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The Impact of Nepotism on Family Firm Performance: Evidence from Turkish Family Businesses

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ABSTRACT

Nepotism is widespread in family firms, especially in developing counties such as Turkey. A common feature of these countries is the adaption of tribal and peasant social morals into their organizations instead of norms and principles typical of industrial society, which fosters nepotism. Despite its prevalence, the impact of nepotism on firm performance has attracted little attention in such firms and has not been sufficiently examined in the literature. This study seeks to contribute to the underexplored research area by suggesting an explanation for nepotism by analyzing its effects on firm performance. The reasons for nepotism are examined based on institutionalization level, altruism, legislative basis, firm size, Turkish culture, and human resource practices of firms. Moreover, a case study approach is adopted, implementing qualitative semi-structured interviews to provide a deeper understanding of why nepotism occurs. The study involves seven interviews with the founders and employees of family firms. The findings reveal that each dimension of nepotism as institutionalization, altruism to family, legislative basis, firm size, Turkish culture, and human resource practices has negative impact on firm performance.

Keywords: family firms, firm performance, nepotism, socia-cultural factor0073

1. Introduction

Family-owned businesses are the most effective drivers of economic growth where they create jobs and employment and increase the economic development in the country (Neubauer and Lank, 1998). Family firms have been considered as a 'major players' in the economy of developing and developed countries, particularly during the 2000s (Alderson, 2001). In Turkey, nearly 95% of companies are family owned. (TKYD, 2024).

However, the strength of Turkish family firms was eroded within the whirlpool of strong competition due to the birth of globalization (Aydin, 2010). Due to lack of growth, lack of innovation, technological deficiencies, scarce resources, uncertain economic conditions, and unstable policies, family companies have failed to achieve the expected levels of efficiency.

Further, family firms tend to increase agency problems, such as nepotism (Sciascia and Mazzola, 2008) due to the dual structure of family firms that create conflict between family structure and organizational structure. Family-influenced firms are complex arrays of systematic factors since nepotism affects firm performance, employees and strategy process. Hence, one of the most prevalent challenges in family firms is nepotism. Nepotism refers to the preference for relatives in organizational decisions such as recruitment, promotion, and resource distribution (Arasli and Tumer, 2008). In Turkish family firms, nepotism is reinforced by collectivist traditions, paternalistic leadership, and weak institutional frameworks (Aycan, 2001).

Recent studies emphasize the enduring impact of nepotism. For instance, Topsakal, Dinc and Ozcan (2024) claimed that nepotism reduces organizational trust and increase cynicism in the hospitality sector. Research on Middle Eastern family firms revealed that nepotism increases turnover intention by undermining job satisfaction and engagement (Topsakal et al., 2024). Moreover, nepotism poses ethical risks and endangers sustainability when attached to socioemotional wealth dynamics (Kastanakis, 2025; Marcianova et al., 2025). Despite these emerging insights, little is known about how other dynamics operate in Turkish family businesses. Multiple dimensions of nepotism that have not been systematically integrated into Turkish case.

To fill this gap, this study is to analyze nepotism in family firms and their performance in terms of thinking about institutionalization's, altruism, legislative basis, firm size, Turkish culture, and human resources.

2. Literature Review

2.1 The dual structure of family firms and its identity conflict

Family businesses have been regarded as the backbone of ancient civilisations and economies, having an essential role in the development of countries (Bird, et al., 2002). They are seen as crucial sources of economic growth and development. Additionally, organisations have profited from kinship, with relatives holding top positions in firm. On the other hand, some studies claim that having kinship or relatives in a firm damages the performance and sustainability of the business (Kargh, 2012; Ozler, et al., 2007).

Tshang (2002) asserts, studies of family firms rely on two main approaches: intention-based and structure-based. Whereas the intention-based approach emphasizes management's aim to preserve family integrity or involvement, structure-based approach highlights the role of family involvement in the management and its effects on performance.

The twentieth century presented a new perspective on family firms by observing the effects of 'family' structure on company process. Emotional dynamics of the family structure as family involvement and rational elements of the firm structure were analysed as complementary models. Hence, family firms are defined not only as an economic field, but also as socio-economic structures within this time (Kellersmans and Eddleston, 2004). Because of this, Gavric and Braje (2024) highlights the conflict in family firms because of the socio-economic structures and family involvement that prevent reaching a level of sustainability and high performance. Particularly,

the most prevalent example of firm conflict is often seen to be nepotism in family businesses (Ozler, et al., 2007).

Figure 1 illustrates the overlap between family and business as an interlinked system that generates tension and conflict in the family firms (Habbershon, et al., 2003), because family consists of emotions, feelings, solidarity and unity, whereas business rests on logic and wisdom (Alderson, 2011).

