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If you had read our last edition (Volume 5, Issue 1) then you are just as surprised as I am to see my name still associated with the editorship of JBAM. As much as I had enjoyed working as editor, I thought it was time for new blood and new ideas – and it is! I am very pleased to announce that John Humphreys of Eastern New Mexico University is the new editor of JBAM and is being joined by our new Associated Editor and Webmaster, Len White of Active Java, LLC. Len has already done a great job in reorganizing the IBAM/JBAM website and in posting this issue. I thank them both for their dedication to IBAM and their devotion to JBAM.

Len has been a very busy Webmaster and Associate Editor. First, he has combined the IBAM and JBAM sites to create a more integrated and concise look (as well as to save IBAM money!). Secondly, thanks to Len’s efforts, JBAM is now being published using Adobe Reader – a much more professional look from our former format, allowing for far easier downloading of articles.

This edition of JBAM is highly eclectic and therefore quite representative of the interests of the IBAM membership. The first article, by Anat Freund and Abraham Carmeli, is entitled “The Relationship Between Work Commitment and Organizational Citizenship Behavior among Lawyers in the Private Sector” and examined organizational citizen behavior (OCB) of lawyers employed in the private sector in Israel. The findings showed that the commitment model developed by the authors contributed to explaining the variance in OCB. Specifically, affective organizational commitment and OCB were significantly related, as was career commitment and OCB. From a practical point of view, they recommended that managers in private firms strengthen affective organizational commitment among their workers in order to enhance their OCB.

Richard S. Allen, Michael Biderman, and Charles S. White in the second article entitled “Emotional Intelligence and Its Relation to Equity Sensitivity and Responses to Under-Reward Situations” classified a group of 390 undergraduates according to their Emotional Intelligence and Equity Sensitivity. When presented with hypothetical scenarios of under-reward, students were asked to report their anticipated reactions to resolving the inequity. Findings from their study support the notion that more emotionally mature and equity sensitive students are less likely to respond with overt actions to inequitable situations. Furthermore, their research supported their proposition that Equity Sensitivity and Emotional Intelligence are independent constructs. Their findings also have important implications for hiring and promotion practices. For example, managers may wish to identify their less emotionally mature employees or job candidates because they are more inclined to react to inequities by taking actions that are unfavorable to the organization.
An earlier version of the paper “Discrimination Against Muslim Employees” by Lynn Hoffman, Keiko Krahnke, and Shahrokh Dalpour was awarded a Divisional Best Paper Award at the 2003 IBAM conference in Tampa. As immigrants from all over the world move to the United States, employers are faced with a variety of religious and spiritual beliefs. Because of the increase in the number of Muslims and the current political attitude towards them in the United States, there have been increases in religious discrimination cases against Muslims filed with the Equal Employment Opportunity Commission and in other religious litigation. This updated version of the paper examines the rise in harassment of Muslims, some sources of religious conflict in the workplace, and the increase in complaints of discrimination brought by Muslim employees. The paper concludes with some practical suggestions for employers including: a proactive approach which provides training for employees and supervisors in terms of accommodating the needs of Muslims; and secondly, to establish written policies about religion in the workplace. Employers need to consider the issues facing them, and develop policies acceptable to their employees before contentious issues surface.

Our last two articles are case studies. Jennifer Moss Reimers and Gerald Parsons use the movie “Remember the Titans” (2000) to focus on five contrasting leadership principles as a means for students to apply these approaches. In a context of forced integration in the early 1970's, a football team is charged with the task of creating a major paradigm shift. The key leadership variables discussed in this case study include: sources of power (French & Raven, 1959), servant leadership (Greenleaf, 1977, 1996), transformational leadership (Bass, 1985), followership (Kelley, 1988) and change (Bartunek & Moch, 1987).

The second case study and our last article, “On the Side of Angels”, by Donald H. Scheper and Naomi A. Gardberg, provides an overview of the demise of the Enron Corporation, one of the precipitating events for a new era of regulation. In the 1990’s, Enron was the subject of many articles and studies touting its quick rise as a firm successfully transitioning from a hard assets firm to a financial services powerhouse, a paradigm of the “new economy”. The demise of Enron was even swifter, accomplished in a matter of months in the latter part of 2001. A brief overview of Enron’s rise is given in the case, as well as a description of leadership, culture, financial operations, and stakeholder analysis. A Supplement is provided with the case for those who wish to pursue at greater depth the financial issues surrounding Enron’s collapse.

I again wish to thank the reviewers, the associate editors (Daniel J. Rowley and Len White), and the authors for their cooperative and talented efforts. Their hard work and dedication has made JBAM a pleasure to work on as well as a respected e-journal.
The Relationship Between Work Commitment and Organizational Citizenship Behavior among Lawyers in the Private Sector

Anat Freund
University of Haifa
Abraham Carmeli
Bar-Ilan University

ABSTRACT

Organizational Citizenship Behavior (OCB) is a behavior that extends beyond the functions and behaviors formally required of workers in an organization. Such behavior is indispensable, because of its contribution to better organizational performance.

The model presented in this study examines OCB of lawyers employed in the private sector in Israel, while relying on a continuous series of studies related to workers' commitment attitudes. The findings show that the commitment model contributes to explained variance in OCB. Specifically, affective organizational commitment and OCB are significantly related, as are career commitment and OCB. The empirical and theoretical implications of these findings are discussed.

Introduction

Highly committed members are likely to be willing to contribute much effort on behalf of the organization. Strong attachment of the individual to an organization enables better adaptation capabilities and higher responsiveness to changes in customer demands (Sanchez, Kraus, White, & Williams, 1999; Paul & Ebadi, 1989) To adapt to environment constraints, executives try to promote employees' behavior that demonstrates identification with and commitment to the organization, behaviors that will ensure better and more dedicated efforts from their workers (Spector, 1986). In many organizations, the employees constitute a major factor that influences the efficiency and professional functioning of the organization (Becker & Martin, 1995). Hence, to function successfully, each organization is interested in promoting employees who are committed to it and to the organization and its goals (Ashforth & Lee, 1990).

Nowadays, when the rate of turnover among organizations is high and still increasing (Carson, Carson, Roe, Birkenmeier, & Phillips, 1999), it is important that managers succeed in creating an environment of commitment in order to reduce the possibility of turnover in their particular company (Gunz, 2002). The commitment on the managers’ part need not take the form solely of financial rewards but can include forms of "caring", e.g., subsidies in healthcare, informal get-togethers with employees, and similar indications that the company has the workers' welfare at heart (Reichman & Sterling, 2002).
The research literature suggests various strategies for checking employees’ quality, mostly based on assessing the efficiency of the employees and their contribution to the organization’s performance usually gauged by standard measures such as profitability and economic effectiveness (Ferris, Judge, Rowland & Fitzgibbons, 1994). At the worker’s level, this means high output and greater commitment to his/her job and to the organization. Other strategies examine informal aspects of employees’ relationship with their work and organization, by measuring attitudes and behaviors (Brass & Burkhardt, 1993). Still other theories have suggested including dimensions that extend beyond the formal role of the worker (Katz, 1964). These include his/her contributing to the organization and to other employees, for example, helping a new employee to feel part of the organization, supporting organizational tasks, and preserving the organization’s resources (Brief & Motowidlo, 1986). Later this informal strategy was defined and termed Organizational Citizenship Behavior (OCB). This phrase serves to describe and examine employees’ informal behaviors in an organization, namely those that are not directly identified with formal job functions (Smith, Organ & Near, 1983). Currently, the reward plans of many public corporations do not include an estimation of OCB behaviors; in many private organizations there is more support for OCB (Christina, 2001).

Several definitions have been proposed to explain the meaning of the term OCB. In general, as stated, OCB reflects employees’ behaviors that are beyond their formal job definition and are not required by the regular reward system (Organ, 1988). Such behavior supports the organization’s goals. OCB was also found to apply to an employee’s attitude toward other members of the organization (Becker, 1992). It can involve caring for others in the organization, even at the worker’s own expense, for instance, relinquishing certain job benefits to prevent redundancies (Puffer, 1987). Expressed as employees’ readiness to contribute beyond the formal demands of the job, OCB helps the work teams and the social systems operating within the organization (Bateman & Organ, 1983). It creates a positive atmosphere, encouraging others to continue to devote personal resources to the organization as an informal contribution. All this is perceived as an organizational behavior that has a positive impact on the organization (Organ, 1990). As is known, this literature dates back to Becker’s (1960) concept of accepting authority; this requires that the overall policy be for the good of the organization. In addition, the worker is expected to show greater flexibility and cooperation within the organization (Goulet & Frank, 2002; O’Reilly & Chatman, 1986). In addition to the above, Organizational Citizenship Behavior leads to greater freedom of operation among the employees themselves, as they assist each other. Such behaviors must also influence the degree of the organization’s flexibility within its environment, a capacity that is necessary if the organization is to fulfill its tasks in a dynamic environment. An example of higher OCB, indicating a worker’s greater flexibility and willingness to work beyond the formal limits of his/her job (Christina, 2001) is his/her readiness to volunteer for team activity even though this is not specified in his/her formal work contract.

In sum, to perform optimally and to meet its own goals the organization has to apply assessment methods that cover such informal behaviors (Sosik, 2001). Due to the great
importance of OCB among an organization’s employees, studies in the last few years have focused on evaluating the dimensions of the factors that create desirable (i.e., required by the company) OCB and the implications of OCB for the organization’s functioning (Hodson, 2002; O’Reilly & Chatman, 1986). According to these studies, organizational commitment is not necessarily viewed as an actual behavior but as employees’ psychological perception of their place within the organization (Meyer, Irving, & Allen, 1998). Such a perception is reflected in the employee’s degree of loyalty to the organization. If the company succeeds in creating feelings of loyalty and commitment in most of the workers, there is a greater probability that it will meet its goals, and enhance its overall performance. Consequently, researchers have suggested that a high degree of organizational loyalty may fit the definitions of OCB. According to this assumption, a worker who is highly committed to the organization and who believes in its organization’s values and goals demonstrates a high level of OCB (Mowday, Porter & Steers, 1982). A strong link between OCB and a high degree of organizational loyalty therefore can therefore be demonstrated (Hodson, 2002).

Despite the great importance of OCB in the organization, general models integrating work attitudes, their development, and their influence on the existence of OCB are lacking (Williams & Anderson, 1991). As a rule studies on OCB deal with the identification of discrete and specific variables related to it. To date few studies have measured the degree of OCB as part of a comprehensive model of job attitudes (Christina, 2001). To the best of our knowledge, very few studies have examined OCB within the private sector, and even fewer among lawyers; we think, therefore, that this research will add a meaningful aspect to the field of OCB (McLean & Andrew, 2000; Tepper & Taylor, 2003).

Finally, an integrative examination of the factors influencing OCB may contribute to the development of systematic methods for both assessing and motivating employees’ contribution to the organization. Next the paper will discuss the importance of multiple commitments to the work and to the organization, and the relationship between the commitment to OCB (Bolino, Turnley, & Bloodgood, 2002).

This paper uses a pre-existing integrative model, and examines its variables and their influence on OCB (Randall & Cote, 1991). This model is based on five universal forms of work commitment, constituting the basis of Morrow’s important work which first appeared in 1983. Since then, many studies have shown that these five attitudes strongly influence a large part of work outcomes (McLean & Andrew, 2000). Based on this existing commitment model, this study maps the commitments leading to the creation of high OCB in employees, and explains the relationship between the existing model and OCB (Organ & Paine, 1999). In conclusion, we propose a revised model of factors influencing OCB. This model characterizes the cultural context of the private sector of lawyers in Israel (Hodson, 2002; (Organ, 1990).

Various approaches to understanding OCB suggest that this variable is multi-dimensional (Abrams, Ando & Hinkle, 1998). In general, OCB has been described as consisting of two major directions. One is a behavior directed to the members of the
organization, for example, supporting and assisting another team member, or helping a new worker (Organ & Paine, 1999). This direction has been referred to as “OCB Altruism.” The second type of behavior is directed toward the organization as a whole, i.e., treating it as an extension of one’s own possessions. Examples of this would include a very high work ethic beyond the formal expectations, very few absences from work (Williams & Anderson, 1991). This direction of responsible citizenship behavior toward the organization as a whole has been termed “OCB Compliance” (Organ, 1990).

These two behavioral directions could help employees gain added recognition, since it is easily identified by organization administrators; however, as mentioned, many administrators currently have no authority to control, supervise, or reward such behaviors (Cohen & Vigoda, 1997). On the other hand, more recent research has indicated that although OCB is not a formal requirement of the job, it is very influential on work attitudes and therefore it is an element which is receiving more and more consideration (Coyle-Shapiro, 2002). This study chose to consider both OCB components. That is, the dependent variable in the current study is composed of two parts: OCB directed to other employees in the organization – OCB Altruism, and OCB directed to the organization in general -- OCB Compliance. As mentioned earlier, the Randall and Cote model is based on Morrow’s, as we shall now see.

**Five universal forms of work commitment: Factors that influence OCB**

In her book, Morrow (1993) shaped five major commitments that, in her view, influence each other. She maintains that at the end of this influence path are the job results. The five meaningful commitments are: Protestant work ethic, Career commitment, Job involvement, Continuance, and Affective commitment (Morrow, 1983; Morrow & McElroy, 1986).

These five commitments can be divided into two major groups: The first group, Personal Commitments, examines commitments that influence employees’ job attitudes without relating to the particulars of the organization, and includes Protestant work ethic, (Mirels & Garret, 1971), Career commitment (Greenhaus, 1971), and Job involvement (Blau, 1985). The second group, that of Organizational Commitments, includes commitments that are influenced directly by the organization to which the worker belongs, and includes Continuance commitment and Affective commitment (Allen & Meyer, 1993).

**Protestant work ethic** is viewed in the literature as influenced by the individual’s personality structure and by the cultural environment (Morrow, 1983). A high Protestant work ethic emphasizes the value of work in and of itself and de-emphasizes other variables such as the particulars of the organization, time frames, and rewards (Blood, 1969; Furnham, 1990; Weber, 1958). An individual with a high Protestant work ethic believes that work is of highest value and that all other considerations derive from it (Greenberg, 1977, 1987; Mudrack, 1999).
Job involvement is the worker's commitment to his/her present job. It is not unlike the Protestant work ethic and can also be perceived as a major factor in work life. Job involvement, however, is influenced not only by personality structure but also by the worker's job history. Demographic data such as gender, seniority, education, and age were found to influence high job involvement (Morrow, 1993). This commitment is considered a basic and well-established characteristic in the worker and does not necessarily relate to other job-related concerns such as organizational satisfaction (Kanungo, 1982; Lodhal & Kejner, 1965).

Career commitment refers to one's investment in having and advancing a career, is influenced by demographic variables as well as job satisfaction (Greenhaus, 1971). Several studies show that career commitment is greatly influenced by external factors such as job variables and the employing organization. This variable thus appears to be associated with both the worker's personality traits and features of the organization and can fluctuate between the two sources of influence (Aryee, Chay, & Chew, 1994; Ellemers, Gilder, & Heuvel, 1998).

In terms of job performance, the most important commitment identified to date was termed Organizational commitment (Allen & Meyer, 1990). Research has indicated that this is not a stable element in the worker's life, and because it can change relatively quickly it is now being studied more widely (Randall, Fedor, & Longenecker, 1990). The concept of organizational commitment has been developed in three directions: beneficial organizational commitment (Dessler, 1999); continuance organizational commitment, based on rewards given by the organization to the worker; and affective organizational commitment, which concerns the worker's degree of affiliation with the organization's goals and values (Morrow, 1993; Mowday et al., 1982; Tansky, Gallagher, & Wetzel, 1997). Morrow (1993) argued that only two of these three organizational commitments, affective and continuance, can be empirically processed and investigated because they seem to be universal, applying to a wide variety of professions. These two, therefore, were integrated into the models that relate commitment to work results (Iverson & Buttging, 1999).

Continuance organizational commitment rests on the Side-Bet theory of Becker (1960), namely employees always make cost-benefit considerations regarding their relation to the organization. Employees who feel that they are properly or even favorably rewarded for their investments in the organization will want to continue to invest (Allen & Meyer, 1996). But employees who feel that they invest more than they receive from the organization will invest less in the organization in the long run, in order to balance the investments with the rewards, until they opt to leave the organization (Somers, 1993).
Affective organizational commitment is influenced by the organization’s goals and values (Randall et al., 1990) and consists of factors related to occupational history in the organization and to socio-demographic factors (Kirchmeyer, 1993; Mowday et al., 1982). Occupational history in the organization includes variables such as a challenging job, good relations with the people in charge, receiving feedback and evaluation of job performance, and the degree of creative freedom afforded by the job (Colarelli & Dean, 1987; Darden, Hampton, & Howel, 1989). Socio-demographic factors include variables such as age, gender, seniority, and education. The older the employee, the fewer the occupational alternatives before him/her; therefore, affective organizational commitment will be less. Women exhibit it less than men, but in both men and women a longer period of service has a positive influence on the degree of affective organizational commitment. In contrast, a high level of education reduces it (Lambert, 1999).

Older employees have a greater sense to commitment to their employer because of the lower likelihood of alternative employment and having worked for the same employer for many years.

To summarize, an employee who shows high affective organizational commitment will choose to stay and contribute to the organization by virtue of his/her belief in the organization’s values. A worker with high continuance organizational commitment will remain and contribute to the organization due to a feeling of specific profitability, which adequately corresponds to a certain occupational period (Somers & Birnbaum, 2000).

The Research Model

Morrow’s model was first introduced in 1983, but was investigated by Randall and Cote only in 1991. The model proposed by the latter two authors deals with the same five commitments: Protestant Work Ethic, Affective and Continuance Organizational Commitments, Career Commitment, and Job Involvement. Both models recognize these as the most basic elements in work commitment. They also agree that the element least likely to change in the worker is the Protestant Work Ethic, hence it is placed first in both models (Furnham, 1990).

However, after their research in which they agree with Morrow’s findings, Randall and Cote’s study presents a model structured differently from hers. According to their study, the model changes direction: Protestant work ethic influences job involvement, which in turn influences the three variables of affective, continuance, and career commitments. Given that the Protestant work ethic is a relatively stable variable for the worker, whereas the three commitments it influences are more changeable, it was conceivable, according to Randall and Cote, that these variables were mediated by the variable of job involvement. It was, in fact, reasonable to suggest that a property as basic and rooted in the worker as the Protestant work ethic would lead employees to invest in the job and demonstrate high job involvement (Lodhal & Kejner, 1965). Cohen (1999; 2000) conducted an empirical analysis comparing the models of Morrow and of Randall and Cote, and found a different structure of these five universal forms that influence work results. In the current study, therefore, we chose to draw on the structure of the commitment model suggested by Randall and Cote (1991). Figure 1 presents the
research model. It hypothesizes that job involvement mediates the relationship between Protestant Work Ethic and three forms of work commitment: continuance, affective and career commitment, which, in turn, affect organizational citizenship behavior (Philip, Podsakoff, MacKenzie, & Daniel, 2000).

FIGURE 1
THE RESEARCH MODEL

Protestant Work Ethic → Job Involvement → Career Commitment → Continuance Commitment → Affective Commitment → OCB
Method

The study population consisted of 1100 lawyers working in private firms in Israel. The studied population was randomly chosen from the Israeli Lawyers’ Index. Israeli Law has its origins in British Law, which is acknowledged as a guiding force among other countries, and is therefore comprehensible to lawyers all over the world. The material in this research is therefore applicable to lawyers in Israel and may be extended to other countries (Camarotto, 2000).

Questionnaires were sent to the sampled population by mail, and the return address was that of the research team at Haifa University. A total of 195 questionnaires were returned, which is approximately 17.8% of the questionnaires sent. Such a low response rate was probably due to the following causes. First, the Israeli Lawyers’ Index had not been updated at the time the questionnaires were sent so only about 90% of the addresses found were accurate. Second, such a study population is generally less cooperative than that of other professions. I would suggest that this is because they are working more for themselves than for the good of the public. In addition, only 183 questionnaires of 195 were used due to missing values. The sample profile shows that 54.6% of the respondents were women. Average age of the responders was 34.4 years. Average time in the current organization was 5.9 years, while average time in the profession was 7.4 years. Of the responders, 71.7% were employees and 28.3% were partners or owners of the firm; 73.4% were married, and average monthly income was NIS 17,646 (S.D 19.515). The average firm, according to the responders, had 16 lawyers (S.D. 16.4).

Measuring the variables

Protestant work ethic has been described in the literature as belief in hard work that is not motivated by the desire for a suitable reward, satisfaction, or other benefits (Morrow, 1993). This variable is measured on a 19-item scale (\(\alpha = 0.73\)) developed by Mirels and Garrett (1971); a sample item is: “Our society will have fewer problems if people have less spare time”. Job involvement is characterized in the literature as a worker’s belief that his/her current job is the most important and most meaningful factor in his/her life; therefore, it is very important for the worker to invest most of his/her resources in it (Kanungo, 1982). The tool suggested for measuring the job involvement variable is Kanungo’s (1982) 10-item scale (\(\alpha=0.83\)). A sample item is: "Most of my goals are associated with my job."

