Playing Favorites -- Romantic or Otherwise -- Is a Messy Game in the Workplace

Published: August 08, 2007 in Knowledge@Wharton

The fact that favoritism in the workplace exists is not news, but in high-profile cases, it often *makes* the news. Two years ago, for example, Harry C. Stonecipher was forced to resign the presidency of aerospace giant Boeing over a relationship with a Boeing executive. This spring, World Bank president Paul Wolfowitz had to resign after being accused of arranging a big raise and promotion for a woman with whom he was having a relationship.

But as anyone who works in an office knows, favoritism isn't confined to love and sex: Family relationships and office friendships can upset co-workers' sense of propriety and fairness, too, and end up undermining an organization's performance. The dilemmas are acute in family-controlled businesses, when a founder choosing a successor must decide whether to favor a son or daughter or search outside for what may be better qualified managers.

"We know that unfairness leads to all sorts of problems," says Wharton management professor Jennifer S. Mueller, whose own research has shown that organizations seen by employees as unfair in pay, promotion or other practices have higher rates of stealing, bad-mouthing and other damaging behaviors.

How can an organization keep these relationships under control? There's no single solution. Family ties, romances and friendships have long been issues for organizations all over the world, and different cultures look at them differently, says Thomas W. Dunfee, professor of legal studies and business ethics at Wharton. These issues fall within an area of "moral free space," rather than one of universal moral principle, he adds, leaving each society to deem what is considered appropriate.

In many areas of the world, especially Asia, personal connections are viewed positively, in part as a way to assure trust in an organization, and it is accepted -- even expected -- that a father will pass a business on to his son, according to Wharton management professor Raphael Amit. But business performance can suffer when decision makers lose objectivity and don't make merit the top criterion, says Amit, who studied Fortune 500 company results for 1994 through 2000. "In the United States, among family-controlled businesses, when a founder passes on the role of CEO to his son or daughter as opposed to hiring a professional CEO, on average the value of that firm goes down."

The Impact of Envy

Most relationship issues, however, are not as easily quantified. How do you measure the negative impact of office jealousies, perceived unfairness and favoritism?

In a paper titled, "Does Perceived Unfairness Exacerbate or Mitigate Interpersonal Counterproductive Work Behaviors Related to Envy?" Mueller and Yochi Chohen-Charash from City University of New York attempt to answer that question by presenting the results of two experiments designed to elicit envy and measure its impact on behavior. The researchers say that their findings support the "social exchange" model of fairness -- that is, the notion that fairness is based on the "reciprocal exchange of resources ...

such that in fair situations, employees ... contribute resources to the organization" and the organization "reciprocates by rewarding employees."

According to the model, a situation in which "employees receive fewer resources from the organization than they believe their performance warrants" will be perceived as unfair, and this leads to counterproductive work behavior. When envy is added to the mix -- say, because of a supervisor's preferential treatment of one employee over another -- the result is magnified, the researchers note. What would have been a negative interaction between the neglected employee and the organization or his supervisor now becomes interpersonal, involving not only the employee and the organization, but another coworker as well.

Perceived unfairness and envy -- the two primary ingredients in favoritism -- are catalysts for a potential chain of behaviors that can negatively impact the company, the researchers note. "Harming behaviors" aimed towards envied employees -- such as gossip or rumor-spreading -- become a means of indirectly hurting the organization, "because eventually harming the envied other may affect the performance of the organization and the morale and performance of the work group."

Moreover, when the researchers leveled the playing field during their experiment by removing the indicators of unfairness, they found that envy still had a negative influence. "Unfairness makes matters worse, but fairness doesn't eliminate the negative influences of envy," Mueller says. "That is why, as a manager, even if workers perceive that you are fair in your treatment and policy dealings with them, they may still engage in harming behaviors if they feel envious that someone else received a relatively good outcome."

Nepotism and Dating

Although the effects of real or perceived favoritism can be insidious no matter what the relationship is, nepotism and supervisor-subordinate dating are particularly controversial. If Wolfowitz's recent experience at the World Bank is any indicator, the issue isn't going to die out any time soon.

Conflicts of interest have long been frowned upon, and still are, says Dunfee. Shareholders, employees and other stakeholders increasingly expect organizations to base decisions on merit rather than relationships, he says. "Times are changing, and there are greater stakeholder expectations in terms of integrity and impartiality."

Today, a U.S. president probably would not appoint his brother attorney general, as President Kennedy did in the 1960s, or ask his spouse to lead a policy initiative, as President Clinton did with health care in the 1990s. And while it has long been accepted practice for colleges and universities to give admissions preference to the children of alumni and faculty, this is now being questioned in terms of fairness and diversity, Dunfee suggests.