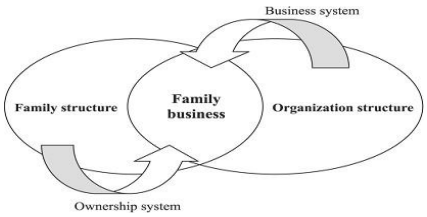

Figure 1. Family structure & Organisation structure (Source: Sorenson, 1999)

Based on this dual system approach, Habbershon, et al., (2003) asserts that the family business system function as a metasystem composed of three subsystems: the controlling family units that represent the history and life cycle of the family; the business entity symbolising the strategies and process to generate wealth; and finally a constituting of individual family members emphasising skills, interests of the family owners, or managers. This dual system enables wealth accumulation for family which damage the business (Mismetti, 2025) For example, Giordona (2003) demonstrated that while family identity focuses on nurturing, caregiving, protection, and commitment to family members emotionally, business owner identity centres upon income, growth, the company's success, and devotion to the employees and business. This case causes identity conflict and nepotism in the family business.

Therefore, scholars highlight the dual nature of socio-emotional wealth motives and emphasize the need for transparent governance structures to ensure long-term resilience and mitigate dark side risks such as nepotism (Anand, 2025).

2.2 The anthropology and defination of nepotism

The notion of nepotism is obtained from the Latin word for nephew or grandson. Webster's Third New International Dictionary defines nepotism as favouritism shown to nephews and family members, by giving such individuals positions or jobs due to their relationship. Most of the literature suggests that family firms in less developed countries are more likely to hire relatives as employees than is the case in other countries (Arasli and Tümerli, 2008).

Anthropologıcal studies highlight that nepotism emerges from norms of social distance and reciprocity (Durkheim, 1984; Sahlins, 1968). Durkheim's theory (1984) investigates whether the anthropology of nepotism is related with social solidarity, social distance, and reciprocity.

While relatives and households are placed into a close group circle, external individuals are perceived as member of a distant out-group. Hence, distant members are regarded as strangers or outsiders by the founder of the firm (Sahlins, 1968).

Reciprocity, on the other hand, is based on the benefits granted to the in-group, defined as family members. In the case of reciprocity, for family members who are socially close their aim is to support and help each other by prioritizing and promoting, without looking at their ability in the business process (Ozler, et al., 2007). Taking social distance and reciprocity theory together, the degree of individuals' closeness leads to nepotism: that is the general judgment in anthropology.

Ozler, et al., (2007) claim that pre-industrial social norms continue to shape businesses practices in developing countries such as Turkey. In such countries, during the earlier stages of industrialisation, business life was guided by tribal, social mores and families' values, especially in family firms. Therefore, nepotism arises where social norms replace the principle of modern organisation, which are typically associated with l of industrial society.

Generally, major studies (Schilozand et al., 2025; Council, 2025; Kragh, 2012) have focused on a definition of nepotism rather than analysing the reasons for nepotism in accordance with a firm's

performance. However, the aim of this study is to fill these gaps in the literature by providing a clear explanation for both its reasons and impact on performance.

Thus, this study considers nepotism in Turkish family firms in terms of institutionalisation, altruism, condition of legal basis, firm size, Turkish culture, and the lack of human resource management instead of just analysing the case with cause- effect relations.

2.3 The reasons for nepotism in the Turkish family firms

Institutionalisation of Turkish family firms

With global market integration, companies both in Turkey and the world demand more funds and foreign capital investments, which are necessary to expand their trade internationally.

Under this liberal economic condition, organisations must be reliant on gaining legitimacy globally in accordance with institutionalisation (Yazicioglu and Koc, 2009).

Ayranci (2010) asserts that Turkish family firms are not strongly institutionalised, and that institutionalisation is related to written procedures, standardisation, and legal rules, requiring consultation with professionals. Turkish family firms follow traditional methods, and they ignore having written standards and procedures because the family members are afraid of losing their control above management if they obey these (Dokumbilek, 2010). Further, professional support is seen as unnecessary and costly by family firms. In this regard, the first proposition of the study emphasised that Turkish family firms are non-institutional, which causes patriarchal management instead of professional principles, resulting in nepotism. This results in decreasing innovation, productivity, and development (Kula, 2005).

Further, Piyasinchai et al., (2024), analysed the family firms' institutional level within the framework of organizational professional management and examined its influence on financial and non-financial outcomes based on the agency and stewardship theories. The results demonstrated that professionalization improves firm's financial performance, preserving sustainability reputation. However, the study does not consider how institutionalization relates to nepotism practices. In addition, its theoretical framework relies on Agency and Stewardship Theory. Thus, this study examines how institutional level interacts with nepotism, drawing on Agency Theory, Stewardship theory and Socioemotional Wealth.