Organizational commitment: One element of this construct, namely continuance commitment, has been defined as “the extent to which employees feel committed to their organizations by virtue of the costs that they feel are associated with leaving” (Meyer, Irving, & Allen, 1998). The other element, affective commitment, is “positive feelings of identification with, attachment to, and involvement in, the work organization” (Meyer & Allen, 1984, p. 375). Employees with strong continuance commitment remain because they need to, and those with strong affective commitment remain because they want to (Allen & Meyer, 1990; 1996). The measures of organizational commitment used
for continuance commitment (eight items) ($\alpha = 0.81$) and for affective commitment (eight items) ($\alpha = 0.86$) were collected, assessed, and developed by Allen and Meyer (1990). A sample item of continuance commitment is: “It will be very hard for me to leave the organization now, even if I want to.” A sample item of affective commitment is “I will be very happy to spend the rest of my career in this organization.”

Career commitment has been defined as a worker’s interest in furthering a professional career regardless of any particular organization or job (Blau, 1985). In the current study Blau’s (1985) eight-item measure is used for this variable. The items are measured on a five-point scale from 1=greatly disagree to 5=greatly agree. ($\alpha = 0.86$). A sample item is “I definitely want to pursue and develop a career in the field of law.”

Organizational Citizenship Behavior is defined as a worker’s contribution to the organization beyond the formal commitment involved in the job (Smith et al., 1983). The scale used to examine this variable in the current study is that of Smith et al. (1983). It includes the two components of OCB and fourteen items. Each item is measured on a five-point from 1=greatly disagree to 5=greatly agree. ($\alpha = 0.75$). One sample item is: “I am punctual.”

Data analyses

To test the research model as presented in Figure 1, path analysis was performed using LISREL VIII (Joreskog and Sorbom, 1993). To assess the fit of the research model in Figure 1, we used several goodness-of-fit indices, suggested in the Structural Equation Modeling (SEM) (see: Bentler and Bonnet, 1980; Joreskog and Sorbom, 1993; Kline, 1998) such as: Chi-Square statistic divided by the degree of freedom ($\chi^2$/df), Relative Fit Index (RFI), Normed Fit Index (NFI), Comparative Fit Index (CFI), and Root Mean Square Error of Approximation (RMSEA). In addition, we assessed the Expected Cross-Validation Index (ECVI), 95 Percent Confidence Interval for ECVI, and ECVI for Saturated Model.

Results

In general, the model was found to be stable and demonstrate significant relationships. Additionally, according to the model, three commitments directly influence OCB: Affective and Continuance commitments, which belong to the organizational sub-type, and Career commitment, which is considered a personal type of commitment. Of these three, the more significant influences on OCB were found to be exerted by Affective and Career commitments. These findings support the central proposition of the current study, which states that a high level of organizational commitments influences high OCB of employees.

Table 1 presents the results obtained from the scales as composed for this study. Means and standard deviations ranged from .493 to 1.273. The reliability of all the scales was fairly good, ranging from .62 to .86. Table 1 also demonstrates that most of
the variables were significantly related, thereby initially validating the research model, if not the causality or the direction of influence.

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>S.D.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Career commitment</td>
<td>3.13</td>
<td>.873</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Job involvement</td>
<td>3.85</td>
<td>1.22</td>
<td>.43*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Affective organizational commitment</td>
<td>4.75</td>
<td>1.24</td>
<td>.41**</td>
<td>.45**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Continuance organizational commitment</td>
<td>5.04</td>
<td>1.27</td>
<td>.27**</td>
<td></td>
<td>.05</td>
<td>.04</td>
<td></td>
<td>(.68)</td>
</tr>
<tr>
<td>5. Protestant Work Ethic</td>
<td>3.53</td>
<td>.71</td>
<td>.19*</td>
<td>.34**</td>
<td>.20**</td>
<td></td>
<td>.05</td>
<td>(.62)</td>
</tr>
<tr>
<td>6. OCB</td>
<td>3.82</td>
<td>.49</td>
<td>.30**</td>
<td>.16*</td>
<td>.28**</td>
<td>.13</td>
<td>.13</td>
<td>(.80)</td>
</tr>
</tbody>
</table>

= * significant at $p < .05$
= ** significant at $p < .01$

Protestant work ethic was found to be related to Career commitment ($r = .194$, $p < .05$), and Affective commitment ($r = .200$, $p < .001$). Job involvement proved significantly related to Affective commitment ($r = .407$, $p < .001$) and also related to Career commitment ($r = .505$, $p < .001$). No relation was found between Job involvement and Continuance commitment. Career commitment was found to be related to Affective commitment ($r = .415$, $p < .001$) as well as to Continuance commitment ($r = .276$, $p < .001$).

As for the relationship between commitments and OCB, findings showed that both Job involvement ($r = .168$, $p < .05$) and Career commitment ($r = .308$, $p < .001$) were related to OCB; a significant relation was found between Affective organizational commitment and OCB ($r = .287$, $p < .001$). These findings partly support the research model. They are similar to others regarding the connection between work commitments and OCB.
Table 2 shows the result of path comparison within the model. Only one relation here was found to be insignificant: that between Job involvement and Continuance commitment. Hence, the present study suggests another path structure, one that does not connect Job involvement with Continuance organizational commitment, but adds a relation between Career commitment and Continuance organizational commitment (Figure 2).
As suggested in the literature on the structural equations model (SEM) (see: Kline, 1998), the following goodness-of-fit indices were performed: the Chi Square test (2; low and non-significant value recommended); the ratio of the model chi-square to degrees of freedom (2/df; recommended value < 3); the Relative Fit Index, the Comparative Fit Index, and the Normed Fit Index (RFI, NFI, and CFI, respectively; recommended value > .90); and root mean square error of approximation (RMSEA; recommended value ≥ .05; ≥ .08 acceptable). Our findings indicated that the research model had a very good fit with the data: χ²=2.561, p=.862; χ²/df=0.426. RFI=.959; NFI=.984; CFI=1.0; RMSEA=0.0; ECVI model=0.261; ECVI for saturated model=0.246; and ECVI for independence model=.982.
Discussion and conclusions

What kind of employees’ behavior is desirable for an organization? How is such behavior expressed, and can it be influenced and directed? If it can, what are the factors that might influence this desired behavior? Is such desired behavior applicable only to certain job functions or can it be expected to extend beyond the formal job definition? What can be learned from the current findings about citizenship behavior of employees in an organization, and what can we learn from the factors influencing a worker’s positive behavior? The current study helps address these questions, by mapping the factors that are meaningful to and directly influence such behavior.

The literature on organizational citizenship behavior of employees is vast and varied. It mostly tries to examine the essence of this behavior. To date the research literature has examined the reasons for the development of voluntary behavior in organizations, in an attempt to find the factors that might disrupt and inhibit the development of this behavior (VanYperen, Agnes, & Willering, 1999).

Generally, it would be interesting to find out whether the sort of OCB behavior described above is limited to lawyers; whether there are similarities in their attitudes and those of other self-employed professionals, such as architects and accountants; and, if there is any connection between their behavior and that of other employees, such as blue-collar workers (Fortney, 2000). Presumably, the more the elements that professions have in common, for example, higher education, work ethics, a long period of professional apprenticeship, the more similar will be the behavior of those working in such professions; this leads one to believe that generalizations, based on the conclusions, can be justified (Gunz, 2002).

In terms of theory, the current study continues to establish the approach common in organizational studies, according to which multiple commitments to an organization influence a variety of behaviors desired for the organization. However, in its practical implications, our study diverges from the mainstream in several ways. To the best of our knowledge, this is one of the few studies that examine OCB in the private sector in general, and in the lawyers’ sector in particular, and perhaps the only study to examine such behaviors among professionals in the field of law (Reichman & Sterling, 2002). This study is also unique in that it offers a comprehensive view of the interrelations among numerous factors and identifies their effects on OCB. In fact, the relations found in the current study were statistically significant and stable throughout the research model. Significant relationships were found to exist among all five commitments examined, except for Protestant work ethic and OCB, Job involvement and Continuous organizational commitment, and Continuous organizational commitment and OCB.

Non-obligatory contributions to the organization such as OCB seem to reflect organizational commitments grounded in values and goals, and the desire to promote these, rather than in concepts of personal benefit. Both the lack of a significant relationship between Continuous organizational commitment and OCB, and the prominent and significant relation found between Affective organizational commitment
and OCB indicate that non-obligatory contributions are not the result of an expectation for a reward, financial or otherwise. Rather, according to the current study, they are anchored in and based on solid and positive attitudes to the organization as a whole. The lack of correlation between the Protestant work ethic and OCB can most likely be explained by the fact that other mediating factors, such as Job involvement, intervene. Finally, the insignificant relationship between Job involvement and Continuous organizational commitment further substantiates the idea that OCB, which stems from job involvement, is not a reflection of what the worker personally stands to gain but of his/her ethical involvement in the job (Gunz, 2002). This is, employees exhibit citizenship behaviors when they are involved in a job that is valued. OCB is less likely to be displayed because of either high sacrifice or low alternatives, the two dimensions of continuance organizational commitment.

The aim of this study was to examine the relations between employees’ positive attitudes toward work, that is, their organization-oriented commitments, and citizenship behavior in the organization. The findings support the assumption that a worker’s positive attitude to the organization and belief in the values and goals that the organization represents are directly related to his/her desired citizenship behavior. The second variable found to be highly correlated with OCB was Career commitment. As noted, Affective commitment belongs to the organizational sub-group of commitments, while Career commitment is considered a personally grounded commitment that functions irrespective of the individual’s particular organizational affiliation; the combination of both personal and organizational commitments seems to promote OCB. The limitations of these findings will be discussed at the end of the paper.

Earlier we mentioned the two directions of Organizational Citizenship Behavior: OCB Altruism and OCB Compliance. Interestingly, our model proved unstable when the dimensions of only one of these behavioral types were applied. Both types of OCB must be considered if we wish to understand the factors that influence this behavior. This duality, as well as that of the personal and organizational commitments that inform OCB, are particularly interesting in the context of the private sector. Perhaps we ought not be surprised that even in the private sector, where career and personal motives are allegedly stronger than their correlates in the public sector, behaviors that extend beyond the formal duties of the job are necessarily altruistic in part. As such, they are motivated by a combination of personal and organizational concerns.

The outcome of OCB for the organization includes more efficient work, better job performance, and a desire to stay and invest human resources in the organization (Tansky et al., 1997). This study, therefore, supports the approach that suggests that organizational-type commitments have meaningful influences on employees in organizations. In light of these findings, organizations that wish to encourage employee OCB can address specific employee concerns, such as those encompassed in the organizational commitments. For example, from a managerial perspective issues of Career commitment might include ensuring that the organization’s promotion policy is stated publicly, streamlined, and updated to reflect the latest professional developments, while Affective commitment issues might include employee participation.
in various organizational committees and teams. Such implications may be particularly meaningful in small, private sector organizations, where employees’ OCB contribution typically goes a long way. To substantiate these implications, additional models should be developed.

Our study focused on law firms with a varying number of employees. We found that these employees demonstrated organizational commitment and positive Organizational Citizenship Behavior unrelated to the organization’s structure or size. That is, the phenomena discussed here are valid for organizations of various sizes.

From a practical point of view, it is recommended that managers in private firms strengthen affective organizational commitment among their workers in order to enhance their OCB. As mentioned in this study and many others, it is very important for the firm that its workers show a high level of OCB because there are undefined areas in which organization needs employees who are willing, for instance, to be engaged in helping behaviors. Organizations which exhibit high citizenship behaviors are likely to perform better (see Podsakoff & MacKenzie, 1997).

Certain limitations are evident in the current study, so certain reservations exist regarding its implications. First, the study examined how general work attitudes, mediated by organizational commitments, influence Organizational Citizenship Behavior (Sobel 1993). However, this is only one possible direction of influence. While this direction has been partly substantiated in other studies too, the influence may work in other directions as well: we may find that Organizational Citizenship Behavior is affected by additional factors and, in turn, influences some of the worker’s commitments to the organization. Additionally, it is important to examine whether the current study’s findings, which show a path of reciprocal influences in a clear direction, are also applicable in the context of other organizations and sectors.

To further this field, future research can look into other work outcomes such as job performance, withdrawal intentions, or job satisfaction, in law firms and in the private sector generally.

References


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Emotional Intelligence and Its Relation to Equity Sensitivity and Responses to Under-Reward Situations

Richard S. Allen
Michael Biderman
Charles S. White

ABSTRACT

A group of 390 undergraduates were classified according to their Emotional Intelligence and Equity Sensitivity. When presented with hypothetical scenarios of under-reward, subjects were asked to report their anticipated reactions to resolve the inequity. Findings support the notion that more emotionally mature and equity sensitive individuals are less likely to respond with overt actions to inequitable situations. Furthermore, data supported the proposition that Equity Sensitivity and Emotional Intelligence are independent constructs. A joint model (as opposed to a mediation model) explained the relationship between the two constructs. Findings support the discriminant validity of Equity Sensitivity and Emotional Intelligence.

Introduction and Literature Review

The study of employee responses to the inevitable inequities that arise in organizational settings has a long history in the management literature. One of the most influential lines of research stems from Equity Theory, proposed by Adams (1963, 1965). The basic tenet of equity theory is that people compare themselves with a referent doing similar work. The theory proposes that people calculate a mental ratio of the outcomes (i.e., rewards) they receive to the inputs (e.g., effort they expend) and compare that ratio to the outcomes/input ratio of persons around them. When the ratios are not equal, the person experiences a sense of inequity; that is, an emotion of discontent that is assumed to lead to action on the part of the person experiencing the inequity.

The empirical evidence supporting Equity Theory is strong (Greenberg, 1982, 1987, 1990; Mowday, 1991), especially with regard to how workers respond to under-reward situations. At the heart of the theory is a sense of unfairness that leads to feelings of discontent. People can respond to these feelings of inequity in many different ways. For example, people may choose a behavioral response to help reduce their feelings of inequity. They may respond by reducing their inputs or increasing their outcomes. People may use a cognitive response to reduce feelings of inequity such as selecting another person to use as their referent other. Finally a person may choose to exit the situation by deciding to transfer or quit the organization.

Interest in equity theory has experienced a resurgence over the past decade (Ambrose and Kulik, 1999; Bing, 2001; Chan et al., 1997; George, 1994; Glass and Wood, 1996; Goodwin, 1990; Harder, 1991; Harder, 1992; Huseman and Hatfield, 1990; Lapidus and
Equity Sensitives prefer to be in a state of equity with regards to the outcomes they receive for the amount of inputs they expend when compared to someone doing similar work. If an Equity Sensitive’s ratio of outcomes to inputs is out of balance with their referent other (either over-reward or under-reward), the person will be motivated to do things to get their ratio back into balance. This personality type is consistent with the original propositions of the theory (Adams, 1963, 1965).

Emotional Intelligence (EIQ): Emotional Intelligence (EIQ) (Salovey & Mayer, 1990; Goleman, 1995, 1998). Broadly speaking, emotional intelligence is a measure of one’s ability to be in touch with his or her own emotions and with the emotions of others. Cooper (1997) defines the construct as “… the ability to sense, understand and effectively apply the power and acumen of emotions as a source of human energy, information, connection, and influence.”
It has been proposed that there are multiple components of emotional intelligence, although there are differences between researchers concerning the precise nature of those components. For example, Mayer and Salovey (1997) argued the construct is comprised of four components: emotional perception, emotional assimilation, emotional understanding, and emotional management. Emotional perception is the ability to be self-aware of emotions and to be able to express emotions accurately to others. The issue of honest versus dishonest discernment of emotion is also captured by this component of the EIQ. Emotional assimilation is the capability of one to discern different emotions such as anger, fear, or frustration and to determine which of these influence thinking and decision-making. Emotional understanding is the ability to understand complex emotions that may shift. For example, one may begin with an emotion of fear, which evolves into an emotion of anger. The individual’s state of feeling that is currently influencing behavior and decision-making comprises this component. Finally, emotional management refers to the ability to engage an emotion or, if necessary, to disengage an emotion. If an individual feels the need to stop being angry in order to enhance opportunity on the job, then emotional management comes into play.

On the other hand, in what is probably the most widely read book on Emotional Intelligence, Goleman (1995) argued in his work Emotional Intelligence: Why it Can Matter More than IQ that Emotional Intelligence is comprised of five components. Self-awareness is the ability to recognize and understand personal moods and emotions, which drives a person’s affect on others. Motivation, although positive or negative, is a need or desire that causes a person to take action. Self-regulation is the ability to control and direct moods by thinking before acting. Social Awareness is reading other’s feelings without any prior knowledge of their condition. Adeptness, as it relates to intuition, is the ability to effectively listen to yourself and others.

The precise dimensionality of the Emotional Intelligence construct is still debated (Thingujam-Nutankumar, 2002), although there appears to be a general consensus that it is multi-dimensional and a distinct construct (Graves, 2000). As is typical in the early research of most psychological constructs there appears to be some conceptual overlap in the existing theories regarding EIQ. These same-type debates have also arisen in the history of research regarding the traditional concept of intelligence. Just as intellectual intelligence is comprised of several dimensions (verbal and quantitative), it is never-the-less reported as one value (i.e. a person has an average IQ of 100) rather than reported as values of each subscale such as is done with SAT’s or ACT’s. Considering the long history of debate over the dimensionality of the traditional intelligence concept, we believe the construct of emotional intelligence will be no less debated. For example, there appears to be some conceptual overlap in Goleman’s dimension of self-awareness and Salovey and Mayer’s dimension of emotional perception. Both deal with the subject’s ability to understand ones’ self. Likewise Goleman’s dimension of self-regulation and Salovey and Mayer’s emotional management seem to be very similar in that they pertain to ones’ ability to control their emotional impulses.
The Relationship between Equity Sensitivity (ESI) and Emotional Intelligence (EIQ)

Equity sensitivity theory addresses the specific situation represented by perceived inequity of output/input ratios. Previous research (King and Miles, 1994) found that Equity Sensitivity is unique from other variables and constructs including age, gender, educational level, social desirability, self-esteem, locus of control, Machiavellianism, pro-Protestant and non-Protestant work ethic, input-outcome orientation, exchange ideology, altruism, organizational commitment, job satisfaction, supervisor satisfaction, propensity to turnover and perceptions of pay justice. The concept of emotional intelligence concerns affective reactions in a variety of organizational situations. Since responses to inequity most certainly include an affective component, it is possible that such responses may also be related to emotional intelligence as well as equity sensitivity. Although none of the components of emotional intelligence appear to involve the specific reactions to inequity, it may be that individual differences in such reactions are related to one or a combination of the many components of emotional intelligence. If that were the case, it is possible that the understanding of reactions to inequity may profit from the study of the relationship of such reactions to emotional intelligence.

We argue that Emotional Intelligence helps explain the manner in which one manages emotions of inequity. Mayer et al. (1999) defines emotional intelligence as:

> Emotional intelligence refers to an ability to recognize the meanings of emotions and their relationships and to reason and problem-solve on the basis of them. Emotional intelligence is involved in the capacity to perceive emotions, assimilate emotion-related feelings, understand the information of those emotions, and manage them (p. 267) (Italics added).

The key concept here is contained in the last sentence of the definition; that is, to manage emotions. Daus & Ashkanasy argue (p. 70) that this definition refers to a construct (emotional intelligence) having the ability to “solve emotional problems”. Therefore, those who are more emotionally intelligent should by definition be better able to handle situations of stress and dissonance which may be caused by inequity.

We argue that persons faced with an inequitable situation are placed under emotional stress. The inequitable situation arouses feelings of unfairness which can lead to anger or similar attitudes of affect. Such emotions lead, in turn, to retributive behaviors to create a sense of justice and help resolve internal dissonance.

According to Mayer’s definition, an emotionally mature person is better able to manage these feelings; that is, to react to these feelings in less harmful ways. This type of emotional management is exactly what one would expect to see in the behavior of a “benevolent” using the language of equity sensitivity theory. In like manner, an emotionally immature person should be less able to “manage” his or her emotions and would therefore be expected to react in unconstructive ways if faced with an unjust or inequitable situation. Those with higher levels of emotional intelligence are reportedly
better at self-regulation (Goleman, 1995) or emotional management (Salovey and Mayer, 1990). By being better in control of one’s own emotions, the person who is more emotionally mature should be better able to handle life’s inequities and injustices. It logically follows then, that emotionally intelligent people should be better able psychologically to deal with inequitable situations and to refrain from socially unacceptable reactions to inequity. When facing an inequitable situation, a more emotionally intelligent person should be more likely to behave in a more benevolent manner with regards to their equity sensitivity. The more emotionally mature person should be less likely to take overt actions in order to reduce their feelings of inequity. For example, we would assume that they would be less likely to slack off on the job, demand a raise, be uncooperative with their co-workers or quit their job in frustration when facing an inequitable situation.

