



## Overcoming the Challenges of Nepotism to Create a System Fair and Transparent Selection in Business Entities Regional Property in North Sumatra

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**Abstract** *The practice of nepotism in the employee selection process at Regional Owned Enterprises (BUMD) in North Sumatra, which has an impact on transparency, fairness and organizational effectiveness. BUMDs have an important role in regional economic development, but nepotism practices often damage the integrity of the recruitment process. Through a qualitative approach and case studies, this research reveals that nepotism creates inequality in employee selection, reduces the quality of human resources, and reduces public trust in BUMD. This article also identifies the factors that cause nepotism and offers solutions in the form of selection transparency, anti-nepotism policies, independent supervision, and outreach to build a culture of meritocracy in BUMD. By overcoming nepotism, BUMD is expected to be able to create a fair and professional recruitment system, thus supporting the achievement of optimal performance.*

**Keywords** : Nepotism, Recruitment, Transparency, Organizational Effectiveness

### 1. INTRODUCTION

Regionally-Owned Enterprises (BUMD) play an important role in supporting the regional economy in Indonesia, including . As an entity managed by the local government, BUMD is expected to be able to provide optimal public services and encourage local economic growth. However, the practice of nepotism in the employee selection process in several BUMDs is still a serious issue. Nepotism, or favoritism given to family or relatives in job placement, threatens the integrity and effectiveness of the organization.

Regionally-Owned Enterprises (BUMD) have a vital role in driving the regional economy. As a business entity owned and managed by the regional government, BUMD is expected to provide significant contributions to improving community welfare through various sectors, such as energy, clean water, transportation, and other sectors. BUMD is also expected to be a driving force for the local economy and open up employment opportunities that have a positive impact on the unemployment rate.

One of the major problems still faced in the management of BUMD is transparency in employee recruitment. Although various regulations have regulated objective and competitive recruitment mechanisms, nepotism practices still often occur. This creates inequality in the recruitment system, where more competent candidates can be eliminated by those who are close to the authorities in BUMD.

Nepotism is the practice of prioritizing family or relatives in employee selection, which often ignores the aspect of competence. In some BUMDs, this practice of nepotism hinders the merit-based selection process, reduces the quality of human resources, and affects the effectiveness of the organization as a whole. Less competent employees may have difficulty in carrying out strategic tasks, which ultimately affects the performance of BUMD.

The practice of nepotism not only impacts the internal performance of BUMD but also public perception. People who know that there is injustice in the selection process will tend to lose trust in BUMD. This distrust has the potential to affect public support for BUMD programs, which can then hinder the success of various public service projects.

Nepotism practices in employee selection can create an unhealthy work environment within BUMD. When employees realize that positions are not obtained based on competence, work motivation and a sense of justice will be disrupted. A work environment dominated by nepotism practices tends to experience dissatisfaction among employees, as well as a lack of collaboration that impacts organizational productivity.

Nepotism also has an impact on innovation in BUMD. When the selected individuals are not the most worthy or competent, the potential for innovation in product development and public services is limited. This condition can hinder BUMD in achieving organizational targets and providing optimal services to the community.

The government has issued various regulations to reduce nepotism practices, such as Government Regulation No. 54 of 2017 and Regulation of the Minister of Home Affairs No. 37 of 2018. These regulations emphasize the importance of a transparent selection process and focus on meritocracy. However, implementation in the field is still often hampered by local culture and habits that are difficult to change.

Ramadhan et al (2021) stated the importance of competence and *soft skills* as factors that improve performance. In the context of nepotism, if employee selection is not based on competence but on personal relationships, then the selected employees may not have adequate competence or soft skills, which can ultimately reduce organizational performance.

One solution that can be adopted is to involve an independent third party in the recruitment process of BUMD employees. This third party can be a consultant institution

or an independent auditor who plays a role in assessing the eligibility of prospective employees based on competency. This step can reduce conflicts of interest and increase public trust in the selection results.

Education and socialization of the importance of transparency and accountability in recruitment need to be improved. Local governments and BUMD management can organize training programs for policy makers and employees, in order to build a work culture that prioritizes competence and meritocracy. With this step, it is hoped that there will be a paradigm shift from nepotism to a performance-based selection system.

Dosi et.al (2020) have studied the impact of nepotism in public sector recruitment on unemployment rates. The results show that nepotism can reduce unemployment rates by limiting the length of the queue for public sector jobs. Bertrand and Schoar (2020) discuss how nepotism and political competition affect the level of excess labor in the public sector. It is found that nepotism is more common when public sector wages are set above the optimal level.

Martins (2019) examined intergenerational public sector job transfer as an indication of nepotism. The results showed a strong tendency for children of public sector employees to work in the same sector, indicating nepotism practices.

Employee performance improvement according to Siahaan et al. (2016) is driven by employee placement that matches their competencies and ability-based career development. The principle of meritocracy here is seen in the emphasis on employee competency, where employees are selected, placed, and given the opportunity to develop based on employee knowledge, skills, and abilities. Placement based on "the right man in the right place" is the essence of meritocracy, which ensures that the most qualified employees are given the right opportunity to contribute maximally to the organization.