Altruism to family members

Economists and sociologists hold a similar view of altruism as a utility function in which the welfare of one individual is positively linked to the welfare of others (Bergstrom, 1989). Altruism enables parents to care for their children, encourages family members, and fosters commitment and loyalty to the firm (Schulze, et al., 2003).

With the emergence of altruism, the agency problem gradually manifested itself within family relations. Higher agency cost leads to shirking of resources, and adverse firm performance due to altruism (Ruiz-Palomo, 2019). Generally, founders provide added incentives and premium to family members; additionally, they allow them to use the firm's resources to enhance their own welfare (Schulze, et al., 2002). Thus, the family uses the firm's assets for personal use, which drains the firm of finance and performance quality by revealing nepotism (Scholes, 2021). Therefore, inefficient decisions are made because of altruism results in nepotism (Lema and Durendez, 2006).

Lack of legislative base of Turkish family firms.

Family firms operate on trust and inherited roles, but without formal policies, they risk misaligned expectations and legal ambiguity that threaten long-term stability (Wing, 2025).

Especially, Turkish constitutional law does not define family firms nor is there any written legal regulation in terms of organisational, foundation, and management activities of family firms in Turkey (Adsan and Gumustekin, 2006). Hence, this allows the founder to control the Turkish family firms in accordance with emotional, social, and kinship networks. This damages professional management and universal business dynamics,

increasing the nepotism within the firm (Taskin, 2012). Consequently, the second portion of this study claims that Turkey is insufficient in terms of family firm legislation.

Sizes of Turkish family firm

Small and medium-sized enterprises (SMEs) constituted 99.7% of all the registered businesses in Turkey in 2023, highlighting their overwhelming prevalence in the national economy (Turkish Statistical Institute,2024). Informal recruitment ways are associated with smaller organisations. Especially, in the traditional manufacturing sectors as Turkey, informal methods are chosen widely. This may cause a decrease in firm innovation and creativity, as well as prevent growth (Tanova, 2003). Xie et al., (2025) asserted that nepotism culture has a negative effect on the Small and Medium-Sized Enterprises' (SMEs) innovation behaviour that hinder formal training, and skilled human capital.

Although previous studies (Tanova, 2003; Xie et al., 2025) have highlighted the role of firm size in relation to nepotism within family firms, there are still limited studies addressing how firm size leads to nepotism in Turkish family firms.

Turkish culture and characteristic feature of the firm owner

Turkish culture has a high level of hierarchy, conservatism, paternalism, and tribal commitment (Aycan, 2001). The family firm owner will try to keep all operations of the company under control and is narrow-minded, conservative, authoritarian, and less educated. Because of this, they take decisions regarding emotional ties rather than make investments or innovations such as R&D and training (Sciascia and Mazzola, 2008). Such social bonds translate into nepotistic behaviour, undermining job satisfaction, commitment, and performance (Topsakal et al., 2024).

The lack of human resource management

HRM practices are mostly based on feedback of employees' performance and employee training programmes to create communication between employees and family members. (Yelkikalan, 2006). However, family firms often do not establish a professional Human Resource Management structure, and recruitment and promotion decisions are largely based on personal and emotional ties (Casprini, 2024). In Turkey, HRM practices are not working efficiently. Most of the family firms do not have human resources departments since they prefer to follow the experience of the founder and personal affairs. Thus, in these kinds of firms, the recruitment process is based on emotional relations. Because of this, it damages work commitment regarding employees (Schilpzand et., 2025).

Demirbag et al., (2025) analysed HRM applications in Turkey and the study focused on corporate firms; it does not directly examine nepotism and the lack of professional HRM in family business. The crucial gap in the research is that it does not consider these phenomena within family firms.

Thus, this study aim to address such a gap in this regard and is conducted with consideration of institutionalisation, altruism, legislative basis, firm size, Turkish culture, and human resource practices of firms, which are seen as the main reasons for nepotism in Turkish family firms. After analysing deeply its factors, the relationship between nepotism and firm performance is observed through interviews with firm founders and employees.

3. Theoretical Background

This study is based on three theories as Agency Theory, Stewardship Theory, and Socioemotional Wealth framework.