The research presented here was designed to initiate research on both equity sensitivity and emotional intelligence in situations involving responses to inequity. We presented participants with two under-reward scenarios and had participants indicate how they would respond to a set of action items for each of the scenarios. We formed three scales from the responses to the items and assessed the interrelationships of these scales and an equity sensitivity measure and an emotional intelligence measure.

**The Dependent Variable – Intentions to Act on Inequity**

Based on original Equity Theory (Adams, 1963, 1965), a state of under-reward inequity exists when subjects’ perceived outcome/input ratio is less than the ratio of a referent to which they compare themselves. There are a number of possible responses that subjects can have to attempt to rectify such an inequitable situation and bring their ratio into a state of balance with their referent (Adams, 1965; Carrell and Dittrich, 1978; Miner, 1980; Mowday, 1991). The subjects may attempt to reduce their inputs. For example, they may decide to reduce their effort and not work as hard. Alternately the subjects could attempt to increase their outcomes. They may ask their supervisor for a raise. The subjects might attempt to increase the inputs of their referent. For instance, subjects may try to make the other person work harder by not cooperating with them when they need help. Subjects could attempt to reduce the outcomes of their referent. They might tell the supervisor something about the referent that could result in getting the other person’s pay reduced. Subjects may attempt to mentally justify why they are being under-rewarded. For example, subjects may begin to question their own effort or qualifications. Conversely, subjects might attempt to mentally justify why the referent is being over-rewarded. Alternatively, subjects could actually change their referent and begin comparing themselves with someone else. Another option is for some subjects to transfer to another part of the organization. Finally, some subjects may decide to resign from the organization.

Our subjects were asked on a questionnaire to report which of these actions they were likely to do in an inequitable situation. Their responses to these questions constituted their “intended action” which formed the basis for the dependent measures in the study. It must be noted that this research design did not directly measure the dependent
variable (actual actions on the part of the subject), but instead relied on measuring an intermediary variable (intended actions).

**Under-reward Scenarios**

Prior equity theory research, Austin et al. (1980), King et al. (1993), and Patrick and Jackson (1991) established the convention of using hypothetical scenarios to put subjects into inequitable situations. Following this convention, two types of inequitable scenarios were used in this research. The first under-reward scenario put the respondents in a hypothetical under-reward situation in which they were student workers assigned to code questionnaires for a professor. The student was doing the same amount of work (coding of questionnaires per hour) as their referent (another student worker), but discovered they were being paid less per hour.

A second type of under-reward scenario was also included. In this scenario student workers were being paid the same hourly rate as their referent, but they were coding more questionnaires per hour. In other words, they were being under-rewarded by working harder than their referent but receiving the same pay.

**Responses to the Under-reward Situations**

After reading each scenario, the respondents were asked to complete nine Likert-type items regarding how they would most likely respond to each type of under-reward situation. These scales covered all nine of the previously discussed possible responses that people may use in an attempt to rebalance their equity ratios based on previous equity theory and research.

The following are a few sample questions from this portion of the survey:

Based on the scenario that you just read, circle the number that most closely represents how likely you would be to respond in the following ways to this situation:

<table>
<thead>
<tr>
<th></th>
<th>NO WAY</th>
<th>MAYBE</th>
<th>YES, FOR SURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>Reduce your effort. For example, code fewer questionnaires per hour in the future.</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Try to increase your pay. For example, ask for a raise.</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>
Reduction of dimensionality of the items

The distributions of responses to most of the 18 items were skewed, both positively and negatively. For this reason each of the items was dichotomized at or near its median and correlations between the dichotomized items were computed. The means and correlations of the dichotomized items are presented in Table 1.

### Table 1. Means, Standard Deviations and Correlations between dichotomized items

<table>
<thead>
<tr>
<th></th>
<th>M</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>13</th>
<th>14</th>
<th>15</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Reduce Effort</td>
<td>.467</td>
<td>.500</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Make other work harder</td>
<td>.546</td>
<td>.498</td>
<td>.950</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
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</tr>
<tr>
<td>3</td>
<td>Reduce other's pay</td>
<td>.405</td>
<td>.492</td>
<td>.223</td>
<td>333</td>
<td>1</td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>4</td>
<td>Reduce effort</td>
<td>.351</td>
<td>.480</td>
<td>.453</td>
<td>261</td>
<td>224</td>
<td>1</td>
<td></td>
<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>5</td>
<td>Make other work harder</td>
<td>.628</td>
<td>.484</td>
<td>.188</td>
<td>535</td>
<td>246</td>
<td>310</td>
<td>1</td>
<td></td>
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<td></td>
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<tr>
<td>6</td>
<td>Reduce other's pay</td>
<td>.428</td>
<td>.495</td>
<td>.167</td>
<td>262</td>
<td>341</td>
<td>253</td>
<td>.451</td>
<td>1</td>
<td></td>
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<tr>
<td>7</td>
<td>Justify own low pay</td>
<td>.428</td>
<td>.495</td>
<td>.093</td>
<td>087</td>
<td>149</td>
<td>104</td>
<td>154</td>
<td>.081</td>
<td>218</td>
<td>249</td>
<td>1</td>
<td></td>
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</tr>
<tr>
<td>8</td>
<td>Justify other's high pay</td>
<td>.454</td>
<td>.498</td>
<td>.120</td>
<td>-131</td>
<td>024</td>
<td>-121</td>
<td>1</td>
<td></td>
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<tr>
<td>9</td>
<td>Compare to someone else</td>
<td>.595</td>
<td>.492</td>
<td>.003</td>
<td>087</td>
<td>149</td>
<td>104</td>
<td>154</td>
<td>.081</td>
<td>218</td>
<td>249</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>10</td>
<td>Justify own low pay</td>
<td>.362</td>
<td>.481</td>
<td>.094</td>
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<td>-118</td>
<td>.084</td>
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<td>395</td>
<td>311</td>
<td>110</td>
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<td></td>
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</tr>
<tr>
<td>11</td>
<td>Justify other's high pay</td>
<td>.428</td>
<td>.495</td>
<td>.114</td>
<td>-013</td>
<td>004</td>
<td>-029</td>
<td>033</td>
<td>-121</td>
<td>434</td>
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<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Compare to someone else</td>
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<td>.500</td>
<td>.001</td>
<td>056</td>
<td>123</td>
<td>.075</td>
<td>110</td>
<td>.062</td>
<td>217</td>
<td>202</td>
<td>.579</td>
<td>158</td>
<td>249</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Transfer to other part of organization</td>
<td>.444</td>
<td>.497</td>
<td>199</td>
<td>.088</td>
<td>104</td>
<td>132</td>
<td>132</td>
<td>114</td>
<td>-001</td>
<td>-047</td>
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<td>.026</td>
<td>.010</td>
<td>.003</td>
<td>1</td>
<td></td>
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<tr>
<td>14</td>
<td>Look for job outside university</td>
<td>.649</td>
<td>.480</td>
<td>193</td>
<td>.095</td>
<td>027</td>
<td>.069</td>
<td>023</td>
<td>.072</td>
<td>-090</td>
<td>-084</td>
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<td>-069</td>
<td>-010</td>
<td>441</td>
<td>1</td>
</tr>
<tr>
<td>15</td>
<td>Transfer to other part of organization</td>
<td>.380</td>
<td>.486</td>
<td>211</td>
<td>.065</td>
<td>065</td>
<td>210</td>
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<td>.075</td>
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<td>Look for new job outside university</td>
<td>.492</td>
<td>.500</td>
<td>138</td>
<td>.043</td>
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<td>.028</td>
<td>-033</td>
<td>.088</td>
<td>298</td>
<td>553</td>
</tr>
</tbody>
</table>

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**a** N=390. Decimal points in r’s omitted to save space.

**b** \( r \geq .100: p < .05; r \geq .131: p < .01; r \geq .167: p < .001. \)
We originally planned to use the results of the inequity scenarios to form a uni-dimensional summative scale for the dependent variable. However, inspection of the correlation matrix suggested that there were distinct groups of items, rather than a single dimension. We observed fairly high correlation between items within each group and small correlations between items from different groups. The clear grouping of items evident in the correlation matrix, coupled with the fact that the means and standard deviations of the items were nearly equal suggested that the dimensionality of the eighteen items could be reduced through factor analysis. Therefore, maximum likelihood factor analysis of the 18 items with varimax rotation of loadings was conducted. Inspection of the scree plot of eigenvalues suggested a three-factor solution. Two items, both dealing with pay formed a fourth factor; although the communality of each item was quite small and each had very small loadings on that factor. For those reasons, the two items and the factor defined by them were not included in subsequent analyses. The varimax-rotated loadings of the items on the three factors are presented in Table 2.

Table 2. Varimax rotated factor loadings of dichotomized items on three factors.

<table>
<thead>
<tr>
<th>Item</th>
<th>Personal Action</th>
<th>Positive Spin</th>
<th>Exit Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  Reduce Effort</td>
<td>.40</td>
<td>-.11</td>
<td>.19</td>
</tr>
<tr>
<td>2  Make other work harder</td>
<td>.68</td>
<td>.05</td>
<td>-.04</td>
</tr>
<tr>
<td>3  Reduce other’s pay</td>
<td>.47</td>
<td>.08</td>
<td>-.05</td>
</tr>
<tr>
<td>4  Reduce effort</td>
<td>.48</td>
<td>-.04</td>
<td>.13</td>
</tr>
<tr>
<td>5  Make other work harder</td>
<td>.70</td>
<td>.06</td>
<td>-.01</td>
</tr>
<tr>
<td>6  Reduce other’s pay</td>
<td>.58</td>
<td>-.06</td>
<td>.09</td>
</tr>
<tr>
<td>7  Justify own low pay</td>
<td>-.09</td>
<td>.77</td>
<td>-.02</td>
</tr>
<tr>
<td>8  Justify other’s high pay</td>
<td>-.12</td>
<td>.71</td>
<td>-.01</td>
</tr>
<tr>
<td>9  Compare to someone else</td>
<td>.22</td>
<td>.37</td>
<td>-.08</td>
</tr>
<tr>
<td>10 Justify own low pay</td>
<td>-.16</td>
<td>.54</td>
<td>.07</td>
</tr>
<tr>
<td>11 Justify other’s high pay</td>
<td>-.05</td>
<td>.60</td>
<td>-.02</td>
</tr>
<tr>
<td>12 Compare to someone else</td>
<td>.18</td>
<td>.39</td>
<td>.03</td>
</tr>
<tr>
<td>13 Transfer to other part of</td>
<td>.16</td>
<td>-.00</td>
<td>.53</td>
</tr>
<tr>
<td></td>
<td>the organization</td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>------------------------------</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>14</td>
<td>Look for job outside university</td>
<td>.08</td>
<td>-.09</td>
</tr>
<tr>
<td>15</td>
<td>Transfer to other part of organization</td>
<td>.19</td>
<td>.01</td>
</tr>
<tr>
<td>16</td>
<td>Look for new job outside university</td>
<td>.12</td>
<td>.01</td>
</tr>
</tbody>
</table>

The factor analysis suggested that the responses of participants to the reduced set of 16 remaining items could be represented by three orthogonal factors with comparable items from the two scenarios loading highly on the same factor. Scales representing these factors were computed by summing the items loading most highly on each factor. The scale means, standard deviations, reliabilities and correlations are presented in Table 3. The resulting three scales were the following:

1. Personal Action – this factor was comprised of the items (a) reduce own effort, (b) attempt to increase own pay, and (c) attempt to reduce other’s pay. These items are comprised of actions one would take to reduce the inequity by actually doing something.

2. Positive Spin – this factor was comprised of the items (a) justify why you are getting less, (b) justify why other person is getting more, and (c) compare yourself to another person. These items are consistent with Adam’s (1965) proposition that some people will mentally justify their inequitable situations and thereby provide themselves with a rationalized view of equity.

3. Exit Action – this factor was comprised of the items (a) try to transfer to another part of the organization, and (b) begin looking for a new job. The items constitute the intention to leave the inequitable situation rather than to correct it in some other manner.

Internal consistency reliabilities of the scales estimated using coefficient alpha were all larger than 0.7 which are considered in the acceptable range for research on broad constructs established by Van de Ven and Ferry (1980). The Positive Spin scale correlated -0.041 and -0.034 with the other two scales. The correlation between the two action scales was 0.221 (p < 0.001).
Table 3. Means, Standard Deviations, Reliabilities, and Correlations between Independent Variables and Action Scales.

<table>
<thead>
<tr>
<th></th>
<th>M</th>
<th>SD</th>
<th>Personal Action</th>
<th>Positive Spin</th>
<th>Exit Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Sensitivity</td>
<td>28.95</td>
<td>6.26</td>
<td>(.79)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emotional Intelligence</td>
<td>104.07</td>
<td>13.74</td>
<td>.118*</td>
<td>.211***</td>
<td>(.91)</td>
</tr>
<tr>
<td>Personal Action</td>
<td>.471</td>
<td>.320</td>
<td>-.267***</td>
<td>-.211***</td>
<td>(.73)</td>
</tr>
<tr>
<td>Positive Spin</td>
<td>.488</td>
<td>.337</td>
<td>.074</td>
<td>.125*</td>
<td>-.042</td>
</tr>
<tr>
<td>Exit Action</td>
<td>.491</td>
<td>.376</td>
<td>-.132**</td>
<td>-.163**</td>
<td>.221***</td>
</tr>
</tbody>
</table>

a N = 390.
* p < .05; ** p < .01; *** p < .001

The Study

Relationship of EIQ to ESI

We were first interested in the relationship of equity sensitivity to emotional intelligence. The measures come from different research traditions. Heretofore, there has been no direct assessment of the relationship between the two measures.

Assuming that EIQ and ESI are not identical constructs, we assessed the relationship of each to the three measures of response to inequity (Personal Action, Positive Spin, and Exit Action). We assessed the relationship both individually and controlling for the other variable.

Finally, we were interested in the extent to which the relationship of EIQ to responses to inequity was mediated by equity sensitivity. We also tested for these potential mediator effects.

Based on the logic presented above, we offer the following hypotheses.

Hypothesis 1(A): Equity Sensitivity will be positively associated with subjects’ responses to an inequitable situation such that higher levels of equity sensitivity are associated with higher self-reported tolerance of “Personal Action” as a response to inequity. Stated differently, Benevolents should, by definition, be more tolerant of inequitable situations, that is, less likely to report they would engage in “Personal Action” behaviors as we described earlier in this paper.
Hypothesis 1(B): Equity Sensitivity will be positively associated with subjects’ responses to an inequitable situation such that higher levels of equity sensitivity are associated with higher self-reported tolerance of “Positive Spin” as a response to inequity. Stated differently, Benevolents should, by definition, be more tolerant of inequitable situations, that is, less likely to report they would engage in “Positive Spin” behaviors as we described earlier in this paper.

Hypothesis 1(C): Equity Sensitivity will be positively associated with subjects’ responses to an inequitable situation such that higher levels of equity sensitivity are associated with higher self-reported tolerance of “Exit Action” as a response to inequity. Stated differently, Benevolents should, by definition, be more tolerant of inequitable situations, that is, less likely to report they would engage in “Exit Action” behaviors as we described earlier in this paper.

Hypothesis 2(A): Emotional Intelligence will be positively associated with subjects’ responses to an inequitable situation such that higher levels of emotional intelligence are associated with higher self-reported tolerance of “Personal Action” as a response to inequity. Stated differently, subjects with greater levels of emotional maturity should, by definition, be more tolerant of inequitable situations, that is, less likely to report they would engage in “Personal Action” behaviors as we described earlier in this paper.

Hypothesis 2(B): Emotional Intelligence will be positively associated with subjects’ responses to an inequitable situation such that higher levels of emotional intelligence are associated with higher self-reported tolerance of “Positive Spin” as a response to inequity. Stated differently, subjects with greater levels of emotional maturity should, by definition, be more tolerant of inequitable situations, that is, less likely to report they would engage in “Positive Spin” behaviors as we described earlier in this paper.

Hypothesis 2(C): Emotional Intelligence will be positively associated with subjects’ responses to an inequitable situation such that higher levels of emotional intelligence are associated with higher self-reported tolerance of “Exit Action” as a response to inequity. Stated differently, subjects with greater levels of emotional maturity should, by definition, be more tolerant of inequitable situations, that is, less likely to report they would engage in “Exit Action” behaviors as we described earlier in this paper.

Given the fact that both hypotheses 1(A, B, & C) and 2(A, B, & C) predict the same type of response to inequitable situations, one must wonder whether or not Emotional Intelligence and Equity Sensitivity are really separate constructs. Could it be that Equity Sensitivity is really a sub-construct of Emotional Intelligence? In other words, is there any discriminant validity with regards to the two constructs?

Support for Hypotheses 1 and 2, would raise the issue of the discriminant validity of the two constructs. Although it is possible for distinct constructs to both correlate with a criterion variable, the finding of similar relationships would certainly invite consideration of the possibility that the two concepts were simply different manifestations of the same emotional predisposition. For that reason, another focus of this research is to explore
two possible relationships of the two constructs. The first was that the two are distinct constructs with unique relationships to responses to inequity. The second is that Equity Sensitivity is a consequence of Emotional Intelligence and mediates the relationship of Emotional Intelligence to responses to inequity. These possibilities lead to the following two hypotheses:

Hypothesis 3: Emotional Intelligence and Equity Sensitivity will each uniquely predict how subjects respond to an inequitable situation. Stated another way, Emotional Intelligence and Equity Sensitivity each explain unique variance in the participants’ responses to inequity.

The alternative to Hypothesis 3 can be stated as follows:

Hypothesis 3 (Alt): Emotional Intelligence and Equity Sensitivity will exhibit the same relationship with regards to how subjects respond to an inequitable situation. Stated another way, Emotional Intelligence and Equity Sensitivity do not explain unique variance and are therefore not discriminantly different from each other.

In the following paragraphs we propose two competing models that further explain hypotheses 3 and 3A.

The first possibility is a model in which Emotional Intelligence (EIQ) and Equity Sensitivity (ESI) each uniquely affect a person’s response to an inequitable situation. This model can be represented as a “joint causation” model. In it, EIQ and ESI contribute uniquely to the subject’s response to inequity (dependent variable).

This model reflects Hypothesis 3. We symbolize these relationships as follows…

```
+---+  +---+  +---+  +---+  +---+  +---+
| EIQ |  | ESI |  |   |  | DV |
+-----+  +-----+  +-----+  +-----+  +-----+
```

```
Model 1: Joint Causation
```

The second model is a “Mediation” model that represents the potential relationship of hypothesis 3 (Alt). In it, Emotional Intelligence (EIQ) mediates the relationship of Equity Sensitivity (ESI) to the subject’s response to inequity (dependent variable). That is, Emotional Intelligence affects only one’s Equity Sensitivity but not one’s reaction to inequity directly. In essence, Emotional Intelligence affects only Equity Sensitivity. In this model, only Equity Sensitivity directly affects the dependent variable (response to inequity). The genesis of this hypothesis is based on classroom experience of one of the authors of this paper. Over a twenty-year career, the author has used an experiential exercise demonstrating the power of equity theory by placing a student in a
hypothetical scenario of inequity where the student was profoundly over-rewarded, yet received fewer rewards than another hypothetical worker doing the same work. The author noticed that almost all young students indicated they would quit their job or engage in non-functional behaviors due to the inequity. On the other hand, older, more mature students indicated that they could be tolerant of the inequity given that they were doing much better than average in the hypothetical situation. In other words, the more mature students were more tolerant of inequity. We therefore believe that one’s maturity may affect equity sensitivity. This model is diagrammed as follows…

![Diagram](image)

This model proposes that the effect of one’s Emotional Intelligence directly affects their Equity Sensitivity which in turn affects the person’s response to an inequitable situation. The two variables (Emotional Intelligence and Equity Sensitivity) are proposed to be inextricably bound together in their effect on the dependent variable (response to an inequitable situation). Support of this model would support Hypothesis 3(alt) and thus refute Hypothesis 3.

### Participants and Procedure

A survey was handed out to a convenience sample of 460 business students at an urban public university. Participation was voluntary and anonymity was promised. Three hundred and ninety students elected to participate for a response rate of 84.8%. The sample was split almost evenly between males (48.3%) and females (51.7%). Of this sample, 78.3% of the participants were juniors, while the remaining 21.7% were seniors. Their ages ranged from 19.5 to 51.2 years, with a mean age of 23.7 years and a standard deviation of 5.4 years. Sixty-four and one-half percent of the respondents had at least six months of full-time work experience (with a mean of 3.2 years). Eighty-six percent had at least six months of part-time work experience (with a mean of 3.3 years).

