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Kinship ties and employee theft perceptions in family-owned businesses

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ABSTRACT

Family business research typically views family firms using the frameworks developed for non-family businesses (e.g., agency theory, institutional theory). Thus, using an evolutionary perspective on family may help address gaps in the family business literature, particularly regarding deviance. In the current study, we use kin selection theory to predict that family members receive preferential treatment and this history of privileges can create entitlement and lead genetically-related employees to misuse company resources. Using an experimental vignette methodology and data from 161 people recruited from an online panel, we found that the participants' purported genetic relatedness to the owner of a business increased their theft intentions and decreased their expected severity of sanctions and likelihood of being reported. Biological sex moderated the relationships between genetic relatedness and theft intentions, as well as between expectations of punishment and theft intentions. Specifically, when females expected higher severity of sanctions or likelihood of whistleblowing, they were less likely to report theft intentions, compared to males. The results of this study suggest that family business owners should protect against theft by all employees, including genetic relatives. Future research using field samples would help provide context for these findings.

1. Introduction

> "Family forgives son who siphoned off 47K from hotel" (Osuh, 2013)
>
> "Son of South Korea ferry owner is convicted of stealing millions" (Choe, 2014)

In the United States, 62% of workers are employed in family firms and these businesses are responsible for 64% of U.S. gross domestic product (Astrachan & Shanker, 2003). In fact, family firms are the world's most common form of business organizations (La Porta, Lopez-de-Silanes, & Shleifer, 1999). Despite the prevalence of family-owned businesses, they are risky and 70% of family-run businesses fail before the second generation (Family Business Alliance). This is a surprise given that family members should be more committed and more productive to the organization (Bennett, Thau, & Scouten, 2005). Although there is support that family members are better organization members (e.g., Bellow, 2003; Jones et al., 2008), there is also evidence that sometimes family members take advantage of their unique position. Likewise, the employment of family members has been proposed to positively and negatively affect ethical climate (e.g., Kidwell, Kellermanns, & Eddleston, 2012), productivity (e.g., Eddleston & Kellermanns, 2007), and deviance (e.g., Cooper, Kidwell, & Eddleston, 2013; Eddleston & Kidwell, 2012) via parental altruism (e.g., Lubatkin, Schulze, Ling, & Dino, 2005) and entitlement (e.g., Bennett et al., 2005).

Previous research has attempted to clarify the potentially disparate effects of overlapping family and work relationships in family businesses using various frameworks (e.g., economic, biological, sociological; Bennett et al., 2005; Eddleston & Kellermanns, 2007). In this study, we attempt to investigate the role of evolutionary theory (a biological perspective) as proposed in previous

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theoretical reviews of the literature on deviance in family businesses (Bennett et al., 2005; Lubatkin et al., 2005). Although there are many types of family business, in this study we focus on organizations in which an employee is supervised by his or her family member. Specifically, we propose that being genetically related to a manager increases theft intentions and changes theft beliefs for the kin subordinate, consistent with kinship theory and the evolutionary perspective. This study thus fills a void in the literature by addressing some specific propositions made in previous theoretical research (e.g., Lubatkin et al., 2005) and by bridging the gap between psychological research on family ties from an evolutionary perspective and management outcomes in family businesses. Previous research has specifically mentioned a need for additional research on the strengths and weaknesses of employing family members (e.g., Jones et al., 2008; Spranger, Colarelli, Dimotakis, Jacob, & Arvey, 2012) and we attempt to address this gap by informing the business literature via the evolutionary perspective of family.

1.1. The effect of family relationships on businesses

The existence of family relationships within family firms influences the management and financial dynamics in ways that are qualitatively different from non-family firms (Bennett et al., 2005). However, most of the family business literature views family firms through the lens of the broader management literature. For example, what are the effects of agency arrangements in family businesses (e.g., Chrisman, Chua, & Litz, 2004; Gomez-Mejia, Nunez-Nickel, & Gutierrez, 2001)? How do family and non-family firms differ in performance (Chu, 2009; Maury, 2006)? These studies typically use conventional management theories to explain differences between family and non-family businesses (Kidwell et al., 2012).