According to Peter Cappelli, director of Wharton's Center for Human Resources, "The standard policies on these things have changed a lot over time. In a previous generation, post-World War II, there was a sense in big companies that nepotism was a bad thing because it made it more difficult to be professional about management." But as competition for good workers got tougher in recent years, rigid nepotism rules barring an organization from hiring an employee's relative or spouse started to fade away, although it still is common to ban a supervisory relationship between family members, spouses and lovers.

In the post-war years, organizations also wrestled with romantic relationships as more women entered the workforce, Cappelli says. "Legislation on equal rights made most companies much more concerned about dating in the workplace and any conduct that could be interpreted as harassment. 'No-dating' rules between subordinates and superiors became very common. Some companies had no-dating rules even for peers, although they rarely seemed to be enforced."

But today, efforts to bar all workplace romances are not as widespread as they once were, Cappelli says.

One reason is that rigid no-dating policies sometimes invited discrimination charges because, in practice, they tended to penalize women more often than men, according to sociology professor Janet Lever of California State University at Los Angeles. Men, she adds, were more likely to be supervisors, and if a male superior and female subordinate became involved, it typically was the woman who was transferred

or let go.

No-dating policies simply don't fit a modern workforce that's nearly equally divided between men and woman, Lever suggests. These days, people wait longer to marry and, in many cases, work longer hours than their parents did. Work is where people meet others with similar interests, and employers need to recognize that stamping out personal relationships is unrealistic. "People are really beginning to accept the fact that it's not a big deal to date someone" from work, Lever says, although she agrees that the supervisor-subordinate relationship is still generally taboo.

"More and more companies are coming up with policies around relationships at work," says Janis Von Culin, a former human resources executive with a Fortune 500 company who now runs a Blue Bell, Pa., HR consulting firm, Von Culin Associates. "People get involved at work all the time; there's no way we can outlaw it."

Von Culin has helped a number of clients design relationship policies and address individual situations. In one of her cases, an employee became involved with the head of the company. To avoid a sexual harassment dispute, each person was sent a letter describing the procedure for reporting any problem to the human resources staff. This avoided the Draconian response of forbidding the relationship or terminating one of the parties. At the same time it protected the firm by creating a clear record that the parties had been notified of potential problems and that the firm had an objective procedure for dealing with them. "I hear that more and more of these kinds of things are being drafted up-front, mostly in small, privately held companies."

When people at different levels are involved, the key is to be sure the senior person does not make important decisions concerning the other, such as pay and promotions, she adds. It may be necessary to have such issues handled by a person or committee outside the chain of command that normally oversees the subordinate. "The main thing you've got to be able to do is have an approach that is fair -- that is handled by multiple people. People will always say there is favoritism, but at least the organization can say, 'No, here's how we do the process.'"

Old Boys and Girls

Dunfee argues that the best policies present general principles concerning conflict of interest rather than absolute fiats about who can get involved with whom. And he says there should be a committee designated to handle issues rather than a sole individual, since employees are less likely to see all members of a committee as biased.

Mueller shares that view, adding that "an important component is to make sure the policy is transparent and communicated." An organization should make it clear that it cares about the problems relationships can cause, but not act as if every dalliance is a crisis. "The fairness principle is most important. People [need to] see that whatever happens is fair."

According to Cal State's Lever, organizations should go beyond policies on romance and family ties to cover any "close personal relationship." Even though sexual involvement "is perceived as posing the greatest threat to objectivity, close after-hours friendships are important to note as well," Lever wrote in an April 2006 article in *Across the Board* magazine. "Research supports our suspicion that 'old boy' buddies -- and now 'old girls,' too -- get more job perks than 'lovers.'"

Lever suggests a policy that emphasizes an employee's duty to disclose -- to a designated supervisor or person in human resources -- any personal relationships that could involve conflicts of interest. "When do you disclose? When you know that other people around you are going to be threatened."

But Mueller is not convinced that friendships should receive the same level of scrutiny as romantic ties. "I think that creating policies about disclosing any conflict of interest experienced in friendship relationships seems like a lot of effort that might be redirected towards helping employees foster more of these friendships with more people. For one thing, people like to do business with their friends. Cliques and coalitions will always form. Research shows that cliques do allow certain groups to attain more power, and that these groups may then have more leverage to receive more resources. But cliques, when managed correctly, can also achieve great things if they are brought in line with organizational goals, since they can perform better, transfer complex information to one another with higher resolution, and so

forth."

Lever adds that any policy should assure confidentiality, restricting the information to those with a need to know. Without this, many people will not disclose extra-marital affairs or same-sex relationships. Once the disclosure is made, the company should decide whether a conflict warrants action, such as transferring an employee. Even if employees fail to report relationships, having the policy helps protect the organization legally if the relationship becomes a problem.

No policy will work very well if employees see it as a set of edicts aimed at punishment, she warns. Employees must be made to believe the company is not opposed to relationships, just to conflicts of interest. "The key element is having a climate of trust."