### Emotional Intelligence

Each subject’s Emotional Intelligence was measured using the Emotional IQ Test by Jerabek (1996). This test is a 70-item inventory assessing various aspects of Emotional Intelligence. Here are a few sample items from the Emotional Intelligence portion of the survey:

10. When I see something I like or want, I can't get it out of my head until I get it.

  - Very true
  - Mostly true
  - Somewhat true
Mostly not true
Not true at all

13. I say things that I later regret.

Regularly
Often
Sometimes
Rarely
Almost never

The test is normed to a mean of 100 and standard deviation of 15. Validation statistics provided by the designers of the instrument based on a sample of 1559 women and 944 men indicate the measure has good split-half reliability of 0.84 (0.92 using the Spearman-Brown formula) and is internally consistent. Cronbach’s coefficient alpha is 0.91.

The Emotional IQ Test (Jerabek, 1996) is mildly correlated with age ($r = 0.18$) and education ($r = 0.19$). It is more significantly correlated with professional success ($r = 0.28$), personal success ($r = 0.45$) and social success (0.46).

**Equity Sensitivity**

Each participant’s Equity Sensitivity was measured using the Equity Sensitivity Instrument (ESI) (King and Miles, 1994). This instrument has been validated using five different samples ($n = 2,399$).

Previous research studies using the ESI have reported coefficient alphas ranging from .77 to .88 (King and Miles, 1994; Patrick and Jackson, 1991) and a test-retest reliability of .80 (Miles et al., 1989). For this study, the Cronbach’s alpha was 0.79, which is consistent with the values found in the other studies cited above.

The following are a few sample questions from the Equity Sensitivity portion of the survey:

The following questions ask what you’d like your relationship to be with any organization for which you might work. For each question, divide ten points between the two answers (a and b) by giving the most points to the answer that is most like you and the fewest points to the answer that is least like you. You can, if you’d like, give the same number of points to both answers. And you can use zeros if you’d like. **Just be sure to use all ten points on each question.** Write your points in the blank next to each letter.

**In any organization where I might work:**

6. It would be more important for me to:
   _____ a. Get from the organization
b. Give to the organization

7. It would be more important for me to:
   a. Help others
   b. Watch out for my own good

The lower the subject’s equity sensitivity score the more the subject is responding as an “entitled”; that is, more sensitive to an inequitable situation. The higher the equity sensitivity score the more the subject is responding as a “benevolent”; that is, tolerant of inequitable situations. The sensitivity to inequity relates to both an under-reward as well as an over-reward situation.

Results

Relationship of EIQ to ESI

Table 3 presents means, standard deviations, and correlations of the independent variables and the three dependent variables. There is a small and marginally statistically significant correlation between the ESI and EIQ variables (R = 0.118, P < 0.05), but the correlation is clearly not large enough to force the conclusion that the two measures are identical. The table also shows that the simple correlations of ESI with both the Personal Action and Organization Action scales were significant and negative. It also shows that all the simple correlations of the EIQ scores with all the scales were significant – negative for the two action scales, as was the case with ESI, and positive for the positive spin scale.

Assessment of unique relationships to Personal Action

Personal Action was first regressed onto both EIQ and ES. The relationship of Personal Action to both EIQ (p < 0.001) and ES (p < 0.001) was significant. For both independent variables, the relationship was negative; those with lower Emotional Intelligence (EIQ) and with lower Equity Sensitivity (ESI) were more likely to engage in Personal Action types of responses. Hypotheses 1A & 2A were therefore both supported for the dependent variable of Personal Action. The analysis also supported the joint causation model (R² = 0.102). Thus Hypothesis 3 was supported. There were no significant interaction terms in the regression. Hypothesis 3 (alt) was therefore refuted.

Our statistical analysis required us to use ESI scores as a continuously scaled variable in order to complete a regression model in classical form. However, previous research has established the convention that the sample should be split into three groups (Benevolents, Equity Sensitives, Entitleds) using the decision rule of plus and minus one-half standard deviation from mean ESI score (King and Miles, 1994; King et al., 1993; Miles et al., 1994; Miles et al., 1989). So that our research can be compared to this convention, we split our sample into three groups for the second part of our analysis. The mean equity sensitivity score of our sample was 29.14, with a standard
deviation of 6.35 and a range of 10 to 48. Using the plus and minus one-half standard deviation decision rule, our sample was split into 55 Benevolents, 92 Equity Sensitives and 55 Entitleds.

We recomputed the regression equation using these coded variables. The results were entirely consistent with our use of Equity sensitivity (ESI) as a continuously coded variable. In this second analysis, mean personal action scores of Benevolents were significantly lower and mean scores of Entitleds were significantly higher than Sensitives, with $R^2 = 0.082$.

**Unique Relationship to Positive Spin**

Positive Spin scores were regressed onto EIQ and ESI scores. ESI was not related to the Positive Spin scale in either a simple regression, not controlling for EIQ nor in the multiple regression in which was EIQ controlled for. Thus, Hypothesis 1B was not supported with regard to positive spin.

In this analysis EIQ was significant in a simple regression with ESI. Thus Hypothesis 2B was supported in the opposite direction of the hypothesis. Persons higher in Emotional Intelligence (EIQ) were more likely to put a positive spin on their inequitable situation; that is, they were more likely to “cognitively justify” why they were being under-rewarded.

Hypotheses 3 and 3 (alt) require both independent variables to be related to the dependent variable. Because only one independent variable (EIQ) was related to the dependent variable of “Positive Spin”, Hypothesis 3 and 3 (alt) could not be tested.

**Unique Relationship to Exit Action**

Finally, the subjects’ EIQ and ESI scores were used in a regression model with the subjects’ Exit Action as the dependent variable. Both EIQ and ESI were significantly related to Exit Action with no significant interaction term. Thus, Hypotheses 1C & 2C were supported with regard to exit action.

For both independent variables, the relationship was negative with the dependent variable ($R^2 = 0.039$). In other words, the joint causation model (Hypothesis 3) was supported for the Exit Action dependent variable. Subjects with lower levels of both Emotional Intelligence and Equity Sensitivity were more likely to respond to the inequitable scenarios by attempting to exit the situation.

In summary, the results support a joint causation model for both Personal Action and Exit Action. EIQ and ESI were uniquely related to the dependent variable. None of the interaction terms in the regression were significant. Persons with lower Equity Sensitivity scores (entitleds) and with lower Emotional Intelligence (emotionally immature) were more likely to engage in overt actions such as putting forth less effort, attempting to make their referents work harder, asking for a raise, attempting to transfer or leave the organization. Furthermore, we found that persons higher in Emotional
Intelligence (EIQ) were more likely to put a positive spin on their inequitable situation; that is, they were more likely to “cognitively justify” why they were being under-rewarded.

Conclusions

Our main research focus was the relationship between Emotional Intelligence, Equity Sensitivity and the subjects’ reactions to inequitable situations. The analysis indicated there were three fundamental methods of reacting to an inequitable situation. The first reaction we labeled Personal Action which was comprised of such responses as reducing one’s effort or attempting to increase one’s pay. We labeled the second general response Positive Spin in which the respondents would attempt to mentally justify why others received more pay for equal work. We labeled the final factor Exit Action in which the respondents reported they would transfer or quit if faced with inequity. These responses are consistent with Adam’s original formulation of equity theory in which he proposed that people faced with inequitable situations would either respond to remove the inequity or to rationalize their situation. Our data showed that subjects’ Emotional Intelligence and Equity Sensitivity were more strongly related to intended behaviors (Personal Action & Exit Action) than they were to psychological justification (Positive Spin) of an inequitable situation.

Emotional Intelligence was found to be related to a subject’s self-reported likelihood to engage in personal or exit action as a response to an inequitable situation. These two responses to inequity are most important to the management of equity because they imply the respondent is likely to do something demonstrative. This can partially be explained by Goleman’s EIQ dimension of self-regulation and Mayer and Salovey’s dimension of emotional management. When faced with an inequitable situation, those with lower levels of emotional intelligence are more likely to take an overt action because they are less adept at managing their emotions. Conversely, we found that those higher in emotional intelligence were more likely to put a “positive spin” on their situation and therefore manage their emotions cognitively rather than via overt means.

Self-justification (Positive Spin) can be argued to have less impact on the organization because it implies the subject will maintain organizational membership and constructive behaviors while on the job. Our data suggest that less emotionally intelligent workers faced with an inequitable situation would prefer to do something about their circumstances rather than rationalize their situation.

Our analysis of the data suggests the mechanism of Emotional Intelligence directly affects one’s response to inequity, just as does Equity Sensitivity. Emotional Intelligence was not seen via the path analysis to affect Equity Sensitivity. Thus, Emotional Intelligence was not a predictor of one’s tendency to be a “Benevolent”, “Entitled”, or a “Sensitive” as defined by Huseman, et al (1985). This finding strengthens the argument that both Equity Sensitivity and Emotional Intelligence are distinct constructs. Equity Sensitivity predicted subjects’ behavior independently of Emotional Intelligence and therefore can be considered an independent construct.
Limitations and Areas for Future Research

The overall conclusion of this research is that Equity Sensitivity (ESI) and Emotional Intelligence (EQI) are individual constructs. Each variable was able to explain significant, yet independent, variance of the subjects’ responses to an inequitable situation. Researchers who wish to better understand the human response to inequity may now wish to include Emotional Intelligence as one additional factor in the model of inequity response.

The use of a convenience sample of students must be viewed as a potential limitation regarding this research. While our student sample was relatively mature and experienced with an average age of 24 and six years of work experience, it is conceivable that they are not representative of the general population. Although the sample was collected at a large, urban university in which the vast majority of students work on a full-time (or at least part-time) basis it is conceivable that this sample may have been skewed towards being emotionally immature or the entitled side of the scales. Future researchers may attempt to replicate our findings with an older, more experienced sample as a validity check.

Likewise, the use of the survey/scenario technique must also be considered as a potential limitation to our findings. There exists the potential that the subjects were not experiencing the critical psychological states because the situation was not real and thus their self-reported reactions were not accurate. From a practical standpoint, equity theory research has a long history of using the survey/scenario technique with student samples because it is very unlikely that researchers can find a real life organization that will allow the manipulation of such important variables as pay or other factors that may result in feelings of inequity in their workers. In this case the potential of lawsuits, bad publicity and workforce de-motivation simply outweigh the merits of scientific inquiry. But our study did use scales that have been validated by previous research in a variety of settings. Our under-reward scenarios were also crafted as to be particularly salient to our sample by using a student worker situation that could easily be related to by all the subjects. The survey was also pilot tested and fine-tuned based on feedback from students. Future researchers may wish to attempt to replicate these findings with a sample of older working adults.

Another important limitation of this research is that the design did not directly test for the dependent variable -- action on the part of the subject as a response to an inequitable situation. The survey and scenario format only measured an intermediary variable -- the subjects "intended" action as a response to a hypothetical situation. As such, our findings must be viewed as tentative. Future researchers might attempt to replicate these findings using stronger research designs. For example, they may attempt to use a controlled experiment design and place subjects into more realistic situations by using more engaging role playing techniques and the observance of actual behaviors on the part of the subjects.
The present study also measured only one type of perceived inequity – the under-reward situation. Future researchers may wish to explore the over-reward type of inequity to see if these variables have any relationship to how subjects respond when they perceive that they are being over-paid or under-worked.

**Implications for Management Practice**

The findings of this study support the notion that the relatively new construct of emotional intelligence has important implications for hiring and promotion practices. Although emotional intelligence and equity sensitivity were statistically independent variables, subjects reacted similarly to inequitable situations with regards to taking personal or exit actions. The less emotionally intelligent were more likely to engage in overt actions to reduce their frustration with inequitable situations.

Managers may wish to identify their less emotionally mature employees or job candidates because they are more inclined to react to inequities by taking actions that are unfavorable to the organization. For example, they seem to be more likely to reduce their effort, less likely to cooperate with more highly compensated co-workers, or eventually leave the organization.

As such, managers may wish to seriously consider the emotional intelligence of job or promotion candidates. Emotional intelligence training and counseling may even be a consideration for those employees who need it. The long-term financial implications of lost productivity, internal conflict, bad publicity and turnover may outweigh the short-term costs of training and counseling.

Managers should also be cognizant of creating inequitable situations within their organizations. The overt personal actions and exit actions of their employees can have expensive repercussions. As such, managers should try to limit or at the very least better communicate the rationale behind any apparent inequities that exist within their organization in order to minimize the likelihood that employees perceive they are in an inequitable position.

**References**


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Discrimination Against Muslim Employees

Lynn Hoffman
University of Northern Colorado
Keiko Krahnke
University of Northern Colorado
Shahrokh Dalpour
University of Maine

ABSTRACT

This paper examines the rise in harassment of Muslims, some sources of religious conflict in the workplace, and the increase in complaints of discrimination brought by Muslim employees. As immigrants from all over the world move to the United States, employers are faced with a variety of religious and spiritual beliefs. Because of the increase in the number of Muslims and the current political attitude towards them in the United States, there have been increases in religious discrimination cases against Muslims filed with the Equal Employment Opportunity Commission and in other religious litigation. The paper concludes with some practical suggestions for employers.

Introduction

A part of the history of civilization is the history of religious conflict. Examples of conflict between religious groups include the Muslims and Christian Crusaders, Protestants and Catholics in Northern Ireland, Christians and Muslims in the former Yugoslavia, Sunni and Shiite Muslims in the Middle East, Jews, Catholics and Protestants in the United States, Fundamental Islam and other religions in Iran, and the Palestinians and Jews. According to Gallup Organization Polls (1937-1999), prejudice against Catholics, Jews, and Mormons has decreased in recent years, but Americans are still generally prejudiced against non-Judeo-Christian religions (www.religioustolerance.org).

The number of American Muslims has steadily increased in the last few years from immigration and conversion of Americans to Islam. There are 1.3 billion Muslims in the world or approximately one individual in five. Eighty percent of Muslims live outside of the Arab world with most Muslims in the Western Hemisphere living in the United States. Today an estimated 5 to 6 million Americans consider themselves Muslims (Belt, 2002). There are as many American Muslims as American Jews or roughly 2 percent of the population (Belt, 2002).

The 9/11 terrorist attack has made life difficult for many Muslims living and working in the U.S. Some have become the target for prejudice and discrimination only because they are Muslims or Arabs. It is interesting to note that many countries with a large population of Muslims are in Asia. Indonesia has 201 million Muslims, India 144 Million, Pakistan 140 million, and Bangladesh 108 million (http://www.iiie.net/Intl/PopStats.html). The term Arab refers to people who speak Arabic, and not all Arabs are Muslims. However, people often mistakenly assume that all Arabs are Muslims and all Muslims
are Arabs, and associate them with terrorism. Many Arabs have been harassed and
discriminated against. Arabic features and dress alone are sometimes enough to instill
fear and hatred in the minds of some people. After the events of 9/11, the Civil Rights
Commission’s Hot Line received hundreds of calls reporting cases of harassment and
This paper examines the rise in discrimination complaints, particularly issues
concerning Islam, and concludes with some practical guidelines for employers, Muslim
employees, and other employees.

Culture Clash between American and Arab Cultures

Samuel Huntington, in his well-known 1993 essay, predicted that cultural differences,
not economic or ideological differences, would be the source of conflict that divides
civilizations. Huntington (1993) claimed that people from different cultural and religious
backgrounds tend to have an “us against them” relationship with others.

Roper Reports Worldwide conducted 30,000 in-person interviews in 30 countries. The
results revealed profound feelings of differences between cultures and civilizations.
Based on the result, 93 percent of Americans felt close to their own culture and way of
life while 82 percent of Japanese felt close to their culture and 80 percent felt so in
Brazil, but only less than half of Americans felt close to any other culture (Miller &
Feinberg, 2002). Miller and Feinberg noted that Americans’ pronounced lack of
closeness to Arab culture was also revealed; only 4 percent of Americans felt close to
Arab culture. Surveys with the Saudis showed very similar results as Americans. Ninety
eight percent of Saudis felt very close to their own culture and lifestyle but only 7
percent felt close to American culture. Roper Reports Worldwide further revealed that
Arabs and Americans share different values. In the top ten most important values,
Americans chose freedom while Arabs chose obedience, Americans chose self-esteem
while Arabs chose modesty, and Americans chose friendship and stable personal
relationship while Arabs chose ambition and material security (Miller & Feinberg, 2002).
In personal values, Saudis and Americans had the least in common in comparison with
the rest of the world.

Roper Reports Worldwide does seem to support Huntington’s thesis that cultural
differences can divide civilizations. With the war on terror and current political climate,
the “us against them” relationship with Arabs has become more pronounced.

A Brief Discussion of Islam and its Relationship to Judaism and Christianity

The term Islam comes from the word “salam” which means peace and in another sense
“surrender” to God (Smith, 1994). Muslims trace their lineage to the prophet Abraham,
who cast out his second wife Hagar and their son. Hagar, Abraham, and their son
became the Islamic matriarch and patriarchs (Smith, 1994). The religion developed from
the teachings of a single individual, Mohammad (570-580 AD to 623 AD), who lived in
Mecca in what is now Saudi Arabia (Osborne, 1996). Prior to the development of Islam,
people in Mohammad’s time pursued many gods and goddesses. Distressed by greed,
fighting, gambling, drinking, and merchandising of articles for all the gods and goddesses, Mohammed spent many days praying in a desert cave. Upon receiving the angel Gabriel’s voice, Mohammad passed Gabriel’s messages to followers who wrote them down into what is now the Koran.

Although initially ostracized and persecuted, Mohammad and his religion gained control of most of Arabia, Persia, Armenia, Syria, Palestine, Iraq, North Africa and parts of Spain by his death in 623 A.D. (Smith, 1994). Mohammad was also known for his military, administrative, and diplomatic skills (Smith, 1994; Osborne, 1996).

Those who follow Mohammad as God’s prophet are called Muslims. The five “pillars” of the religion are: declaring their faith, praying, almsgiving, fasting, and pilgrimage. Each devout Muslim must believe and say, “There is no God but Allah, and Muhammad is his Prophet and Messenger” (Osborne, 1996, p. 33). The second pillar is to pray five times a day: in the morning upon rising, noon, mid-afternoon, sunset, and before bed. They face east towards Mecca and perform purification rituals of bowing, prostration, and recitation. The third pillar is the expectation to give a fixed percentage of their income to the poor. The fourth pillar is fasting during the holy month of Ramadan, which celebrates the month the Koran was revealed to Muhammad. They fast during the day and end with a festival of feasting, giving of gifts, and new purchases (Osborne, 1996). Lastly all Muslims are expected to do a pilgrimage to Mecca once in their life where they dress in white and walk about the sacred stone, the Kaaba, seven times making offerings to Allah (Osborne, 1996). In addition, there are other religious occasions such as the Shiite Muslim celebration of the 10th Day of Muharram, which commemorates the martyrdom of Husain, Mohammad’s grandson (Osborne, 1996).

Muslims believe that Islam’s spiritual contribution is the concept of monotheism—that there is only one God (Smith, 1994). They see the Jewish and Christian scriptures as instructive since Muslims are also descendants of Abraham (Smith, 1994). Islam requires racial equality and intermarriages (Smith, 1994). While they hold the Holy Scriptures in esteem, they see the Jews and Christians as failing to accept God’s final message, which was sent down in the Koran through the prophet Gabriel (Encyclopedia Americana, 1994, p. 494).

Like the Bible, the Koran mentions both peace and violence (Belt, 2002). The Koran consists of 114 chapters called “suras,” which explain the nature of God, God’s relationship to man, and guides its adherents’ paths towards harmony. Belt (2002) believes that one of its main messages is to treat others better than they treat you. He also argues that just as sections of the Bible can be misused, some Muslims use sections of the Koran out of context. As an example, they use Mohammad’s description of his armed conflicts as their justification for waging holy war against others and especially non-believers (Belt, 2002). Some Islamic scholars denounce the use of violence and view its use as contrary to the Koran’s message (El Fadl, 2003).

While there are common points between Judaism, Christianity, and Islam in their beliefs and practices, the differences have led to conflict. Muslims see the prejudice of
Christians against them as the result of 1300 years of wars over common borders. Some Muslims believe that the Christians’ record of violence is worse than theirs by pointing to the Christian’s use of the Inquisition, the rack, and burning at the stake (Smith, 1994). They also point to periods where they controlled a country but allowed Christians and Jews to pursue their religions and achieve positions of influence in their communities. A current example is the Eastern Orthodox Church, which resides in the Muslim country of Turkey (Smith, 1994). They pointedly note that it was the Christians who threw the Jews out of Spain and forced them to convert or be killed. From their perspective, Christians can point to the recent examples of the excesses of the mujahadeen in Afghanistan, the fundamental Islamic mullahs in Iran, and fundamental Islamic militant terrorist groups such as Al Qaeda.