3.1 Agency Theory

Agency Theory (Jensen and Meckling, 1976) argues that nepotism induces agency costs due to preferential treatment of relatives over capable outsiders. This is particularly problematic when formal governance mechanisms are weak. Indeed, Schulze, Lubatkin ve Dino (2001) empirically tested this in family firms, finding that altruism toward relatives can exacerbate these agency issues leading to inefficiency and reduced performance. Supporting this perspective, Baird (2024) highlighted that aligning family goals via nepotistic

appointments can reduce agency threats if accompanied by accountability measures.

3.2 Stewardship Theory

Stewardship Theory (Davis et al., 1997) reframes nepotism as potentially altruistic behavior, driven by long-term orientation and loyalty. In a recent qualitative study in Turkey, Arslan (2024) examined stewardship relationships in 14 family businesses. This study uncovered context-specific stewardship dynamics, revealing how trust and shared identity form the foundation of steward behavior in Turkish family firms.

3.3 Socioemotional Wealth (SEW)

SEW (Gómez-Mejía et al., 2007) posits that nepotism may help preserve emotional and identity-related family goals control, legacy, cohesion. Firfiray (2018) used an SEW lens to argue that nepotism can be conceptualized as a 'mixed gamble': when non-financial gains (e.g. identity preservation) outweigh financial losses, nepotism may be rational. More recently, Marciánová, Pirožek and Kallmuenzer (2025) examined how nepotism when moderated by variables like gender, closeness of family ties, and participative decision-making can influence long-term sustainability positively or negatively.

3.4 Integrating the perspectives

Taken together, these theories highlight that nepotism in family firms is a double-edged sword:

• Agency Theory emphasizes the costs of nepotism in terms of efficiency and fairness.

• Stewardship Theory frames nepotism as altruistic, trust-based, and long-term oriented.

• SEW highlights the emotional and identity-related motivations behind nepotism, which may at times conflict with economic rationality.

By applying these lenses, this study not only documents the presence of nepotism in Turkish family firms but also explains why it persists despite its negative organizational outcomes.

4. Methodology

4.1 Research Approach

This study conducted a qualitative, interpretivist approach to examine nepotism in Turkish family firms. Interpretivism provides the researcher to the ability to obtain real viewpoints of people and examine the reasons behind their values, meanings, behaviors, and cultural meanings underlying organization practices (Yin, 2009). Given that nepotism is socially embedded phenomenon shaped by cultural dynamics. Because of this, an interpretivist philosophy, qualitative method as interview is the most useful and appropriate for this study (Sounder et al., 2012).

Three Turkish family firms were selected, and seven interviews were conducted. Seven interviews are appropriate to hold realistic results. According to Guest et al., (2006) the majority of codes - approximately 80 – emerged within the first six interviews, indicating six interviews are often sufficient to obtain the most crucial and main codes. They asserted that between 7 and 12th interviews, the number of new codes decrease to 20, and after that to only 2, suggesting that the main themes emerged within the first six interviews.

The sample of interviewees could be accepted as representative of those who have witnessed all stages of nepotism in small and medium-sized Turkish family firms. The sample also includes representatives of both levels of position in the firms: founders and employees.

Table1. Details of Participants

The Number of Interviewee	Name of Interviewee	Company of Interviewee	Position of Interviewee
1	N. L	A	Founder
2	M.K	A	Employee
3	F. G	A	Employee
4	S.H	B	Founder
5	R. N	B	Employee
6	H. G	B	Employee

7	H. S	C	Founder

The data from interviews were examined conducting thematic analysis. Thus coding approach was used, which allow the identification of collecting codes, categories from interviews. This analysis is appropriate for analysing nepotism in family firms.

In order to ensure trustworthiness, interviews' transcipts were analyzed with cross-checked. Credibilty was supported via cross-case comparasion, and detailed description.

4.2 Ethical Considerations

Participants engaged in the research must be voluntary (Collis and Hussey, 2009). There are four main categories: (a) participants can be uniformed of consent; (b) risk of damaging interviewees; (c) participant's privacy; (d) deception, deviation. All participants took part in accordance with these four criteria. During the interviews the researcher ensured that details of name and age were kept confidential, with full names replaced by initials. No participant was forced to participate in the interviews. Consequently, all intervies were analysed in an objective amd unbiased manner.

5. Analysis and Findings

5.1 Institutionalisation

Institutionalism is being professionalised and having a standardisation of each process of business at the global level through adaptation of legal rules, specific procedures, and professional management (Gedajlovic et al., 2012). However, Family firms resisted formalization and instead preferred to centralize control within family members (Despit et al., 2016).

As founder N.L. stated:

'Purpose of establishing of this firm was providing continuance of the family – to hold the family in

tog *Table 2. Coding Framework of institutionalization*
firm. Thus, we do not need any professional support from outside since we are professional. Besides, the professional support might use our private information through selling it to other companies. I never trust them except my family and kin.'

