Track 1: International Business after the BRICS rush
Session format: Poster

WHEN BLOOD IS THICKER: TOP MANAGEMENT TEAM NEPOTISM AND FIRM GROWTH IN A TRANSITION ECONOMY

Introduction

Not much is known about the catalysts of firm growth in early-stage transition economies. While a body of empirical evidence has emerged on the prerequisites and drivers of firm growth in developing countries (e.g. Cuervo-Cazurra & Dau, 2009; Manikandan & Ramachandran, 2015), there is a dearth of empirical evidence on the antecedents of firm growth in countries at early stages of economic and institutional development. Yet from an economic development perspective, it is crucial to identify the antecedents of high firm growth rates in instutionally weak environments to understand how firms can become prime engines of national economic growth. In this paper, we address this lack of evidence by empirically investigating how family-specific managerial resources and institutional context are linked to firm growth in a transition economy context.

Theory and hypotheses

Managerial nepotism is the practice of favoring family members over other candidates in appointments to key management positions. The use of nepotism to fill top management team (TMT) and board positions has been discussed in the rapidly growing literature on governance, managerial succession, and human resource management at family businesses (for reviews, see Dyer, 2006; Jaskiewicz, et al., 2013). The literature is dominated by the perspective that nepotism is a detrimental practice. Managerial nepotism has *inter alia* been described as a barrier to professional governance, innovativeness, and economic development (e.g. Morck, Strangeland, & Yeung, 1998; Schulze, et al., 2001). Less attention has been devoted to the alternative view that family governance is potentially superior to meritocracy-based managerial governance systems in some contexts (Carney, 2005; Miller & Le Breton-Miller, 2006). In this paper, we contribute to the development of a more balanced and nuanced view of managerial nepotism by empirically testing a model that links TMT nepotism and cronyism, firm growth, and the moderating influences of firm location and TMT qualifications in the context of a transition economy.

First, we outline how managerial nepotism can potentially contribute to firm growth in a transition economy institutional context and present some stylized facts about Albania that support our choice of empirical context for this study. Combining resource-based and institutional theories, we build on the work of Carney (2005) to theoretically explain how firms with a greater concentration of family members in the TMT can overcome the capital and managerial constraints associated with family governance and achieve higher levels of growth. Subsequently, we develop an empirical model comprising one main hypothesis and two moderating hypotheses.

H1 There is a positive relationship between TMT nepotism and firm growth.

H2a The relationship between TMT nepotism and firm growth is less pronounced if the firm is located in a central (urban) location.

H2b The relationship between TMT nepotism and firm growth is less pronounced if a higher proportion of TMT members have obtained their education abroad.

To test whether the hypothesized relationships in our main model are specific to the notion of TMT nepotism or whether these relationships persist if we widen the definition of TMT interpersonal ties, we specify an alternative model based on looser forms of relatedness within the TMT, which we refer to as TMT cronyism. Using three different specifications of TMT cronyism, we test the following alternative model.

H3 There is a positive relationship between TMT cronyism and firm growth.

H4a The relationship between TMT cronyism and firm growth is less pronounced if the firm is located in a central (urban) location.

H4b The relationship between TMT cronyism and firm growth is less pronounced if a higher proportion of TMT members have obtained their education abroad.

Methods and results

We use OLS regression to test our hypotheses on a unique dataset comprising detailed TMT and firm data from 74 of the 100 largest firms in Albania in the year 2009 and these firms' subsequent growth trajectories. We conduct a number of robustness tests, including alternative specifications of the regression model and alternative ways of quantifying the dependent and independent variables.

Our findings show that firm growth is positively associated with higher concentration of kinship relations in TMTs. We contrast these findings with alternative model specifications based on TMT cronyism, which are not found to be associated with firm growth. We also find moderating effects that corroborate our paper's core proposition about the importance of institutional context. In particular, we find that the positive relationship between TMT nepotism and firm growth is more pronounced in rural environments (with less efficient factor markets) and less pronounced in urban environments (with more efficient factor markets).

Our findings provide empirical support for recent calls to develop a more nuanced view of the costs and benefits of TMT nepotism. Our findings suggest that TMT nepotism is a prerequisite of high firm growth in an early-stage transition economy context. This finding contradicts the established notion that managerial resource specificity reduces the rate of growth (but increases returns on investment) (Kor, 2006; Kor & Mahoney, 2005), suggesting that this logic may not apply in less developed contexts due to a lack of efficient markets for investment opportunities. We discuss the institutional voids and other characteristics of environments that are likely to engender a positive relationship between TMT nepotism and firm growth, including richness of opportunities, resource scarcity, constrained capital and labor markets, and high value attached to social capital. Our findings also highlight the rising importance of contextualizing theory to enhance our understanding of TMTs and, more generally, strategy and governance mechanisms across institutional contexts.