Consequently, some Muslims perceive Christianity as a militant religion, and some Christians and Jews view Islam similarly (Smith, 1994). Some Christians view Islam as a religion that “traps” its adherents, who need to be “freed” from the tyranny of Islam (see appendix A). Each religion can point to the violence and atrocities committed by other religions throughout history (Smith, 1994). Sadly, the history of religious conflict pervades the history of civilizations and current events.

An Increase in Discrimination against Muslims

Daniel Pipes (2000), in an article written prior to September 11 (9/11), concluded that American Muslims were respected, well educated, and treated well by most other Americans. In addition, they were socio-economically successful. A very large percentage (52 percent) has graduate degrees. Many are concentrated in the professions of medicine and engineering and as a group earn a large median household income of $69,000 (Pipes, 2000).

However, the events of 9/11 spawned an increase in all forms of harassment (Council on American Islamic Relations, 2003). The Council on American Islamic Relations (CAIR) reports that it has experienced a significant increase in harassment and discrimination against Muslims, Middle Easterners, Arabs, and those who are perceived to belong to these groups (Council on American Islamic Relations, 2003). Examples include a taxi driver wearing a turban who was assaulted. The building housing CAIR is now under police protection. Muslim workers have received hateful email (Armour, 2002). Some companies fired Muslims after 9/11 based on speculative fears (Muslim woman sues Palm Beach Hotel over Sept 12, firing, 2002). Trans States Airlines fired a Muslim pilot immediately after 9/11 without an explanation (Council on American-Islamic Relations, 2002).

The number of charges for religious discriminated filed by the EEOC has increased significantly (EEOC, 2003). The EEOC now tracks discrimination charges by individuals who are or are perceived to be Muslim, Arab, Afghan, Middle Eastern, or South Asian, which it designates as “Process Type Z.” Between September 11, 2001 and September 10, 2002, 654 Process Type Z charges were filed compared to 323 from the same period the previous year (EEOC, 2003). Overall, religious discrimination complaints filed
with the EEOC have already jumped nearly 40 percent from 1939 in the previously
reported fiscal year to 1992 in the last fiscal year (Armour, 2002).

These cases have raised a number of issues about religious dress, religious articles,
and religious prayer in the workplace. In order to understand the rights of both
employees and employers, it is first necessary to explain the Civil Rights Act.

The Civil Rights Act and Religion

Background

The original Civil Rights act was amended in 1971 to add religion. It states that, “…It
shall be an unlawful employment practice for an employer…to fail or refuse to hire or to
discharge…or to limit, segregate or classify employees or applicants because of such
individual’s race, color, religion, sex, or national origin (Civil Rights Act section 2003).

Organizations Covered

The law covers employers in interstate commerce with more than 25 employees or
unions with more than 25 members. It also covers employment agencies, state and
local governments, educational institutions, health care institutions, and most parts of
the Federal government (Civil Rights Act, 1964).

Definition of Religion

The Supreme Court in conscientious objector cases broadly defined the term “religion”
to encompass any belief that is strongly held even if the individual does not belong to an

This definition was used by the EEOC to determine that the Black Muslim faith was a
religion because the employee held “intensely personal convictions” about her faith
(EEOC Decisions, 71-2620, 1971).

These cases specifically exclude purely philosophical, sociological or political beliefs.
Because Islam is an organized religion, the Civil Rights Act covers those followers who
have “strongly held beliefs.” The length of time a person subscribes to a religion is not a
factor (EEOC v. IBP, Inc., 1993).

Reasonable Accommodations

The Equal Employment Opportunity Commission’s Guidelines on Religion require
employers to accommodate their employees’ religious beliefs unless it causes them
undue hardship (EEOC Guidelines, 2003). While the Supreme Court liberally interprets
the term “religion,” it requires only minimal effort of the part of employers to accomplish
an accommodation.
An employer’s duty to accommodate for religion was developed by the Supreme Court in *Transworld Airlines v. Hardison* (1977). Trans World Airlines hired Hardison to work as a clerk in the stores department of its Kansas City base. The stores department was required to operate 24 hours a day, 365 days a year. The employee was covered by a collective bargaining agreement with seniority provisions. After being hired, Hardison converted to the Worldwide Church of God, which believes that the Sabbath occurs from sunset on Friday to sunset on Saturday. Hardison informed his manager of his religious beliefs and requested Saturdays off. His manager and union found a fellow employee willing to change schedules so Hardison could observe his Sabbath.

The problem reappeared when Hardison bid for and received a transfer to the day shift where he was required to work on Saturday. His request that he be allowed to work only 4 days a week was rejected by the employer since his job was essential and he was the only person available to work. When an accommodation was not reached, he refused to report to work on Saturdays. The union and company could not find anyone willing to work his shift, and since he had low seniority in the new job he could not bump someone into his schedule. After a hearing, Hardison was discharged for insubordination for refusing to work on Saturdays (*Transworld Airlines v. Hardison*, 1977).

The *Hardison* court ruled that an employer’s duty is to attempt an accommodation; however, it is not required to violate a collective bargaining contract, nullify seniority provisions, or force coworkers into the requester’s schedule. A company does not have to deny the shift and job preferences of other workers. In addition, employers do not have to negate each employee’s proposed alternatives or select the employee’s preferred alternative (*Hardison*, 1977). An extension of the *Hardison* ruling came in the Supreme Court case, *Ansonia Board of Education v. Philbrook* (1986), where the court felt that the employer had sufficiently attempted an accommodation by offering a teacher three paid days of leave to attend religious events because the collective bargaining agreement allowed three paid days for any reason. The teacher wanted six days of paid leave to attend six days of religious events.

Other courts established that employers must attempt some accommodation and cannot simply deny the request without an attempt to accommodate. For example in *EEOC v. Llona of Hungary* (1996) two Jewish employees of a salon requested their holy day, Yom Kippur, off. When the employer refused without checking to see if other employees were available, the employees sued for religious discrimination and won.

**Religious Discrimination Against Muslims**

Four types of religious discrimination concerning Muslims are covered below. The first category concerns requests for time off to attend religious events. Next is a devout Muslims’ prayer schedule. The most prevalent issue is personal religious dress that is in conflict with employers’ dress codes. The fourth category consists of employers’, supervisors’, or coworker proselytizing.
Religious Discrimination and Requests for Leave

Many religious employees require time to attend a religious event that may or may not be a holy day. Islam is not a religion with a lot of holidays. However, the month of Ramadan requires daytime fasting. Because their calendar does not fit the solar calendar, the actual dates of the holiday move each year making it difficult for employers and employees to plan (Perkins, 2001). Based on Hardison and Ansonia Board of Education, the employer must attempt an accommodation but does not have to create undue hardship by violating the collective bargaining contract, force other workers to change schedules, hire additional employees, or create more than a minimal expense (Hardison, 1986; Ansonia Board of Education, 1986).

Employer Dress Codes versus Religious Beliefs

Some devout Muslim males believe that they should follow the role of Mohammed their Prophet and wear beards. This conflicts with some employers' dress codes. Employers may have dress codes but they must be consistently and equitably enforced, disseminated to employees, and have a sufficient business necessity. Prohibition of beards may not meet these criteria.

Disseminated and Enforced Policies

The first requirement is that employers have a policy in place that is disseminated to employees and is consistently enforced. The discharge of a female Black Muslim for wearing a long dress was not upheld where the employer had allowed other employees to wear unusual attire (EEOC Decision No 70-2620, 1971). Similarly the discharge of a male Muslim for not tucking in his shirttail because he felt it covered his private parts in accordance with his religion was not upheld. The employer had allowed him to wear his shirttail out for eleven years (ARB_Research 987-1 ARB 5039, 1997).

Valid Business Reasons for Dress Codes

Even if the company has a dress code that is consistently enforced, it must have a valid business reason for the policy. In EEOC v. United Parcel Service (1996) the company had a blanket policy disallowing facial hair that it consistently and equitably enforced. When a Muslim applicant with a beard applied for a management position, the company refused to accept him. Based on the company’s consistent enforcement of the policy, the district court ruled for the employer. On appeal, the Seventh Circuit remanded the case back to the district court asking it to determine if other management positions existed that did not require meeting the public. In addition, the district court was instructed to determine if UPS had a sufficient business reason for the policy (EEOC v. UPS, 1996).

Dress Codes for Safety Reasons
In some cases employers justify their dress code for safety reasons. The Ninth Circuit decided for an employer where a job required a respirator. Because the male Sikh Muslim’s beard interfered with a tight fit of the respirator, the court found for the company (*Bhatia v. Chevron, USA*, 1984). Similarly, a company successfully required Muslim women working near power conveyors to wear tighter fighting robes (*Milicia*, 2001).

Conversely, the safety reason must be real, not speculative. A court did not uphold a city’s requirement that a female bus driver wear pants instead of her religiously prescribed skirts. The court did not accept the company’s argument that the long dress created a safety hazard (*EEOC Decisions No 81-20*, 1981).

**Female Muslims’ Religious Attire**

Female Muslims’ religious attire from headscarves to a more extensive body coverings conflicts with some employers’ dress codes. Several prominent companies such as J.C. Penny, Taco Bell, Holiday Inn, Dominoes Pizza, Sears, Office Depot, US Airlines and others initially refused to employ women with the traditional robe (*Durrani*, 2000). In one case, seven Muslim women who had refused to remove their headscarves had been fired as airport security workers. They were reinstated with back pay, compensatory damages, and a letter of apology from their employer. CAIR worked with Domino’s Pizza to allow its female Muslim employees to coordinate the colors in their headscarves with Domino’s colors (*Religious Discrimination*, 2003). CAIR has intervened and negotiated compromises with most of these companies (*CAIR*, 2003).

**Employers who can have strict uniform or clothing requirements**

The U.S. military, public schools, police, corrections and firefighters severely limit religious garb from any religion. The Supreme Court accepted the military’s argument that standardized uniforms are necessary for discipline and a sense of unity that outweighed individuals’ right to wear headgear from their religion (*Goldman v. Weinberger*, U.S. 1986).

Because of the establishment clause, the Oregon Supreme Court upheld the revocation of a teaching certificate where the teacher refused to wear anything but the traditional clothing from her Sikh religion which was white clothing and a white turban. They ruled that state law prohibited teachers from wearing religious clothing during school hours. The need for public schools to remain neutral on religion outweighed individuals’ rights to religious freedom (*Cooper v. Eugene School District 4J*, 2001).

Another court did not approve of a Christian police officer’s request to wear a pin showing a cross on his uniform (*Daniels v. City of Arlington Texas*, 2001). Corrections facilities were allowed to enforce short hair requirements even though they conflicted with a Native American corrections officer’s desire to have longer hair in accordance with his beliefs (*Rourke v. New York State Department of Corrections*, 1996).
Although few of these issues involved a Muslim employee, it is expected that courts will hold Muslim employees to the same standards for police, the military, public schools, and corrections.

A Muslim’s need to pray five times a day

The third common source of conflict is the need for some Muslims to pray five times a day. A devout Muslim is required to pray upon rising, at noon, during the afternoon and in the evening. Because two of the prayer times fall during the workday, employers are being asked to accommodate the prayer needs of their Muslim employees. Kamal El-Masri, a computer assembler, won the right to pray during the day at work. After warnings and threatening to fire him, the employer was sued by Kamal’s union and agreed to give him a five minute afternoon prayer break and allow him to pray at noon (Davidson, 2002).

Crossing the line of proselytization

A fourth source of religious conflict occurs when owners, supervisors, managers, or coworkers attempt to proselytize or proclaim their beliefs via religious garb, jewelry, or other actions. In these cases the courts attempt to determine where and when individuals can express their religion and when their actions cross the invisible line to wrongfully impact others. The most prominent case involved an anti-abortion Christian who wore a button to work that graphically displayed an aborted fetus (Wilson v. U.S. West Communications, 1995). Because the button adversely affected coworkers and managers, her supervisor asked her to either display it in the privacy of her cubicle or cover it in the presence of others. Upon her refusal to accept this attempted accommodation by her employer, she was sent home. After staying at home for three days she was terminated for job abandonment and sued claiming religious discrimination (Wilson v. U.S. West Communications, 1995).

Another court ruled that a Christian supervisor’s repeated lectures forced an employee to quit (Venters v. City of Delpi, 1997). Similarly a Christian employer’s termination of a Native American spiritual leader was disallowed (Campos v. City of Blue Springs, Mo, 2002).

Religious Cases Where Discipline and Discharge was upheld

There are a number of cases where employers have been sued on religious discrimination grounds and have won. Employee suits fail if they do not tell the employer that they have sincerely held beliefs and need certain accommodations (Baaquee V. Brock and Bleving Construction Company, 2000). While it is conceivable that some employees are reluctant to discuss the issue with employers, employers cannot be held accountable for not providing accommodations when they are unaware they are needed. Religious individuals can always be disciplined or discharged when employers have sufficient documentation of inadequate performance (Maarouf v. Walker Manufacturing Company, 2000; Froct v. Oli Corporation, 1972; Lynch v.
Pathmark Supermarkets, 1997). Discharges of religious employees for job abandonment will be upheld (Smith v. Universal Services, Inc. 1972). Courts will uphold discharges for insubordination or not fulfilling the known job requirements even if the employee is religious (Sable v. Stickney, 1993; Habib v. Nations Bank, 2001).

Examples of Successful Accommodations

A number of companies have reached accommodations satisfying both the employers and their Muslim employees. Values City with 120 stores in 15 states set aside a quiet room for their Muslim employees to pray and allows female Muslims to wear the hijab (Milicia, 2001). The Limited with 5,100 stores also allows Muslims to pray and wear their religious garb (Milicia, 2001). Watermarke Donut Company provided religious accommodations, flexible schedules for Ramadan, time off for religious holidays, time for daily prayers and Friday prayers (Durrani, 2000). Other examples include a medical school that vacated the common practice that medical students examine each other, thus providing a female Muslim medical student her privacy (Pipes, 2000). Some schools have allowed Muslim girls to play soccer in their hijab and the right to take mandatory swimming classes in private (Pipes, 2000). CAIR reports that it has resolved numerous cases of accommodation with major corporations (Milicia, 2001).

Practical Guidelines for Employers and Employees

Because employees bring their religion to work with them, employers will increasingly be required to determine the placement of the line between employees’ rights, coworkers’ rights, and employers’ rights. The following suggests a two-pronged approach. First, a proactive approach is to provide training for employees and supervisors. Second is to establish written policies about religion in the workplace. Employers need to consider the issues facing them, and develop policies acceptable to their employees before contentious issues surface. Because some of these issues are just being raised, resolution of these issues is understandably fluid. Given this caveat, the following presents the authors’ recommendations.

Education and Training in Understanding Muslim Religion and Culture

Educating and training all employees will encourage dialogues on different spiritual beliefs and hopefully prevent misunderstanding and unnecessary conflict. The more educated we are on an issue, the less likely we react irrationally. Irrational, discriminatory action stemming from ignorance is inexcusable. As mentioned in an earlier section of this paper, Americans find the Arabic culture the most foreign and the least favorable. While it may not possible for the two cultures to be compatible anytime soon, it is extremely important to make an effort to understand each other. The political climate after 9/11 has made the “either or” and “us against them” sentiments stronger. When we subscribe to “us against them” thinking, it is easy to start to demonize the other side. The biggest challenge is to undo some of the prejudice created by the government and people’s reaction to 9/11. However, educating ourselves on spiritual
and cultural aspects of the Muslim religion and understanding them is a critical element in working harmoniously in the workplace.

Practical training covering religious holidays, practices, and dress should be available to supervisors. This training should also explain what employment decisions are legal and illegal and what accommodations the employer can and cannot make.

A Policy on Religion and Dress

A need for a policy

The first requirement is to establish a policy concerning religion in the workplace that is adapted to the employer, employees, safety, and uniform requirements.

Accommodations to the policy versus business necessity

Employers need to carefully determine what accommodations should be allowed as exceptions to their policy. The biggest issue is to determine what their reasons are for dress codes for certain groups of employees and when the business reason outweighs individuals’ rights. As mentioned above, police, firefighters, public schools, and correctional institutions have a stronger basis for establishing strict uniform requirements. Other employers will need to allow their policies exceptions for religious attire unless it violates safety or some other business reason.

As more religious discrimination cases are raised, the EEOC and courts will develop more specific examples of what business reasons would override a request to wear religious garb.

Employee Knowledge

Given the above need for exceptions, employers will need to ensure that their policies are disseminated and explained at employee orientation. Employees should also be encouraged to discuss the policy and clarify any issues that are vague or unreasonable.

Accommodations

Based on the ruling in Hardison, employers' burden of accommodation is minimal; however, they must attempt an accommodation. The employer does not have to accept the employee’s preferred accommodation or any that creates undue hardship.

Proselytizing

While the courts will attempt to protect the religious rights of employees they are equally vigilant about protecting coworkers who do not want to be pursued by overly zealous coworkers, supervisors, owners and even customers. The only employers who can legitimately discriminate and require individuals of a certain religion or belief are religious organizations (EEOC Guidelines on Religious Discrimination, 2003).
The Future

Senator John Kerry D-MA introduced the Workplace Religious Freedom Act, which would amend the Civil Rights Act making it easier for employees to receive religious accommodations. Conversely, it would require employers to exert more than the “minimal attempt at accommodation” established by the Hardison ruling (Durrani, 2000).

While the above cases indicate an increase in discrimination complaints, it is expected that with time these conflicts will raise employer awareness. Hopefully, increased awareness will create more proactive employer practices such as more opportunities to learn about the Muslim religion and culture, discussion of issues important to Muslims, and more training on legal implications.

In the U.S. we have the freedom to believe in a certain religion or form of spirituality; we also have the right to not believe in a religion. All employees should be respected for who we are and what we believe. Learning to live and work in a diverse world in all senses will become increasingly important. Building a successful interfaith community will also become our challenge. Through education and dialogue, an inclusive and accepting workplace can be possible.

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Goldman v. Weinberger (1986) 40 FEP Cases 543 (U.S. Supreme Court).


Smith v. Universal Services, Inc. (1972). 6 EPD par 8920 (D.C. La.)


Appendix A


“It pains God’s heart that a billion Muslims are trapped in a religion that keeps them in bondage. Muslims today are like many nations were under communism- they have no freedom. ‘Just as we take pride in helping to free the Eastern Europeans from communism, we need to take the same pride in helping to free Muslims from the tyranny of Islam.’”

Case Study of “Remember the Titans” (2000) to Examine Power, Servant Leadership, Transformational Leadership, Followership and Change

Jennifer Moss Reimers  
University of Nebraska at Lincoln  
Gerald Parsons  
University of Nebraska at Lincoln

ABSTRACT
This case study seeks to utilize the film “Remember the Titans” to focus on five contrasting leadership principles as a means for students to apply the concepts. The key leadership variables discussed in this case study are as follows: 1) sources of power (French & Raven, 1959), 2) servant leadership (Greenleaf, 1977, 1996) 3) transformational leadership (Bass, 1985), 4) followership (Kelley, 1988) and 5) change (Bartunek & Moch, 1987). In a context of forced integration in the early 1970’s, a football team is charged with the task of creating a major paradigm shift.

Participant Case
“In Virginia, High school football is a way of life. It’s bigger than Christmas Day. My Daddy coached in Alexandria. He worked so hard, my mamma left him. But I stayed with coach. He needed me on that field. Up until 1971 in Alexandria, there was no race mixing. Then the school board forced us to integrate. They combined the white school and the black school into one called TC Williams High School. That summer a black teenager was killed by a white teen and the town was on the verge of exploding….” Cheryl Yoast, 1981

Significance of the Film
The quote above focuses attention on Cheryl Yoast, daughter of a main character, Coach Bill Yoast. Told from Cheryl’s perspective as an innocent in a time of social change, “Remember the Titans” is a film that examines some of the most important issues of our day. It addresses the central question of race in America, and how a community can overcome its deep divisions through the spirit of sports and teamwork. The film also is an effective analysis of leadership and how it can affect, for good or ill, the sense of community and individual cooperation. The film deals with the use and misuse of power and authority, the relationships between change and appropriate leadership styles; the ways in which transformational leadership creates outcomes that are positive and synergistic; and finally, it considers the role of both leader and follower within a servant leadership perspective.
Plot Summary

Set in Alexandria, Virginia, the school board has decided to integrate a high school and bring in a new head football coach, Herman Boone, a black man. By taking the position, Coach Boone is ousting Coach Yoast in his Hall of Fame year, potentially robbing Yoast of ever achieving his coaching goals. In reluctantly agreeing to assist Boone, Yoast abandons all formal power and adopts a followership role. Anticipating tremendous change -- forced integration -- the players and the entire town must acknowledge the need for a major paradigm shift in their values and beliefs. Our initial view of Coach Boone’s leadership style is seen as the team prepares to leave for football camp. He is curt, abrasive and uncompromising. “This is not a democracy” will be his motto for the coming weeks. Uncertain about his formal authority, he will use power to lead and rule. Yoast, who deeply questions these tactics, and whose leadership style is markedly different, recognizes his responsibility to remain loyal and continues in his followership role. He is aware of his larger responsibilities to the community in this time of forced integration knows he cannot simply walk away.