This quote is related to Socioemotional Wealth which refers prioritse family ties whereas deprave institutionalisation. At the same time, from an Agency Thoery, this kind of family-oriented behavior causes a conflict of interest, where adopt family benefits damages firm efficiency.

In contrast, the employee totally disagrees with this:

'Because of the lack of professionalism, the law of meritocracy principles is broken so it is not important how you are successful or qualified – because you are not relatives of the founder.' (R.N. interview, 2017)

Besides, external employees face being alienated by family members; their motivation and self-esteem is decreased, as supported by participant F.G.:

'After working few months in this organisation, I realised

nobody cares about you. I start to feel myself a stranger, unqualified.'

This quate link directly to SEW (Socioemotional Wealth), family protection in firm results in fairness and injustice in the organization, allowing decline in employees' motivation.

First-Order Quate (Interview)	Second-Order Category	Code	Related Theory

Purpose of establishing of this firm was providing continuance of the family - to hold the family in together - so I provide them high positions in the firm. Thus, we do not need any professional support from outside since we are professional. (Founder N.L.)	Distrust behaviour to external professionals	Family-centered	SEW(Socioemotional Wealth): Protecting family control that prioritise kinship ties against professionalism.
Because of the lack of professionalism, the law of meritocracy principles is broken so it is not important how you are successful or qualified - because you are not relatives of the founder.' (Employee R.N)	Lack of meritocracy	Sense of fairness	Agency Theory:Conflict between family and firm interest
After working few months in this organisation, I realised nobody cares about you. I start to feel myself a stranger, unqualified.' (Employee F.G.)	Demotivation	Decline in employee commitment	SEW: Protecting family interests, ignoring non-family interest that lead to injustice in organization.

As revealed in the interview, standing against the need of professionalization through institutionalization is a significant reason for nepotism, injustice and corruption in a firm.

5.2 Altruism link with family members

Family firms' founders tend to lavish privileges on their children and relatives. Almost all the interviewees who are employees of the firm claimed that altruism causes a decrease in firm revenue and performance, as well as increasing nepotistic behaviours within the firm (Ruiz-Palomo, 2019). According to H.G., an employee:

'When I look at our firm's net sales, the result is outstanding. On the other hand, I cannot take a higher wage. There is huge unfairness. I am losing my work commitment day by day.'

It can be demonstrated that although firms hold high net profit, there is a imbalance in the employees' salaries, which decreases their attachement to the organization. This unfair environment is strongly related to Agency Theory.

While S.H. as founder defended:

'Our all family and relatives are very important for me. Of course, they can benefit from my firm's resources and finance, whatever they want.'

The founder tends to be generous to their family members even at the risk in decreasing the firm's profit or performance. Moreover, the founder just takes into consideration the prosperity of their family by ignoring the motivation of employees. Besides, altruism allows the creation of a homogenous board of directors, which consists of family members and prevents strategic thinking and the creation of new ideas. The external employees' ideas or thoughts are never considered important, even if they are qualified. Because of this, external employees prefer not to share their ideas and remain silent due to this unfair system, as supported by participant R.N.:

Nobody cares about your thoughts, which are better than our managers' ideas, as well as nobody listening to your problems. Our top managers and founder only want us to do our jobs without speaking. My working enthusiasm is going to disappear day by day.'

Another problem mentioned during the interviews with Turkish family firms is that the employees believe that their job motivation and satisfaction are ignored. Especially, two of those values can be related and backed up directly to the work commitment, as seen by participant H.G. when asked to elaborate on strategies to enhance the satisfaction and motivation of employees:

'We have uncertain job hours. While we are forced to work on the public holiday, family members do not come to the firm on these days. Because of this, I feel myself as a porter and stressful in this firm as it does not have any strategy to think of us. They only think of themselves.'

This statement highlights Agency Theory, as unbalanced workload enhances agency costs, as well as refers Stewardship Theory, since family founders are unsuccessful in acting collectively and neglect the requirements of non-family employees.

This is supported by participant M.K. who, when asked what his challenges were while working, replied:

'We are hearing that the founder gives incentives and gifts to his family members in this firm. Although I do assignments successfully, which provide advantages to the firm, nobody appreciates my jobs, so I feel like a bin. I fail to feel myself as a part of this firm.'

As to Steward Theory, alturism impairs the unity of organization by depreciating identificatin and trust among external employees.

The perspective of altruism to family members in the organisation creates many problems in terms of external employees, as organisational silence, decreasing motivation, and commitment to the job all result in nepotism with low performance.