Agency theory is one such management theory that has been used to describe the differences between family and non-family business (e.g., Chrisman et al., 2004). Agency theory describes the conflicts of interest between a principal (e.g., shareholders) and an agent acting as a representative of said principal (e.g., company executives). Agency problems generally reflect *adverse selection* (e.g., hiring an agent who is insufficiently capable or motivated, or has values incompatible with the principle) or *moral hazard* (e.g., efforts – or lack thereof - in the interest of the agent but to the detriment of the principal). Attempts to control these problems (e.g., the costs to properly screen agents, the cost of rewards and discipline to align interests) are considered agency costs. Some research suggests that family business should be entirely without agency costs, rendering formal governance unhelpful or even counterproductive (e.g., Jensen & Meckling, 1976). Other research (e.g., Schulze, Lubatkin, Dino, & Buchholtz, 2001) suggests that parents' will be excessively lenient with their children, including those who perform poorly. In summary, while agency theory can be used to contrast family and nonfamily firms, the research is split on exactly how familial relations affect workplace outcomes such as agency costs and workplace deviance.

Another conventional framework is institutionalist theory, which states the institution's environment (e.g., laws, professional norms, social values) shapes the formal structures of an organization, beyond the contribution of market pressures. The environmental discrepancies between a family firm and non-family firm may lead to family members following different norms and expectations within family businesses (Leaptrott, 2005). For example, if a family firm values legacy, the hiring decisions might be based on familial relationships in addition to, or at the expense of, education and experience. Thus, the norms and values of the institutional environment affect the decision-making within the institution.

However, it is likely that genetically related employees are different from non-family employees beyond what can be explained by norms or agency costs (or, genetics may affect norms or agency costs). Consequently, we would expect that these genetic relationships lead to evolutionary motivations that cannot be addressed fully by agency or institutionalist theory.

Despite this, few scholars have sought to understand the dynamics and decisions within family businesses from a Darwinian perspective (for exceptions see Nicholson, 2015; Spranger et al., 2012). Yet, family businesses are, at their core, *biological* systems (Nicholson, 2015). Therefore, a biological view of family businesses may provide an additional and useful approach to understanding family businesses. Family members are usually genetically related (i.e., kin; Neyer & Lang, 2003) and their genetic interests have implications for how family members behave toward one another (Emlen, 1995; Fitzgerald & Colarelli, 2009; Hamilton, 1964).[1] There are at least three ways in which evolutionary motives are likely to influence they dynamics in family businesses above and beyond traditional organizational influences. The first, of course, is nepotism. Nepotism is defined as "the bestowal of patronage by reason of relationship regardless of merit" (Simon, Clark, & Tifft, 1966, p. 344). In family firms, family members are more likely to be hired and promoted and less likely to be fired than non-family members (Liu, Eubanks, & Chater, 2015). Below, we explain the underlying evolutionary and biological underpinnings of altruism towards kin and provide a more detailed analysis of its effects in organizations. Secondly, there is much more likely to be overlap in time, space, and interaction between the home and work spheres of family members in family firms (Carmon & Pearson, 2013; Sundaramurthy & Kreiner, 2008). The distinction between family activities (e.g., family meals, gatherings, child-rearing decisions) and business activities is more blurred in family than non-family businesses. Thus, principals in family firms are more likely to be involved in discussions about business decisions and activities, have more access to information about goings-on in the business, and most importantly, have opportunities to influence decisions than would be the case in non-family businesses. Finally, the standards for business success are more complex and nuanced in family firms than in non-family businesses, which largely rely on economic indicators. Although economic measures are important for family firms, other non-economic criteria are also important (Nicholson, 2015). These include providing business opportunities and wealth creation for children and future generations, as well as socioemotional wealth (Gomez-Mejia, Cruz, Berrone, & De Castro, 2011). Socioemotional wealth is a general term encompassing social and emotional values (e.g., family identification, family control).

In the next section, we offer a Darwinian perspective of family businesses to develop hypotheses about theft in family businesses, expanding upon previous research on deviance in family firms (e.g., Bennett et al., 2005; Lubatkin et al., 2005). One goal of this manuscript is to introduce management scholars to how an evolutionarily psychological approach, with a particular emphasis on kin selection theory, can be a useful addition to the theoretical and empirical toolkit that management scholars use to understand behavior in family firms. We begin with an overview of kin selection theory, followed by the concept of expected altruism (or entitlement), which suggests that kin (particularly offspring) are likely to expect resources and other entitlements from family members (e.g., Kidwell et al., 2012). We then show how this may lead to deviance, including a propensity for family members to take

[1] Although family membership is typically based on genetic relatedness, this is not exclusively the case. Kinship systems in a variety of cultures classify genetic and non-genetic "relatives" within the broad rubric of kin (e.g., Bloch, 1971; Fox, 1967).

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