree of environmental uncertainty. To assess institutional environment, measures from the International Country Risk Guide (ICRG)'s Investment Profile index which evaluates countries on a continuum from weak to strong based on risks in the areas of contract viability/ expropriation, profit repatriation and payment delays could be used (Feinburg & Gupta, 2009; Rajan & Subramanian, 2007). Similarly, the disclosure requirements index (DRI) which is a country-level index assessing the degree of shareholder protection legislation against insider expropriation may also be considered for this purpose (La Porta, Lopez-de-Silanes, & Shleifer, 2006). Additionally, we could also measure employee rights protection for different countries by utilizing the Organization for Economic Cooperation and Development (OECD)'s Employment Protection Legislation (EPL) strictness index.

To measure the presence of HR practices included within our model, surveys that ask managers about the extent of the workforce that use specific HR practices may be used. Prior research that has been conducted using the ability-motivation-opportunity framework may provide especially useful insights (Appelbaum et al., 2000; Gardner, Wright, & Moynihan, 2011; Subramony, 2009). Moreover, scales that have been widely utilized in studies on high performance work systems (HPWS) such as those developed by Huselid (1995) and Lepak and Snell (2002) may also be implemented. While many of these studies have used a unidimensional conceptualization of HPWS, for the purpose of our model we could use it as a multi-dimensional construct comprising of the ability, motivation and opportunity enhancing practices (Jiang, Lepak, Hu, & Baer, 2012).

Finally, firm performance may be measured following either a subjective approach or by considering an objective financial indicator. When using a sample that includes companies in a wide range of industries with varied goals and objectives, a subjective indicator of performance might be more appropriate. To this extent, a measure developed by Gupta and Govindarajan (1984), which assesses how well a company has achieved its objectives with regard to profitability, growth, efficiency, customer service, turnover, and employee morale might be used. With regard to objective performance measures, scholars could consider including return on sales (ROS) or return on assets (ROA) which are the most commonly used measures in studies that examine the impact of executives on firm performance (Finkelstein & D'Aveni, 1994).

Beyond empirically testing our model, future research could add to the human resources and family business literature by explaining the role of family versus non-family managers in enhancing the success of family firms. While family firms are frequently criticized for problems associated with nepotism, it should also be recognized that many of them rely upon homegrown family talent given the difficulties they face in attracting outside managers. Our theoretical reasoning claims that involving family members in managing a firm may be especially effective because of the close relationships that can be fostered between family owner-managers and their employees and other stakeholders (Ward, 2004). Hence, it may be worthwhile to examine whether employing a family or a non-family manager might imply greater payoffs for family firms.

Moreover, given the large number of firms worldwide controlled by families, it may be useful to understand how their success may be enhanced through the introduction of formal HR practices. Given that extant research shows that the use of formal HR practices is lower in family firms compared with non-family firms (de Kok, Uhlaner, & Thurik, 2006), the introduction of more sophisticated HR practices may in fact help family firms build a more committed workforce and foster a culture of care and consideration for workers. In addition, given several drawbacks of paternalism and informal HR practices that engender perceptions of inequitable treatment among non-family employees in family firms, it might be interesting to examine whether the introduction of formal HR practices may have significant payoffs, beyond those afforded by paternalistic HR practices typically found in family firms.

Our theoretical framework has a number of practical implications. In order to reduce the negative consequences of prioritizing family employment at the top, family businesses should align their hiring practices with the environmental contingencies within which their firm operates. More specifically, family owners should adjust their hiring practices at top executive levels according to the degree of environmental uncertainty and the institutional context as doing so may affect the family firm's ability to create value. Finally, family firms should consider introducing sophisticated human resource practices that are well-aligned with the prevailing environmental contingencies as such practices may play a critical role in motivating employees and contributing to better firm performance.

6. Conclusion

In this paper we provide a useful conceptual grounding for future research on nepotism and its impact on firm performance. Our model suggests that, in order to transform a family business into a professionalized entity that goes beyond narrow family interests, a more subtle approach to nepotism is required: an approach acknowledging that performance criteria can no longer be discounted when selecting people for key positions within family firms, as well as considering the role of effective HR practices in increasing the payoffs of nepotistic hiring decisions while minimizing the negative effects.

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Fig. 1. A contingency framework on the consequences of nepotism in family firms