At one point, Coach Boone tells the players that they must “Change everything. Change the way you eat, change the way you sleep, change the way you run, change the way you fight, change the way you win, and change the way you train” Boone attempts to create the paradigm shift through authoritarian methods and coercive power. But while his team makes some progress, the team development is not a shift that represents a fundamental change in attitude and behavior.

A pivotal point in the film occurs during a 3:00 a.m. run through the forest near Gettysburg. Boone is able to teach his players about the true nature of the battle they are fighting by comparing his players to the young men at the battle of Gettysburg. Boone says, “… This is where they fought the battle of Gettysburg. Fifty thousand men died right here fighting the same fight we are still fighting amongst ourselves… Take a lesson from the dead; if we don’t come together on this hallowed ground, we too will be destroyed just like they were”.

Once the coaches begin to work as a team, so too do the players. The team captain, Gerry, and the key black leader, Julius, begin to develop a strong friendship, but only after strong and volatile conflicts. Through their bonding and mutual commitment to the vision of a unified team, they begin to develop their own leadership qualities. The team models their lead by beginning to develop friendships among each other. Gerry becomes a model for the white players to follow, as does Julius for the blacks. Over the course of the football season, we follow the evolution of each leader and follower through his or her behaviors. The team learns that only through cooperation can success become a reality and they find eventual triumph as state champions.
Historical Background

“Remember the Titans” is based on a true story of two highly effective football coaches. Herman Boone successfully coached football, basketball and baseball prior to joining Coach Yoast at T. C. Williams High School. Boone, a native of North Carolina, received his bachelors and masters degrees from North Carolina College.

Boone’s effective coaching was evident through the many national and state championships gained during his first 13 years of coaching. The Scholastic Coach Magazine as “the number one football team in America” recognized his 1966 Williamston, North Carolina team. He was selected as Coach of the Year six times before his school board in Williamston informed Boone that their town was not ready for a black head coach.

Seeking a new employer in 1969, Boone applied to be the assistant coach at T. C. Williams High. He worked under Coach Yoast for two years before, in 1971; the City of Alexandria decided to integrate its school system. They appointed Herman Boone as the first head coach over Bill Yoast, reinforcing their commitment to forced integration. Boone was honored to be selected as head coach, but with the abrupt change in leadership, he was apprehensive about the challenge of creating both a cohesive coaching staff and successful football team.

William Yoast, who was born and raised in Florence, Alabama, received his education through the United States Air Force at the Georgia Military College. Yoast received his masters degree at Peabody College and started his teaching and coaching career in Sparta, Georgia before moving to Alexandria, Virginia to begin a thirty-year tenure at T. C. Williams High School. During the 1971 season, the year the film takes place; his team was ranked second in national polls and won the state finals.

Main Characters

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<thead>
<tr>
<th>Character</th>
<th>Position</th>
<th>Actor</th>
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<tbody>
<tr>
<td>Coach Herman Boone</td>
<td>Head Coach</td>
<td>Denzel Washington</td>
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<tr>
<td>Coach Bill Yoast</td>
<td>Assistant Coach</td>
<td>Will Patton</td>
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<tr>
<td>Julius Campbell</td>
<td>Black team captain</td>
<td>Wood Harris</td>
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<td>Gerry Bertier</td>
<td>White team captain</td>
<td>Ryan Hurst</td>
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<td>Petey Jones</td>
<td>black player</td>
<td>Donald Andeosun Faison</td>
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<tr>
<td>Jerry “Rev” Harris</td>
<td>black player</td>
<td>Craig Kirkwood</td>
</tr>
<tr>
<td>Lewis Lastik</td>
<td>white player</td>
<td>Ethan Suplee</td>
</tr>
<tr>
<td>Ronnie “Sunshine” Bass</td>
<td>white player</td>
<td>Kip Pardue</td>
</tr>
<tr>
<td>Sheryl Yoast</td>
<td>Coach Yoast’s daughter</td>
<td>Hayden Panettiere</td>
</tr>
<tr>
<td>Carol Boone</td>
<td>Coach Boone’s wife</td>
<td>Nicole Ari Parker</td>
</tr>
</tbody>
</table>

Introducing the Case
It is suggested that the study participant watch the film in its entirely prior to the case discussion. Taking notes while viewing the film will help the participant synthesize key information for discussion. Special attention should be given to specific behaviors of the key characters. For example, what outcomes result with each behavior/situation? How do characters’ behaviors change over the course of the film? What impact did the character changes have on the team and the community?

Relevant Theories That Apply

Interpersonal Relations and Race

As mentioned above, the film “Remember the Titans” addresses the central question of race in America. It is necessary to understand cultural diversity in not only society, but within the organizations in which we live and function. Leadership is impacted by the relationships we form with others and race impacts the way these relationships are developed. Leader member exchange theory (Graen & Uhl-bien, 1995) states that leader and follower relationships are created through interpersonal exchanges in which the parties to the relationship evaluate each other with regard to trust, ability and integrity. Leader member exchange theory contends that leaders develop relationships of varying quality with each of their followers and that the quality of these relationships remains stable over time. Thus, a leader forms “in” and “out” groups within their organization. Anjali (2000) studied demographic variables and found support for the hypothesis that demographic variables, such as race, impact the quality of relationships developed between leaders and followers. Additionally, Tsui and O’Reilly (1989) found that increased dissimilarity in leader-follower demographic characteristics was associated with lower evaluations of effectives as perceived by leaders and less personal attraction on the part of leaders toward followers.

The film “Remember the Titans” creates a scenario where leaders and followers of different races are forced to work together in order to achieve a goal – winning the state championship. Race issues are present at all levels of the organization – coaches, players, administrators, parents, and, ultimately, the community. At first glance, the characters in the film view each other as extremely “dissimilar”. Coach Boone and Coach Yoast have immediate distaste for each other at the beginning of the film, as do the team captains Julius and Gerry. Additionally, the Coach Boone negatively evaluates Gerry, the white team captain which is evident in the “Who’s your daddy?” scene. Each coach appears to positively evaluate the team captain to whom they are most similar --Coach Yoast positively evaluates Gerry and Coach Boone positively evaluates Julius.

As the film progresses, however, the coaches and team begin to see each other differently. Coach Boone requires that the players sit with members of their team by position rather than by race. Further, he requires the players to share a room with a player of a different race. The players begin to know each other at a different level – they begin to understand how they are alike and how they are different. The quality of
their relationships grows beyond the color of their skin toward how they can support each other on the team. Coach Boone and Coach Yoast begin to respect each other for their behavior rather than disrespect each other because of their race or situation. Perhaps leader member exchange theory can impact initial evaluations within leader/follower relationships, but once individuals have the opportunity to understand each other and work toward a common goal, the negative of perceived dissimilarity is diminished.

Sources of Power

Power and authority have been examined in organizational behavior and leadership research for many years (Allen, et al., 1979; Pfeffer, 1981; Weber, 1947; Kanter, 1979). Pfeffer defines power as “a force, a store of potential influences through which events can be affected” (Pfeffer, 1981, p. 407). This contrasts with politics, which he defines as “intentional acts of influence.” Though much research has been done regarding organizational power, many of these theories fail to bring forth a parsimonious taxonomy that can be tested empirically. For this reason, this case utilizes French and Raven’s (1959) power taxonomy as a means of understanding the force of power in the context of social change. French and Raven (1959) identify five sources of power by which an individual can potentially influence others. The five sources of power are oriented from the leader’s perspective, but it should be noted that the follower must acknowledge and award each source of power to the leader in order for the leader to use that power. In addition, followers also have the same five sources of power and can influence the leader. Becoming aware of these bases of power can help those who study leadership understand more clearly how leaders and followers influence each other. Briefly, the five sources of power are as follows:

1. Expert Power: Expert power is the use of knowledge. Those with an expertise in an area are able to influence those around them through the use of that expertise.
2. Referent Power: Referent power is derived from the relationship the leader develops with the followers. The stronger the relationship between a leader and his/her followers, the greater referent power the leader possesses.
3. Legitimate Power: Legitimate power is derived from a leader’s formal position within an organization, or their organizational role. Legitimate power is one’s formal authority.
4. Reward Power: Reward power is the potential to influence others due to one’s control over valuable resources. This type of power can include raises, bonuses, promotions, assignment to high visibility projects, time off, desired activities, parking places, interceding on one’s behalf, awards and praise.
5. Coercive Power: Coercive power is the opposite of reward power – it is the potential threat of taking away valuable resources, or employing negative sanctions. The fear of punishment becomes the motivating factor for the follower when coercive power is being used. Speeding tickets, forced over-time, denial of...
vacation dates, refused promotions, loss of social privileges, and prison sentences are all sources of coercive power.

Research indicates that leaders who rely on expert and referent power have subordinates that are more motivated and satisfied than leaders that use coercive, legitimate or reward power. Hinkin and Schriesheim (1990) studied influence tactics and their relationship with sources of power. Though influence tactics are not a focus of this case study, it is relevant to the theoretical development of this case that in Hinkin and Schriesheim’s 1990 study, rationality was positively associated with legitimate, expert and referent power. Rationality was also the most commonly used influence tactic by leaders in their study. In contrast, assertiveness was positively associated with coercive power and negatively associated with expert and referent power. (See appendix A for definitions of influence tactics).

In the context of this film, it is of interest to watch Coach Boone shift from using assertiveness in the beginning of the film to using rationality toward the conclusion of the film. The followers (players) in this case respond to all sources of power, coercive, expert and referent, but the outcomes are significantly different based on the source of power utilized by Coach Boone. The question arises as to whether Coach Boone understood the source of power that he was using and the purpose for using it. Did he change his tactics in response to the situation at a conscious level? And finally, what context forces a leader to use authoritarian power over the other sources of power available? Cobb and Margulies (1981) make the observation that it may be possible to separate the objectives of a leader and the means to solve a problem. However, they conclude that the means to solve a problem may ultimately impact the end result. Boone used coercive means to initially solve the problem. However, he shifted strategies when he saw the objectives he desired were not being attained.

Every leader and every follower possess a certain amount of power. As shown above, many leadership theorists state that a leader must utilize power in order to be effective. However, the many effective leaders allow their followers to influence them in a give and take power relationship. High degrees of reciprocal influence are present in the most effective organizations where power is a factor of reality.

Servant Leadership

In direct contrast to the power theory described above, Robert Greenleaf, (1996) defined servant leadership as occurring when the leader yields to the will of his followers in order that the followers can reach their goals. According to Greenleaf, in order to be effective as a servant leader, one must relinquish control over goal setting. The role of the leader in this scenario is to guide the process and provide resources while allowing the followers to determine their course of action. Followers are empowered in this leadership process. Spears (1995) identified ten characteristics of the servant leader based on Greenleaf’s work. They include listening, empathy, healing, awareness, persuasion, conceptualization, foresight, stewardship, commitment to the growth of people, and building community.
And while the theoretical basis for studying servant leadership is still being developed by leadership scholars, many highly successful companies such as Southwest Airlines, TDIndustries, and Synovus Financial currently use servant leadership as their management philosophy and have been placed on Fortune’s list of “Top 100 Best Companies to Work for in America” (Levering & Moskowitz, 2001). Though there is little empirical work available, the qualitative work of Greenleaf and others has enabled students to understand the servant leadership theory.

Servant leadership is based on variables such as: (1) release of power, (2) facilitating followers’ process and (3) keeping an open mind. It is a way of living more than a learned behavior. The release of power refers to the leader’s ability to forgo their personal agenda in order to take up the cause of the followers. The servant leader provides valuable resources to the followers as well as opening avenues of collaboration amongst the followers. Facilitating the followers’ process requires the servant leader to act as leader only as much as required for the group to take form. Once the group is functioning, according to follower-defined rules, the servant leader observes the process develop. The servant leader might only verbalize ideas when directly requested by the followers. Again, the servant leader is primarily concerned with the goals the followers have developed for themselves. Keeping an open mind requires the servant leader to refrain from influencing the group to take specific action and accepting group decisions without discussion. The pre-conceived ideas of the servant leader must be held at bay while the follower group formulates plans and begins to implement them.

Senge (1990) continued Greenleaf’s work on servant leadership by developing the concept of the learning organization. Briefly, the learning organization as defined by Senge emphasizes the need for organizations to be adaptable in order to react to ongoing change. The concept of the learning organization is in direct conflict with traditional bureaucracies who find it difficult to adapt in changing business environments. Senge’s concept of the learning organization requires corporations to foster creativity in order to increase their capabilities.

Unique qualities of effective leaders in a learning organization resemble the qualities of a designer, teacher and steward of the people. These leaders seek to serve their stakeholders rather than the more traditional view of the leader who gives commands and sets agendas. Leaders in learning organizations have the knack of instilling “creative tension” (Senge, 1990). Creative tension exists when the leader can create a vision for followers and then illustrate the current realities. The tension that is created in this process serves to motivate followers toward change. Followers can see for themselves the need for change and begin to move toward the vision.

Coach Boone did not create a learning organization, at least during the first half of the film. He was the traditional authoritarian leader who exerted coercive power to attain his goals. In contrast, Coach Yoast, who had been ousted from his head coaching position, acted as a servant leader by complying with Coach Boone’s strategy. Coach
Yoast provided resources, yielded to Coach Boone’s process, and tried to keep an open mind. As the film progressed, however, Coach Boone began to instill the values of the learning organization in the team by creating a vision. Coach Boone began to make clear for the players the large gap that existed between the vision of what they could be and what they currently were. The effect of this motivation becomes evident as the players begin to emerge as leaders in their own right by making creative decisions about their behavior and attitudes. Coach Boone becomes the designer, teacher and steward to the team rather than the primary decision maker and authoritarian.

A common theme in the film “Remember the Titans” is the transition from coercive leadership style derived from power toward a more “learning” type of leadership style. Stewardship theory (Davis, Schoorman & Donaldson, 1997) has been developed in an attempt to respond to competing notions of leadership. Economic approaches to governance assume that followers are individualistic, opportunistic and self-serving. In contrast, agency theory posits that individuals seek to maximize utility (Jensen & Meckling, 1976), is a primary example of an economic approach to governance. Sociological or psychological approaches to governance, such as stewardship theory, assume that followers are collectivists, pro-organizational and trustworthy. Stewards of an organization act in the best interests of their followers. Davis, Schoorman and Donaldson (1997) are clear to state that neither agency theory or stewardship theory are appropriate in every situation. Rather, they indicate situations, psychological states, and social values that impact which theory might be most appropriate.

This film provides an excellent example of how one can transition from an agency perspective toward a steward perspective and the impact that the shift of leadership style can have on followers. Coach Boone’s initial management philosophy was control oriented. He put strong control mechanisms in place and wanted immediate action in order to control psychological costs. His management objectives were individualistic. This case effectively demonstrates how stewardship theory slowly replaces agency theory for the participants as the situation demands.

**Transformational Leadership Theory**

Transformational leadership theory (Bass, 1985) attempts to outline specific leader behaviors that result in higher-order organizational outcomes. Transformational leadership has been found to be a universally accepted model of leadership (Bass, 1996) and to lead to higher performance in organizations (Howell & Avolio, 1993). Those who are able to be effective transformational leaders have been found to attain a higher developmental level than other leaders (Kuhnert & Lewis, 1987). Transformational leadership requires leaders to use a fair amount of drama, or charismatic behaviors in order to inspire their followers (Gardner & Avolio, 1998).

Transformational leadership culminates from the leader’s influence over his/her followers and the leader’s willingness to allow followers to be creative and contribute their ideas. The leader must also have the ability to create a compelling vision, articulate the undesirable current reality (creative tension), and to take a stewardship
perspective with regard to situational factors. The transformational leader is approachable (low power distance), involvement oriented, trusting of followers, collectivist (what’s best for the team) and stresses the importance of performance enhancement. Transformational leadership occurs through a unidirectional leader and follower relationship where the leader influences the followers in order to help them reach organizational goals. Often, the goals that are achieved are more far reaching than either the leader or the followers’ thought possible. The goals to be reached, though, are essentially determined by the leader.

In order to accomplish organizational goals through followership, a leader utilizes the “4I's of transformational leadership: (1) Individual consideration, (2) Inspirational appeal, (3) Intellectual stimulation and (4) Idealized influence. Briefly, individual consideration in used when the leader looks at each person individually, assesses their individual talents and seeks to develop each individual to their greatest capacity. Inspirational appeal is used when the leader describes a clear and exciting vision that encourages and motivates the follower to action. Intellectual stimulation is used when the leader seeks new and different ideas from followers. The leader seeks to induce creativity from followers and develop ideas that take the organization toward its goals. Idealized influence is used when the leader “talks the talk” and “walks the walk”. Behavior and values of the leader are standards accepted and modeled by the followers.

Differences between transformational leadership and servant leadership are numerous. First, regarding the goals to be achieved, under transformational leadership, the goals are decided and guided by the leader. In using servant leadership, the goals are determined by followers and followers implement changes.

However, under both transformational and servant leadership, the leader wants followers to be stronger as a result of their relationship. Using transformational leadership, leaders encourage followers to forgo self-interest in order to adopt the goals of the organization. In servant leadership, followers are completely empowered to reach their goals with the leader serving as a catalyst in the process.

A leader using transformational leadership behaviors would have considerable influence over followers; they would seek to develop followers to their greatest capacity. A follower might be able to decipher which style the leader is using by asking, “is the request being made for his own benefit, for the benefit of the organization or for my benefit?” Of course, a servant leader would not make requests. Instead, he/she would ask the follower “Given the information I have shared, and what you already know, what do you think would be our best course of action?"

Another distinction between servant leadership and transformational leadership is that the servant leader does not claim people as “followers”. He/she equips them to perform their tasks even in the absence of the leader. Under transformational leadership theories, the followers are “claimed” by the leader in order to attain specific goals.
“Remember the Titans” effectively portrays Coach Boone utilizing transformational leadership behavior on several occasions during the second half of the film. He takes his players on a midnight run toward Gettysburg inspiring them to function as a team. He gives Lewie individualized consideration when he asks to see his grades at the end of each school term in order to help him qualify for graduation and college admittance. He serves as an ideal leader when he confronts racial tensions with character. Finally, he brings forth the intellectual stimulation of the coaching staff when he asks Coach Yoast for help at the close of the film. Coach Boone maintains his ultimate power while guiding the team to the ultimate goal, winning the state championship.

**Followership**

Researchers have discovered that effective followership is essential to attaining effective leadership. Recent research (Kelly, 1988; Hollander, 1992) work finds that we are each leaders and followers through our various roles throughout the day. The same characteristics that make one a good leader are also the characteristics that make one a good follower. Some of these characteristics are dependability, competence, commitment to the cause, self-management, forgoing personal goals and adopting the goals of the organization, and honesty. Followers are not passive, as previous work has found. Instead, they are active with their leaders in achieving the goals set before them. A leader cannot be effective without strong followers.

However, there are some differences between leaders and followers. Leaders garner greater attention and influence. Leaders set the tone and pace of the change. Leadership is a process or a function to be performed. Relatedness is an essential element for quality leadership. Followership is the interaction between the leader and the follower. The definition of leadership should mirror the definition of followership. In essence, they are two sides of the same coin. It is essential for researchers to understand the interactions that take place between leaders and followers in order to achieve higher organizational effectiveness.

“Remember the Titans” effectively illustrates the differences and similarities between leaders and followers. Particularly visible through the team captain Gerry and his peer, Julius, the players move between leader and follower roles throughout the film. At first in direct conflict with Coach Boone, Gerry realizes the value of leadership and followership as he ultimately develops into a leader whom Coach Boone emulates. Julius intrinsically understands the value of effective leadership, but also learns how to be an effective follower.

**Change**

This film illustrates a time of tremendous change for a town, a school system and an entire culture. The change theory of focus in this case is first order, second order and third order change (Bartunek & Moch, 1987). This theory is particularly applicable to the case as this change theory emphasizes the situational variables that call for each type of change. As described by Bartunek and Moch (1987), change can occur at three
levels. First order change is when incremental, procedural and small changes are made. First order change is of little consequence to organizations and workers because of the incremental nature of the changes. An example of a first order change might be the change in organizational letterhead, or inter-office communication procedures. Little effort is required by followers to integrate the change.