Table 3. Coding framework of alturism

First-Order Quote (Interview)	Second-Order Category	Code	Related Theory
'When I look at our firm's net sales, the result is outstanding. On the other hand, I cannot take a higher wage. There is a huge unfairness. I am losing my work commitment day by day.' (Employee H.G.)	Unfair treatment	Decrease in employee motivation	Agency Theory:Family favoritism and decline in performance outcome
'Our all family and relatives are very important for me. Of course, they can benefit from my firm's resources and finance, whatever they want.' (Founder S.H)	Atruism to family members	Nepotistic behaviour	SEW(Sociaemotional Wealth): Family's benefit prioritized over firm's efficiency

'We are hearing that the founder gives incentives and gifts to his family members in this firm. Although I do assignments successfully, which provide advantages to the firm, nobody appreciates my jobs, so I feel like a bin. I fail to feel myself as a part of this firm.' (Employess M.K)	Lack of appreciation to non-family members	Alienation	SEW and Agency Theory: Altruism weakens employees' idenitity. Stewardship Theory: Underming the perception of organizational community

5.3. Lack of legal framework

Processing of business and crucial developments in the family firms depend on the founder's sense and inherited values in family firms (Wing, 2025).

As is commonly emphasised by founders, they tend to assign offspring as their heir, a form of nepotism.

One founder H.S. clearly stated that:

'I am father of this family, of course I see my son as a CEO after me.'

This statement reflects SEW (Socioemotional Wealth), as it acknowledges the founder's strong attachment to continuity of family and kinship succession over merit-based selection, highlighting that traditional inheritance erodes managerial competence.

In contrast, employee R.N. claims that:

'You have no chance to be CEO even if you are very successful. The traditional process enables that the founder's son is chosen as CEO, even if he has a lack of management experience.'

These quotes imply that the criterion for selecting the successor inside the family firms is a traditional attitude, which takes into consideration emotional attachment. This leads to a decline in firm performance in terms of operating profitability, additionally increasing nepotism.

Table 4. Coding framework of legal framework

First-Order Quote (Interview)	Second-Order Category	Code	Related Theory
'I am father of this family, of course I see my son as a CEO after me.' (Founder, H.S)	Succession based on kinship relation	Traditional Inheritance	SEW (Socioemotional Wealth): Emotional attachment to family continuity
'You have no chance to be CEO even if you are very successful. The traditional process enables that the founder's son is chosen as CEO, even if he has a lack of management experience.' (Employee R.N)	Emotional attachment within selection criterion	Decrease in firm performance	Agency Theory and Stewardship Theory: Succession leads to inefficiency management in firm.

5.3 Firm size

Small-sized organisations as Turkish firms generally tend to use a more informal approach to recruitment and selection of personal. As H.G. stated:*'There is no standard recruitment process. Whereas interview is implemented to us for evaluating our performance, family members are not subject to any recruitment procedures.'*

This quote reveals that informal and unfair recruitment processes are followed, which is one of the main reasons for nepotism that blocks the growth of firms. According to Agency Theory, excluding family members from formal recruitment process leads to conflict of interest among family and non-family employees.

Table 5. Coding framework of firm size

First-Order Quote (Interview)	Second-Order Category	Code	Related Theory
'There is no standard recruitment process. Whereas interview is implemented to us for evaluating our performance, family members are not subject to any recruitment procedures'. (Employee H.G)	Informal Recruitment	Recruitment process based on nepotistic behaviour	Agency Theory: Emerges conflict of interest between family and non-family employees.

5.4 Cultural Values

Turkish leaders tend to manage within the confines of the existing culture, which are a high collectivism and a tribal system (Topsakal et al., 2024). As a result, the power of the father figure and the legitimacy of his discipline are seen to be the only form of accepted power, as supported by founder of the firm N.L.:

'My firm's strategy and mission are based on my experiences, which I learnt from my father; I follow the way of my father.'

This demonstrates a traditional leadership pattern grounded in paternalistic style that relates with SEW highlighting emotional attachment to family and traditions over rational efficiency.

In contrast, employees can be totally disturbed by this:

'I cannot conduct my job properly due to lack of mission and vision. All processes here proceed according to the needs of the family members and past orientation of the leader.' (F.G. interview 2017)

Considering the interviews, Turkish family firms tend to be conservative, and hierarchical toward the management. This statement reflects the frame of Agency Theory, where cultural management damages professional business movements by holding on to old experiences and prioritizing the family.

Furthermore, hierarchal management results in organizational silence. For instance, H.G stated:

'We are supposed to carry out family members' orders without questions'

As a result of this, employees are assumed to have ing' orientation, keeping the silence, which es organizational silence and nepotism.

