

**NEPOTISM, FAVORITISM AND CRONYISM AND THEIR IMPACT ON
ORGANIZATIONAL TRUST AND COMMITMENT; THE SERVICE SECTOR CASE
IN ALBANIA**

By

Esmir DEMAJ

**Thesis Submitted to the Business Administration Department, Faculty of Economics and
Administrative Sciences, Epoka University, in Fulfillment of the Requirement for the
Degree of Master of Science in Business Administration**

*To My Beloved Parents,
for their endless support and encouragement and for insisting to educate me*

Abstract of thesis presented to the Senate of Epoka University in fulfilment of the requirement
for the degree of Master of Science in Business Administration

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Nepotism, Favoritism and Cronyism are not anymore new business phenomena; nowadays they are seen with particular interest as the business world is shrinking every day more towards a “global village”. As business becomes increasingly globalized, it is crucial to understand how cultural attitudes and perceptions toward nepotism, favoritism and cronyism vary among different countries and sectors. It is of great importance to understand the effect such practices have in the way employees behave towards the organizational culture and strategical goals which are translated into trust and commitment.

The service industry is among the most important sectors providing income in small states. There exists a complex nature of the service sector which results in quite considerable difficulties in establishing professionalism and institutionalization in these workplaces. And one of the main reasons is that in small states employees tend either to be related or to know each other personally. It is claimed that nepotism, favoritism and cronyism are likely to occur

more frequently as several external factors like socio-cultural, economic, educational, and political structures encourage people to support their close relatives or friends. Albania too is one of these countries in which similar practices are present in both the public and private service sectors.

The primary objective of this study was to analyze the business climate in Albania in respect to the perception of employees on nepotism, favoritism and cronyism phenomena and their impact on organizational trust and commitment. Due to the fact that the service sector has constituted the main driving force of Albania's economic growth throughout the prolonged and difficult transition period I considered the study upon various challenges of this sector of essential importance and a contribution to the process of diagnosing problems and formulating reforms for further development of my country.

In order to get a clearer idea of the situation we will try to gather data from both; the public and private sector. Along these lines of thought, the study aims to make a concrete observation through statistical means upon perceived nepotism, favoritism and cronyism and their impact on organizational trust and commitment in several service industry organizations operating in Albania.

Key Words: Nepotism, Favoritism, Cronyism, Organizational Commitment, Organizational Trust, Service Sector, Albania

Abstrakti i diplomes paraqitur Senatit te Universitetit Epoka ne permbushje te kerkeses per marrjen e diplomes Master Shkencor ne Administrim Biznes.

**NEPOTIZMI, FAVORITIZMI, KRONIZMI DHE IMPAKTI I TYRE NE BESIMIN
DHE PERKUSHTIMIN ORGANIZATIV; RASTI I SEKTORIT TE SHERBIMEVE NE
SHQIPERI**

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Nepotizmi, favoritizmi dhe kronizmi nuk janë më fenomene të reja të biznesit, në ditët e sotme shihen me interes të veçantë ngaqë bota e biznesit është duke u tkurrur çdo ditë e më shumë drejt një "fshati global". Në një kohë kur biznesi bëhet gjithnjë e më i globalizuar, është e rëndësishme për të kuptuar se si qëndrimet dhe perceptimet kulturore drejt nepotizmit, favoritizmit dhe nepotizmit ndryshojnë mes sektorëve dhe vendeve të ndryshme. Është e një rëndësie të madhe të kuptuarit e efektit që praktika të tilla kanë në mënyrën sesi të punësuarit sillen drejt kulturës organizative dhe qëllimeve strategjike të cilat më pas përkthehen në besim dhe përkushtim.

Sektori i shërbimeve është ndër sektorët më të rëndësishëm fitimprurës në shtetet e vogla. Sektori i shërbimeve ka një natyrë komplekse e cila rezulton në vështirësi mjaft të konsiderueshme në ngritjen e profesionalizimit dhe institucionalizimit në këto vende të punës.

Dhe një nga arsyet kryesore është se në shtetet e vogla të punësuarit kanë tendencë ose të kenë lidhje gjaku ose të njohin njëri-tjetrin personalisht. Pretendohet që nepotizmi, favoritizmi dhe miqësitë ndodhin më shpesh në vende të tilla ngaqë disa faktorë të jashtëm si struktura socio-kulturore, ekonomike, arsimore, politike i inkurajojnë njerëzit për të mbështetur të afërmit e tyre të ngushtë ose miqtë. Shqipëria gjithashtu është një prej këtyre vendeve në të cilat praktika të ngjashme janë të pranishme në të dy sektorët e shërbimeve, atë publik dhe privat.

Objekti kryesor i këtij studimi është për të analizuar klimën e biznesit në Shqipëri në lidhje me perceptimin e punonjësve rreth fenomeneve të nepotizmit, favoritizmit dhe kronizmit dhe ndikimin e tyre në besimin dhe përkushtimin organizativ. Për arsye se sektori i shërbimeve përbën forcën kryesore lëvizëse të rritjes ekonomike të Shqipërisë gjatë gjithë periudhës së tranzicionit të zgjatur dhe të vështirë, studimi mbi sfidat e ndryshme të këtij sektori me rëndësi thelbësore konsiderohet si një kontribut në procesin e diagnostikimit të problemeve dhe formulimin e reformave për zhvillimin e mëtejshëm të vendit tim.

Për të patur një ide më të qartë të situatës aktuale ne do të përpiqemi për të mbledhur të dhëna nga të dy sektorët, ai publik dhe ai privat. Përgjatë kësaj linje të mendimit, studimi ka për qëllim të bëjë një vëzhgim konkret përmes mjeteve statistikore rreth perceptimit të nepotizmit, favoritizmit dhe kronizmit si dhe ndikimin e tyre në besimin dhe përkushtimin organizativ në disa organizata të industrisë së shërbimeve që ushtrojnë aktivitetin e tyre në Shqipëri.

Fjale Kyce; Nepotizem, Favoritizem, Kronizem, Përkushtim Organizativ, Besim Organizativ, Sektori i Shërbimeve, Shqipëri

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Esmir Demaj

APPROVAL SHEET

I certify that an Examination Committee has met on October 2, 2012, at 10:00 a' clock, at the meeting room, to conduct the final examination for Esmir Demaj student of Master of Science in Business Administration thesis entitled “**Nepotism, Favoritism and Cronyism and Their Impact on Organizational Trust and Commitment; The Service Sector Case in Albania**” in accordance with *Epoka University (Higher Degree) Regulation “On second cycle study programs”*. The Committee recommends that the candidate be awarded the relevant degree.

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ATION

DECLAR

I hereby declare that the thesis is based on my original work except for quotations and citations which have been duly acknowledged. I also declare that it has not been previously or concurrently submitted for any other degree at EPOKA University or other institutions.

ESMIR DEMAJ

Date: September 25, 2011

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CHAPTER I: INTRODUCTION

Nepotism, Favoritism and Cronyism describe a variety of favoritism practices related to giving preferential treatment to relatives or acquaintances; it can mean simply hiring one's own family members, or it can mean hiring and advancing unqualified or under qualified family members based simply on the familiar relationship. It can also mean hiring and advancing a friend of yours in the company you work in etc. Generally speaking in literature, showing favoritism for people who are considered as relatives is considered “nepotism”, making preferential treatment for an acquaintance, fellow or friend is considered to be “favoritism”, meanwhile showing favoritism for someone due to his/her political views or affiliations in an organization is called as “cronyism”.

This practice generally implies employment or advancement or various favors based not on merit criterias but based on preferential treatment of the subjects. The most controversial of the three concepts is nepotism. Some scholars use favoritism as the generalizing concept of the three (nepotism, favoritism and cronyism), but without losing the original meaning.

Fairness is one of the basic themes of ethics, as stated by Aristototle too; "Equals should be treated equally and unequals unequally." In this perspective nepotism, favoritism and cronyism intervene with fairness due to the fact that when they are practiced in a company what is noticed is that unmerited advantage is given to one who does not actually merit this kind of advantage. While attitudes toward nepotism vary according to cultural background, nepotism is a sensitive issue in the western business culture. As Bush-Bacelis (2012) states many companies and individuals consider the practice to be unethical, largely due to its conflict with traditional western values of self-reliance and fairness.

Conversely Abdalla et al. (1998) note that nepotism has maintained a particularly strong footing in the Arab world. In Asia the majority of entrepreneurs look to the family, rather than

the broader population, for the succession of the business. Richardson (1993) in his studies of the asian nepotism practices suggests that nepotism works as well as any other management choice as long as one doesn't tolerate incompetence. In Latin America nepotism is accepted as a norm and people there are often surprised by the U.S. negative attitude toward this practice. In Latin American Countries you can often hear expressions like "If I don't hire and trust my own family, who else can I trust to?"

In Albania this phenomena can be found in both the public and private sector. Albania has undergone through a prolonged transition period which has left many vacuum spaces in the well-functioning of the business practices. Albania is ranked 95th from 182 countries in the 2011 Corruption Perceptions Index published by Transparency International. Nepotism practices are much related to corruption, so nepotism practices too can be easily seen. In albania people admit the existence of such a phenomena, however it is weird the there exists a serious absence of facts in this respect.

Purpose of Research

Nepotism is not anymore a new business phenomenon; it is nowadays of particular interest as the business world is shrinking every day more towards a "global village". As business becomes increasingly globalized, it is crucial to understand how cultural attitudes toward nepotism vary between the different countries in which a business operates. It is of great importance to understand the effect such practices have in the way employees behave towards the organizational culture and strategical goals which is translated into trust and commitment.

There has been no previous research conducted so far in Albania on the relationship between nepotism, favoritism and cronyism in one side and organizational trust and commitment in the other side. Surprisingly we could not even find any serious scientific study regarding the

concepts of nepotism, favoritism and cronyism in the Albanian business culture, even though openly everyone talks about the alarmant situation of favoritism that exists in Albania. We could not find any data from the official Albanian Institution of Statistics (INSTAT), except from few studies from some non-governmental institutions regarding the subject matter on hand. Consequently through this research we aim to modestly shed light to the actual situation on the degree of nepotism penetration in the Albanian service sectors as well as to uncover the kind of relationship between the perception of nepotism, favoritism and cronyism in firms and the employee's perception of organizational trust and commitment. In order to get a clearer idea of the situation we will try to gather data from both; the public and private sector. Along these lines of thought, the study aims to make a concrete observation through statistical means upon perceived nepotism, favoritism and cronyism and their impact on organizational trust and commitment in several service industry organizations operating in Albania.

Through the extensive review on the previous researches done by various authors in other countries and as a result of the data we will be able to get through the survey we will conduct, we aim at providing an answer to several research questions like the following;

What is the perception of the impact of perceived nepotism, favoritism and cronyism on organizational trust and commitment?

What are some of the reasons for phenomenon of Nepotism in Albania?

What could we suggest to deal with this problem?

Is there any difference between the public and private sector regarding these preferential practices?

What is the relationship between organizational trust and organizational commitment?

More over we will try to get a general understanding on executives' attitude in cases of nepotistic behavior, the attention they pay that their subordinates are not negatively affected in

such cases etc. The research objective of this thesis is thus based on exploring the details of the concepts of nepotism, favoritism and cronyism in Albania and their relationship to organizational trust and commitment. We will try to present some suggestions for tackling the issue in hand.

CHAPTER II: LITERATURE REVIEW

In this chapter the literature review concerning the concepts of Nepotism, Favoritism, Cronyism, Organizational trust and Organizational Commitment are present. Similar studies of various researchers are taken into account and presented in here too. Furthermore it is presented the relationship of Nepotism with other factors like HRM, Family Business, Corruption, Discrimination and other organizational issues.

2.1 An overall outlook on the concepts of Nepotism, Favoritism and Cronyism

The service industry is among the most important sectors providing income in small states. There exists a complex nature of the service sector which results in quite considerable difficulties in establishing professionalism and institutionalization in these workplaces. And one of the main reasons is that in small states employees tend either to be related or to know each other personally. Consequently Arasli and Tumer (2008) suggest this kind of labor-intensive environment is more open to corruption and similar practices. For example, nepotism is likely to occur more frequently as several external factors like socio-cultural, economic, educational, and political structures encourage people to support their close relatives or friends.

Nepotism, favoritism and cronyism, which are present in the vast majority of sectors of today's business world, have become quite common behavior which in many cases is seen as part of the business routine practices. Keles et al. (2011) claim that the granting of privileges

to certain individuals is an extremely disturbing situation to the organization's employees and the lack of trust arising under such conditions negatively affects job satisfaction, organizational commitment, organizational trust and loyalty, and individual performance, and can hinder the internal system of management.

If family relationships and friendships violate the principles of economic justice, other employees of the organization may feel discriminated against this procedure because they are not included in the group. In this case, they can understand that their rewards, their hierarchical position, their status or their level of safety at work are below what they deserve in comparison to the group (family and friends). In this sense, there is a negative reaction of these workers. Consequently, the conflict is between the competent of the field and “nepotism”, which can generate dissatisfied workers, who are less motivated to work (Brandts and Sola, 2006).

Nepotism in management is a sensitive and delicate issue in business. Ewing (2009) explains that it has implications not only for management development, promotion, and control, and not only for the image and public relations of business, but also for executives who have — or would like to have — relatives in management positions.

Problems arise when other employees suspect favoritism on selection criteria or promotion that are different depending on the person, whether he/she belongs or not to the family of the owner of company or family of the manager or to the privileged group based on unfair criteria (Grensing-Pophal, 2007). As Donnelley (1964: 173), stated in his work, *“when nepotism prevails in an organization, the system of evaluation and reward is based preferably in family relationships and only on secondary capacity, which decreases the organizational strength to face internal pressures. Each decision takes a subjective character and loads of emotional content that is always linked to ‘family problem’, rather than a solution based on standard objectives of contributing to the strategic goals envisaged by the company.”*

Nepotism has been criticized as being unprofessional; its opponents have claimed that the rise of an intellectual, analytical approach to management spells the decline and ultimate extinction of nepotism. The family or acquaintance influence in the organization leads to the promotion of workers, not based on competence, but on favoritism (nepotism), or by factors linked to an external interest. It was concluded specifically, that nepotism negatively influences the performance of organizations, when family members without high competency, are promoted to the presidency of the company due to their blood ties and not on merit criterias or training and expereince (Perez-Gonzalez, 2006).

Abdalla, Maghrabi and Raggad (1998) in their study suggest that nepotism is a problem of developing countries and least developed countries. In these countries, the management of human resources implements unjust policies in the selection, evaluation, promotion and disciplinary procedures due to the pressure of nepotism. As such, human resource managers feel responsible. These unfair human resource policies cause employee discouragement, frustration and stress that leads to resignation as soon as they would arrange an alternative job.

However according to Christodoulou (2008) even though nepotism has been tried to be represented as a characteristic of poor and developing countries where corruption is easy to flourish because of the socioeconomic inequalities and the low educational level, nepotism is strong in rich countries too, especially in the political environments she claims.

2.1.1 What is Nepotism

When someone or maybe a group of people in the workplace seems to be treated better than others and not necessarily for reasons of superior work performance is referred to as nepotism. Originally nepotism as a concept connotates with family ties, however it can be used as a generalizing term for other favoritism practices too.