In a study by Siahaan et al. (2016) in a state-owned company, there was a tendency to prioritize seniority or recommendations from superiors in promotions, which may indicate the influence of personal relationships in promotion decisions. Such practices have the potential to lead to nepotism, where employees who have good relationships with superiors or who have worked for a long time are more likely to be promoted than those with higher performance or competence. This is contrary to the principle of meritocracy

and can cause dissatisfaction among employees who feel they are not appreciated or promoted according to their abilities.

The importance of proper selection and placement, where competence, education, and work experience should ideally be the primary basis for selecting and placing employees in the right positions. Competency-based employee selection, as explained in the article, is a process that supports meritocracy because it ensures that the most qualified individuals are selected and placed. In an environment influenced by nepotism, selection may no longer be based on competence, but more on personal relationships or seniority. This can lead to less competent or unsuitable employees being placed in strategic positions, ultimately lowering the productivity and effectiveness of the organization.

Banerjee and Duflo (2018) evaluated the effectiveness and challenges of implementing merit-based recruitment in the public sector, and how it can reduce corruption and nepotism, while Colonnell et. al. (2020) explored whether intergenerational transfer of public sector jobs is caused by nepotism or human capital transmission. It was found that despite the presence of human capital elements, nepotism plays a significant role. The importance of recruitment that focuses on employee competencies and skills in improving organizational performance. In a meritocratic system, employee selection is based on relevant abilities and skills, not on personal relationships or nepotism. Proper placement of employees based on objective evaluations can increase productivity, while the third article shows that competencies and soft skills play a significant role in job satisfaction and performance . This supports meritocracy because it ensures that the most qualified individuals are hired and placed according to their abilities (Ramadhan et. al., 2021).

Meritocracy emphasizes rewards and promotions based on actual ability and performance. In the context of this article, the emphasis on individual characteristics and training supports a meritocratic approach, where employees with appropriate abilities are placed in the right positions to achieve optimal performance (Samosir, 2024).

Gagliarducci and Nannicini (2018) analyze how public sector wage and employment policies affect educational decisions and unemployment rates, with implications for recruitment practices, while La Porta et. al. (2017) discuss how state regulations affect job search and wage negotiation, with implications for recruitment

practices in the public and informal sectors, and Rodrik's (2019) study examines the impact of fiscal consolidation on public sector wages and its implications for recruitment and labor efficiency.

Gopinath and Itskhoki (2020) discuss exchange rate adjustments in the Eurozone and their impact on fiscal policy and the public sector labor market, while Alesina and Ardagna (2019) evaluate fiscal consolidation strategies through wage cuts or job reductions in the public sector, and their impact on the labor market.

By overcoming the challenges of nepotism, BUMD can build a fair, transparent, and efficient selection system. This effort will contribute to improving the quality of human resources, strengthening public trust, and improving the overall performance of BUMD. This step is also in line with the goal of the local government in creating a professional BUMD that is able to adapt to increasingly competitive economic demands.

## **2. LITERATURE REVIEW**

### **Meritocracy Theory**

Meritocracy is a system in which individuals are selected and placed based on their abilities and achievements, rather than personal relationships. The principle of meritocracy is very relevant in employee selection at BUMD to ensure that selected employees have the required competencies. This theory is supported by the Regulation of the Minister of Home Affairs No. 37 of 2018, which emphasizes the importance of merit in the selection of BUMD employees.

Good Corporate Governance (GCG) Theory. Good Corporate Governance (GCG) is a framework that ensures that company management is carried out with transparency, accountability, responsibility, and fairness. In BUMD, GCG is important to build public trust, especially in the employee selection process. PP No. 54 of 2017 also encourages the implementation of GCG in BUMD operations, which reduces the influence of nepotism and increases professionalism.

Competency-Based Selection System Theory. Competency-based selection systems assess prospective employees based on their abilities and skills that match the job requirements. This creates a fairer system and encourages the selection of the right candidates (Dessler, 2015)

**Public Accountability Theory.** Public accountability requires government institutions, including BUMD, to be responsible to the public. In the context of employee selection, public accountability means that the selection process must be accountable in a transparent and open manner. This theory is also in line with the principles in Government Regulation No. 54 of 2017, which requires BUMD to operate with openness to the public.

**Positive Work Environment Theory.** This theory states that a positive work environment can improve performance and productivity. The practice of nepotism damages the work environment because it creates injustice and dissatisfaction among employees. Therefore, BUMD needs to create a fair and competency-based work environment to achieve maximum work potential.

**Organizational Justice Theory.** Organizational justice theory highlights the importance of fairness in organizations, including in the selection process. When employees feel that the selection process is fair, they are more likely to be highly committed and motivated to work. Fairness in employee selection reduces conflict and increases harmony in the workplace, which ultimately impacts performance.

**Organizational Socialization Theory.** Organizational socialization is the process by which prospective employees understand the culture and values of the company. In the context of BUMD, socialization can help reduce nepotism practices by providing employees with an understanding of the importance of competence and accountability. This theory is relevant to building an organizational culture that supports meritocracy and transparency.

