

Fairness in your firm – the real business benefits of organizational justice

For

Your family ✓
Your firm ✓
Your society

Reading time

5 minutes

Enodo can help

By reviewing your organizational culture

By developing policies on the employment of family members

By assessing and coaching family members joining a business to ensure appropriate integration, maximising likelihood of success

By supporting in succession scenarios, with a structured process, making use of objective testing tools

Executive summary

As a business leader, the concept of *organizational justice* should be on your daily agenda. To put it simply, this is the sense of fairness that your employees feel whilst working in your business. And there are many advantages to them perceiving a high level of fairness – it can lead to more satisfied and committed employees, and ultimately to greater business success.

There is broad acceptance that three types of organizational justice exist:

- *Distributive*, your employees' perception of fairness of decision-making
- *Procedural*, your employees' perception of the fairness of process in arriving at any decision; and
- *Interactional*, the degree to which your employees perceive that they are treated with dignity and respect and have access to information about what is happening in your business.

Many studies have explored the benefits of organizational justice for employees. In summary, these include:

- Greater acceptance of decisions taken in the organization
- Higher levels of job satisfaction
- Higher levels of organizational commitment, with higher level of ethics at work, plus lower absenteeism and intention to leave
- And some positive benefits for job performance

For family businesses, there are particular challenges when employing family members in your business. This can create a sense of injustice amongst non-family members, for example in the areas of compensation, promotion and assignment to the most fulfilling work. There can be a perception of nepotism, and this can have negative impacts.

Overwhelmingly, the evidence shows that creating a climate of organizational justice can deliver real business benefits.

As a business leader, if you hear the word *justice*, you probably think about legal procedure – perhaps a time when you have been wronged and have needed to resort to litigation to solve a dispute and seek a settlement. Whilst this type of justice is important, it is hopefully not something you need to think about, in your business, too often. However, there is a type of justice that absolutely should feature on your agenda on a daily basis – *organizational justice*.

What is organizational justice?

To put it simply, this is the sense of fairness that your employees feel whilst working in your business. And there are many advantages of them perceiving a high level of fairness – it can lead to more satisfied and committed employees. As you know, having such employees can result in many benefits for you as an organization.[1]

The types of justice: distributive, procedural and interactional

Behavioural research has considered justice in organizations since the 1950s. It was rooted in something called *equity theory*, which said individuals invest in relationships proportionate to what they get out of them. Where there is a mismatch between what is put in, and what comes out – there is distress or discomfort. An individual adjusts their behaviour, as a result, to redress the balance. In other words, if someone feels that they are being treated inequitably by an organization, they are likely to reduce their commitment and effort.[2] Through further research, equity theory has evolved into a more principle-based concept called *distributive justice*. Without the strictness of measuring the inputs and outputs associated with relationships in equity theory, distributive justice examines the perceptions of fairness of outcomes.[3] So, in a workplace setting, whether I am treated fairly versus others – for example, when it comes to promotion, pay increases or assignment to the most interesting or highest status tasks.

Procedural justice has foundations in research on traditional justice from the 1970s.[4] Studies showed that where the *procedure* of justice was followed in a courtroom setting, those involved were more satisfied with the outcome. Procedural justice in legal cases involved six dimensions: (1) consistent at different times and to different people, (2) prevention of bias, (3) accuracy of the evidence presented, (4) the right to appeal, (5) the right to proper representation and (6) high ethical standards for those involved. Extensive research has shown that, similar to the courtroom, procedural justice – having fair corporate policies and proper process – leads to many positive benefits.[5]

Further development in organizational justice research came in the 1980s with the concept of *interactional justice*. [6] This found that employees consider the interpersonal or relational treatment they receive from authority figures, like their boss. In particular when it comes to two dimensions – whether they are treated with dignity and respect, and whether they are provided with complete information about what is happening in the organization. Where an individual is not treated with dignity and respect, or where relevant information is withheld, this is demotivating for the person.

All three types of organizational justice have been shown to be important and can impact the effectiveness of your organization, and ultimately its profitability.

What does organizational justice mean, in practice, in your business?

The three different components demand different things, in reality:

- For distributive justice, it is about ensuring fair outcomes for employees – for example where a subjective decision is required, such as a promotion, a compensation review, in deciding who is assigned to the best accounts or who gets to go on the exciting business trip.
- For procedural justice, there need to be clear and transparent policies and procedures, so even if someone doesn't like the outcome, they can see that a proper process has been followed. This avoids nepotism, favouritism or discrimination.
- Finally, for interactional justice, it is about receiving the right human contact, even building relationships with those who take the decisions. In arriving at outcomes, it is about communicating with respect and clarity. It is about ensuring that information is not withheld and there is fairness about how you hear about things. In other words, ensuring that one group of people, or select individuals, are not favoured.