According to the *Wikipedia* encyclopedia, the word “nepotism” stems from the *Latin* word “*nepos*” meaning “nephew”. The Webster’s Third New International Dictionary (1976) defines Nepotism as favoritism in giving preferential treatment to nephews and other relatives based on the relationship instead of the qualifications they may have. Ozler et. al, (2007:438), define nepotism as “employing or promoting somebody based on kinship relationships while employing or promoting him/her, but not considering his/her required qualities like ability, success and education level”.

The negative association of the concept "nepotism" originates from Renaissance times, when the highest positions in the clergy hierarchy were occupied by the nephews of the Popes, without any consideration of their qualification. According to Ford and McLaughlin (1985) this practice reduced the efficiency and morale of the church “not nephews” of the Pope, which was apparently a serious problem.

Nepotism is mostly seen in the societies in which traditional ties and relations are strong (Aktan, 2001). Most authors agree the idea that nepotism is more likely to occur in collectivist societies where several external factors like sociocultural, educational, economic, and political constructs push people to support their close relatives or friends.

2.1.1.1 Advantages

Some scholars believe that nepotism, not always has to be associated with negative effects. Some employers too feel that the level of loyalty, morale, trust and commitment of friends or relatives they hire is higher compared to others in the workplace. Per instance Nelton (1998) suggests that if practiced fairly, nepotism can be a true asset, he says this by citing a third-generation president of Thomas Publishing Company, Tom Knudson, who encouraged nepotism among their independent sales contractors because he believed it resulted in high performance, stability, and long-term commitment.

Ford and McLaughlin (1986) argue that hiring relatives might help in creating a motivating family-type environment. They suggest that nepotism improves interpersonal communications within a company since employees are from the same family and have had many past experiences together, thus often have a deeper understanding of each other.

Kaydo (1998) too claims that nepotism may be viable. He gives the example of a top salesperson's relative who according to him may have many similar qualities that make the agent successful, thus recruiting family members may boost both performance as well as retention, he states.

Lynn (2000) notes that “businesses seem to be turning toward policies that encourage hiring qualified relatives and spouses, with idea that good people tend to associate with good people”. According to her hiring family members can also provide benefits to companies, for example by reducing their health insurance costs.

Lower recruiting costs is an other advantage claimed by some scholars as it allows identifying a pool of candidates for available positions inexpensively. Furthermore it is suggested that employees that are family members are often more dedicated than others, thus employee turnover is lowered. Scholars claim that working in the same place with other relatives gives them a sense of commitment and personal interest in the success of the company, thus higher level of commitment, loyalty and a sense of ownership is suggested in case nepotism is properly practiced.

2.1.1.2 Disadvantages

It is obvious that in case of nepotism coworkers might sense inequities when they work with employees related to someone in the organization. They might feel like their colleague has been employed or gained promotion as a result of nepotism. This kind of situation reduceses

the company's reputation in the market and what's more risky is making it unattractive for high quality prospective candidates as well as losing existing valuable executives.

Wong and Kleiner (1994) suggest that in case family and business have conflict then most probably trouble arises. They state that "A family's purpose is to care for and nurture family members; a business must produce quality goods and/or services as efficiently and as profitably as possible. If a company hires or promotes an incompetent family member, other employees may see this is a gross injustice and many complications may result." In a company driven by nepotism there exists the risk that family disagreements and prejudices be publicized to those within the company.

Toy, Brown and Miles (1988) listed disadvantages of nepotism. They argued that it creates a conflict-enabled environment since relatives might mix family and work issues making organizational management more complex.

Another risky consequence when incorporating nepotism practices in the organization is that most of the time it spoils the morale of employees, which results in tardiness, absences, and low productivity of employees. Such a situation is obvious because employees start thinking they are contributing without getting any reward and start looking for better opportunities to leave the company as soon as possible, as long as they see no career advancement in the present company.

As a consequence of employing an unqualified and incompetent relative fatal policies driving the company into the ground may be employed. Of course there exist even nepotism disasters. It may happen that once well established and successful corporations become worthless as a result of nepotism. There are many examples of how big corporations have been destroyed in this way. Per instance, The Great Atlantic and Pacific Tea Company (A&P), once one of the largest supermarket chains in the US, was destroyed by the founders' heirs. Once well known

as the maker of Triang toys, Lines Brothers in Britain was bankrupt in a few years by its second generation of leadership.

While talking about cases of nepotism in the academic life Christodoulou (2008) illustrates it by few humorous lines,

It is not difficult to understand the origin of a published paper with an author team like: “ A.Papadopoulos, B. Papadopoulos, C. Papadopoulos”. It is even more funny if A. Papadopoulos is a Professor in a Medical School, B.Papadopoulos is an elementary school teacher (but soon becomes a Lecturer in the same Medical School through various special regulations) and C.Papadopoulos is a psychologist or a veterinarian or a midwifery student who takes his /her place in the Faculty of the same Medical School without delay (Christodoulou, 2008).

This model of patronage or favoritism in academic career is very custom and well-known Christodoulou (2008) claims.

Summarily some additional issues raised by nepotism can be summarized as follows; Nepotism can create *disciplinary problems* for managers if they have to deal with their relative or a relative of another employee. Some scholars argue that the phenomenon of nepotism increases the likelihood of *employee fraud*. *Confidentiality* issues is another problem emerging by nepotism as family members are more predisposed to share confidential information with other family members which they might not otherwise do. Scholars argue that *personal issues* and difficult relationships at home are reflected at the workplace making it difficult to work and interact effectively with each other. Another delicate and challenging issue raised by nepotism is how to deal with *married couples* in the workplace. Some corporations actively employ couples, but of course they have designed well-established and formal policies that regulate and address the concerns about “conflict of interest”. However most other corporations discourage couples from working in the same company, as they believe it increases the opportunity for workplace tension and inefficiencies.

2.1.2 What is Favoritism

The expression “if you don’t know ‘the right people’ you can’t get a job” means that it is hard to get a job or a position with your merit unless you have someone favoring you.

Nadler and Schulman (2006) from Santa Clara University define favoritism as “favoring a person not because he or she is doing the best job but rather because of some extraneous feature-membership in a favored group, personal likes and dislikes, etc.” One can demonstrate favoritism in hiring, promotion or rewarding others. It can be seen also in awarding contracts and other cases. The word “favoritism” itself generally evokes negative images of corruption as common thinking suggests in a favoritist exchange two sides might gain something but everyone else loses (Lee, 2008:1408)

If there is a chance for an employee to be promoted “without deserving it,” even illegally, if something happens “behind closed doors” about the selection of personnel for various development programs, if there are two employees with the same competence and performance in the profession, and if one of them has attended an accelerated program but is not selected, if she/he is deprived of any promotion regardless of his/her performance in the profession, favoritism is likely to exist (Employee Favoritism, 2006).

Favouritism in the public sector too has considerable, undesirable effects on the business environment. The reason behind this is that it results in inefficiency and unfair relations between state and business, consequently it increases costs, risks and obstacles for prospective investors.

Friel (2004) states that in a survey conducted by the US federal government's Office of Personnel Management in 2002 surprisingly found that only 36.1 percent of federal workers

believe that promotions in their workplaces are based on merit. Instead they place personal relations and other factors as the key factors.

Brandts and Sola (2010) studied on 429 participants from the Universitat Autònoma de Barcelona. They found that managers favor employees they personally know and these employees favor the manager in their decisions.

A study of a large U.S. based company with 270 000 employees worldwide has shown that individuals who are well connected with senior executives located in corporate headquarters have higher career attainment than those who are not (Hurley et al., 1997)

Basically favouritism differs from other forms of corruption like bribery as it is established upon long-term 'symbiotic' relations and mutual trust rather than on direct exchange of favours.

Khatri et al. (2006) claim that reciprocity is very important for favouritism, eventhough the person doing the favour does not know when and how the the person receiving the favour will reciprocate.

According to Kim (2004) favoritism, which is now a reality in most countries, demonstrates democracy underdevelopment and is one of the main reasons for lack of productivity. An important dilemma caused by it is that many people do not perceive it as a problem (Nadler and Schulman, 2006).

Favouritism may have serious impacts on different spheres of life. More specifically favoritism affects the social, political and economic spheres of life. Regarding the *social impact* of favoritism it is claimed that eventhough it has some positive effects, its overall impact on social development is negative because it diminishes the motivation of a person to develop talent and ideas. According to a joint annual report of UNDP, AFESD and AGFUND

(2004:136) the prevalence of favouritism in different organizations and institutions makes the reputation, recognition, and success of people dependent on their connections rather than their efforts, skills or manners.

As it concerns the *political impact* of favoritism we can say that its effects on the political sphere are meticulously negative. According to a report by World Bank (2005b:108) favoritism is the main tool used by some leaders in order to strengthen their authoritarian regimes by granting favours to a small number of key supporters which is enough to secure power their power; the rulers grant favours to their clientele and receive loyalty in return.

Scholars have different points of view regarding the *economic impacts* of favoritism. During the 1960s and 1970s, several researchers believed that the economic effects of favouritism are positive (Krastev, 2006:19). They argued this point of view by saying that favouritism would reduce the costs of transaction and would facilitate the information flow. However leaving aside the few limited positive impacts of favoritism it can be said that favouritism leads to unfairness and inefficiency in the relations between involved parties and third parties. For example in the public sector, for people with good personal connections there is a higher chance they are more advantaged in receiving business licences disregarding criteria fulfilment. Tax exemptions or receiving exclusive information ahead of others are other ways favoritism grants advantage to some in relation to others. Fan (2002) claims that entrepreneurs with good connections will have little difficulty in obtaining licenses and permits or win government contracts, thus discriminating other candidates.

Similarly, favouritism may have an impact on legislation and policy-making too. According to Loewe et al. (2007) entrepreneurs may develop contacts not only with civil servants but also with ministers and MPs. As a result, they may exert influence on laws and government decrees, thus lobbying for regulations to benefit them and not their competitors. Consequently

as stated in a 2004 report of the World Bank, favouritism distorts competition and ultimately harms consumers (World Bank, 2004a).

We can conclude that favoritism negatively affects the business climate by increasing the costs and risks of doing business and by raising barriers to competition for the large majority of investors who lack the necessary personal connections with decisionmakers. As a consequence of favoritism the investment level is expected to be lower in countries where favouritism is prevalent, thus negatively affecting economic growth too (Loewe et al., 2007).

2.1.2.1 Principal-Agent Model

According to work of Andvig and Fjeldstad (2001) favoritism is more harmful when a third person enters the 'game'; for example, when a public or private officer uses her/his position to distribute the resources of someone else to a friend or to a relative. They represent this case by a principal-agent model, where the officer is the agent and his employer which may be either the state or a private individual is the principal. The agent misuses his position and power by granting preferential treatment to a friend or family member, and the principal is unable to control the agent because of asymmetric information flow. In such cases of misuse of the office always the primary victim is the principal. However, in cases when the principal is the state and a civil servant is the agent the secondary victim is the general public, who in fact expects to be treated equally by the state and its employees. In such cases when an employee of the public sector favours his acquaintances, he intrudes the rights of all others who may have submitted a better offer or may be better qualified for the job in hand to be filled.

Khatri et al. (2006) state that the relationships upon which favouritism is based may be established by birth (e.g. between relatives), by shared experiences (e.g. between people who have gone to school together or live in the same area), or by active social network building

like giving small gifts and favours to influential people, which helps to establish relationships that may be helpful in future.

2.1.3 What is Cronyism

“It is not about what you know, but who you know”

Old US expression

Cronyism stems from the word *crony*, originally written as *chrony*, it was based on the Greek word *khronios*, meaning "long-standing." It was part of the slang used in Cambridge University around the 1660s. Later on the word *cronyism* reappeared around 1840 meaning “the ability or desire to make friends.” As a word it became part of the political manner of speaking in 1952 when the Truman administration was accused of appointing friends to government posts regardless of their qualifications (Keles et al., 2011). A New York Times journalist portrayed this practice as *cronyism*, thus modifying the meaning of the word (Oxford English Dictionary, 1989). Khatri and Tsang, (2003) claim that with this change of meaning of *cronyism*, *crony* now often entails a derogatory sense of friendship with a trace of political corruption or preferential treatment about it.

Arasli and Tumer (2008:1238-1239) define *cronyism* as “giving preference to politicians’ cronies, especially as evidenced in the appointment of associates to various positions without regard to their qualifications.”

According to Haber (2002) *cronyism* outlines the State-business non-transparent relations leading to unnatural profits to a limited number of firms which are politically linked to State incumbents. He defines the different forms *cronyism* can take among which creating monopoly or quasi-monopoly, import barriers, credit allocation and government procurement.

In Loewe et al. (2007) it is claimed that cronyism enables well-connected people to speed up administrative procedures and to gain exclusive access to public sector services, business opportunities, government contracts, tax exemptions, jurisdiction and credit. They determine two consequences of cronyism, “*the employment of unqualified staff and overstaffing*”.

When practiced in the business sphere cronyism is defined as favoritism shown by the superior to his or her subordinate based on their relationship, rather than the latter’s personal merit (Ozsemerci, 2002). Khatri and Tsang (2003) say cronyism is against the principle of fair employee appraisal and is an unethical management practice too. The famous Enron scandal illustrates this practice clearly:

"Americans who came to see their free-market economy as largely immune to the cronyism that plagues many foreign countries were shocked to see how Enron's cozy ties with its own accounting firm inoculated it from scrutiny" (*Business Week*, 2002, p. 110)

There is a distinction between the two types of cronyism, namely *horizontal* and *vertical*. Horizontal cronyism occurs among peers, such as business associates, friends, and colleagues. It can be intra- or inter-organizational. Meanwhile the vertical cronyism stems from a superior-subordinate relationship within the organization. This kind of cronyism implies granting patronage downward the hierarchical ladder and getting personal loyalty upward (Khatri and Tsang, 2003).

Socializing and group belonging are among the main reasons people regard as a source of cronyism. When the Albanian society is analyzed it can be surely concluded that it is characterized by collectivism, so we can easily consider cronyism as inevitable in Albania too.

2.1.4 Legal Basis on Nepotism, Favoritism and Cronyism

While in developed countries various legal measurements have been taken in order to prevent nepotism practices, in developing countries it continues to be a part of life (Boadi, 2000).

Mainly in the developed countries the consequences of nepotism are considered illegal, if not then there would be little to do by an unfavorably- affected employee, but try to be among the favored ones of the "family circle" or look for a better job somewhere else.

Several laws and regulations are developed mainly in the more developed countries in order to fight nepotism. However in less developed countries or developing countries, many gaps are left in legislation in order to favor the nepotistic circles.

Lawmakers are attempting to extend anti-nepotism rules to include relatives other than spouses and family members too. According to Christodoulou (2008) before anti-nepotism rules and regulations started to emerge in the 1970s and 1980s officials used to hire their wives and put them on their office payrolls. However today too they have found the way to do this; they simply have their friends hire their wives and return the favor otherwise.

Among the consequences of nepotism might be the illegal employment discrimination under country discrimination laws, in either the private or public sector. For example, it might constitute illegal discrimination on the basis of race or sex, if an employer consistently hires relatives of a particular race or gender to the exclusion of non-relatives of other races or the opposite gender (WorkplaceIssues.com, 2012). Under the US anti-nepotism federal laws "*A public official may not vote on the appointment of an individual who is related to the official within the first, second, or third degree by relationships by blood*"(Texas Nepotism Laws, 2012).

