DOES PROCEDURAL JUSTICE HAVE A PLACE IN FINANCIAL REPORTING?

According to the research literature in management, procedural justice becomes relevant in many, although not all, instances in which an organization distributes a resource perceived to be of value to potential recipients. We explore extending the application of procedural justice theory from a management context into the context of organizational financial reporting. The analysis conducted in this paper is based on the justice judgment theory of PJ. Justice judgment theory (Leventhal et al. 1980) advances a two-step framework for analyzing the fairness or justice of any allocative process. The first step of the framework involves identifying the seven steps or structural components of an allocative procedure—selecting decision agents, setting ground rules, gathering information, establishing structure of decision-making, addressing appeals, incorporating safeguards, and providing change mechanisms. The second step involves evaluating each of these structural components according to rules of fair procedure—accuracy, bias suppression, consistency, correctability, and representativeness. Justice judgment theory posits that individuals use this two-step framework to assess the PJ of allocative procedures by determining how well each structural component of the process incorporates fairness rules relevant to that component.

In order to explore the appropriateness of extending PJ into the realm of financial reporting, we conducted a thorough comparison of the contexts within which managers distribute organizational resources and organizations distribute financial information. We identify an important theoretical difference between managerial and financial reporting distributions that might suggest that PJ cannot be generalized into the financial reporting realm. Nonetheless, we also identify numerous theoretical similarities regarding the parties involved in resource distributions as well as characteristics of the distributions, themselves. For example, the parties associated with resource distributions in each context include allocators, potential recipients, and reviewers, and the resource to be distributed in each context is perceived to be of value by potential recipients. Finally, we discuss empirical evidence from the management arena that points to the potential relevance of PJ in the realm of financial reporting. In the end, we conclude that there are both theoretical arguments and empirical evidence that make us believe that PJ theory will, indeed, generalize to the arena of financial reporting.

Finally, we investigate research implications of our conclusion for both investors and academicians. Given its utility in explaining historical perceptions of and changes to the financial reporting process, the authors would argue that justice judgment theory (Leventhal et al. 1980) could likely be effectively used to determine improvements in the financial reporting process that could still be made in the future. Thus, extending PJ theory into the realm of financial reporting is likely to inform policy in that realm. In addition, future research in behavioral accounting would undoubtedly benefit from the use of PJ theory to develop and test new hypotheses, or to reinterpret results from previous research.