

Appendix 4: What Procedural Justice Theory tells managers

An organization wanted to introduce a more transparent performance appraisal system. It introduced the new system in a few units and kept the old system running everywhere else, in order to evaluate employee reactions. Unexpectedly, bosses using the new system ended up being more discriminating in their evaluations and gave a lower average rating in these units. Yet, in spite of being given a lower rating on average, employees appraised with the more transparent system responded more favorably than the control group to the appraisal system and the managers who administered it. They also reported a greater intention to remain with the organization.ⁱ Procedural justice theory explains why.

Perceptions of fairness in organizations are not only driven by *outcomes* (distributive justice). They are also influenced by the fairness of the *process* used to reach those outcomes (procedural justice). Procedural justice theory maintains that people can see beyond short-term decision outcomes and, under certain circumstances, willingly make sacrifices. Thus unfavorable outcomes can be considered acceptable provided they are based on a process that is perceived as fair.ⁱⁱ

This distinction between procedural and distributive justice is not simply theoretical. For example, when managers are asked to describe instances of fair or unfair performance evaluations, they naturally distinguish between issues relating to the decision and those concerning the process used to reach it.ⁱⁱⁱ

But why should process matter so much? There are two complementary explanations. The first is 'instrumental' and suggests that individuals see fair process as a guarantee that, over time, they will receive their fair share of favorable outcomes.^{iv} They are hence bypassing short-term gain to maximize long-term gain. A more 'psychological' explanation is that fair process carries symbolic value, signaling respect for the dignity of the individual and confirming his or her status in the unit.^v

Components of fair process

The idea of fair process grew out of comparisons of various legal systems showing that people felt fairly treated when they were given a say in the procedures affecting them.^{vi} Many studies have since shown that giving people a sense of "voice" enhances perceptions of fairness. In one study, for example, people were asked to come up with innovative names for some common household products, with a supervisor evaluating the suggestions and handing out rewards. Participants who were allowed to give explanations along with their suggestions rated the process as fairer and gave higher ratings to the supervisor.^{vii}

An interesting qualification is that merely giving individuals the chance to provide input does not, in itself, ensure perceptions of procedural fairness. Indeed, when decision makers fail to respond to input, perceptions of unfairness may be higher than if input had not been solicited at all.^{viii} Since employee input is not always reflected in the final decisions, this raises the question of *how* subordinates determine whether their input was adequately considered. This is especially important for newly appointed leaders. For example, research has shown that where information about the decision maker's trustworthiness is lacking, people will pay special attention to procedural justice.^{ix} On the other hand, once managers establish a reputation for

procedural fairness, they tend to be given the benefit of the doubt in the interpretation of subsequent events. For example, positive experiences with an Open Door grievance system were significantly related to overall perceptions of procedural justice. In fact, those who lodged complaints and were satisfied with the process had even higher perceptions of procedural justice than those who did not even need to complain.^x

While process control is clearly important, decisions in the organizational context often allow no employee participation – for example, layoffs or pay freezes may be simply imposed – yet can elicit quite different reactions. This suggests that participation is not the only way to achieve fair process. Subsequent research broadened the list of fair process determinants to six additional dimensions.^{xi} A fair process should be: a) *consistent* in applying standards across people and over time; b) *unbiased* by self-interest; c) *accurate*, with decisions based on reliable information; d) *correctable*, in terms of allowing challenge or appeal against decisions; e) *representative* of the concerns of all involved; and f) *ethical*.

For example, several studies have examined employee reactions to economic hardship. One study, surveying people laid off from a variety of industries, found that formal procedures predicted victims' willingness to speak positively about their companies and their resistance to government regulation of layoffs.^{xii} Another study showed that salaried employees reacted less negatively to a pay freeze when it was implemented in a procedurally fair manner (consistent, unbiased and so forth) than when the procedure was deemed unfair.^{xiii}

Beyond the structural aspects of the process – the formal policies and procedures – there is also a social dimension to consider. Recent research shows that people pay considerable attention to the interpersonal treatment they receive from the decision maker, and the adequacy with which the formal decision-making procedures are explained.^{xiv} These suggest that a fair process should also be: g) *respectful*, treating those affected with consideration and dignity; and h) *justified*, in that explanations of the procedures and outcomes should be *adequately* reasoned and *sincerely* communicated. Although these two additional components also deal with aspects of the decision process – the means, not the ends – they fall under the new label of *interactional justice*.^{xv}