In the albanian legislature the Conflict of Interests Prevention Law entered into force since 2005 is a significant legal instrument in combatting corruption and its elements like nepotism, favoritism and cronyism. According to Kallco (2011)⁸⁰ this law aims at standardising and unifying all rules covering all forms of conflict of interest and all categories of public officials

such as: those elected, members of the government, directors of independent institutions, public officials, judges and prosecutors. The Conflict of Interest Prevention Law has defined some restrictions to private interests for prevention of conflict of interest for specific cases relating to; Prohibition to conclude contracts, incomes as a result of public function, and gifts, favours, promises and preferential treatments. This Law has specified the restrictions that apply for persons related to the public officials as husband/wife, children if adults and parents of the official and his husband/wife.

In 2006 the Council of Ministers made an attempt to issue a decree regarding the avoidance of nepotism and influence on government in recruiting and promotion processes in the public administration, but as a result of a request by the Ombudsman for the repeal as unconstitutional of such a decision of the Council of Ministers, the Constitutional Court Judges Meeting decided the suspension of implementation of the decision of Council of Ministers No.43, dated 27.01.2006 "On avoidance of nepotism and influence of government in recruiting and career staff of tax administration"; No.44, dated 27.01.2006 "For the avoidance of nepotism in the public administration".

Vrenozi (2010) states that in Albania various companies have defined proper policies to allow the employment of relatives under certain circumstances like when relatives do not work within the same department or departments that can create conflicts.

2.1.5 Nepotism and Organizational Issues

According to a research carried out by Araslı and Tumer (2008) with 576 bank employees in northern Cyprus, it was found that nepotism, favoritism and cronyism generate job stress in the workplace, thus increasing dissatisfaction of the staff about their organizations. They found out that nepotism has the greatest negative effect on job stress.

Asakanutlu and Avcı (2010) wanted to determine the relationship between nepotism perception and job satisfaction and they did a research on 123 employees working in marble companies. Their results confirm the existence of a negative relationship between the perception favoritism (nepotism) and job satisfaction.

Thompson (1940) writes that organizations are exposed to conflict depending on how they make recruitment. That is, the heterogeneity of employees reflects on the company a differentiated set of functions and expertises. But this diversity is irrelevant in the formal conception of organizational bureaucratic rules he claims.

Weber (1947) in its configuration of the bureaucratic organization emphasized more than any other author, the accuracy, stability and robustness. Among others, he would state that; the favoritism (nepotism) is minimized by the application of impersonal rules, policies, and discipline rewards.¹⁶ More recently, Fershtman et. al (2005) combine this approach with an efficiency factor in organizations and society by designating the "Law of Anonymity", i.e. "Different forms of rules of anonymity, in which individuals are forbidden to disclose their affiliation when applying for work, loans in admission to schools etc."

In the U.S., in large enterprises, government organizations, or unions, it is paid extreme care to the impact of nepotism on productivity, moral and social support on companies (Ford and McLaughlin, 1985). To this end, formal rules and policies are created as well as informal methods are employed to avoid the influence of nepotism. There are several studies that show this North American practice in organizations. In 1963, a study conducted by the Wall Street Journal in 530 American companies managed to find out that, about 28% of the companies studied had formal anti-nepotism rules, and another 36% had informal (unwritten) rules. Another 1978 study, the Bureau of National Affairs (1979) indicates that most workers disapproved the recruitment of relatives of existing employees in the companies. Wexler (1982), according to a study he conducted to the companies part of Fortune 500, an annual list

ranking the 500 largest companies in the United States, states that he found out both formal and informal rules, in most organizations, regarding the recruitment of relatives. Moreover Abdalla et. al, (1998: 557) point out that “*most companies had formal rules preventing workers of the same family working in the same department and forbade workers being managed by family members*”.

Another issues of great importance that can influence on the authority structure of the organization and the rational bureaucratic management of companies is the relationship between ownership and management which can be a cause of nepotism when owners have the privilege of recruiting family members (Roosenboom and Schramade, 2006).

According to Weber (1968) favoritism can lead to conflicts in hierarchical relationships and can be reduced through the clear separation of management and ownership, and the separation of work and person, where the organization is defined by positions associated with the responsibility and authority, not the individual. Nepotism is more visibly the cause of conflict in case of recruitment or promotion of an incompetent family member (Abdalla et al., 1998). Kanter (1977) suggests that this type of conflict can be reduced or counteracted by applying formal rules or informal anti-nepotistic practices, minimizing the influence of the traditional concepts of family to the authority structure of the organization.

A further case where nepotism may have a negative impact in the organization is during the process of organizational restructuring of companies. Basically, organizational restructuring means size reduction of the firm regarding the employee number, divisions and hierarchical levels. This action would reduce direct and indirect costs related to the number of staff. At the same time organizational restructuring is a very delicate issue because under the pretext of restructuring the company, employees can be fired or demoted from key role positions in order for the executives to hire people related to them. In such a scenario the skilled staff safe from the restructuring effects in order to keep their job in the company are forced to tolerate and

work with unskilled and incapable colleagues. Such practices may bring fatal consequences to the organization, which apart from losing competent people may also suffer financially from possible frauds, as well as risking its market reputation for a long time.

2.1.6 Nepotism and HRM

A recruitment or promotion based on unfair criteria has a direct impact in the moral of the existing staff. The generally accepted principles in the Human Resources philosophy are equal employment opportunities, rewards and career advancements based on merits. The principle of equality implies that rules and regulations shall be applicable equally to all candidates, thus select candidates with the proper knowledge needed for the organization, their experience and education background. As well as rewarding policies based on employee achievements have to be designed.

Imagine a situation in which you are the head of HR in a company and you are interviewing a young candidate for a vacant position in the company. Throughout the interview you think he is incompetent for the position in hand, furthermore he is hardly communicative, and not qualified like the other candidates up to that moment; however you know that eventhough you have uncertainties about him you have to hire him as he is the son of the CEO. This is the most obvious kind of challenge HR professionals face in companies, favoring shareholders' or executives' relatives in hiring, performance evaluation, promotion and compensation policies, thus making a form of nepotism.

In a company where nepotism reigns problems will arise if the criteria for selection and promotion decisions appear to be different according to whether the person is or is not a member of the owner's or manager's family. In such cases it is critical for the company to have a consistent approach, clear communication channels and high sensitivity to the probability for negative perception by employees.

According to a research done on 257 fulltime hotel employees in Northern Cyprus by Araslı et al., (2006) it was found that; Nepotism has a negative effect on HRM, job satisfaction, quitting intention, and negative rumors; Furthermore good HRM policies exert a significant positive effect on employee job satisfaction.

Dierickx, a senior consultant in RHR International corporate psychology consulting firm, claims that in a workplace where nepotism prevails, “policies and practices need to be clearer and more transparent, so that people who are not part of the ‘family’ can see why people that are in certain positions are there. When promotions or hires are made, it needs to be extra clear, and it needs to be credible.”

In the research Bozkurt (2000) conducted on 500 students of the Bursa Uludağ University, he found out that 72% of the participants believe that having a senior relative is preferred to working hard or gaining a position by merits. Following these result he claims that this kind of perception significantly discourages youth and their motivation declines.

One of the negative effects of nepotism on recruitment and placement practices is the fact that candidates are recruited due to their connections. There exists the risk that they don't perform as well as other qualified candidates as these people may not have sufficient knowledge and competences for the job. According to Araslı and Tumer (2008), this impact “*causes unproductiveness of other employees and can negatively impact organizational justice, motivation and harmony. It can cause productive employees to leave their jobs over time and to make comments about the institution to customers, colleagues and people around them which can harm the operation and image of the institution.*”

While trying to make a way out of this kind of situation Gensing-Pophal⁴³ gives the experience of Paul Hoffman, president of a family-owned planning, architectural and construction management firm based in Wisconsin, USA. He claims that 'If nepotism is

allowed for the owner's family, it should be encouraged for the rest of the company by applying the same standards.” This in a sense would mean that managers in the organization shall feel free to "promote, transfer, fire or discipline family members as they would for any other subordinates" states Hoffman. Selective nepotism, according to him, *“establishes unclear criteria and expectations for employees, making it difficult for them to objectively determine what qualities and performance attributes are valued and how they can most effectively contribute to the organization or be considered for advancement opportunities or other special assignments.”*

Furthermore he would suggest that companies shall establish criterias like requiring relatives to work somewhere else before being hired into the family-run business. This kind of procedure was found applicable as according to the 2007 family business survey done by Laird Norton Tyee, a Seattle wealth management firm, it was found that about 70% of the respondent firms said they require one to five years of full-time work experience outside the family business.

However, many times “family referrals” work best, experts say, as long as the same criteria are applied to all applicants, and when hiring and promotion decisions are made properly. If the potential candidate is referred by someone who is currently part of the organization and most importantly has good reputation in the eyes of his colleagues and executives, this increases the confidence towards the candidate and the probability for him to get the vacant position is very high.

Meanwhile as it concerns the Albanian labor market, Vrenozi (2011) claims that equality principles in recruitment and promotion based on merits are still new and can be considered as fragile concepts whose implementation is emerging but not yet complete. What we notice is that there are still shadows of the norms and values that existed before '90 in the Albanian labor market. However at the other hand one can optimistically notice that most private

businesses have started to establish new organizational cultures, in this way laying the foundations for an environment where basic HR principles as fair employment opportunities, rewards and career advancements based on merits are applicable.

Generally people tend to be very sensitive towards unjust decisions, like unfair employment, promotion or rewards. Thus it is the moral duty of managers or decision makers to increase the quality of decision-making in order to grant feelings of belonging and commitment of employees toward the company, in this way better serve the firm they work for.

2.1.7 Nepotism and Family Business

“It is not personal, it's business...”

Okay but in a family business personal feelings are always present. It is very difficult not to allow emotions to interfere with the business, especially when you have to guide a family member.

According to Schulze et al., (2001) altruism is one of the characteristic elements that make up the family business, it is a factor that nourishes loyalty and usually may lead to intra-family recruitments. Buchanan (1975) draws an analogy between the relationship in families, between parents and children in family businesses and the relationship between the owners / managers of family businesses and their workers belonging to the “family”, and he justifies these relations’ generosity, as a noble attitude.

Ward (1997), states that family businesses create for family members job security, benefits and privileges, that they never would have otherwise. But this kind of influence of the family, can lead to nepotism, due to the inefficient choice of employees in the labor market causing inefficiency costs and low levels of autonomy (Randøy et. al, 2003). Donnelley (1964) argues that family businesses have to worry about favoritism. The author states that if the professional

competence and the ability of the worker are secondary criteria in the recruitment process, presumably, this family business will be labeled and considered as a nepotism ruled company.

Various authors claim that new firms which mostly start as family businesses do not have the ability, capacity and human resources to develop well-established recruitment and reward policies, as their human resources policies are reduced or simply nonexistent. For this reason, as long as family members are easily and cheaply available to organizations who are starting their activity, then such workers are the most desired for them.

There are two opposing "standards" about the management of family firms, the family norms and company standards. In the process of recruitment of workers within the rules of the family norms, the selection gives opportunity first, to the family elements. While in the sphere of company standards, a family member is selected only when he/she is the most competent (Lansberg, 1983). Furthermore Lansberg (1983) implies that when there is a separation between ownership and management, the selection of family elements is only possible when they meet all requirements necessary for the effective performance of the job in question.

It is pretty clear that there are differences in nepotism issues among family-owned businesses and publicly owned businesses. In many cases in family businesses relatives are expected to be involved and simply they are accepted without complicating the situation. In fact, in many small family businesses nepotism is considered a synonym for "succession". Meanwhile in publicly held corporations there usually exist formal rules regulating nepotism practices, which makes them more careful as they are open to external inspections by the third parties.

2.1.8 Nepotism and Corruption

In small and especially developing countries it is difficult to establish professionalism and institutionalization as the probability that employees are either relatives or at least know each other personally is very high. Consequently this kind of labor-intensive environment is more

open to corruption and similar practices. For example, nepotism is likely to occur more frequently as several external factors like socio-cultural, economic, educational, and political structures encourage people to support their close relatives or friends. Nepotism, and favoritism as a general term easily penetrate decision making and can corrupt decisions and practices.

Palmier (2000) states that corruption is a disease of bureaucracy, found in government organizations of all kinds, and place. Meanwhile Mathieu (1995) defines corruption as “a strategic action in which two or more actors undertake an exchange relationship of money or power that sidesteps the legally prescribed procedure to regulate the relationship”

Orkodashvili (2011) acknowledges corruption as a negative practice associated with the breach of certain publicly agreed upon norms of conduct and a disregard of moral values for personal or professional gain. Robertson-Snape (1999) defines it as the misuse of the office for private gain and claims that corruption can incorporate nepotism as well under its definition.

Hadi (2006) in his article regarding the bureaucracy in the government sector sees nepotism as one of the major elements of corruption. According to Duperouzel (2005) corruption is a mix of bribery, fraud, extortion, nepotism, patronage, cronyism, embezzlement, and graft. Each of these notions describe different manifestations of the same concept, corruption.

Abood (2006) in his book “Management Ethics and Business Responsibilities” claims that nepotism and the like are among the main reasons leading to administrative corruption which is one of the most well-known kinds of corruption.

Khatri et al. (2006) claim that favouritism (nepotism) is distinct from other forms of corruption such as bribery in that it is based on long-term social relations and mutual trust

rather than on an immediate exchange of material favours, as in the case of bribery, where a certain amount of money or a gift is given for a specific favour.

The cost of nepotism as a form of corruption can be political, economic, social, and environmental. The cost can be political because it can compromise democracy and the rule of law. It can be economical as it can lead to the waste of national wealth and human resources. It has social costs too as it can encourage elitism and a lack of fairness, can undermine trust in the political system, by leading to frustration and lack of interest.

2.1.9 Nepotism vs. Discrimination

Nepotism can be seen as a form of discrimination, in the form of a favor. As Becker (1957) writes *"the implications of social or economic positive bias or nepotism are very similar to negative prejudices or discrimination"*. In another sense, Becker (1957) defines discrimination against, in the same way as a behavior against or a negative behavior regarding ethnicity or race due to a social feeling common in relation to capabilities or group characteristics. That is,

This discrimination includes situations where a group of people do not like to be associated with another group and people are willing to pay or incur a cost to avoid such contact. Nepotism or discrimination for, refers to situations where people want to join a group and are willing to pay to have this opportunity (Becker, 1957).

According to Goldberg (1982) it is cautiously necessary to clarify that the criticism made by Becker (1971) regarding the construction of these two different models, nepotism and discrimination, can lead to some dangerous conclusions of racially foreshadowing nepotism as a model for whites and discrimination as a model against blacks. However Goldberg (1982) in his work, somehow reconciled with Becker, when he argues that there is a large difference in the long term pay levels between these two models (nepotism and discrimination). In their studies on the evolution of wage levels in these two types of models, they both concluded that

the model of nepotism creates a large wage gap in the long term among workers under nepotism and other workers. Moreover according to Goldberg (1982) firms with the model of discrimination tend to disappear. He arrives at these conclusions after comparing these two models with a third company, which appointed as neutral, i.e. not influenced by any of the other two models.

2.1.10 Other forms of Nepotism, Favoritism and Cronyism

Nepotism, favoritism and cronyism may affect a society on short or long terms, depending on the extent these practices are socially accepted and adopted. Such practices can be seen in different forms in various fields of everyday life like business, politics, art, education etc.