Table 6. Coding framework of cultural values

First-Order Quote (Interview)	Second-Order Category	Code	Related Theory
'My firm's strategy and mission are based on my experiences, which I learnt from my father' (Founder N.L)	Traditional-oriented management	Paternalistic-traditional leadership	SEW (Socioemotional Wealth) Emphasis on continuity of family' values.
'I cannot conduct my job properly due to lack of mission and vision. All processes in here proceed according to the needs of the family members and past orientation of the leader.' (Employee F.G.)	Absence of professional vision	Lack of strategy	Agency Theory: Family-oriented decision-making causes decrease in firm performance
'We are supposed to carry out family members 'orders without questions' (Employee H.G)	Hierarchical commitment	Organizational silence	Stewardship Theory: Loyalty to family structure restrains professional input

5.5 Human resource deficiencies

Human resource practices are strategically important to gain competitive advantage. However, SMEs do not make sufficient investment in HR departments, as it is seen as a cost element (Casprini, 2024).

As one employee explained:

'My working area is too small and airless compared with family members' rooms. Further, nobody appreciates my success in the work such as rewarding, or promotion.'

Another note:

'Working here does not provide any advantage to my career. There is no career development service to show me an effective way to climb the ladder of a career.'

Table 7. Coding framework of human resource management

First-Order Quote (Interview)	Second-Order Category	Code	Related Theory
'My working area is too small and airless as compared with family members' rooms. Further, nobody appreciates my success on the work such as rewarding, or promotion.'	Unequal treatment	Demotivation and inequity in terms of employees	Agency Theory: Perceived imbalanced between effort and motivation Stewardship Theory: Lack of appreciation decrease motivation
'Working here does not provide any advantage to my career.	Lack of career development	Weak management in human resource department	SEW (Socioemotional Wealth): Focus on family needs

From an Agency Theory perspective, imbalance between employees' efforts and rewards which in turn enhances agency cost in terms of firm performance. Thus, training programmes are designed to satisfy the founder's needs, not to emphasise job satisfaction or organisational needs. Moreover, the SEW asserts that focusing on family requirements while ignoring professional HR management reinforces socioemotional goals; however, this pattern neglects the career development of non-family employees.

Consequently, HRM practices in Turkey are informal and loose and most likely performed by the founder, related with personal affairs. motivation and commitment to work. Qualified employees quitting their jobs result in a decrease in firm performance.

6. Discussion

Nepotism is a persistent issue within Turkish family firms and influence adversely its performance through multiple theoretical perspectives. The underlying causes of nepotism, such as lack of institutionalization, altruism, lack of legal work, size of firm, cultural values, human resource deficiencies not only damage firm performance but also shorten the lifespan of the business.

From the approach of Agency Theory, nepotism enhances agency costs since founders prioritize relatives over merit, which reduces efficiency and profit.

As explained by Vveinhardt and Sroka (2022) according to the founder, a firm is the family's home so family members should be supported and prioritised, such as by giving them high positions; additionally, employees are seen as strangers who must be in the outer circles of a firm, even if they are successful. Thus, employees becoming alienated, eventually they feel inadequate, even if they are qualified. Especially the absence of institutionalisation allows nepotism to dominate decision-making, leading misuse of resources, low employee commitment, and diminished productivity. Consequently, the interviews revealed that lack of institutionalisation was one of the influential reasons behind nepotism, with an adverse impact on firm productivity and improvement.

The second proposition emphasizes altruism within the framework of the Stewardship Theory,

suggesting that founders tend to perceive the firm as an extension of the family, where providing relatives senior roles is viewed to protect on the business legacy. Nepotism is a form of loyalty and trust, fostering cohesion among family members and ensuring long-term commitment. Therefore, the second proposition is based on Stewardship Theory indicated that altruism causes a reduction in the company's revenue and profit, which leads to agency cost. According to Cheng (2023), altruism refers to an agency threat that is mostly in family firms since control over the firm's resources lets the founder be generous to their relatives. Hence, this enables them to exploit the resources of the firm for their personal use (Gibb, 2006), which causes employees' work commitment and satisfaction to decrease. This injustice leads to nepotism and low work commitment in terms of employees (Schulze, 2003). Giving orders and commands to employees causes lower productivity and the loss of their work commitment. The current study proves that founders are not motivating the employees and not taking into consideration employees' opinions (Mura et al, 2021). Because of this, low productivity is observed, especially in production and management departments.