**Organizational Effectiveness Theory.** Organizational effectiveness can be achieved when BUMD has competent employees who work in accordance with the company's vision and mission. The practice of nepotism reduces organizational effectiveness because incompetent employees can hinder the achievement of organizational goals. Competency-based selection helps BUMD achieve higher effectiveness.

**Innovation Theory in Organizations.** Innovation theory shows that organizations that have a culture of innovation are better able to adapt to change. In BUMD, the practice of nepotism limits innovation because the candidates chosen are not always the best. Organizations that are free from nepotism have greater potential in creating innovation through competent and enthusiastic human resources.

Social Control Theory in Organizations. Social control in organizations functions to ensure that every action and decision in the organization is in accordance with established norms and standards. The implementation of social control, such as the existence of anti-nepotism regulations in BUMD, is important to ensure that employee selection is carried out fairly and impartially. This control is regulated in Government Regulations and Ministerial Regulations that apply in BUMD

### **Relationship between Work Productivity and Selection Process**

A fair selection process aims to select candidates based on their skills, knowledge, and potential, which can then be developed through training. If selection is carried out with meritocracy in mind, employee training and motivation can have a positive impact on productivity. However, if selection is based on nepotism (selection based on family relationships or proximity), this can ignore the skills and competency factors that are important for optimal productivity. Dalimunthe et al. (2024) in their research showed that proper training and strong motivation have a positive impact on employee productivity. Training helps improve employee skills and knowledge, so that they can work more efficiently and effectively. Meanwhile, high motivation encourages employees to be more enthusiastic and dedicated in completing tasks.

Employees who are selected through nepotism may feel less need to perform or undergo serious training because their positions are not entirely dependent on performance. This can reduce the positive impact of training and motivation, and reduce the morale of other employees who feel the selection process is unfair. If employees feel that there is unfairness in the selection process due to nepotism, this can reduce motivation and make training programs less effective, because employees feel less appreciated or believe that opportunities are not being given equally.

In Agustina et al.'s research (2019) that the right recruitment focuses on finding candidates with the right qualifications for a particular position. If the selection is done fairly, as explained in the article, it can improve employee performance because the right people are placed in the right positions based on their competencies.

### **3. RESEARCH METHODS**

#### **Research Approach**

This study uses a qualitative approach with the aim of understanding and exploring the phenomenon of nepotism in the employee selection process at Regional-Owned Enterprises (BUMD) in North Sumatra. This approach was chosen because it allows researchers to explore the perceptions, experiences, and views of informants regarding the practice of nepotism and its impact on organizational performance.

#### **Types of research**

The type of research used is a case study, which focuses on several BUMDs in North Sumatra. The case study was chosen to obtain an in-depth picture of the recruitment mechanism, as well as to identify the factors that cause nepotism to occur in the selection system at the BUMD.

#### **Data collection technique**

Data collection in this study was carried out through in-depth interviews, direct observation, and documentation.

1. In-depth Interviews. Interviews were conducted in a semi-structured manner with informants, including managerial officials at BUMD, employees who experienced the impact of nepotism, and representatives from the community. Questions focused on selection procedures, involvement of authorities in recruitment, and perceptions of the transparency of the process (Dessler, 2015).
2. Direct Observation. Observation is conducted by directly observing the selection process and work dynamics in the BUMD studied. This observation aims to obtain empirical data on the work environment and interactions between employees that may be influenced by nepotism practices.
3. Documentation. Related documents, such as annual reports, audit reports, and BUMD internal policies regarding recruitment, were also analyzed to better understand the structures and regulations that may support or hinder transparency in employee selection.

#### **Data analysis**

The collected data were analyzed qualitatively using thematic analysis methods. The stages of analysis include data organization, coding, and thematic interpretation to



identify key patterns and themes related to nepotism practices in BUMD recruitment. This analysis aims to reveal how nepotism practices occur and their impact on organizational effectiveness, as well as the factors that influence the occurrence of nepotism. This data analysis is expected to provide comprehensive and in-depth data on nepotism in employee selection at BUMD, as well as provide input for policy makers to create a fairer and more transparent recruitment process.

### **Recommendations for Efforts to Create Fair and Transparent Selection**

To overcome the problem of nepotism, here are some steps that can be taken:

1. Implement a Transparent Selection Process. Using an open, competency-based selection system, such as standardized written tests and interviews, can help ensure that all candidates are treated fairly. This process should be widely publicized for public scrutiny.
2. Implementation of Anti-Nepotism Policy. Local governments need to issue clear and firm regulations regarding the prohibition of nepotism practices. The application of sanctions for violators is also very important to provide a deterrent effect.
3. Third Party Supervision. Involving an independent third party in the recruitment process can help objectively assess the eligibility of prospective employees. This can also increase public trust in BUMD.
4. Socialization and Education. Educating stakeholders, including BUMD employees and the community, about the importance of transparency and accountability in recruitment can create a positive organizational culture.

### **4. CLOSING**

Nepotism in employee selection in BUMD is a serious challenge and requires attention from all parties. By implementing a fair and transparent selection system, BUMD can obtain competent and professional employees, and build public trust. This will contribute to better BUMD performance and ultimately drive regional economic progress.

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