The concept of social network is spread in many environments as a very important concept in order to facilitate procedures and the like. It is considered important by employers too as social networks are seen a good and safe source of labor employment. It happens so due to the fact that there actually exist established preliminary contacts thus eliminating the need for additional costs and time. Being part of a network or having good references raises the confidence recruiters have, meanwhile in hirings via CV, interviews or tests this is debatable.

Favoritism can also be in the forms of patronage, clientelism and pork-barreling. According to Aközer (2003:14) *patronage* stands for giving priority to ethnic, geographic, and religious partisanship in political representation. Meanwhile, allocating public resources to those who are close to electors, who are close to the ruling party, in order to favor them, is *clientelism*. *Pork barreling* is when the ruling party allocates funds to specific groups of electors with the aim of winning their votes in order to stay into power again (Aktan, 1997).

When a relative of a powerful figure gets a similar power without the appropriate qualification always the accusation is on nepotism. The English expression "Bob's your uncle"

is used in such cases mostly in the British island. More concrete cases of nepotism in politics can be seen in countries ruled by dictatorships or autocracies. However such cases of nepotism can be seen also in countries ruled by democratic principles like the cases of the Roosevelt, Kennedy, Bush and Clinton families in the USA, the Papandreou, Karamanlis and Mitsotakis families in Greece with three generations of MPs and PMs, The Nehru-Gandhi family in India which has been showing strong nepotism tendencies, also considered dynastic politics.

In Albania continually the two biggest parties accuse each other of nepotism like in the recent case when one MP of the Socialist Party, Mr. Taulant Balla, publicly accuses the government and especially the Ministry of Foreign Affairs of nepotism by claiming that 17 MPs of the governing party have placed their relatives in various positions of the Albanian diplomacy. He then accuses the Chair of the Albanian Parliament of having placed her groom as first secretary of the Albanian embassy in France.

2.2 Defining Organizational Trust and Commitment

In this section Organizational Trust and Organizational Commitment are explained based on how various scholars define them.

2.2.1 Organizational Trust

Many scholars have provided various but similar definitions regarding the concept of organizational trust, among them; Rotter (1967) defines trust as “an expectancy held by an individual or group that the word, promise, verbal or written statement of another individual or group could be relied upon.” Hunt and Morgan (1994) claim that trust exists when one party has confidence on his partner’s reliability and vulnerability in an exchange. Cook and Wall (1980) refer to trust as the extent to which one is willing to attribute good intentions to

and have confidence in the words and actions of other people. This willingness will in turn affect the way in which one behaves towards others.

Scholars claim that trust creates unity and gives people a feeling of security. Trust is an essential relationship model building block and has often been defined as a belief that one relationship partner will act in the best interests of the other (Wilson, 1995). Han et al. (1993) found that both buyers and sellers see trust as being by far the most important factor of a good relationship.

Mohr and Spekman (1994) in their research define organizational trust as the belief that a party's word is reliable and that party will fulfill its obligation in exchange. Meanwhile according to Rousseau et al. (1998), trust is a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of others.

We can talk about three levels of trust within an organization: individual, group and system level. At the *individual level*, according to Atkinson and Butcher (2003) trust is based on interpersonal interaction. Trust can be defined as “the willingness of a party to be vulnerable to the actions of another party, based on the expectation, that the other will perform a particular action important to the trust or, irrespective of the ability to monitor or control that other party (Mayer et al., 1995). Basically it is implied that there exist a positive expectation from a ‘trusting’ subordinate, that he/she will not – through words or actions– act opportunistically in the damage of the company.

Meanwhile at the *group level*, trust is considered to be a collective phenomenon. Scholars state that teams represent shared values and identities. Gillespie and Mann (2004) in their research claim,

‘as values are commonly believed to guide behaviour, sharing common values helps team members to predict each other’s and leaders’ behaviour in the future. Shared values and shared goals reduce uncertainty, but also determine which types of

behaviours, situations or people are desirable or undesirable' (Gillespie and Mann, 2004).

As a result of the institutionalization of trust through practices at the collective level, Kramer (1999) believes that trust becomes internalized at the individual level too.

While talking about trust at the *system level*, Atkinson and Butcher (2003) say that it is institutional and based on roles, systems or reputation, from which inferences are drawn about the trustworthiness of an individual. At the system level trust is based more on the role that an individual is meant to act.

Researchers believe that executives play a key role in determining the overall level of trust within organizations. Through reward and control policies they design, they make visible the levels of trust or mistrust of employees towards the organization. According to Creed & Miles (1996) the beliefs and actions of managers have a direct and indirect influence on trust in organizations.

There mostly exists a consensus among scholars believing that trust among individuals and groups within an organization is a very important ingredient in the long-term stability of the organization and the well-being of its members.

2.2.2 Organizational Commitment

Organizational Commitment as a driving force of employee dedication to the organization has been studied by many scholars. Cook and Wall (1980) define the concept of organizational commitment as a person's emotional reactions to his employing organization's characteristics. It deals with feelings of psychological attachment to the objectives and values of the organization. Taking into consideration the positive outcomes of the quality of work experience, the concept is regarded as a factor that contributes to the subjective well-being at work of employees.

Researchers recognize commitment as a central ingredient of establishing and maintaining long-term relationships (Dwyer et al. 1987; Geyskens et al. 1996; Tellefsen and Thomas 2005). Employees are considered to be committed to an organization if they enthusiastically keep on associating with the organization and dedicate considerable effort to the achievement of organizational goals.

Meyer and Allen (1997) claim that organizational commitment, if properly managed, leads to favorable consequences, such as organizational effectiveness, improved performance, and reduced turnover and absenteeism.

Buchanan (1974) in his study distinguishes three components of organizational commitment. The first one is *identification*, which is the internalization of the organization's goals and values. The second one is *involvement* that stands for the psychological absorption of one's role in his/her activities. The last one is *loyalty*, which basically implies a sense of belongingness or brand attachment to the organization.

Porter et al. (1974) in their research identified three factors of organizational commitment which are; a strong belief in and acceptance of the organization, and a strong desire to remain in the organization. According to the studies conducted by Allen and Meyer (1990) organizational commitment is separated into three categories: affective, continuance and normative commitment. The affective component of organizational commitment stands for the the employee's emotional attachment to, identification with and involvement in the organization. The continuance component of organizational commitment is associated with the costs that the employee associates with leaving the organization. The normative component of organizational commitment refers to the employees' feeling of obligation to remain with the organization. Chusmir (1986) argued that for men, a higher organizational commitment is achieved through satisfaction with job circumstances. Meanwhile women, pay more attention to the effects of family circumstances rather than job situations.

CHAPTER III: THE BUSINESS CLIMATE IN ALBANIA AND NEPOTISM, FAVORITISM AND CRONYISM

In this chapter it is given shortly some information about the albanian economy throughout its history of being a sovereign state. Then the focus is transferred to the actual situation of the albanian economy by mainly focusing in the service sector. The main subsectors of the service industry are explained. Afterwards a resume of the literature regarding nepotism, favoritism and cronyism concepts is done.

3.1 A Brief history of the Albanian Economy

Albania gained its independence from the Ottoman Empire in 1912. The inherited underdeveloped social structure necessarily lacked specialization beyond the most basic economic relationships. So the economy of Albania in the state's early years was dominated by subsistence and feudal agriculture. Political instability is what characterizes the post WWI Albania up to being conquered by Italy in 1939, after it had gained full supremacy over the economic life of the small country. Even though the economy was considered a primitive one at least it was based on the private property, but after the WWII ended Albania would fall under a closed, centrally-planned totalitarian communist state. In the early 90s Albania would be the last of the european communist block countries to embark on democratic and free market reforms, however starting from a disadvantaged position due to Hoxha's catastrophic economic policies.

Two scenarios would be faced by albania in its attempts to transform the economy towards a market economy. The first scenario implied starting from “zero level” which basically meant a “shock therapy” by destroying everything inherited from the former communist system. The second scenario encouraged more a transition process developed through “gradual changes”

and supported by objective factors like proper human resources and financial means. However the structural reforms that followed lacked proper internal support even after the involvement of international institutions and the new economic environment introduced irregular equilibriums and confusion in the national economy (Muco, 1997).

A prolonged transition period started for the albanian economy, together with its ups and downs, trying to recover and aggressively pursue its Euro-Atlantic integration agenda. During this prolonged transition period the business in Albania suffered a lot from bureaucratic and corruptive practices inherited from the communist regime. Corruption as a social phenomena has been a familiar concept for albanians even during the communist regime. The democratic reforms that took place immediately after the legalization of political pluralism and free private initiative could not transform the mentality of the individuals, society and economy. The new private enterprises established were developed mainly on the legacy of previous tradition of state enterprises. (EBRD, *Strategy for Albania 2009-2012*, 2009).

However , Albania's economy has improved markedly over the last two decades; through reforms implemented in infrastructure development, tax collection, property law, and business administration. Despite the effects of the recent global financial crisis and economic downturn, the country has outperformed many other countries in the region. During 2006-2009 the average economical growth rate was 5.5%, while for 2010 the Government of Albania anticipated a growth rate of about 4.1%, eventhough somehow disputed by IMF who predicted it to be 2.7%. This progress culminated in April 2009, with the invitation extended to Albania to be a member country of NATO and at the same time Albania submitted its application for EU membership, both considered major achievements in the country's dramatic history.

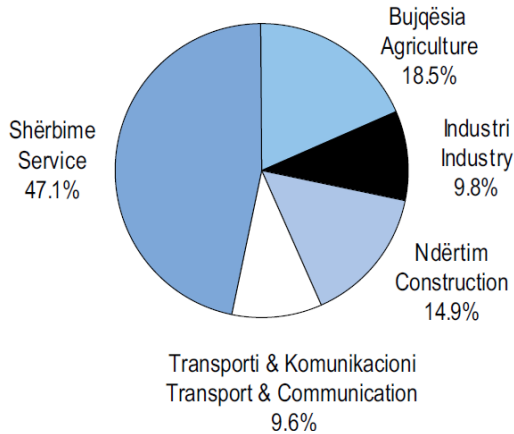
3.2 Current Situation of the Albanian Economy

According to preliminary data by the World Bank's Poverty Assessment Program, 12.4% of the population lived below the poverty line in 2008, marking a considerable improvement from 25.4% in 2002; it is claimed that this decline in poverty levels was due mainly to higher per capita GDP, which according to the Bank of Albania, it was \$4,070 in 2009, and \$4,200 in 2010, and as estimated by CIA World Factbook \$4400 in 2011. The official unemployment rate for 2011

provided by
Accordingly
workforce is
agricultural

recently the

construction sectors have been expanding. Tourism has been boosted significantly by ethnic Albanian tourists from throughout the Balkans.



according to the data
INSTAT is 13.3%.
more than half of the
employed in the
sector, however
service and

Figure 3.1 Structure of GDP (Albania in Numbers, INSTAT, 2010, p.25

As seen in the figure above the GDP is comprised of services (47.1%), transport and communication (9.6%); agriculture (18.5%); construction (14.9%); and industry (9.8%).

According to the data retrieved from INSTAT, small enterprises with 1-4 employees dominate the Albanian economy comprising 91.94% of all enterprises operating in the country. Those employing 5-9 employees make up 4.26% of the market, the enterprises having 10-49 employees

make up 3.04% of the market, and only 0.75% of the total enterprises operating in Albania employ more than 50 employees (INSTAT, Albania in Numbers, 2010). Albania has experienced rapid social change, including internal migration from rural areas to urban centers and mass emigration of economically active citizens, who have been sending back substantial resources in the form of remittances. According to a report issued by the US Department of State¹⁰⁹ in 2011, the Albanian economy has been relatively protected from the global financial crisis and the economic downturn. Despite the inescapable effects of the global economic crisis, Albania's economy has maintained the highest growth rate in Southeastern Europe for the last three years. The International Monetary Fund (IMF) projected a growth rate at 3.4% and 3.6% for 2011 and 2012 respectively, meanwhile the data from INSTAT revealed that the economic growth during the first nine months of 2011 was about 2.7%, and suggested an acceleration of the economy during the fourth quarter of 2011. There has been improvement of the quality of economic regulation, especially in business registration, investor protection, and tax administration. These efforts are demonstrated by Albania's place as the second "top reformer" in the 2009 Doing Business report.

Albania is ranked 95th from 182 countries in the 2011 Corruption Perceptions Index published by Transparency International. Albania has also improved its ranking on the Global Competitiveness Index, particularly on regulatory institutions and macroeconomic stability. Once known as "the poorest country in Europe," Albania is now an upper-middle-income country. (World Bank, 2011c).

Though reportedly high levels of corruption have damaged international perceptions of Albania over the years, there is evidence that the rate of administrative (petty) corruption is declining. It is reported that bribe frequency declined from 48 percent in 2005 to 13 percent in 2009, the sharpest decline during this period in the Europe and Central Asia region.

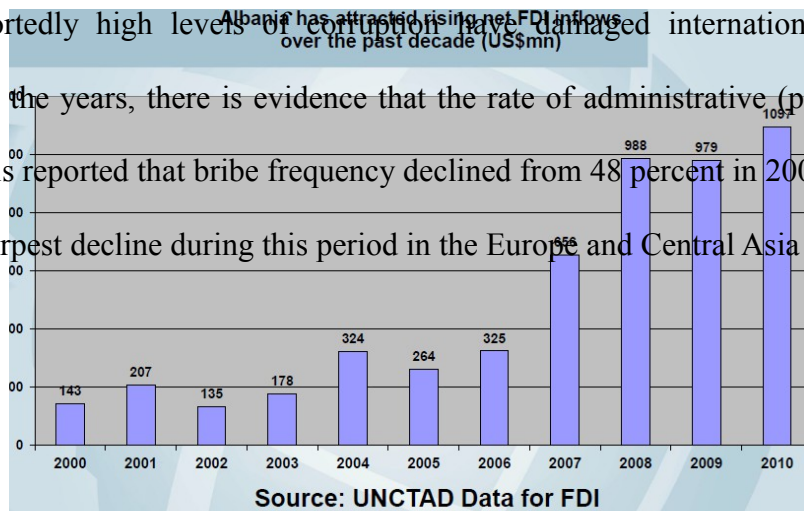


Figure 3.2 Foreign Direct Investment (FDI) flows in Albania¹¹¹

Albania gives a special attention to the protection of foreign investments, as their role and the contribution in the Albanian economy is unquestionable. As seen in the figure above FDI has been constantly increasing throughout the decade. Attracting FDI keeps on being one of the priorities of the government's economic reform, especially recently as remittances from Albanians living and working abroad have been falling. Albania has established a one-stop

shop since September 2007, which slashed the time for starting a business from 36 days to 7 days. On “starting a business”, Albania ranked 68th in 2009, moved to 46th in 2010 and 45th in 2011 in the global ranking (Doing Business Report, World Bank, 2011e).

According to the report on governance in Albania published by the World Bank in 2011, the banking sector remains viable, well capitalized, and able to further finance the economy, as the ratio of loans to deposits, approximately 65%, is still low compared to Western standards. Fiscal and monetary policies of the Central Bank have managed to keep the inflation rate within the target of $3 \pm 1\%$, averaging about 2.6% per year during 2006-2009, 3.6% in 2010 and 3.5% in 2011 (Bank of Albania Annual Report, 2011). A challenge for the current government and those to come is the considerable amount of informal economy in the country which is estimated to be at the levels 30%-40% of GDP by the IMF (CIA World Factbook, August 2011).