The case for maximising organizational justice in your business

There is clearly effort involved in ensuring that justice exists in your business, so why bother? Firstly, there is an ethical dimension – even in the ancient writings of Plato and Aristotle, the benefits of justice and fairness were extolled both for individuals, and broader society. It is arguably a sign of a responsible business, and it can strengthen your reputation.

Beyond this, it is simply good for your business and its employees. In their review of 183 separate studies, the psychologists Colquitt, Conlon, Wesson, Porter and Ng [7] found strong evidence for the following:

- Much higher levels of acceptance of decisions taken: Employees are more likely to respect the decisions that have been taken, and also are more likely to respect those who have taken the decision
- Higher levels of job satisfaction for employees: Employees report that they are more satisfied and fulfilled in their jobs
- Higher levels of organizational commitment: Higher levels of commitment can translate into greater productivity, lower absenteeism, better teamwork and higher levels of work ethics
- Lower levels of intention to leave: Employees are more likely to stay with you, avoiding the disruption and cost of turnover
- Some positive effects on job performance: There is evidence for moderate increases in individual job performance

Beyond these significant themes, individual studies have shown positive results, in environments where organizational justice is high:

- A study of 447 accountants and internal auditors showed that they were more likely to report financial fraud [8]
- A study of 4,410 UK Police officers offered better service to members of the public, whilst another study in the US showed that offices were less likely to be corrupt [9, 10]
- A long-term study of 1,519 workers in the Netherlands showed they were less likely to develop symptoms of depression [11]
- In the context of high schools in Virginia, US, it led to higher level of organizational commitment from teachers leading to better performance by students [12]
- Levels of wasting time in the workplace on the internet (cyber-loafing) were lower, as employees exercised more self-control [13]

Specific challenges for family businesses

Creating a climate of organizational justice has particular challenges for family businesses. At the heart of the issue is the presence of employees that are family members, and those who are not. This can cause perceptions of injustices.

As a business owner, you do – of course – have the *right* to favour members of your own family. You might choose to invite a son, daughter, niece or nephew for an internship, or for them to join permanently after university graduation. They may enjoy preference when it comes to promotion, higher salary, rotation through different departments or flexible hours. As the business is discussed informally – say, around the dining table, at home – they may enjoy informational advantages and will likely be able to speak into your business strategy and decisions. [14]

The downside from all of this is the potential perception of unfairness and injustice from non-family members. In order to counter the negative effects of this on organizational culture and job satisfaction, it is important to consider:

- Fair and transparent **corporate policies on employment of family members**, specifying the basis on which they can join and progress. Even if you determine that you wish to offer preferential treatment to family members, it should at least be clear on what basis. You will, then, create clarity and procedural justice
- Fair and transparent **family policies on employment of family members**, so from family member to family member there is similar fairness, and appropriate management of their expectations. Such policies should also highlight the responsibilities of family members who join the business (e.g. application qualifications and process, conduct, expectation of progression, use of privileged information)
- In particular, where there is a **succession** situation for a concrete role, a fair process with: (1) clear job description and person specification, (2) transparent assessment process, and (3) involvement of non-family members in process can support perceptions of justice

- It is important that a family member receives regular **performance appraisal** on the same basis as others in the business, especially if their line manager is a non-family member. This creates a culture of justice and accountability

In the end, as a business owner, you will want your business to operate as effectively as possible – with satisfied and engaged employees. This requires you to ensure that both family members and non-family members perceive justice and operate in an environment of accountability. Ultimately, this will maximise your success and profitability.

Conclusion

As a business leader, you *can* create a climate of organizational justice. Doing this will offer many benefits – greater acceptance of decisions taken, higher levels of job satisfaction and organizational commitment with lower levels of employees’ intention to leave, with the greater potential for job performance. In particular where you lead a family business, ensuring fairness for non-family members is critical. We urge you to seize this opportunity and make organizational justice a key priority in your business. At Enodo, we are here to help you consider these issues.

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About the authors

Nick Perryman MSc MBA Chartered FCSI FRSA MBPSS
Co-founder and Managing Director
nick@enodo.capital



Nick has over 20 years of experience in wealth management, predominantly spent at UBS where he was a Managing Director. He held a number of senior leadership roles, including Head of Wealth Management for Global Emerging Markets in London, where he led a sizable business advising wealthy families in Central & Eastern Europe, Middle East, Turkey, Israel, Africa, Latin America and Asia-Pacific.