Second order change occurs when a consultant or other leader is brought into the organization for the purpose of making recommendations for change. The consultant is deciding what is best for the organization. The consultant must convince the members of the organization that a problem exists within their current schemata and then convince them that the change recommended is for their own and organizational best interests. The consultant would use influence tactics and/or transformational leadership behaviors in order to encourage compliance from followers to forgo individual goals for the sake of organizational goals. Second order changes are more difficult for follower to adopt because they must accept the consultant’s view on their schemata. After acceptance, the followers must implement the changes recommended.

Third order change occurs when a consultant or leader is brought into an organization to educate follower about their options, provide resources, and encourage the organization members to develop a solution of their own. This type of change would be more closely associated with the servant leadership model. Third order change is required when major paradigm shifts are necessary for organizational growth and effectiveness. Third order change has been found to be the most lasting type of change because followers are first-hand contributors to the change process. The leader functions primarily as a facilitator in the process.

The level of change determines the type of leadership necessary. First order change requires little leadership because organization members are familiar with the schemata and can made changes on their own. Second order change requires transformational leadership skills and influence tactics because the consultant is trying to encourage followers to forgo personal goals and agendas for the sake of the organization. Third order change requires servant leadership skills. The leader is educating the followers about their options and encouraging their active involvement in decision-making. The consultant actually relinquishes decision-making power to the followers. The consultant in the third order change scenario is seeking to help followers develop their own new and different schemata. Third order change encourages followers to proceed without the assistance of the consultant when they deem future changes are needed.

This case illustrates a major paradigm shift for the characters in the film. Not only have the rules been changed, but also the leadership, the way of communicating, and the players on the team have been changed. Initially, Coach Boone attempts to force a second order change by creating an atmosphere of fear and intimidation. He wanted to make the rules and have them followed. However, as the film progresses, it is clear that another type of change, third order change, will be necessary for the paradigm shift to occur. Once Coach Boone begins to relinquish control, empower others, and encourages their involvement, third order change is allowed to develop.
General Questions to Consider While Viewing the Film

1. How did Coach Boone evaluate Gerry, his white team captain at the beginning of the film? How did members of the team react to each other initially? How did this change over the course of the film?
2. At what points during the film did you see effective uses of power? At what points during the film did you see ineffective uses of power?
3. What factors might have prompted Coach Boone to utilize certain types of power?
4. Describe a situation in the film when you observed servant leadership? Did this differ from a time when you observed followership?
5. When did you observe the use of transformational leadership? What was the outcome of this type of leadership behavior?
6. At what points in the film did you observe first order, second order and third order change. What level of change was required for the characters to develop?

References


On the Side of the Angels
"We're on the side of angels. We're taking on the entrenched monopolies. In every business we've been in, we're the good guys." Jeffrey Skilling, President and CEO, Enron Corporation

Donald H. Schepers
Naomi A. Gardberg
Baruch College, City University of New York

ABSTRACT

This case provides students an overview of the demise of the Enron Corporation, one of the precipitating events for a new era of regulation. In the 1990’s, Enron was the subject of many articles and studies touting its quick rise as a firm successfully transitioning from a hard assets firm to a financial services powerhouse, a paradigm of the “new economy”. The demise of Enron was even swifter, accomplished in a matter of months in the latter part of 2001. A brief overview of Enron’s rise is given in the case, as well as a description of leadership, culture, financial operations, and stakeholder analysis. A Supplement is provided with the case for those who wish to pursue at greater depth the financial issues surrounding Enron’s collapse.

This case was intended for use in MBA courses on social issues in business, or business ethics. It might also be very useful in courses on financial or accounting ethics, as well as human resource management. Undergraduate students in advanced accounting or finance courses might find the case useful in discussing ethical obligations of their respective professions. These comments are directed at those teaching either social issues or some aspect of business ethics.

On the Side of the Angels

On the day he was elected CEO, Enron’s president, Jeffrey Skilling, was pictured on the front cover of the February 12, 2001 edition of BusinessWeek dressed in a black turtleneck and holding an electrified orb in his right hand, appearing more sorcerer than executive. Enron was busy mastering the deregulated energy markets, and he was leading the charge. Skilling defended Enron’s activities in these markets, particularly the California market, saying:

We’re on the side of angels. We’re taking on the entrenched monopolies.
In every business we’re in, we’re the good guys.¹

By August, 2001, the charge would be over and Skilling would resign after only six months as CEO. In September 2000, Enron’s stock price was in the $85-90 region; by November 2001 it was down to less than a dollar. In January 2002, John Clifford Baxter, an Enron executive, died, an apparent suicide. Timothy Belden, an Enron trader in the California markets, would plead guilty to conspiracy to manipulate markets in the California energy market² and another,
John Forney, would be arrested for conspiracy and wire fraud in the same California market. The angels, it seems, had come back to earth.

From Pipelines to Commodity Trader

In June 1984, the board of Houston Natural Gas (HNG), a natural gas distribution firm, hired Kenneth Lay as Chair and CEO, wooing him away from his position as president and COO of Transco Energy Company. His first task was to defend HNG from a takeover bid by The Coastal Corp. He did this by refocusing HNG on its core business. In a 1990 speech, Lay characterized his leadership during that time as follows:

In carrying out that assignment, between June 1984 and January 1985, $632 million of non-natural gas operations were sold and $1.2 billion of natural gas operations were purchased. As one director was heard to quip at the time, the Board gave me unlimited authority, and I exceeded it.  

Lay further expanded HNG with the creation of Enron in 1986, merging HNG and InterNorth, a natural gas pipeline company. Through this merger and a series of transactions, Enron became a natural gas and oil company. The name Enron was coined by combining the prefix of the word energy and the ending for the common chemical word for inert gas. Lay, the architect of the merger and Enron's first CEO, appeared to be one of the few individuals who recognized the opportunities offered by deregulation in the U.S. and privatization abroad. By the early 1990s, Enron had an interest in a 4,100 mile pipeline in Argentina, and was starting its power marketing business worldwide.

In 1994, Fortune ranked Enron first in a new category, pipelines, and 39th overall as one of ‘America’s Most Admired Companies’. By 1996 Enron had climbed to 22nd overall. In the 1990s, Enron was busy expanding its business structure into other areas, such as energy generation, broadband, and financial markets, yet Enron maintained its dominance of the pipeline industry’s ranking and was ranked in the top 20 firms overall through February 2001. In that year, Fortune named Enron the most innovative firm in the U.S. for the second year in a row. It first won the category in 1997. From 1994 to 2001 the firm steadily climbed in Fortune’s ‘America’s Most Admired Company’ list. Its stock price rose as dramatically: on December 31, 1996, Enron’s stock listed at 21 7/16 (adjusted for a 1999 split), and in December 31, 2000, its price was 83 1/8. (Figure 1) In the entry foyer, a huge banner was placed, reading “World’s Leading Company”. Skilling’s license plate, which had once read “WLEC” (World’s Leading Energy Company) changed to “WMM” (We Make Markets).

Throughout 2001, as Enron’s stock declined, so did its rankings. From 2001 to 2002 Enron’s score fell from 8.29 to 3.9, and from first to last in its industry. Enron was ranked 523 (of 530) in wise use of corporate assets and quality of management and 521 in fiscal soundness.
“Get it done. Get it done now. Reap the rewards”

Lay built a management team, not of gas and energy people, but primarily of MBAs. Rebecca Mark, an energy professional who rose from part-time trader to President of Enron International and Azurix Water, characterized Enron employees as ex-military, Harvard Business School and ex-entrepreneurship types. A Fortune article described the employees as “aggressive, well compensated traders.” One executive in the energy industry noted that, in the later years, it was often difficult for other energy companies to do business with Enron, because they “were just a bunch of MBAs, with no idea of the real energy business.” The culture was a mix of Texas and Wall Street, centered in Houston with the drive of a trading floor.

Enron had developed over the years from an oil and gas exploration and pipeline company to a derivatives trading company. In its office tower, the executive offices on the seventh floor overlooked the sixth floor, an expansive derivatives trading operation.

Enron’s management saw creativity and human capital as the real resource behind its future growth. In the 1999 Annual Report Letter to Shareholders, Lay wrote:

> Creativity is a fragile commodity. Put a creative person in a bureaucratic atmosphere, and the creative output will die. We support employees with the most innovative culture possible, where people are measured not by how many mistakes they make, but how often they try.

In April 2002 Lay described Enron’s culture:

> One of our greatest successes at Enron was creating a culture, an environment, where people could try to achieve their God-given potential. But certainly I wanted it to be a highly moral and highly ethical environment. I have done the best job I can of following that every where I have been.

Lay insisted on ethics at Enron. Every employee received a copy of the Code of Ethics, and with it a memo from Lay dated July 1, 2000 that read in part:

> As officers and employees of Enron Corp. … we are responsible for conducting the business affairs of the Company in accordance with all applicable laws and in a moral and honest manner. … An employee shall not conduct himself or herself in a manner, which directly or indirectly would be detrimental to the best interests of the Company or in a manner, which would bring the employee financial gain separately derived as a direct consequence of his or her employment with the Company. … We want to be proud of Enron and to know that it enjoys a reputation for fairness and honesty that is respected. … Let’s keep that reputation high. (emphasis in original)
Skilling put his own mark on Enron’s culture. Extravagance was celebrated. At one meeting, Mark rode onto the stage with another executive on a Harley. At another, an adult elephant was brought in. One executive showed up for an employee gathering with a tractor-trailer full of expensive sports cars. The floors on the parking garage were marked by words selected to remind employees of valued attributes: bold, innovative, smart, united, ambitious, accomplished, resourceful, creative, confident, adventurous, adaptable, and undaunted.\(^7\)

Recruitment took place both in long, intense interviews, and visits to topless bars and strip clubs.\(^7\) Once an individual passed an initial interview, he or she was invited to a “Super Saturday” session of interviews. This amounted to eight 50-minute interviews. Each interviewer would rank the candidate on between five to eight categories, and the ratings would be compiled. Offers would go out within a few days, and candidates that turned down the job offer would be offered signing bonuses or other financial inducements.\(^14\)

Central to Enron’s human resource policy was Skilling’s Peer Review Committee (PRC), or what became known as the “rank and yank” process.\(^7\) Every six months, each person would choose five individuals (four plus the immediate supervisor) to provide feedback on his or her performance. Others who desired could also contribute unsolicited feedback. This feedback went to the PRC’s ratings meeting where employees were rated on a scale from 1 (excellent) to 5 (worst performing). The PRC took place behind closed doors, but in plain sight, since interior walls on the trading floors were glass. The picture of the individual being discussed would appear on a slide show, visible to all on the floor, while management discussed the evaluations. The PRC was a forced ranking system, where 15 percent of those reviewed had to receive 5’s. These would then be “redeployed”, meaning they had to search for a job in the organization or find themselves unemployed.

One employee noted that there were two realities of life on the Enron floors: stock price and the PRC.\(^14\) Nothing else mattered. Michael J. Miller, a manager in Enron’s failed high-speed Internet service venture described the atmosphere as “Get it done. Get it done now. Reap the rewards.” An acrylic paperweight from the legal department stated its mission as “To provide prompt and first-rate legal service to Enron on a proactive and cost-effective basis.”\(^15\) Below that was “Translation: we do big, complex and risky deals without blowing up Enron.” Employees that survived were rewarded for earnings that could be quickly booked, regardless of the long-term consequences. For instance, two of the Enron executives who closed the deal on the doomed Dabhol power project in India received bonuses in the range of $50 million just for closing the deal.\(^16\)

Similar to many other companies in the dot-com boom of the 1990s, Enron offered a high reward structure for its employees. In 1999, Fortune ranked Enron as one of the 25 best companies to work in America, and second in employee talent. More than 2000 Enron employees were millionaires. Employees received free laptops and hand-held devices, expensive ergonomic chairs and lunches at Houston’s finest restaurants. The
company distributed Waterford crystal gifts for Secretaries’ Day. Enron’s Board of Directors was also well compensated. Chosen by management, Enron directors received cash and stock worth $300,000 a year.  

Rewards extended beyond the workday. For a family picnic Enron rented the 85-acre Astroworld theme park. The 2001 Christmas party with a budget of $1.5 million was to be held at Enron Field, Houston’s new sports stadium. “Appearances were very important,” said Jeff Gray, a former Enron economist. “It was important for employees to believe the hype just as it was important for analysts to believe it.” In London, Enron’s well-paid executives submitted sealed email bids for 18 parking places. One executive paid $6,250 to use an optimal space for one year. However, many employees felt that they deserved the perks because working at Enron required 12-hour workdays and endless travel.

Change was constant as businesses came and went. Enron units were often reorganized, perhaps 3 to 4 times a year. The continual reshuffling taxed the accounting staff. When a unit was reorganized it received a new cost code but the old codes were not immediately deleted. This provided an opportunity for charging purchases to the old cost code.

On the trading floor, there were stories of the men rating women as potential models on a calendar. When one of the “candidates” would walk onto the floor, someone would yell the name of the month to alert others of her presence. At Enron like many high-risk, high reward companies gambling was prevalent. A former Enron International executive described the annual NCAA basketball tournament pool as reaching almost $90,000. At times employees celebrated their trading wins or deals at local strip clubs. In 1999 Enron informed employees to avoid using their company credit cards at the clubs, listing the clubs in a memo under their discreet billing names.

This culture spilled out of the doors and into Enron’s relationships with others, particularly its analysts. On one occasion, Fastow was asked by a Citigroup banker about a group of equations on the whiteboard in the conference room next to his office. The banker wanted to know if Fastow understood the equations. Fastow replied, “I pulled them out of a book to intimidate people.”

Analysts who listened to the quarterly earnings-report conference calls would be derided if they had questions about the details. The most notorious incident occurred during the April 17, 2001 conference call. Skilling had finished presenting the numbers and was responding to questions when Richard Grubman, a managing director of Highlands Capital Management, asked about Enron’s balance sheet and cash-flow statement after earnings. Enron had failed to provide either. When Grubman commented that Enron was the only financial institution that never provided such statements for these calls, Skilling shot back, “Well, thank you very much. We appreciate that, asshole.”
Enron and the Capital Markets

Prior to his employment at Enron, Skilling served as consultant to Enron for McKinsey & Co. In 1989, Enron launched GasBank at Skilling’s urging for the purpose of hedging risk for natural gas producers and wholesale suppliers. Both parties could arrange forward contracts (contracts to purchase or sell commodities at a future date) at set prices, and Enron would sell financial derivative contracts to sell the risk of the forward contracts to other interested investors. In 1990, Enron became a market maker, a financial clearinghouse, for natural gas, selling swaps and futures on the New York Mercantile Exchange. In that same year, Lay hired Skilling as CEO of Enron Gas Services, and Skilling hired Fastow to serve as Chief Financial Officer (CFO). EGS was ultimately renamed Enron Capital and Trade Resources (ECT).

Through a process known as “asset securitization”, ECT provided financial and risk management services for Enron and its trading partners. This process involves selling the rights to future cash flow streams. Originating corporations, such as mortgage companies, would take their risky investments and sell them to another financial institution, such as an investment bank. The investment bank, in turn, would take a number of such investments, bundle them together, “strip” (or separate) the investment cash flows by level of risk, and put the result into securities they would then sell. In the case of mortgage-backed securities, investment banks might offer two securities, one based on the principal and the second on the interest payments. Each would have a different yield, based on the level of risk. Asset securitization is attractive to the originating corporation on two counts: it eliminates risk of default by selling the risk to the investment bank, and lowers cost of capital by providing immediate cash inflow.

ECT fulfilled two functions. First, it provided asset securitization services for Enron’s natural gas and oil entities, making those entities much more profitable. Secondly, it moved Enron further toward Lay’s vision of Enron as a trading floor, a market maker, for a variety of commodities. With the attainment of risk management and capital flow-through, Enron could in principle trade anything. Through the 1990’s, Enron was rapidly becoming a commodities market based in Houston. Even weather risk was commoditized and traded. This was supplemented with what Skilling would term “asset-lite”: the hard assets Enron originally controlled in such deals would be sold, in many cases to special-purpose entities (SPEs) that were created by Enron.

Two Critical Elements: Mark-to-Market and the SPEs

Enron funded its growth as a financial services firm by using very sophisticated financial practices, mark-to-market accounting and SPEs. Originally termed mark-to-model, the mark-to-market accounting method was intended to assist investors in obtaining some reference point in valuing a security. A model was constructed using a number of assumptions, and the security was then valued using that model. In reality, these prices were generated by computers, not by market process. However, some Wall Street bankers, and later Enron executives, would often term prices obtained through this process as mark-to-market, not mark-to-model. Enron relied on this procedure to
establish prices (sometimes unrealistically high) in certain of its commodities (e.g., weather) where the markets were new and there were no reference prices.¹¹

The second mechanism Enron used was the creation of special purpose entities (SPEs). SPEs are financial devices designed to give companies greater flexibility in finance and risk management. While an SPE can take a variety of forms (corporation, partnership or trust), the essence is the same: the SPE allows a corporation to segregate financial activity from its corporate balance sheet. A well-established high-tech firm, for example, might want to engage in developing the next generation of devices, but hesitate because even small setbacks in risky R&D efforts could damage its stock price. By setting up an SPE for research into new technology, the firm could safely do innovative research and simultaneously segregate all the risk into its SPE. There are two requirements for SPEs to be legitimate: first, there must be a 3 percent outside equity position; and second, the outside capital must clearly be at risk.

Fastow set up a number of SPEs for Enron. Among the more famous were partnerships named Chewco, JEDI, LJM1 and LJM2, and four investments named Raptors. The first SPE created was named the Joint Energy Development Investment (JEDI), a $500 million partnership between Enron and the California Public Employees Retirement System (CalPERS) in 1993. This partnership would continue until 1997, when CalPERS sold its position to Chewco, another SPE created specifically by Enron to purchase the CalPERS shares in JEDI. Enron hoped that this buyout would then encourage CalPERS to invest in JEDI II, a proposed $1 billion venture.

Enron encountered financial problems that SPEs (many failing the legitimacy criteria) would be used to solve. Enron had built itself into its commodities swap mechanism. It was not simply brokering the contract, but actually buying and selling natural gas. This required a high credit rating. High default risk on Enron’s part would ruin the swap business. SPEs provided Enron the opportunity to continually move debt from its balance sheet, keeping its high credit rating and its swap business.

The “Friends of Enron”

As Enron expanded the use of SPEs, new investors were required to satisfy the SEC requirement of 3 percent outside equity investment. Accordingly, Fastow and Michael Kopper (managing director, Enron Global Finance, and a direct report to Fastow) established a group called the “Friends of Enron”. These “Friends” were actually relatives or friends of Enron’s executives. Fastow and Kopper funneled monies through these people to finance the purportedly outside equity in the SPEs.
The Web of SPEs

Enron’s need for a high credit rating drove the creation of even more SPEs to keep debt off the balance sheet. Over time, Enron engaged in deals with over 3,000 off-balance-sheet subsidiaries and partnerships. The thinning margins in each maturing market meant decreasing profits, but profits were necessary to continue Enron’s trading mechanism. The only way to continue was to create more profits, and that meant opening new commodity markets, exploiting them quickly, and then creating newer markets. The SPEs were critical to this strategy, keeping debt from the books and providing capital. Enron’s stock price soared dramatically, unburdened by the debt that was accumulating in the SPEs.

Enron began trading wholesale electricity in 1994, with the beginning of deregulation in the U.S. electricity markets. These trades provided some capital for Enron, but also exaggerated the internal problems. Enron did not have the cash required to acquire generating capacity, though it stated in its 1998 Annual Report that it had indeed done so. In fact, Fastow had created yet another SPE to finance the “acquisition”, again adding minimal assets to Enron’s balance sheet and shielding Enron from the debt.