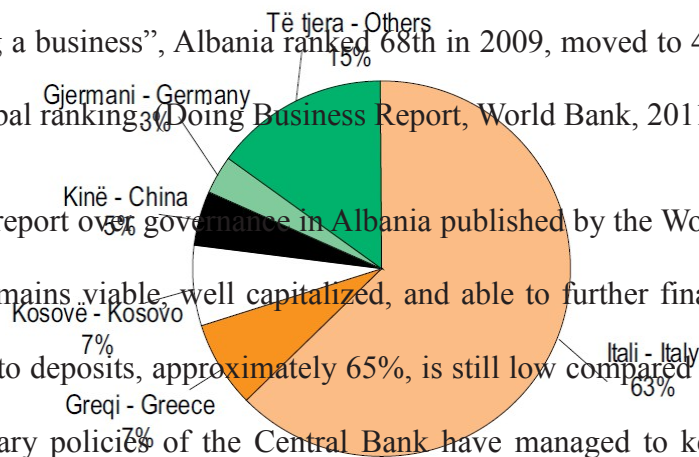


Figure 3.3 Structure of imports by main partners

The Albanian economy, despite the reforms undertaken, is still an import-dominated economy with small and undiversified exports. In 2011 the imports percentage of GDP averaged 41% and exports 15% of it. In figure 3 above we present the structure of imports by the main partners, meanwhile below we present the percentage of GDP that exports with main partners

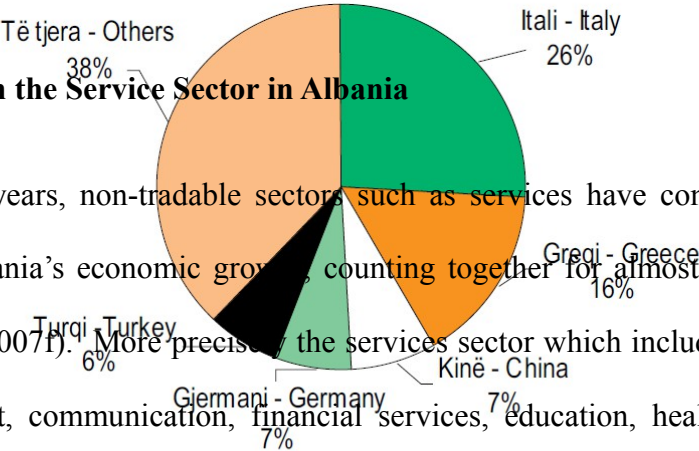
have. The EU remains Albania’s main trading partner, providing 64.1% of Albania’s imports and receiving 72.5% of exports as of December 2011. Albania has joined the Central European Free Trade Agreement (CEFTA) as well as the European Free Trade Association (EFTA). Albania has also a free trade agreement with Turkey.

Figure 3.4 Structure of exports by main partners

Nowadays as the severity of the market competition is expected to be more emphasized and environment is changing rapidly, the need for increased effectiveness in the businesses’ management is becoming more evident. In this perspective the Government and other related state institutions should take the proper precautions by consulting all stakeholders.

3.2.1 An overview on the Service Sector in Albania

During the last ten years, non-tradable sectors such as services have constituted the main driving force of Albania’s economic growth, counting together for almost two-thirds of the GDP (World Bank, 2007f). More precisely the services sector which includes wholesale and retail trade, transport, communication, financial services, education, health care, and real estate make up about 57% of the GDP in the Albanian economy.



The services sector has been the most expanding sector in terms of contribution to the country's total economic output. During the first years of transition the services sector became important especially with the expansion of trade, while more recently the banking system and retail sector have been the driving force behind the increase of the sector's share in the country's output. The numbers show a rapid and sustained growth of the services sector which, according to the Bank of Albania, constitutes the most dynamic sector of the Albanian economy.

Albania made wide-ranging and substantial sector-specific commitments under the General Agreement on Trade in Services (GATS), like WTO document GATS/SC/131, including 11 of the 12 broadly defined service areas, or 111 of the approximately 160 services subsectors in the classification list. This makes Albania an outstanding case with respect to the degree of transparency under the provisions of GATS Article III:3.

According to the data retrieved from INSTAT the service sector employs 38% of the total labor force actually working, showing a considerably higher productivity than the rest of the economy. Globally the services sector is relying everyday more on low cost developing countries as new markets and as a platform to export services overseas. Developing countries have been taking the lion's share of international services' investment. This is where the challenge for Albania has consisted, working hard to gain as much as possible share in this huge foreign direct investment activity (UNDP & EU, 2005).

Almost all the services' sector FDI in Albania to date has resulted from the privatisation process or from companies being established in Albania to access the domestic market. To improve efficiency and productivity, multinational companies gain huge advantages consolidating service activities in one location and standardising their services across globe. This trend is creating new mobile FDI opportunities especially for developing countries. In

this perspective the cost advantages provided are great compared to developed countries. (UNDP & EU, 2005).

Based on the information collected from the official website of the Ministry of Economy, Trade and Energetics, OCO Consulting conducted a research showing that the largest proportion of service companies in Albania is concentrated in the banking sector (30%), followed by communication companies (23%), insurance companies (21%), and ISPs (13%). (UNDP & EU, 2005). In the figure below we present the graph o service companies by subsector

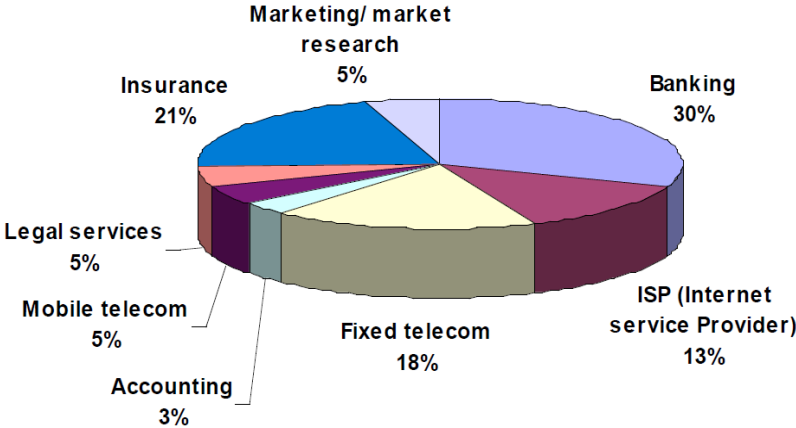


Figure 3.5 Service Companies by sub-sector, OCO Consulting/ANIH survey

According to the study conducted by OCO Consulting the core activity of nearly half of service companies is providing business-to-customer services (e.g. the banking and communication companies). Almost one in five companies provides technical support services and 12% of companies are providing customer services to clients outside Albania. 11% of companies are involved in business process outsourcing.

Usually the success of service companies depends on the recruitment of skilled and talented candidates for working in the service sector. In this sense Albania offers a large and growing pool of skilled workers, with very competitive costs within the regional context, and most

importantly highly valued by investors in Albania. The Human Resources Manager of Vodafone Albania would say *“One of Albania’s main strengths is a low cost labour environment, set inside a now tolerant and progressive regime”*. Furthermore the Chief Financial Officer of AMC Albania would state *“The Albanian workforce is high in quality and motivation”*.

3.2.2 Public Service Sector

A public service is a service which is provided by the government to the people living within its jurisdiction, either directly (through the public sector) or by financing private provision of services.

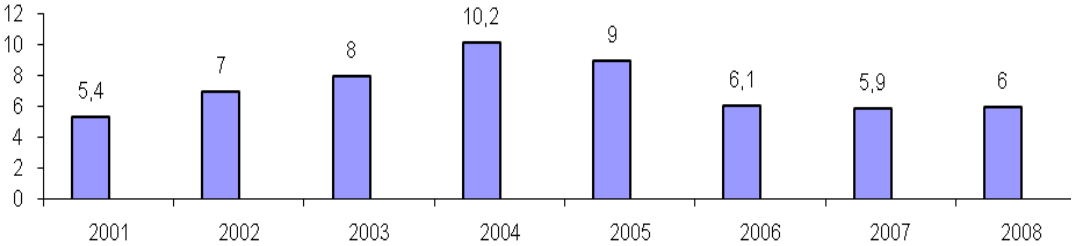
The 1998 Constitution outlines (article 107) the main characteristics of the civil service by requiring that public employees apply the law and work to serve the people. Albania’s legal framework regulating the civil service mainly complies with generally accepted European standards and principles, but not with all, especially because the merit system is not fully present in the legislation and in administrative practice. The legal scheme for recruitment grants discretion to choose any of the three best-ranked candidates in a competition. This scheme is open to abuse because it does not specify criteria, limit discretion or enforce any transparency requirement, which weakens the merit and competitive nature of the procedure as well as impairs the constitutional right of equal access to the civil service (SIGMA, 2009).

The total public employment is about 90,000 employees, according to a December 2008 decree of the Council of Ministers. However, according to the World Bank (2007f), there is no single, updated and published source of information on the size of the public service.

Young people have started to consider the public service as an attractive and productive way of having some years of experience in the public sector useful for their future careers.

Unfortunately they usually see it as the first step towards future employment in the private sector due to the fact that the public sector doesn't offer much career advancement opportunities, furthermore they see political and personal relations are crucial for such advancement. Another indicator that reveals that the credibility of the public sector has been decreased is the average number of applicants per vacancy. In the following table we present the average number of applicants per job vacancy throughout years.

Figure 3.6 Average number of applicants per vacancy, DoPA (Department of Public Administration)



While it is hard to find information on public service number, pay, and demographics (age, sex, skill profiles etc.). According to Thanasi (2010) study certain conclusions can be drawn; The core civil service is not fully defined in legal terms, is underpaid and not of proper quality. The allocation of human resources within the public sector is inefficient, with some areas exhibiting over-staffing and low productivity, while others, especially in central administration, are moderately under-qualified and probably understaffed. Motivation is low,

and, given the pay conditions, corruption (major and petty) is endemic. She thinks that the lack of information on personnel obstructs the development of reform policy.

Throughout the transition period all governments have followed the same strategy of maximal privatization of the once state owned companies. The main reasons of this big scale of privatization were the increase of economic efficiency, the minimisation of the state role in the economy, the avoidance of autarchy inherited by the centralized economy. Among the most important privatized companies are Albtelecom (telecommunications), Savings Bank (Banking), ARMO (refinery), KESH (power plant operator), INSIG (insurance company). There is also ALBPETROL (oil production) is now being internationally traded in auction.

3.2.3 Private Service Sector

According to Muco et al. (2004) the private sector development is essential for a successful transition especially for the countries of southeastern Europe (SEE). In recent years, the SEE region has made rapid progress both in terms of macroeconomic indicators such as growth and inflation rates and in terms of advancement in structural reforms.

Albania is a country where the private sector activity has played a major role in recent years. The private sector activity as a share of GDP in Albania is the highest in the region – 82% of GDP (Demeti , 2012).

According to the data provided by INSTAT in the Economic Indicators of 2011, 109,039 enterprises have been active at the end of 2011 among which 12,905 enterprises have been established in 2011, half of them are concentrated in Tirana and Durres region and 27% of them are managed by women. Out of the total number of enterprises service providers represent 84 percent of enterprises.

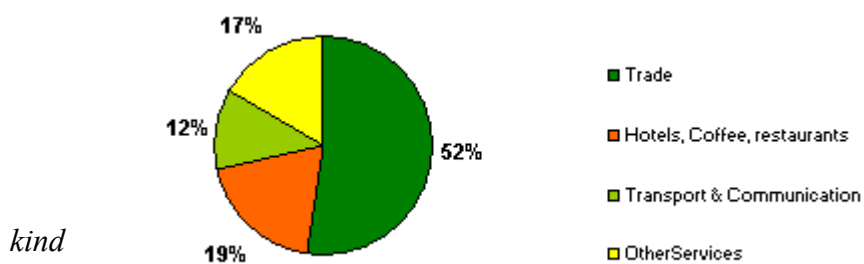


Figure 3.7
Service Providers by kind of service, INSTAT,

Business Register 2011

In the private service sector the enterprises with 1-4 employees dominate in number, 90.5 percent and they have realised 17 percent of the total yearly turnover. Within this category the dominant number about 70 percent, have only 1 self-employer. The enterprises with 20 and more employed dominate the economy. These enterprises have realised also 60 percent of the total turnover and 71 percent of the total investments.

One of the most important obstacles the private service sector have been facing is competition from the informal sector. Access to finance and taxation have been in the past also significant constraints however they are improving and not as severe as the problem of competing with non-registered firms (Muco et al., 2004).

3.2.3.1 Financial Sector

The banking system in Albania is dominated by foreign capital, which constituted 94% of the total banking system capital at end 2008, up from 88% in 2007. All banks have been privately owned since March 2009 as the Albanian Government sold its shares in the United Bank of Albania and in the ProCredit Bank. Foreign banks may take the form of branches or of subsidiaries incorporated in Albania. At end 2009, Albania's banking sector comprises 16 commercial banks, including branches of foreign banks, with some 524 offices. The financial system also includes 13 non-bank institutions; 240 foreign exchange bureaus; 2 savings unions and credit associations; 135 savings and credit associations; and 1 representative office of a foreign bank, (Bank of Albania, 2009). The financial services sector's assets were equivalent to 82% of GDP in 2008. Non-banking financial services contributed some 0.65% to GDP. According to WTO (2009) the banking system has proven itself strong in the face of the global financial crisis. None of the 16 commercial banks operating in the country have failed or been provided with government support and stress tests undertaken in 2008 indicated the system's flexibility to various risks. An increase in non-performing loans, however, is of concern.

Regarding the insurance subsector there are ten insurance companies operating in the market, of which two offer life insurance (SiCred, Sigal Life), one is a composite life and non-life insurance company (INSIG), and the rest (seven) offer non-life insurance. Sigal is the largest, with some 63% of the market in 2009 (Albanian Financial Supervisory Authority, 2009)¹²⁰.

Albania has a small securities market in which titles are *de jure* negotiated on the Tirana Stock Exchange (TSE), which operates as a secondary market for shares, government papers, and corporate bonds, but however *de facto* no company has been listed in the TSE yet.

3.2.3.2 Telecommunication Sector

The telecommunications sector is largely liberalized, and together with postal services, accounted for 4% of GDP in 2008. An emerging and very active subsector attracting investment, especially FDI lately is the Call Centers business.

Albtelecom, which was privatized in 2007, is the largest fixed-line service provider. There are also 73 fixed telephony providers (alternative operators), either regional or local. There are four mobile phone service providers: Albanian Mobile Communications (AMC), established in 1995, started providing service in May 1996; Vodafone Albania, obtained a licence in June 2001 and started service in July 2001; Eagle Mobile, granted a licence in March 2004, but started operating only in 2008; and Mobile 4AL (PLUS), obtained a licence from AKEP in June 2009. The number of fixed-line subscribers was 360,000 in mid 2009, although the rate of penetration continues to be one of the lowest in Europe. Mobile telephone subscribers reached 3.52 million in July 2009 with a penetration rate of 129%. Broadband penetration rates have increased substantially too (EBRD, 2010).