The third proposition states that a legislative basis has an impact on nepotism. The founder chooses the CEO based on inherited values and senses. Investors may have doubts about a family successor because of their young age and lack of management experience (Liu, et al., 2015). Most respondents agree that family CEOs impact on the performance of the firm negatively, regarding increasing nepotism. Nepotism occurs because of lack of employees' rights, which means being unable to identify what roles and rights employees had in this firm (Arasli and Tumer, 2008). As a result, it has a negative effect on the job stress of employees.

The fourth proposition can be related to the concept of Socio-Emotional Wealth (SWE) asserts that family firms practise the preservation of emotional attachment, and family identity rather than holding their economic goal of their firm. Therefore, Turkish family firm size causes the choosing of a traditional and informal way in the recruitment process. Findings overlap with Tanova (2003), who states that a very close-knit community exists in Turkish firms, with founders feeling that they cannot apply formal staffing periods because there is so much social pressure to assist friends and family. To conclude, this issue has an adverse effect not only on firm growth but also on the fair environment through encouraging nepotism.

The fifth section claims that Turkish culture and characteristic features of the firm owner not only damages the organisation but also encourages nepotism. According to interview, prosperity of the family is more crucial than a firm's profitability and they often follow non-monetary goals. These findings overlap with Baltas (2016), whereby traditional Turkish management culture, characterised by family participation, results in nepotism and unfairness between family members and employees.

The latest proposition indicates that when there is a lack of human resource practices, this may lead to nepotism and a negative impact on employees' commitment and loyalty to firm (Reid and Adams, 2001). As can be seen in the interviews, these firms do not see their employees as a valuable resource contributing to success and growth. Thus, the research findings of this study demonstrated that lack of human resource practices in firms result

in nepotism and unprofessionalism.

With the integration of theoretical perspective as Agency Theory, Stewardship Theory, and Socio-Emotional Wealth and the examination of institutionalization level, altruism, legislative base, cultural values, human recourse, the effects of nepotism on the firm's performance are demonstrated.

7. Conclusion and Implications

The findings of this study may have allowed substantial insights to policy makers.

It is important for policy makers to acknowledge the need to make an effort on increasing the institutionalisation of the family firms through a reorganization in accordance with modern, innovative, and global business principles. In addition, policy makers should integrate the external employees with family group members in the business process, which can affectively attenuate nepotism. This is because outside professional managers and employees bring information and access to important resources for the recognition of opportunities, as well as increase the performance of firms. Besides, they also decrease the possibility of non-monetary objectives that are detected by family members.

It was found that family firms are facing great obstacles in obtaining legal, written anti-nepotistic rules and the planning of succession in terms of institutional development and overcoming nepotism. Policy makers should take into consideration and think more on proposing and preparing the universal written rules. Further, the human resources department should hold a significant role within the company. Family firm founders remain overly attached to cultural values which should not be prioritised. To address this issue, training programmes in the firm can be organized and external consultancy can be sought to manage the company at a corporate and professional level.

8. Contribution to Theory

This study shows that influential drivers of nepotism in the Turkish family firms such as level of institutionalisation, legislative basis of firm, altruism, Turkish culture, firm size and characteristic feature of the founder, and lack of human resource practices impact negatively on firm performance.

Most of the previous research about family firms are based on European countries, but there are inadequate studies on Turkey. By this way, academic studies of Turkish family firms have Eurocentric theoretical perspectives that prevent the proper understanding of Turkish firms and the explanation of nepotism therein, as well as an examination on its effects on the performance of family firms in Turkey. This research was conducted to understand in depth the structure of Turkish family firms by distinguishing Turkish societal norms from the rest of Europe.

Finally, by integrating Agency Theory, Stewardship Theory, and SEW into a single framework, this study offers a more holistic understanding of nepotism as both a rational inefficiency and a cultural–emotional imperative. This theoretical integration addresses a gap in prior research, which has often applied these perspectives in isolation.

9. Limitations and Future Recommendations

This study assembled the historical and theoretical frame of family firms in Turkey with information derived from interviews with participants to demonstrate the effect of nepotism on family firms. In this case, the data of this study was derived from interviews with the employees and founders of family firms. Thus, the results from a case study approach cannot be easily generalised. This means that any generalisations by analysing a small sample are deceptive and mislead the study. Moreover, the qualitative approach is known as biased, because the interpretations are subjective, so findings must always be observed with caution, while the semi-structured approach might make it difficult to replicate the research. Therefore, future studies might combine both qualitative and quantitative approaches to obtain more detailed and richer data set. Secondly, during the interviews, participants may have felt stress, which could have caused slight deviations in their responses. Lastly, the participants in this research were individuals living in Turkey, and their answer may have been influenced by cultural norms. The same research model can be applied to different countries.

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