The SPEs presented Enron with the opportunity to disguise debt and loss as revenue, but they did not necessarily result in cash flow. Enron would establish an SPE by issuing Enron stock to collateralize the SPE, and then engage other entities such as banks to invest in the SPE. Enron would then “sell” the SPE the deal that it had set up the SPE to handle in return for either cash or a promissory note, which Enron would then book as revenue. In one case, it was a forward contract on shares of an internet company in which Enron had invested. Another case was “dark fiber”, i.e., fiber optic cable that was already laid but as yet unusable. In both cases, Enron had a “make whole” contract with the SPE, insuring that the SPE would not lose money. However, even as the dot-com bubble burst, the shares in the internet company declined, and the value of the dark fiber likewise dropped, Enron was able to shield its balance sheet from these losses.

constructed on Enron stock as they were, these SPE arrangements contained triggers, i.e., valuation points where these deals would need infusions of either more Enron stock or other collateral. For example, in an SPE named Osprey, if Enron’s stock fell below $59.78, Enron was obligated to either issue new stock (either directly to Osprey or in a private placement) or provide cash sufficient to bring the value of Osprey up to cover its debt obligations. In another instance, Enron’s stock price decline forced restructuring of four SPEs named Raptor I, II, III, and IV in December 2000, and then requiring an additional infusion of stock in the first quarter of 2001 to shore up their falling credit capacity. By the end of the restructuring, Raptors II and IV owed an additional $260 million to Enron. In examining the various Raptor transactions, Stuart Zisman, an attorney for Enron North America, wrote (emphasis added in the Powers Report):

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Our original understanding of this transaction was that all types of assets/securities would be introduced into this structure (including both those that are viewed favorably and those that are viewed as being poor investments). As it turns out, we have discovered a majority of the investments being introduced into the Raptor structure are bad ones. This is disconcerting [because] ... it might lead one to believe that the financial books at Enron are being “cooked” in order to eliminate a drag on earnings that would otherwise occur under fair value accounting…

The Investment Bank Connection

Enron’s need for a high credit rating influenced its relationships with investment banks as well. In return for its business, Enron sought short-term deals that allowed it to disguise loans as sales revenue, and in turn unload (for brief periods of time) unprofitable entities from Enron’s balance sheet. Between 1992 and 2001, Enron borrowed $8 billion from Citigroup and J.P. Morgan Chase & Co. in transactions that had the appearance of gas trades rather than loans, understating Enron’s debt by $4 billion, and overstating its $3.2 billion cash flow from operations by 50 percent. An independent bank examiner, Neal Batson, found that Enron had recorded profit of $1.4 billion through similar transactions with six investment banks.

The Enron Control System

Our philosophy is not to stand in the way of our employees, so we don’t insist on hierarchical approval. We do, however, keep a keen eye on how prudent they are, and rigorously evaluate and control the risk involved in each of our activities.

The Enron culture was not without its system of checks and balances, particularly in the financial dealings. The Board turned to those checks and balances when approving the deals with the SPEs, as well as Fastow’s role in the various SPEs. It was the task of Risk Assessment and Control (RAC) to examine each deal and perform due diligence. RAC had the responsibility to oversee and approve all deals in which Enron engaged, over 400 each year. Each deal was accompanied by a Deal Approval Sheet (DASH) assembled by the business unit responsible for the deal. Each DASH had a description of the deal, origination information, economic data, a cash-flow model (sources and uses of cash and the deal’s internal value), risk components, financial approval sheet, and authorization page. Corporate policy required approval from the relevant business unit, legal department, RAC, and senior management. Many of the DASH forms for the various SPEs had incomplete authorizations. In particular, Skilling’s signature is blank on many of the DASH forms associated with the LJM deals.

As the number of deals with LJM increased, a separate LJM approval sheet was added as a control procedure. This approval sheet was printed with check marks already in the boxes. No third-party documentation was required to substantiate claims made on the document. Conclusions were used as questions (“Was this transaction done strictly
on an arm’s-length basis?"), while others revealed low standards ("Was Enron advised by any third party that this transaction was not fair, from a financial perspective, to Enron?").

There were twenty deals between Enron and LJM1 and LJM2. In setting up the LJM entities, the Board had waived Enron’s Code of Ethics and allowed Fastow to be named general partner, with a $1 million investment in LJM1 alone. When Fastow presented the option of creating the LJM entities to the Board, he portrayed them as alternative purchasers for Enron assets, providing perhaps better valuations for assets Enron was in the process of selling. In fact, as the quote from Zisman earlier hints at, there were no alternative buyers for most of what was sold to the SPEs.

The Board made two critical assumptions. First, it assumed that, since the operational results of each division were at stake, each division would therefore aggressively market assets. Second, it assumed that Andersen’s counsel on the LJM deals would be independent. The Board relied on the reviews by Richard Causey (Chief Accounting Officer) and Richard Buy (Chief Risk Officer) as a first level of control. In addition, the Audit and Finance committees of the Board were assigned the task of reviewing all transactions from the previous year. The Board also required Skilling to review and approve all LJM transactions, as well as to review Fastow’s economic interest in Enron and LJM.

Skilling, first as COO and later CEO, did not sign many of the DASH forms associated with the LJM transactions. No evidence exists that Skilling knew how much money Fastow was making through LJM. Skilling, in one note, simply said that Fastow’s first duty was to Enron because he received more compensation through salary and options than he might be making through LJM.

Neither stockholders nor analysts found it easy to monitor Enron’s overall performance. Information on the financial dealings, particularly those with the SPEs, was difficult to find. The information on the SPE deals was disclosed either through proxy statements or in footnotes on the 10-Ks and 10-Qs. This lack of disclosure was contrary to existing standards. Accounting standards demand that sufficient information be provided so that the effects of transactions on the financial statements can be determined. At one level, there should have been enough information for management to assert the related-party transactions were at least comparable with those that would have taken place with unrelated parties. Second, details were often omitted. In the 2000 10-K, Enron stated, “Enron paid $123 million to purchase share-settled options from the [Raptor] entities on 21.7 million shares of Enron common stock.” What Enron had actually purchased were put options, thereby betting that its stock would decline.

It Comes Undone

Six months after taking the reins as CEO, Skilling abruptly resigned. He had assumed the position of CEO of Enron on February 12, 2001, and he resigned effective August 14, 2001. His fifteen years at Enron were over, but Enron would haunt him long after,
through lawsuits and investigations. Skilling cited “personal reasons” as the cause, but there was widespread speculation that more was behind it.

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Non-derivative revenues</td>
<td>93,557</td>
<td>34,774</td>
<td>27,215</td>
</tr>
<tr>
<td>Non-derivative expenses</td>
<td>94,517</td>
<td>34,761</td>
<td>26,381</td>
</tr>
<tr>
<td>Non-derivatives gross margin</td>
<td>-960</td>
<td>13</td>
<td>834</td>
</tr>
<tr>
<td>Gain (loss) from derivatives</td>
<td>7,232</td>
<td>5,338</td>
<td>4,045</td>
</tr>
<tr>
<td>Other expenses</td>
<td>-4,319</td>
<td>-4,549</td>
<td>-3,501</td>
</tr>
<tr>
<td>Operating income</td>
<td>1,953</td>
<td>802</td>
<td>1,378</td>
</tr>
</tbody>
</table>

Source: Testimony of Frank Partnoy
In Hearings before the United States Senate Committee on Governmental Affairs
January 24, 2002.

Table 1 provides a quick glance at Enron’s profit and loss from 1998 to 2000. The declining gross margin indicates that Enron’s non-derivatives business was losing money. Any profitability was coming from Enron’s derivatives business. In fact, the amount of money Enron was making in this area was roughly equivalent to the annual net revenue of Goldman Sachs, Inc. In his testimony, Partnoy analyzed these profits thusly:

The size and scope of Enron’s derivatives trading operations remain unclear. Enron reported gains from derivatives of $7.2 billion in 2000, and reported notional amounts of derivative contracts as of December 31, 2000, of only $21.6 billion. Either Enron was generating 33 percent annual returns from derivatives (indicating that the underlying contracts were very risky), or Enron actually had large positions and reduced the notional values of its outstanding derivatives contracts at year-end for cosmetic purposes. Neither conclusion appears in Enron’s financial statements.

In the Raptor restructurings at the end of 2000 and beginning of 2001, a series of promissory notes from the Raptors had been recorded as increases in shareholders’ equity, eventually totaling $1 billion. In August 2001, Andersen accountants declared that Raptors I, II, and IV were improperly accounted for, and revisions were required. It was decided to record the correction in its third quarter filings, and on November 8, 2001, Lay announced a $1.2 billion reduction to shareholders’ equity, with the additional
$200 million write-down resulting from a difference in contracts between the Raptors and Enron. In addition to the $1.2 billion write-down in shareholders’ equity, Enron consolidated the SPEs back to 1997. Hence, the balance sheets of Chewco, JEDI, and LJM were now part of Enron’s balance sheet. Over the course of the four years, these adjustments reduced Enron’s income by $591 million, and increased its debt by just less than $2.6 billion. And some feared that the restatements were insufficient.

In the midst of this restructuring, a lawsuit was filed on October 22, 2001, by Milberg Weiss Bershad Hynes & Lerach, LLP. This was a class-action suit on behalf of Enron shareholders, and disclosed as part of its filing the names and amounts of stock sold by Enron insiders, both senior management and directors (Table 2).

### Table 2
**Senior Management and Board of Director Members Accused of Insider Trading**

<table>
<thead>
<tr>
<th>Senior Management and Board Members</th>
<th>Proceeds from Enron Stock Traded Between October 1998 and November 2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>J. Clifford Baxter(^a)</td>
<td>$34,734,854</td>
</tr>
<tr>
<td>Robert A. Belfer(^b)</td>
<td>$111,941,200</td>
</tr>
<tr>
<td>Norman P. Blake Jr.(^b)</td>
<td>$1,705,328</td>
</tr>
<tr>
<td>Richard B. Buy(^a)</td>
<td>$10,656,595</td>
</tr>
<tr>
<td>Richard A. Causey(^a)</td>
<td>$13,386,896</td>
</tr>
<tr>
<td>James V. Derrick Jr.(^a)</td>
<td>$12,563,928</td>
</tr>
<tr>
<td>John H. Duncan(^b)</td>
<td>$2,009,700</td>
</tr>
<tr>
<td>Andrew S. Fastow(^a)</td>
<td>$33,675,004</td>
</tr>
<tr>
<td>Mark A. Frevert(^a)</td>
<td>$54,831,220</td>
</tr>
<tr>
<td>Wendy L. Gramm(^b)</td>
<td>$278,892</td>
</tr>
<tr>
<td>Kevin P. Hannon(^a)</td>
<td>“Unknown but substantial”</td>
</tr>
<tr>
<td>Ken L. Harrison(^a)</td>
<td>$75,416,636</td>
</tr>
<tr>
<td>Joseph M. Hirko(^a)</td>
<td>$35,168,721</td>
</tr>
<tr>
<td>Stanley C. Horton(^a)</td>
<td>$47,371,361</td>
</tr>
<tr>
<td>Robert K. Jaedicke(^b)</td>
<td>$841,438</td>
</tr>
<tr>
<td>Steven J. Kean(^a)</td>
<td>$5,166,414</td>
</tr>
<tr>
<td>Mark E. Koenig(^a)</td>
<td>$9,110,466</td>
</tr>
<tr>
<td>Kenneth L. Lay(^a,b)</td>
<td>$184,494,426</td>
</tr>
<tr>
<td>Rebecca P. Mark(^a,b)</td>
<td>$82,536,737</td>
</tr>
<tr>
<td>Michael S. McConnell(^a)</td>
<td>$2,506,311</td>
</tr>
<tr>
<td>Jeffrey McMahon(^a)</td>
<td>$2,739,226</td>
</tr>
<tr>
<td>Cindy K. Olson(^a)</td>
<td>$6,505,870</td>
</tr>
<tr>
<td>Lou L. Pai(^a)</td>
<td>$270,276,065</td>
</tr>
<tr>
<td>Kenneth D. Rice(^a)</td>
<td>$76,825,145</td>
</tr>
<tr>
<td>Jeffrey K. Skilling(^a,b)</td>
<td>$70,687,199</td>
</tr>
</tbody>
</table>
During this time, Enron’s one hope was a proposed merger with Dynegy, a corporation once viewed by Enron employees as an insignificant competitor. Now, Dynegy was the only thing between Enron and absolute disaster. However, the merger also died of the same problems that had plagued Enron: fear of what was not disclosed. The merger was announced on November 9, the day after the restatements. On November 28, Standard & Poor’s downgraded Enron debt to junk status, Dynegy declared the merger dead, and Enron’s share price dropped from $3.69 at opening to $0.61 at close. On December 2, 2001, Enron filed for Chapter 11 bankruptcy protection, and Jeff McMahon (Executive Vice President, Finance, and Treasurer, Enron Corp.) was named president and CEO following Ken Lay’s resignation on January 23, 2002. McMahon would in turn resign in April 2002.

THE AFTERSHOCKS

Criminal Actions

In addition to a number of Congressional hearings, the Enron bankruptcy also brought criminal actions by the government. David Duncan, Andersen’s lead auditor for Enron, pleaded guilty of obstruction of justice in April 2002 for document shredding in connection with the Enron account. Kopper, the individual Fastow relied on so heavily, pleaded guilty in August 2002 to conspiracy to commit wire fraud and money laundering. He would lose approximately $12 million that he admitted he had improperly acquired through the various SPE deals in which he had been involved. Fastow was indicted in October 2002 on 78 counts for his role at Enron and in the various SPEs, and his accounts were frozen.

The Retirement Vanishes

Enron had been a significant holding in many large funds, particularly pension funds that sought to invest by industry segment. Enron employees were particularly invested in the stock. Their 401(k)s were primarily Enron, and they were barred from selling their shares until they turned 55. In fact, due to the rise of the stock price, even then many held on. Many were solely invested in Enron. As late as the summer of 2001, Ken Lay was predicting that Enron would regain much of its loss in stock price. His email
announcing the resignation of Skilling as CEO, and his own resumption of that post, ends with this:

Our performance has never been stronger; our business model has never been more robust; our growth has never been more certain; and most importantly, we have never had a better nor deeper pool of talent throughout the company. We have the finest organization in American business today. Together, we will make Enron the world’s leading company.\textsuperscript{14}

At the same time, however, Lay was busy selling much of his Enron stock. During 2001, Lay is reported to have sold $70 million in Enron shares. For almost an entire year, he was selling between 3,000 and 4,000 shares each workday.\textsuperscript{23} He sold some shares back to the company to repay a loan from Enron. By doing so, he not only disposed of the stock, but also circumvented disclosure laws that would have required him to report insider stock sales.

In October 2001, Enron was scheduled to switch money managers for its 401(k) plans. The switch created a window of days where employees would be barred from trading their stock. The dates of this blackout window were not well understood by rank-and-file employees, and many thought it started earlier than it actually did. The blackout was to start October 19, and end November 20, though employee protests forced the end-date to be moved up to November 12. Enron, which had once had a stock price over $90, was $8.41 on November 13, 2001.

The pension funds of every state were invested, to some extent, in Enron stock. The estimated loss to these funds was $1.5 billion. Florida lost $328 million, California $142 million, and Georgia $122 million.\textsuperscript{24} A portion of the pension and endowment funds of the University of California was invested, losing $145 million in the demise.\textsuperscript{25}

\textbf{The Accounting Profession}

Fallout spread throughout the accounting profession as well, as reports of inadequate oversight continued throughout the fall of Enron. In the fall of 2001, the Houston office of Arthur Andersen shredded documents associated with the Enron account. Nancy Temple, a lawyer associated with Arthur Andersen’s Chicago offices, emailed David Duncan, the lead Enron auditor for Andersen, a reminder of the corporate policy on memo retention. As a result, large numbers of documents in Andersen’s Houston offices were shredded before Department of Justice officials could impound them. Duncan later pleaded guilty to criminal obstruction of justice over the document shredding. Temple was named by a grand jury as one of four or five “corrupt persuaders” who encouraged the destruction of documents.\textsuperscript{26} Andersen itself was stripped of its license to audit public corporations in the U.S., and ceased to do business.
The Energy Industry

The energy industry was severely wounded by the Enron affair. Financing for energy corporations dried up. In the summer of 2002, one energy executive commented, “We have $30 oil and $10 natural gas, and we should be busy as hell. Instead, we’re not able to do anything.” Because oil and natural gas explorations can take years to develop into productive fields, the result of this dearth of capital would be felt for years to come. Some smaller corporations went bankrupt due to lack of financing for exploration. For these corporations and their employees, the effects were immediate.

The energy trading business became untenable, as well. In August 2002, Aquila began its withdrawal from energy trading due to sluggish business. In November 2002, El Paso Energy decided to discontinue its energy trading unit after a third quarter loss of $69 million, and UBS announced the closure of the trading floor it had acquired from Enron, citing market contraction.

The Charity Fallout

Enron and its executives were very generous to not only their hometown of Houston but to educational institutions nationwide and the favorite causes of its board members. Initiatives included sponsorship of Enron Field (home to the Houston Astros), college scholarships, United Way and university endowments.

Locally, Enron donated 50 college scholarships to Houston high school students. In 2001 after the severe flooding in Houston, Enron organized a program with the United Way and local businesses to help city residents. In the project of siting Houston’s new baseball stadium, Lay was instrumental in convincing local business leaders to support the location of the new field in a rundown part of Houston.

In speaking of Enron Jacqueline S. Martin, president of United Way of the Texas Gulf Coast said “If anything happens to them [Enron], it’s going to be a major loss to this community.” But something did happen to Enron. In 2002 Enron announced it would be unable to fulfill its $10 million in pledges. This included a $5 million donation to Rice University’s Jesse H. Jones Graduate School of Management to fund chairs in e-commerce and risk management. However, the Lay Family foundation confirmed its intent of fulfilling its $3 million pledge for the Ken Lay Center for the Study of Markets in Transition.

Enron also generously contributed to the causes of several of its directors. For instance, when the president of M.D. Andersen Cancer Center, John Mendelsohn, became an Enron director and member of its audit committee, Enron and Lay donated $332,150 to the center. Of $60,000 donated to a think tank at George Mason University, $45,000 was contributed after Wendy Lee Gramm (wife of then Senator Phil Gramm, R-TX, and an associate of the center), became an Enron board member. Concerned with an appearance of conflict of interest and a threat to independence, the
US House of Representatives passed a bill dubbed the “Enron Bill” to require disclosure of certain contributions and non-cash gifts to organizations associated with board members. Under reforms Nasdaq is considering, a board member affiliated with a charity that receives more than $200,000 or 5 percent of its budget from the company would be considered an insider. Charities are concerned that the new proposals will become an accounting and paperwork nightmare as well as reduce contributions.

**Regulatory Oversight**

Enron was the beginning of a series of disclosures of corporate fraud. MCI/WorldCom, Tyco, Adelphia, and a host of other companies began restating numbers as questions were raised concerning their accounting practices. Criticism of lax oversight by Boards of Directors was particularly pointed. In response, President Bush vowed to hunt fraud in the corporate world. One response to this series of disclosures was the Sarbanes-Oxley bill, signed by President Bush in the summer of 2002. Sarbanes-Oxley was aimed primarily at reform in the public accounting and auditing industries. One feature of the bill was that the external auditor would no longer be employed by corporate management, but rather by the audit committee of the board of the corporation. The external auditor would report to the audit committee not only in regard to the final numbers on the balance sheet, but also on the quality of financial controls and systems used in the corporation.

A second major feature of Sarbanes-Oxley was aimed at the conflicts that some thought brought about Enron: the mix of consulting and audit business. Andersen had both audit and consulting relationships with Enron, earning $52 million in 2001, split almost equally between consulting and audit fees. Enron was Andersen’s largest client.\(^{11}\) Audit firms would no longer be allowed to offer consulting services to those corporations it audited. In addition, a number of other services were also proscribed, such as actuarial services, expert witnessing, and investment banking services, to name a few. In short, many of the services rendered by audit firms in attempts to generate extra revenue are now banned.

Sarbanes-Oxley also charged the Securities and Exchange Commission (SEC) to establish an audit oversight panel to monitor the auditing profession. Even before the panel was seated, however, it would be caught by exactly that which it was charged to oversee: corporate fraud. Harvey Pitt, the chair of the SEC, nominated William H. Webster, a retired federal judge who had served as the head of both the C.I.A. and the F.B.I., to serve as the head of the new commission. Pitt failed to disclose to the SEC that Webster was involved as audit chair of a corporation undergoing a fraud investigation, and both Pitt and Webster resigned in the end.

A Financial Supplement is also available from JBAM for those who wish to pursue at greater depth the financial issues surrounding Enron’s collapse. Contact Donald Schepers at Donald_Schepers@baruch.cuny.edu for Teaching Notes requests. Requestors will have to demonstrate faculty status (full-time or adjunct) as part of the request.
Endnotes


5 A more detailed history of the origin of Enron can be found at www.hoovers.com.

6 Enron was the firm’s second renaming try. Its first choice – Enteron, which means alimentary system or bowel – was rejected only after substantial resources had been expended. Seigel, A. 1988. Common sense on corporate identity. Across the Board, June: 27-35.


10 Private conversation with one of the authors.

11 Testimony of Frank Partnoy in Hearings before the United States Senate Committee on Governmental Affairs, January 24, 2002.

12 1999 Annual Report, Enron Corp.


18 Raghavan, A., Kranhold, K., & Barriounuevo, A. 2002. Full speed ahead: How Enron bosses created a culture of pushing limits – Fastow and others challenged staff, badgered bankers; Porsches, Ferraris were big – A chart to “intimidate people”. August 26, 2002; A1

19 Note 8, Q3 SEC filing, 2001.

20 Report of Investigation by the Special Investigative Committee of the Board of Directors of Enron Corp. (the Powers Report)


30 McWilliams, G. 2001. Fall of a power giant: CEO Lay was generous to hometown, but now Houston feels pain of fallout. Wall Street Journal, November 30: A8.