3.2.3.4 Retail Sector

The retail market in Albania has seen a significant growth in the past few years. Many international retailers have entered the market as the first shopping centres were built. The first shopping centre to open in Albania was QTU (Qendra Tregtare Univers) developed by an Albanian investor. Casa Italia followed, bringing to the market approximately 20,000 square meters of retail space. A very large impact also on the retail market in Albania was expected to have the opening of the biggest shopping centre in Albania, Tirana East Gate (TEG) with 55,000 m² of service area. According to the annual report on the Retail Market published by

Danos International Property Consultants and Valuers in 2011, the total retail market in Albania is considered to be worth €700 million.

Due to the financial crisis mostly from Europe and the Balkans such as the crisis in Italy and Greece, two main countries which have been a strong source for the Albanian market in general, the situation of the retail market has started to raise question marks. Ornela Liperi, editor of the Tirana business weekly Monitor would claim that “there has been an overcrowding of the Albanian market by international retailers in the last few years and increased competition”.

3.2.3.5 Education Sector

The purpose of the national educational service is to supply future Albanian citizens with proper knowledge, adequate skills and capacities, as to be educated and committed to the implementation of the economic and development national plan. This system, aiming to meet the domestic needs of the labor market and socio-cultural aspirations of the people, is a prerequisite for the economic growth and sustainable development of the country (MoES, 2008).

Progress has been made and initiatives have been taken by the Albanian Government for improvements in the Education sector. Albania prepared the “National Education Strategy (NES) 2004-2015” in 2004. The development of this Strategy (NES) was brought about by the increasing recognition by the Government of Albania and international agencies that reforming the education system of the Republic was central to the achievement of economic and social growth.

The vision for the pre-university education sector is to guarantee a modern national education system, which will stimulate sustainable economic growth, will raise competitiveness in the region and beyond, and will help consolidate citizen consciousness.

Ministry officials state that there are 12 public universities, and 38 private higher education institutions (HEIs). Regarding the public higher education sector, the debate on the autonomy of universities is linked to problems of funding higher education and the choice of financial management systems. The main source of funding is the government, with a small proportion of revenues raised by tuition fees. According to the European Commission TEMPUS 2010 report about the higher education in Albania, the main reforms underway include; Consolidation of the three cycle system of studies, consolidation of the financial autonomy of HE institutions, adoption of student cards, improvement of the process of the recognition of academic qualifications, setting-up performance standards, external and internal quality assessment, approval of a national qualification framework, student mobility within the country and abroad, improvement of student enrolment in HE institutions.

The private education sector in Albania has been growing rapidly in the last ten years. About 10% of students enroll in private higher education institutions. There appear to be individual private schools which are well-led, with good staff and physical resources, and committed to good practice in student behavior management and assessment. There also appear to be private HEIs genuinely aspiring to approaches and levels of activity which would be recognized as at university level by contemporary international and European standards, such as the Bologna Process (EU&CE, 2011).

3.2.3.6 Transport Sector

The modernization of Albania's transportation infrastructure is central to sustaining trade and private-sector development and, at a more general level, economic growth and investment.

Particular challenges identified, include upgrading the quality and reach of the road system (including to rural areas within Albania and neighbouring countries) and expanding the seaports and regional airports (EBRD Albania).

Albania has taken GATS commitments, with variations across modes of supply, in the areas of maritime, air, and road transport services, and services auxiliary to all modes of transport (WTO, 2000).

The EU-Albania Stabilization and Association Agreement (SAA) has a transportation component too with substantial obligations by the parties in international maritime transport and inland transport (road, rail, and combined transport)

3.3 Over Nepotism, Favoritism and Cronyism in Albania

According to a policy paper published in December 2011 by the European Movement in Albania regarding the Brain Gain program, that is the re-integration of young Albanians in the Albanian market after they have completed their studies abroad, it results to them that as far as it concerns the employment of the returned young professionals it takes them an average of 5 months to get a job. Among the main difficulties the returned professionals present have to do with the nepotism practices spread in many sectors as well as the existence of “closed circles” or recruitment policies based on political affiliations. When directly asked about how they got their jobs 36.4% of respondents admit they got it through relatives, acquaintances or personal relations.

According to Vrenozi (2010) the public sector is more exposed to this phenomenon. Often, she claims, managers in the public sector hire relatives and acquaintances in important positions, although they might lack the proper level of professional abilities and experience needed for the position. The results of such hirings is similar favors in the future, meaning that

procedures of the kind will keep on being present. The Albanian mass media has continually denounced the phenomenon of nepotism and favoritism in Albanian ministries, universities, private organizations etc.

Cela (2011)¹²⁴ states that there exists a dilemma between meritocracy and nepotism or patronage, which actually represents a moment that must be overcome in order for HR to take the appropriate status within the companies in Albania. However Cela (2011) claims that based on his personal experience and observation companies in Albania have been recently attempting to approach correctly towards professional parameters for recruiting or promoting staff. Especially large companies, part of international groups, operating in Albania have been leading this trend by creating a new model that should be followed by domestic companies.

Unfortunately despite this trend, in small countries such as Albania it is difficult to completely avoid favoritism because due to the high probability of knowing someone, people tend to seek and find 'connections' to the responsible people close to the selection process in order for them to make 'appropriate' recommendations.

For a new work place the qualifications within or outside the country is not sufficient. You must know someone, being referred by someone, having a liaison point of contact; otherwise no doors will open, except for pseudo-interviews commonly conducted just for documentation because the position is already occupied (Gjoni, 2009).

The results of a UNODC, INSTAT & EC (2011)¹²³ survey conducted on a national scale show that some 16 per cent of Albanian citizens, or members of their households, applied for a job in the public sector in the three years prior to the survey and among those who failed to be hired there is a widespread perception that factors such as nepotism, cronyism or bribery played a decisive role in the recruitment process. More precisely more than one third or 36% of those who did not get a job think that somebody else was employed due to nepotism or

cronyism, while 25% believe that somebody else was hired due to bribery, meanwhile only 15 per cent believe that the selection was made on merit.

A survey done by Elida Motro-Iljazi for Burime-Njerezore magazine in June 2011 gives an interesting picture of how do actually people find their jobs in the Albanian labor market. Interestingly 33.7 % of the surveyed people declare that they have been favored in the recruitment process due to a recommendation or personal connection, while 67.3% declare they had recommendation but they don't think they were favored. 78.6% of the answerers think that in Albania it is common not to get a job due to lack of connections, and out of this, 21% claim this through their personal experience.

The Agenda Institute conducted in 2010 a research on 85 of the 100 largest companies in Albania for 2009 (companies with the largest capital circulation). They examined the development of nepotism, as a form of corporate governance practice in Albania and the results were published in the Monitor Magazine. This research claims that *“more than one individual bearing the same surname employed in a firm is a common procedure in Albania”*. This practice raises serious questions on whether the hiring procedures in Albania promote professionalism or favoritism?

According to the study Albania lacks internal and external factors, necessary for the development of good and fair corporate governance practices, resulting in the emerging of nepotism in the Albanian companies. They further claim that executives of Albanian companies prefer to place their close relatives at management or supervisory positions. The data analysis shows that of the 85 companies that are included in the research, 40% have at least three members with the same surname, and 60% of them have at least two.

Another interesting result of this research is the fact that the concentration of individuals with the same surname appears in companies that are owned by Albanian individuals, 58% of

Albanian companies have at least two individuals with the same surname in the management level, meanwhile the same phenomenon is present only in 10% of foreign-owned companies operating in Albania. Thus we can say that there is a positive relationship between the domestic ownership of capital and kinship based governance structures. This situation shows that foreign-owned companies have developed good corporate governance cultures in their countries of origin, and that they use professional practices in recruitment of the workforce

CHAPTER IV: RESEARCH OBJECTIVES

In this chapter the main rationale for the study as well as the importance this research carried are explained. In this it is aimed to clarify the the research objectives the researcher had in mind when selecting this particular topic as a subject of study.

4.1 Rationale for the Study

Overcoming some practices inherited from the communist regime has been considered to be an important component of the Albanian society's development policy, particularly in order to establish an attracting business climate for foreign direct investment. The government and the business sector has been considerably active in formulating and trying to implement various corrective policies in order to achieve this goal, such as policies that have significantly reduced corruption and increased transparency of hiring, firing, promotion procedures. These attempts have encouraged me to make a research on the areas that need further reform and deep social awareness. The primary objective of this study was to analyze the business climate in Albania in respect to the perception of employees on nepotism, favoritism and cronyism phenomena. Due to the lack of previous studies and statistical data I saw it very useful for the academia and all interested parties to work on such a topic. Due to the fact that the service sector has constituted the main driving force of Albania's economic growth

throughout the prolonged and difficult transition period I considered the study upon various challenges of this sector of essential importance and a contribution to the process of diagnosing problems and formulating reforms for further development of my country.

Especially trying to define the relationship between the perception of nepotistic behavior and organizational trust and commitment I believe it will give us a clearer picture of what do albanians think about it and how much do practices of the kind affect their work motivation and belonging to the respective organizations they work for. I believe nepotism, favoritism, cronyism and its outcomes have an important role in the overall sphere of management activities. But unfortunately, in Albania, this concept is given secondary importance. By this research I intended to highlight the importance that managers and policy makers should pay to these concepts.

4.2 Importance of the study

Nepotism, favoritism and cronyism are concepts which have considerable influence in the workplace. Especially the argumentation of a relationship they have with organizational commitment and trust is an important contribution to the study of workplace behavior in the context of Albania.

Despite the fact that nepotism, favoritism and cronyism are present in Albania and widespread in pretty much all sectors; despite the fact that there may be significant economic consequences from them, in the literature we can hardly find any economic research of nepotism, favoritism and cronyism in organizations and professional relationships. Thus it has to be clear that no similar study has been conducted before in Albania. So it should be stressed that this study is an attempt to express research issues, rather than to argue any previous scholar's point of view.

This research has been built upon existing literature review of foreign scholars who worked on different countries and various cases, and modestly tried to adapt it to the Albanian context. What has to be pointed out is that there exist international studies attempting to find the relationship of nepotism, favoritism and cronyism with job stress and job satisfaction (Arasli & Tumer, 2008), favoritism with social identification (Jost, 2001), or nepotism and HRM (Hayajenh et al., 1994), or favoritism and work motivation (Vateva, 2009). However, there is no research so far dealing especially with the impact of nepotism, favoritism and cronyism on organizational trust and commitment. So this research aspires to modestly fill this gap and contribute to the literature.

As long as the data was collected through surveys delivered both to the public and private service sector I believe that it can be called a widely inclusive and reliable research. Hopefully the findings of this research will help policy makers and decision makers to better understand the importance that their decisions have on the behavior of employees in their organizations, let it be public or private sector. Furthermore this research will contribute to the management and leadership literature in the Albanian context and beyond by the information provided regarding the relationship of nepotism, favoritism and cronyism with organizational trust and commitment in several sectors of the service industry.

CHAPTER V : RESEARCH METHODOLOGY

In this chapter the methodology used in conducting this research is addressed. It explains the instruments and source of data and information collection, the sampling method, target subjects. The way how the questionnaire was developed is explained too together with its contents. This chapter talks also about how the samples were selected, what category of companies were involved as well as the number of delivered surveys, response rate and the procedure that will be followed in the process of analyzing the data.

5.1. Data collection

This research is more a quantitative analysis across a broad spectrum of large corporations in both the private and public sectors of the service industry in Albania. I have tried to select companies covering most sub sectors of the service industry in order for it to be as much all-inclusive as possible. Due to the intensive working conditions of the employees working in the service sector convenience nonprobability sampling was selected as the most relevant data collection method for the purpose of this study, as Babbie (2007)¹²⁷ claims that nonprobability sampling produces samples quite similar to the population of interest, furthermore it has advantages of time and cost. Convenience sampling basically implies that the researcher

selects the sample because of the convenient accessibility and proximity of the subjects. The data needed for this study is mainly retrieved from two main sources. The first source for collecting information is the literature review. The theoretical structure of this thesis was designed based on extensive research on the literature using various academic sources and search engines like Epoka University Library, Ebscohost, Academia and other available books, reports, news periodicals, academic journals, thesis etc. The key data-gathering instrument for this quantitative study was a questionnaire delivered mostly on hand and partly via Google Docs online means. This second and main source of data collection was designed and distributed to a sample of employees of public and private service sector enterprises. The target subjects or eligible individuals to serve as participants in the study covered only permanent employees from both managers and staff of the predefined companies. Before the survey delivery, company or department executives were contacted and only after they gave their consent participants were invited to fill the survey.

Appreciating the ethical requirement to inform the participants about what the survey was about I provided them with basic information about the study in hand. Throughout the research process I noticed some hesitation from the subjects of the research as they feared their job security, so I acknowledged them that confidentiality was to be maximally preserved.

5.2 Development of questionnaire

The purpose of this research was to study the effects of nepotism, favoritism and cronyism on organizational trust and commitment in different service sector companies. Therefore, organizational trust and commitment are used as dependent variables; meanwhile the independent variables are the nepotism, favoritism and cronyism items.

The survey is designed to retrieve the needed data to test the hypotheses of this study and to shed light upon the research questions defined in the beginning of the research. The survey was formulated by relying mainly on the prior organizational studies found in the literature. Nepotism, favoritism and cronyism was measured via 16 items based on the scale adopted by

the studies of Abdalla et al. (1998)¹²⁹ and Babin & Boles (1998)¹²⁸. The organizational commitment items were adopted from the scale originally developed by Mowday, Steers, and Porter (1979)¹³⁰. We adopted 6 out of the 15 items of the original survey in order to analyze the organizational commitment in our study. The organizational trust items were adopted from the Trust Inventory Survey (TIS) in the study of Daboval, Comish, and Swindle (1994)¹³¹. We adopted 6 items from the original scale in order to analyze the organizational trust in our study.

Likert-type scale was mostly used in the questionnaire with 5 options from Strongly Disagree to Strongly Agree. The questionnaire was carefully translated into Albanian as the vast majority of participants were of Albanian nationality; meanwhile for the few non-Albanian participant the original English version was used.

This questionnaire consists of three sections. The Section 1 of the questionnaire is composed of 9 questions, mainly demographic. The questions of the first section are supposed to collect background information about the participants and the organizations they work in. More specifically these questions are related to gender, age, educational background, and job position in current company, their length of time working in the organization and how they did get the job. Moreover two of the questions ask about their or their friends' previous experiences in being employed with personal connections, which will give them the chance to create a better idea of what the questionnaire is about. For 8 of the questions, the respondents will have to simply select one of the provided alternatives that best describes him or her, except one of the questions asking for their graduation field. The Section 2 of the questionnaire is composed of two parts, one regarding the organizational commitment which contains 6 Likert-type scale questions and one regarding the organizational trust which contains 6 Likert-type questions too. The questions of this section are designed to gather data about the commitment and trust levels of employees towards the company they are currently working for. The Section 3 is composed of two parts like in the study of Arasli and Tumer (2008), one regarding nepotism and favoritism which are designed together in 9 Likert-type

scale questions and the second part contains 7 Likert-type questions regarding cronyism. Moreover two final questions ask about preferential treatment cases the respondents have witnessed in their work places and their opinion about the reasons of the emergence of nepotism in the Albanian context.

5.3 Survey samples

The selection of a representative sample was an important step in conducting this research, so I tried to be careful to select companies or public institutions that together make up an all-inclusive share of the service sector in Albania. Among the companies where the surveys were sent include; banks, a mobile communication company, the biggest fixed telecommunications and internet provider company, the Albanian power corporation, a university, a private hospital, a municipality, an architecture and marketing studio, and other public administration institutions and other smaller companies.