For six years, Nick was Head of Investment Products and Services where he led the investment management, capital markets, alternative investments, lending and wealth planning functions, responsible for over USD50 billion of client assets, and a sizable lending book. He also founded the client philanthropy unit in the UK, which supported clients in maximising the strategic impact of their giving. He has been a regular media commentator. Over the years, he has also maintained a strong academic interest in business psychology.

He has served on numerous non-profit boards and is currently Vice Chairman of the governing body of Royal Holloway, University of London, amongst the top 25 in the UK and 250 globally. He also chairs the committee overseeing the university's USD100 million endowment.

He holds MSc in Organizational Psychology and MBA in Finance degrees from the University of London, is a Chartered Wealth Manager, Chartered Fellow of the Chartered Institute for Securities & Investment and Member of the British Psychological Society. He was elected Fellow of the Royal Society of Arts for his work in philanthropy. He is also a part-time Doctoral researcher in organizational psychology and family-owned business at Durham University.

Dr Baris Serifsoy Dipl-Kfm MBA CFA FRM
Co-founder and Managing Director
baris@enodo.capital



Baris has over 15 years of experience in wealth management and investment banking in London, Zurich and Frankfurt. Between 2006 and 2020, he worked for UBS, where he was a Managing Director.

He served as Head of the Global Family Office, Ultra High Net Worth Emerging Markets and Financial Intermediaries units for UK and Jersey, offering wealth management, structuring, lending and investment banking solutions to the largest clients of the firm. His team was entrusted with over USD12 billion of client assets.

Prior to this, he was responsible for various significant teams serving wealthy families in Central & Eastern Europe, Middle East, Turkey, Israel, Africa, Latin America and Asia-Pacific.

Before joining UBS, Baris was a research assistant to the Chair of International Banking and Finance at the Goethe University Frankfurt and a visiting scholar in Finance at the Wharton School, University of Pennsylvania.

He published papers on global stock exchanges in peer-reviewed academic journals, including the prestigious Journal of Banking & Finance, and was a regular commentator in the media.

Baris holds a Doctoral degree in Finance from Goethe University Frankfurt and the Diplom Kaufmann degree from the University of Regensburg, as well as an MBA degree. He has completed the Chartered Financial Analyst and Financial Risk Manager programmes.

The story of Enodo

Enodo is the Latin word to explain, literally to *unknot* or *untangle*. This encapsulates our vision – to bring clarity to the complexity of being wealthy.

Our founders have had the privilege of advising some of the world's wealthiest families. They've observed first-hand the liberation and opportunity that wealth can bring – unifying families around a common purpose, creating real economic impact via a family business, or contributing to wider society through audacious philanthropy.

At times, they've also seen the stress and confusion that can result. They've witnessed family disharmony, miscalculations in family business or investment strategy, and the hugely detrimental impact of working with advisors who put their own interests first.

Our founders have engaged in the discipline of advanced academic research. Their own analysis of peer-reviewed academic literature across the disciplines of finance, economics and business psychology, combined with their deep professional experiences, have allowed them to arrive at new perspectives on how *to be wealthy* and how *to manage wealth*.

The result of their thinking is the Enodo Leadership in Wealth™ advisory framework which supports wealthy families in using their wealth to lead across all the dimensions of their life – *family, firm* and *society*. Amongst other things, their framework includes:

For your family

- Family governance and family office set-up
- Investment risk and asset allocation – including family business assets and debt
- Chairing a family investment committee
- Selecting the best investment managers
- Analysing investment opportunities, including alternative investments and recent innovations (e.g. cryptocurrencies)
- Understanding the impact of investing in your passions, such as art and collectibles
- Monitoring of performance and risk
- Guiding and analysing where you are in dispute with your investment advisor

For your firm

- Organizational culture and performance
- CEO / founder succession and role of family members
- Financial optimisation – including debt, hedging and foreign exchange
- Reviewing your equity and debt capital market opportunities
- Corporate and social responsibility

For your society

- Philanthropy and impact investing
- Establishing a family foundation

The Enodo Goal-based Asset and Liability Allocation (GALA) Modeller™ offers ground-breaking insights into optimal strategic asset allocation – examining the risk characteristics of a family business shareholding and analysing tolerance for risk from psychological personality profiling. You can experience a shortened version of this powerful tool [here](#).

At Enodo, we offer rigorous, independent and intelligent advice to wealthy families around the world. We aspire to be your trusted partner, wherever life leads you.

Enodo Capital Limited
39 - 40 St James' Place, London SW1A 1NS, UK
+44-20-7717-9700
www.enodo.capital

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