This interactional dimension has been highlighted in various field studies. Again taking the example of layoffs, one study found that the fairness of the *social treatment* people received as their layoffs were announced was the strongest predictor of their interest in seeking legal damages. Among those who perceived themselves as having been treated disrespectfully, 66 per cent thought about suing their former employer, while among those treated well, only 16 per cent were considering it.^{xvi} Another study surveyed employee reactions to a company decision to relocate its facilities. The survey clearly showed that individuals reacted more positively when the move was adequately explained than when it was not.^{xvii}

The consequences of fair process

Procedural justice matters because it has been shown to be a consistent predictor of employees' reactions to their organization and to their bosses – both in a positive and a negative sense. For example, several studies have shown that procedural justice, and more specifically interactional justice predicts a wide range of organizational

citizenship behaviors – those helpful and supportive actions by employees that are not part of their formal job description.^{xviii} Such behaviors are especially important in service encounters – in order to respond to unpredictable customer requests – and where there is evidence that fair treatment of employees has a direct incidence on customer satisfaction.^{xix} Other studies have shown a link between fairness perceptions a host of desirable outcomes: like job satisfaction,^{xx} enhanced commitment to the organization and intentions to remain with the organization,^{xxi} greater trust and willingness to go beyond the call of duty.^{xxii}

On the other hand, breaches of procedural justice can result not just in the withdrawal of citizenship behaviors, but in negative behaviors specifically designed to punish the organization and its representatives.^{xxiii} A striking example occurred in a company announcing pay cuts of 15 percent in two sister plants.^{xxiv} In neither plant were the employees given any say in the matter; they were just told that the loss of two large contracts were to blame. Yet in one plant the person making the announcement expressed remorse, clearly described the basis for the decision and the alternatives considered, and fielded employee questions. In the other plant, the announcement simply warned employees that the pay cut would take effect from the following week and would probably last ten weeks. Employee theft rates in both plants increased but in the plant where procedural justice was not respected they increased by more than twice as much as in the other plant. A follow up study showed that although all underpaid people stole, those who were treated in a perceived disrespectful manner stole objects that were no value to themselves, but that were of value to their employers.^{xxv} These studies seem to confirm previous suggestions that people are especially attentive to procedural justice when they experience unfavorable outcomes.^{xxvi}

More recent work has gone further in trying to establish the direct impact of procedural justice on performance outcomes. One series of field studies looked at 40 product development teams in large companies. Team members were asked how happy they were with decisions made by the team – and how happy they were with the decisions affecting the team made by top management. The teams were also asked to rate the fairness of the decision making process of the team, and that of top management. Meanwhile top management was asked to rate the product development performance of each team. Using this information, one can ask a simple question. What drives product development team performance? Satisfaction with the decisions, or process used to reach them? The correlation between satisfaction and performance proved statistically insignificant, meaning that some happy teams performed badly and some unhappy teams performed well. On the other hand, there was a strong positive relationship between perceived fairness and performance. In other words, people who felt that they were treated fairly also performed better.^{xxvii}

Evidence also comes from various surveys of subsidiary managers in multinational corporations. For example, one study asked 120 subsidiary managers involved in the strategic planning process to assess how fair it had been, shortly after its completion. Fairness was rated in terms of the extent of their input and the possibility of challenging the views of head office managers; head office familiarity with local conditions; and the consistency of the decisions and explanations given. Ten months later, just before the next cycle, the subsidiary managers were asked to what extent they, as individuals, had complied with the previous corporate decisions. The results

clearly showed that perceptions of procedural justice predicted greater cooperative behavior.^{xxviii} A follow up study showed that fair process was also associated with subsidiary managers engaging in innovative actions, spontaneous cooperation, and creative behavior on behalf of the organization when implementing decisions.^{xxix}

Summary

Past studies on fair process have given us very good information on what constitutes fair process. On many occasions, we ourselves have asked groups of executives to think about the conditions that would lead them to accept a bitter medicine willingly. They systematically come up with a list very close to that identified through years of research

The problem is that in real life, and despite knowing what constitutes fair process, executives have a hard time behaving according to fair process principles. The problem is not cognitive: people *know* what is fair, even if they show far lower sensitivity to unfairness as perpetrators than as victims. The problem is more behavioral. Managers find it really difficult to produce this behavior in real time, in a sustained way, with everybody – especially when they are under pressure.

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