Because of time and resource limitations in total 200 questionnaires were delivered to the above mentioned destinations. 90% of the total number questionnaires were delivered by hand and 10% of them were delivered via internet after the survey was constructed in Google docs. I managed to take back 160 from the 200 delivered surveys, thus the response rate results to be 80%. Babbie (1998) claims that a response rate equivalent to 50% of the delivery is adequate, a response rate of 60% is considered good, meanwhile if the response rate is 70% or more then it is regarded as a very good response rate. Per instance we can say that our response rate is very good.

After the questionnaires were taken back the entire data of the 160 questionnaires was entered in an Excel spreadsheet. After wards the same excel data was uploaded into SPSS for calculation and processing. The results produced by the SPSS 20.0 means were then analyzed and interpreted in accordance to the research questions and the hypotheses of this study.

5.4 Research Hypotheses

Based on the literature review above, the following hypotheses are proposed for this research;

- H1*: Perceived Nepotism and Favoritism have a negative effect on organizational trust.
- H2*: Perceived Nepotism and Favoritism have a negative effect on organizational commitment.
- H3*: Perceived Cronyism has a negative effect on organizational trust.
- H4*: Perceived Cronyism has a negative effect on organizational commitment.
- H5*: The higher the organizational trust, the higher the organizational commitment is expected to be.
- H6*: The way employees get their job has an impact on perceived Nepotism, Favoritism and Cronyism
- H7*: The age of employees has an impact on perceived Nepotism, Favoritism of employees.
- H8*: The age of employees has an impact on perceived Cronyism of employees.
- H9*: The education level of employees has an impact on perceived Nepotism, Favoritism and Cronyism

CHAPTER VI : DATA ANALALISIS & FINDINGS OF THE STUDY

In this chapter the findings based on the analysis of the surveys are presented. The hypotheses listed previously are tested using the SPSS and afterwards comments upon the confirmation or rejection of each of the hypotheses are done in the following chapter.

6.1 Findings and Analysis of the survey results

After data collection was over, the questionnaires were sorted and edited for defects or missing data. Generally the vast majority of surveys were properly filled, except minor cases that are negligible. Furthermore, all of the data collected were entered on an excel spreadsheet. Thereafter the data was uploaded into the SPSS 20.0 (Statistical Package for Social Science) program for windows.

Descriptive analysis was employed to observe average responses of the respondents. Cronbach's alpha reliability test was conducted for each of the factors of the research, namely nepotism, favoritism, cronyism, organizational commitment, and organizational trust. After that the Means, Validity Tests, Standard Deviations, Pearson Correlation Analyses, Factor, Linear Regression were conducted for the perceived nepotism, favoritism and cronyism forms, organizational commitment, organizational trust in order to test the hypotheses.

6.1.1 Demographic Findings

Among the participants of the research interestingly 51.3% of them were males and 48.7% were females. Regarding the age respectively 18.8% belonged to the age interval 21-25 years old, 34% belonged to the interval 26-30 years old, 20.8% of the respondents belonged to the interval 31-35 years old, 12.6% were in the 36-40 interval, 8.2% belonged to the 41-50 years old interval, and finally only 5.7% of the respondents claimed to be 51 years old or older than that. As it concerns the education level only 4.4% of the respondents had a High School diploma, the majority of the respondents that is 55.3% were Bachelor Graduates, about 36.5% of them had completed a Master program and only 3.8% of the surveyed people had completed a PhD program. 19.5% of the respondents belonged to the simple subordinate level, 56.6% of them claimed to Specialists in their organizations, there is a similar distribution of the remaining percentage of respondents ranging from 4.4% to 7% in the positions of Supervisor, Middle Manager, Branch Manager and Top Management. When asked about their experience in the current organization about 42.8% of them respond to have been working for this company from 1 to 3 years, 28.9% of them belong to the 4-6 years interval, about 12% claim to have been working for more than 10 years for the current organization and 10% of them have less than 1 year from their employment in the current organization.

6.1.2 Reliability Analysis

As seen from the literature it results that Cronbach's alpha is the most common tool of measuring internal consistency ("reliability"). It is usually used in cases when we want to determine a scale composed of Likert questions is reliable or not.

After the Reliability Analysis has been conducted for the *Organizational Commitment* items, it was found out that Cronbach's Alpha for these 6 items is 0.811, larger than the suggested minimum of 0.7, thus the reliability is significantly high.

Concerning the *Organizational Trust*, the reliability analysis of the 6 items of the trust scale was conducted and it resulted that Cronbach's Alpha for the 6 items is 0.853, thus the reliability is significantly high in this case too.

Regarding the *Nepotism+Favoritism* scale items the same reliability analysis procedure was followed. The Cronbach's Alpha for the *Nepotism+Favoritism* 8 items was found to be 0.778, higher than the suggested minimum, thus satisfactorily reliable

As far as it concerns the *Cronyism* scale items, the Cronbach's Alpha for the 7 items of the Cronyism scale was found to be 0.806, thus significantly reliable.

6.1.3 Means, Standard Deviation, Variance

The Mean scores with Standard Deviations and Variance of the scale questions in the survey were calculated as shown in Table 5.0. Taking into consideration that in the Likert-type scale questions shown in the table below in bold, 1 corresponded to Strongly Disagree and 5 to Strongly Agree, the following table was extracted from SPSS.

Table 6.1 Descriptive Statistics of non-scale and scale items of the survey

	N	Min.	Max.	Mean	Std. Deviation	Variance
commean	157	2.17	5.00	3.8174	.61579	.379

trustmean	158	1.33	5.00	3.5981	.68760	.473
nepofavmean	152	1.25	4.63	3.2459	.67910	.461
cronymean	154	1.00	4.71	2.7635	.73488	.540

The results show that respondents ($N = 160$) often moderately agreed with the statements of the survey scale. For example, the average response in the first part, Organizational Commitment, was 3.8174 indicating that employees in the service sector in Albania felt themselves quite committed to their organizations. The mean response to the second part, Organizational Trust, was 3.5981 showing again that the respondents had a moderate trust towards their organizations. The average response to the Nepotism – Favoritism was 3.2459, which shows that respondents agreed to a certain extent with the questions for nepotism and favoritism. The results show that the average response to Cronyism was the lowest average showing that respondents are undecided about the effect of cronyism practices in their organizations.

6.1.4 Hypotheses Testing

In order to test the hypotheses defined for the study Pearson Correlation was conducted as well as simple Linear Regression for each of the hypotheses. Pearson Correlation analysis is conducted in order to find the correlations between the factors used in the scales. The Pearson Correlation fluctuates from -1 indicating a perfect negative correlation to 1 indicating a perfect positive correlation. Simple Linear Regression is conducted too for hypotheses testing. According to Kalayci (2006) simple regression analysis is done “*with the purpose of finding the power with which (the value of) an independent variable can explain the (value of the) dependent variable*”. In regression analysis, the ANOVA test reveals the validity of the model.

If the ANOVA significance level is greater than 0.05, the model is considered to be invalid, if it is smaller, it is then considered valid; i.e., the independent variable can successfully explain the dependent variable. The results extracted from SPSS are shown in the proceeding tables below.

Table 6.2 Pearson Correlations between all factors used in the scale

		commean	trustmean	nepofavmea n	Cronyme n
commean	Pearson Correlation	1	.598**	-.295**	-.162*
	Sig. (2-tailed)		.000	.000	.047
	N	157	155	149	151
trustmean	Pearson Correlation	.598**	1	-.311**	-.245**
	Sig. (2-tailed)	.000		.000	.002
	N	155	158	151	153
nepofavmea n	Pearson Correlation	-.295**	-.311**	1	.613**
	Sig. (2-tailed)	.000	.000		.000
	N	149	151	152	151
cronyme n	Pearson Correlation	-.162*	-.245**	.613**	1
	Sig. (2-tailed)	.047	.002	.000	
	N	151	153	151	154

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

The findings indicate that there exist correlation between the Organizational Commitment, Organizational Trust, Nepotism-Favoritism and Cronyism scales used in the research. It was found that the highest correlation exists between Nepotism-Favoritism and Cronyism with a positive 0.613 correlation unit. The lowest correlation is between Organizational Commitment and Cronyism with a negative -0.162 correlation unit. A high correlation was found between Organizational Commitment and Organizational Trust too, (0.598). The Organizational Commitment has a negative correlation with Nepotism-Favoritism of -0.295. Organizational Trust has a negative correlation with Nepotism-Favoritism and Cronyism respectively -0.311 and -0.245.

Hypothesis 1: Thus through hypothesis 1 we wanted to explore the effect of nepotism and favoritism organizational trust, so H1 claims that “*Perceived Nepotism and Favoritism have a negative effect on organizational trust*”.

As seen from the Pearson Correlation table (*Table 6.2*) above the correlation between Nepotism-Favoritism and Organizational Trust is negative (-).311, which significant at 1%.

Table 6.3 ANOVA Test for Nepotism-Favoritism and Organizational Trust

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.634	1	6.634	16.001	.000 ^b
	Residual	61.775	149	.415		
	Total	68.409	150			

a. Dependent Variable: trustmean

b. Predictors: (Constant), nepofavmean

Furthermore the same result is confirmed by the simple Linear Regression analysis. From *Table 6.3* above we can see that the ANOVA significance is less than 0.05 so we can strongly support the validity of the model. After observing the *Table 6.4* below we can say that perceived nepotism-favoritism has a negative effect on organizational trust which is significant as the significance is <0.05 and *Beta*=-0.311. However the model explains only about 10% of the organizational trust variance ($R^2=0.097$) showing that there exist other much more important factors that affect organizational trust rather than nepotism and favoritism practices. All the regression model parameters are significant (sig.<0.05), the constant is 4.6 and the Nepotism-Favoritism standardized coefficient is -0.311 which basically means that 1 unit increase in Nepotism-Favoritism decreases Organizational Trust by 0.311 units.

Table 6.4 Coefficients Table for Nepotism-Favoritism and Organizational Trust

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.600	.256		17.961	.000
	nepofavmean	-.309	.077	-.311	-4.000	.000

a. Dependent Variable: trustmean

The regression analysis for hypothesis 1 reveals a moderate direct negative relationship between Nepotism-favoritism and Organizational trust. Consequently *Hypothesis 1* is confirmed.

Hypothesis 2: Pearson Correlation and Simple Linear Regression was conducted too in order to test *Hypothesis 2*. In H2 it is claimed that “*Perceived Nepotism and Favoritism has a negative effect on organizational commitment*”.

We can notice from the Pearson Correlation table (*Table 6.2*) that there exists a negative correlation of (-) 0.295 which is significant at 1%.

Table 6.5 ANOVA Test for Nepotism-Favoritism and Organizational Commitment

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.723	1	4.723	13.975	.000 ^b
	Residual	49.679	147	.338		
	Total	54.402	148			

a. Dependent Variable: commean

b. Predictors: (Constant), nepofavmean

Furthermore the same result is confirmed by the simple Linear Regression analysis. As seen from *Table 6.5* above the ANOVA significance is less than 0.05 so we can strongly support the validity of the model. Based on the *Table 6.7* below we can say that perceived nepotism-favoritism has a negative effect on organizational commitment which is significant as the significance is <0.05 and *Beta*=-0.295. The model explains only about 9% of the organizational commitment variance ($R^2=0.087$) showing that there exist other much more important factors that affect organizational commitment rather than nepotism and favoritism practices. All the regression model parameters are significant (sig.<0.05), the constant is 4.681 and the Nepotism-Favoritism standardized coefficient is -0.295 which basically means

that 1 unit increase in Nepotism-Favoritism decreases Organizational Commitment by 0.295 units.

Table 6.6 Coefficients Table for Nepotism-Favoritism and Organizational Commitment

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.681	.234		19.978	.000
	nepofavmean	-.265	.071	-.295	-3.738	.000

a. Dependent Variable: commean

The regression analysis for hypothesis 2 reveals a moderate direct negative relationship between Nepotism-favoritism and Organizational Commitment. Consequently *Hypothesis 2* is confirmed.

Hypothesis 3: The same procedure is followed for Hypothesis 3. In H3 it is claimed that “*Perceived Cronyism has a negative effect on Organizational Trust*”.

From the Pearson Correlation table (*Table 6.2*) we can notice that there exists a negative correlation between Cronyism and Organizational Trust, significant at 1%.

Table 6.7 ANOVA Test for Cronyism and Organizational Trust

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.304	1	4.304	9.655	.002 ^b
	Residual	67.312	151	.446		
	Total	71.616	152			

a. Dependent Variable: trustmean

b. Predictors: (Constant), cronymean

Furthermore the same result is confirmed by the simple Linear Regression analysis. In *Table 6.7* above it is shown that ANOVA significance is less than 0.05 so the validity of the model is supported. *Table 6.8* below reveals that perceived cronyism has a moderate negative effect on organizational trust which is significant as the significance is <0.05 and $Beta=-0.245$. However the model explains only 6% of the organizational trust variance ($R^2=0.06$) showing that there exist other much more important factors that affect organizational trust rather than cronyism practices. The regression model parameters are significant ($sig.<0.05$), the constant is 4.211 and the Cronyism standardized coefficient is -0.245 which basically means that 1 unit increase in Cronyism decreases Organizational Trust by 0.245 units.

Table 6.8 Coefficients Table for Cronyism and Organizational Trust

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.211	.210		20.028	.000
	cronymean	-.229	.074	-.245	-3.107	.002

a. Dependent Variable: trustmean

The regression analysis for hypothesis 3 reveals a moderate direct negative relationship between Cronyism and Organizational Trust. Consequently *Hypothesis 3* is confirmed.

Hypothesis 4: In H4 it is claimed that “*Perceived Cronyism has a negative effect on Organizational Commitment*”.

From the Pearson Correlation table (*Table 6.2*) we can see that there exists a moderate negative relationship between cronyism and organizational commitment, which is significant at 5%.

Table 6.9 ANOVA Test for Cronyism and Organizational Commitment

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.470	1	1.470	4.014	.047 ^b
	Residual	54.552	149	.366		
	Total	56.022	150			

a. Dependent Variable: commean

b. Predictors: (Constant), cronymean

Furthermore the same result is confirmed by the simple Linear Regression analysis. *Table 6.9* above shows that ANOVA significance is slightly less than 0.05 so the validity of the model can be considered supported. *Table 6.10* below reveals that perceived cronyism has a slight negative effect on organizational commitment which is significant as the significance is <0.05 but *Beta*=-0.135. However the model explains only 2.6% of the organizational commitment variance ($R^2=0.026$) showing that there exist other much more important factors that affect organizational trust rather than cronyism practices. The regression model parameters are significant (sig.<0.05), the constant is 4.180 and the Cronyism standardized coefficient is -0.162 which basically means that 1 unit increase in Cronyism decreases Organizational Commitment by 0.162 units.

Table 6.10 Coefficients Table for Cronyism and Organizational Commitment

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.180	.192		21.794	.000
	cronymean	-.135	.067	-.162	-2.003	.047

a. Dependent Variable: commean

The regression analysis for hypothesis 4 reveals only a slight direct negative relationship between Cronyism and Organizational Commitment. Consequently we can say that *Hypothesis 4* even though only partially it is confirmed.

Hypothesis 5: In H5 it is claimed that “The higher the organizational trust, the higher the organizational commitment is expected to be”.

When the Pearson Correlation table (*Table 6.2*) is analyzed it can be seen that there exist a strong positive correlation of 0.598, which is significant at 1%.

Table 6.11 ANOVA Test for Organizational Trust and Organizational Commitment

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	20.889	1	20.889	85.058	.000 ^b
	Residual	37.575	153	.246		
	Total	58.465	154			

a. Dependent Variable: commean

b. Predictors: (Constant), trustmean

Furthermore the same result is confirmed by the simple Linear Regression analysis. In *Table 6.11* above it is shown that ANOVA significance is less than 0.05 so the model validity can be strongly supported. *Table 6.12* below reveals that Organizational Trust has considerable direct positive effect on Organizational Commitment which is significant as the significance is <0.05 and *Beta*=-0.598. This model explains about 36% of the organizational commitment variance ($R^2=0.357$). The regression model parameters are all significant (sig.<0.05), the constant is 1.896 and the Cronyism standardized coefficient is 0.598 which basically means that 1 unit increase in Organizational Trust increases Organizational Commitment by 0.598 units.

Table 6.12 Coefficients Table for Organizational Trust and Organizational Commitment

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.896	.212		8.935	.000
	trustmean	.535	.058	.598	9.223	.000

a. Dependent Variable: commean

The regression analysis for hypothesis 5 reveals a considerable direct positive relationship between Organizational Trust and Organizational Commitment. Consequently *Hypothesis 5* is confirmed.

Hypothesis 6: Pearson Chi Square Analysis was conducted in order to test *Hypothesis 6*. In H6 it is claimed that “*The way employees get their job has an impact on the perceived Nepotism, Favoritism and Cronyism*”. Basically chi square tries to measure whether there is an association between variables or not. In order to find the measure of association we look at the significance of the Pearson Chi Square and statistically test the probability that the difference observed happened due to the association and by chance. When we observe *Table 6.13* and *Table 6.14* below it can be seen that there is no significance at all in both cases meaning that there is a great chance that the difference observed is just due to sampling or by chance.

Table 6.13 Chi-Square Tests for HowGetJob and Nepotism-Favoritism

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	37.645 ^a	48	.859
Likelihood Ratio	45.118	48	.592
Linear-by-Linear Association	1.682	1	.195
N of Valid Cases	151		

a. 68 cells (90.7%) have expected count less than 5. The minimum expected count is .18.

Table 6.14 Chi-Square Tests for HowGetJob and Cronyism

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	47.792 ^a	48	.481
Likelihood Ratio	54.522	48	.240
Linear-by-Linear Association	.120	1	.729
N of Valid Cases	153		

a. 69 cells (92.0%) have expected count less than 5. The minimum expected count is .18.

The Pearson Chi Square analysis for hypothesis 6 reveals that the way employees get their job has no impact on the perceived Nepotism, Favoritism and Cronyism. Consequently *Hypothesis 6* is rejected.

Hypothesis 7: Pearson Chi Square Analysis was conducted in order to test *Hypothesis 7* too. In H7 it is claimed that “The age of employees has an impact on the Perceived Nepotism and Favoritism of employees”.

Table 6.15 Chi-Square Tests for Age and Nepotism-Favoritism

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	129.098 ^a	120	.269
Likelihood Ratio	123.926	120	.385
Linear-by-Linear Association	1.228	1	.268
N of Valid Cases	151		

a. 149 cells (99.3%) have expected count less than 5. The minimum expected count is .05.

As we can observe from *Table 6.15* above there is no significance in the association between Age and Nepotism-Favoritism. So the Pearson Chi Square analysis for hypothesis 7 reveals that there exists no relationship between Age of employees and perceived Nepotism and Favoritism. Consequently *Hypothesis 7* is rejected.

Hypothesis 8: Pearson Chi Square Analysis was conducted in order to test *Hypothesis 8* too.

In H8 it is claimed that “*The age of employees has an impact on the Perceived Cronyism of employees*”.

Table 6.16 Chi-Square Tests for Age and Cronyism

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	149.943 ^a	120	.033
Likelihood Ratio	141.007	120	.092
Linear-by-Linear Association	2.765	1	.096
N of Valid Cases	153		

a. 149 cells (99.3%) have expected count less than 5. The minimum expected count is .05.

In *Table 6.16* above we can notice that the association between Age and Cronyism is significant (sig.<0.05). So the Pearson Chi Square analysis for hypothesis 8 reveals that there exists a relationship between Age of employees and perceived Cronyism. Consequently *Hypothesis 8* is confirmed.

Hypothesis 9: Pearson Chi Square Analysis was conducted in order to test *Hypothesis 9*. In

H9 it is claimed that “*The education level of employees has an impact on perceived Nepotism, Favoritism and Cronyism*”.

Table 6.17 Chi-Square Tests for Education and Nepotism-Favoritism

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	61.652 ^a	72	.803
Likelihood Ratio	60.719	72	.826
Linear-by-Linear Association	.151	1	.697
N of Valid Cases	151		

Table 6.18 Chi-Square Tests for Education and Cronyism

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	49.948 ^a	72	.978
Likelihood Ratio	52.048	72	.963
Linear-by-Linear Association	.210	1	.647
N of Valid Cases	153		

As seen from *Table 6.17* and *Table 6.18* above there is no significance in the association between Education level and Nepotism-Favoritism and Cronyism. So the Pearson Chi Square analysis for hypothesis 9 reveals that the education level of employees has no impact on the perceived Nepotism, Favoritism and Cronyism. Consequently *Hypothesis 9* is rejected.

In the following table (*Table 6.19*) a summary of the hypothesis together with the significance is presented.

Table 6.19 Hypothesis Summary

Hypothesis	Finding	Significance
Hypothesis 1	Confirmed	0.000
Hypothesis 2	Confirmed	0.000
Hypothesis 3	Confirmed	0.002
Hypothesis 4	Confirmed	0.047
Hypothesis 5	Confirmed	0.000
Hypothesis 6	Rejected	0.859
Hypothesis 7	Rejected	0.269
Hypothesis 8	Confirmed	0.033
Hypothesis 9	Rejected	0.803

CHAPTER VII: CONCLUSION & RECOMMENDATIONS

In this chapter the conclusions of the research are specified together with the limitations the study had. Furthermore the researcher lists some recommendations for future studies, policy makers and managers regarding the importance of the subject matter on hand.

7.1 Conclusion and Discussion

The main purpose of this research was to analyse the perceived nepotism, favoritism and cronyism and their impact on organizational trust and commitment in the service sector in Albania. The research was conducted on several service sector organizations belonging both to the public and private sphere, in which 200 questionnaires were delivered and 160 of them were taken back. There was almost an equal distribution of male and female respondents, the majority of them was University Graduates working for 1 to 3 years as simple subordinates or specialists for the current organization. The data analysis was conducted by the aid of SPSS 20.0 statistical package. At the end of the study the following results were achieved;

- Perceived nepotism-favoritism have a negative effect on organizational trust; however the model explains only about 10% of the organizational trust variance showing that there exist other much more important factors that affect organizational trust rather than nepotism and favoritism practices.
- Perceived nepotism-favoritism have a negative effect on organizational commitment; however the model explains only about 9% of the organizational commitment variance showing that there exist other much more important factors that affect organizational commitment rather than nepotism and favoritism practices.
- Perceived cronyism has a moderate negative effect on organizational trust, however by explaining only 6% of the organizational trust variance showing that there exist other

much more important factors that affect organizational trust rather than cronyism practices.

- Perceived cronyism has a slight negative effect on organizational commitment.
- Organizational Trust has considerable direct positive effect on Organizational Commitment and this model explains about 36% of the organizational commitment variance.
- It was found in this study that the way employees get their job has no impact on the perceived Nepotism, Favoritism and Cronyism.
- There exists no relationship between Age of employees and perceived Nepotism and Favoritism, but there exists a slight positive association between Age and Cronyism.
- The education level of employees has no impact on perceived Nepotism, Favoritism and Cronyism

Among the reasons respondents have considered as sources that have lead to the present day nepotism , favoritism and cronyism practices in Albania are; A weak government control, Past political history and Poverty.

When asked whether they have tried to apply for a job and lost it because they didn't have personal connections (mik), 65% of respondents answer No and 35% admit to have experienced such a situation. When asked whether they have ever noticed a situation in office where a superior acted on personal preferences toward subordinates and favored one employee over another, 48% of the respondents say they have noticed such a situation and 52% say they didn't notice. Interestingly when asked whether any of their friends got his/her job by personal connections (me mik), 80% of the respondents admit it and only 20% say No. In one sense this confirms what we claimed in the beginning of the research that nepotism,

favoritism and cronyism practices are present in Albania, but people when it comes to them personally they don't admit being involved in such phenomena.

7.2 Recommendations

The research findings imply that reducing nepotism, favoritism and cronyism might increase the organizational trust and commitment of employees toward the organization. It can also be concluded that various organizational policies should be developed in order to increase the awareness of executives towards subordinates. Furthermore the need for various trainings, seminars, workshops for managers and supervisors emerges regarding this issue.

From the government side too rules and regulations that minimize or prevent these kinds of unfair recruitment, placement and promotion practices need to be put in place in order to minimize the impacts of nepotism, favoritism and cronyism on the organizations.

7.3 Limitations of the study and Future Research

In this research the impact of perceived nepotism, favoritism and cronyism on organizational trust and commitment was studied, however this has some limitations as there are several other factors like job satisfaction, performance, intention to quit, turnover, negative word of mouth, job stress etc. that have to be included in order to gain a more generalizing result. Future research should focus on these other organizational variables and should explore the relationship between nepotism, favoritism and cronyism and these variables.

Another limitation is that the observations are limited by the selected sample of 160 respondents, which constrained us. In the future larger samples and studies carried out in more inclusive settings would be very useful for supporting this research's findings.

Furthermore the study was based only on quantitative methods of research, thus employing qualitative methods too would have provided us much more details and the consistency of the results would be high.

Respondents had some hesitations to fill the questionnaires in the organization premises as they feared their job security, so in the future arranging the questionnaire filling in premises out of the organization would eliminate the respondents' hesitation.

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APPENDICES

The questionnaire used to gather the data

Dear Participant,

Nepotism, favoritism and cronyism are unethical practices giving preferential treatment to relatives and friends in employment. These kinds of practices can be seen in most sectors of today's business life and have become a quite common behavior. This preferential treatment of employees has created a rising risk of lack of trust and decreasing organizational commitment of employees towards the organization they work in.

All data from this survey will be used for a scientific research that will be submitted in partial fulfillment of the requirements for my degree of Master of Science in Business Administration.

All individual data will be kept confidential, while aggregate data will be used for the research.

Thank you for your time and participation.

Esmir DEMAJ

Department of Business Administration

Epoka University

SECTION 1 – Demographic Data

In this part of the questionnaire there are some demographic questions to classify answers.

All information will be used for analyzing the data.

1. Gender? F M

2. Please indicate your age?

21-25 26-30 31-35

36-40 41-50 51 or older

3. What is your educational background?

High School Graduate University Bachelor Graduate Master Graduate

PhD Graduate Other

4. What is your field of university graduation?

5. What is your current job position in your company?

Subordinate Level Specialist Supervisor

Middle Manager Branch Manager

Top Management

6. For how long have you been working with the company?

Less than 1 Year 1-3 Years 4-6 Years

7-10 Years More than 10 Years

7. How did you get your job?

____ By your experience ____ By your education
____ Through personal connections (me mik)

7. Did you try to apply for a job and you lost the job because you didn't have personal connections (mik)?

____ Yes ____ No

9. Did any of your friends get his/her job by personal connections (me mik)?

____ Yes ____ No

SECTION 2 – Organizational Commitment and Organizational Trust Data

ORGANIZATIONAL COMMITMENT

In this part of the questionnaire there are some questions regarding Organizational Commitment toward the actual company you are working for to classify answers.

1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree

I am willing to put in a great deal of effort beyond that normally expected in order to help this company be successful.

I would accept almost any types of job assignment in order to keep working for this company

I find that my values and my company's values are very similar.

I am proud to tell others that I am part of this company.

I am extremely glad that I chose this company to work for over others I was considering at the time I joined.

I really care about the future of this company.

ORGANIZATIONAL TRUST

In this part of the questionnaire there are some questions regarding Organizational Trust toward the actual company you are working for to classify answers.

1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree

This company provides adequate orientation, training for new employees.

This company makes sincere attempts to meet the individual needs of its employees by adopting new policies and abandoning obsolete policies.

My supervisor trusts me with responsibilities and duties and holds me accountable for my job.

In general, I trust this company to keep its promises or commitments to me and other employees.

People in this company can express their feelings and offer suggestions about organizational policies without fear of consequences.

Employees receive positive feedback relative to the quality of their work.

SECTION 3 – Nepotism, Favoritism and Cronyism

In this section of the questionnaire there are some questions regarding Nepotism, Favoritism and Cronyism regarding the actual company you are working for and in general to classify answers.

1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree

NEPOTISM and FAVORITISM

Employees of this company always feel the need of a relative in a high-level position.

Middle-level managers at this company are uncomfortable with the presence of those employees with close personal ties to high-level executives.

Employees promoted or rewarded only because of personal ties are a negative influence to the company.

I am careful when speaking to friends or acquaintances of company executives.

A friend or acquaintance of an executive can never meet the expectation of other employees if given a position at the company.

Nepotism-dominated organizations are more concerned with taking care of their family than the business.

Family and acquaintances' disagreements become business problems in organizations allowing nepotism, favoritism and cronyism.

Company executives permitting employment of acquaintances have difficulty in employing and retaining high quality employees who are not acquaintances.

Organizations permitting employment of executives' relatives have difficulty to fire or demote them if they prove inadequate

13. CRONYISM

1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree

Politicians and political affinities are connected to being appointed, promoted, and the various decision-making activities of this company.

Political interference in the working of the company and the attitudes of employees has a negative effect on the company.

The changes in political leaders, ministers and political parties have positive or negative results on the working of this company.

This company uses gender discrimination in the recruitment and advancement process.

This company uses race discrimination in the recruitment and advancement process.

Ability, knowledge and skill are of secondary importance when the employees promote in this company.

I think it is easier that close friends of managers promote in this company.

14. Have you ever noticed a situation at your office where a superior acted on personal preferences toward subordinates and favored one employee over another?

___ Yes ___ No

15. What do you think is the reason for this Nepotism (preferential treatment) to emerge? (You can select more than one reason)

Weak State Control	Cultural Background	Corruption
Past Political History	Poverty	Lack of Strong legal basis

BIO-DATA OF THE AUTHOR

The author, Esmir Demaj, was born in Shkodra / Albania in 1988. He has pursued his Bachelor studies in Business Administration at Epoka University in Tirana, Albania and was graduated in 2011. At the same time he had the opportunity to attend a Double-Major degree in Political Sciences and International Relations in the same university. Throughout his school life the author has demonstrated outstanding achievements confirmed by the awards he has gained as Best Student in high school and lately at the end of his university studies he has been awarded as “The Best Graduate” student of the university. The author has had the chance to attend various conferences, workshops in Albania and abroad where he gained a lot of experience. Currently he is attending the Master of Science in Business Administration program at Epoka University as well as working as a Research Assistant and Lecturer at this university. The author aspires to pursue an academic career in the field of management which makes up his main area of interest.