# An empirical study of 360-degree feedback, organizational justice, and firm sustainability ☆

Silva Karkoulian [a,*], Guy Assaker [a], Rob Hallak [b]

[a] Lebanese American University, P.O. Box 13-5053, Chouran, Beirut, Lebanon
[b] University of South Australia, UniSA Business School, GPO Box 2471, SA 5001, Australia

### ABSTRACT

The extensive efforts on soliciting organizational justice for employees and sustaining this justice throughout the organization have turned justice into a vital component of the organizational culture and structure. However, the conditions affecting the latter still lack research. This study tests the compound correlation between organizational justice and the application of 360-degree feedback while emphasizing the sustainability of a just and fair work environment in an organization. A sample of 400 employees occupying various positions in home appliances and electronics organizations contribute to this research. The results of the path analysis (PA) demonstrate that the implementation of 360-degree feedback in an organization not only gives rise to organizational justice, but also aids in sustaining this justice and making justice an integral part of the organizational culture.

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## 1. Introduction

The implementation of a successful, fair, and efficient performance-appraisal system in an organization is essential for financial success, prolonged growth, and developing a strong and competent workforce (Espinilla, Andres, Martinez, & Martinez, 2013). Performance appraisals serve as a crucial instrument to evaluate and support employee performance and to establish strategic organizational plans, goals, and objectives (Daoanis, 2012). Studies criticize traditional performance-appraisal systems for their lack of fairness and equity, rewarding individuals at the upper-level of the organization's hierarchy. Firms should design and implement appraisal systems that employees perceive as 'fair' and that create a culture that is supportive of its staff. The appraisal system should integrate the organization's strategy, culture, and philosophy (Rowland & Hall, 2012). Evidence suggests that a '360 degree feedback' appraisal system—which assesses an employee's performance through multiple sources such as peers, subordinates, and supervisors—creates an inclusive and impartial review of employee performance. 360-degree feedback can also directly affect perceived fairness equity, and 'organizational justice'. In turn, improvements in organizational justice have a direct and positive influence on the firm's performance and sustainability.

Organizational justice encompasses three dimensions: (1) distributive justice, (2) procedural justice, and (3) interactional justice. Distributive justice is the degree to which managers distribute financial rewards or promotions among staff; procedural justice concerns the procedures managers adopt for outcome distribution and employees' reactions toward the fairness of those specific procedures (Tyler, 1987); interactional justice concerns the fairness of interactional communication and organizational procedures (Bies & Moag, 1986; Folger & Konovsky, 1989; Gelens, Dries, Hofmans, & Pepermans, 2013). Empirical evidence supports the links between organizational justice and employee job commitment, job satisfaction, attitudes, and behaviors (Dundar & Tabancali, 2012). However, the extent to which a 360-degree feedback affects levels of organizational justice is uncertain and remains a significant gap in the literature. Furthermore, empirical evidence needs to examine the complex relationships between organizational justice and sustainability. Sustainability comprises an organization's outcomes from its actions and represents the degree to which the firm is able to keep its business activities feasible and practical in the long term (Smith & Sharicz, 2011).

This research addresses these gaps and presents an empirical examination of the structural relationships among 360-degree evaluation, organizational justice, and sustainability. In doing so, this study addresses two main research questions:

Research Question 1: To what extent does a 360° appraisal system influence the three types of organizational justice (distributive, procedural, and interactional)?

Research Question 2: Which kind of justice (distributive, procedural, or interactional), resulting from the implementation of the 360 degree

appraisal system, will exert the greatest influence on the sustainability of the organization?

## 2. Theoretical framework

### 2.1. Sustainability

Labuschagne et al. (2005, p.40) define business sustainability as "adopting business strategies and activities that meet the needs of the enterprise and its stakeholders today while protecting, sustaining and enhancing the human and natural resources that will be needed in the future". Elkington (1998) establishes the "triple bottom line," which revolves around the organization's need to ensure an appropriate balance among the economic, social, and environmental factors (Wagner, 2010). Organizations begin to recognize their roles and responsibilities to not only their shareholder but to the broader community—the three P's of 'people, plant and prosperity' (White & Lee, 2009). "Sustainability revolution" represents a greater focus on long-term effects (Starik & Kanashiro, 2013). Mirvis and Manga (2010, p. 36) identify two models for incorporating citizenship within firms: the catalytic approach (mid-level managers initiate and execute sustainability schemes) and the top-down approach (a holistic approach through which organizational leaders "build momentum of change and promote coordinated movement on multiple fronts"). This study expands on the body of knowledge on sustainability and examines the extent to which organizational justice leads to sustainability within an organization in terms of justice and fairness among employees.

### 2.2. The 360-degree performance appraisal

Performance appraisal systems have multiple purposes and help organizations in setting performance goals, basing rewards on performance, setting clear expectations, and supporting employees' self-esteem (Palaiologos, Papazekos, & Panayotopoulou, 2011). Research often criticizes traditional appraisal systems for being 'unfair' and for creating tensions between employees and employers (Rowland & Hall, 2012). Modern appraisal systems include team evaluation, upward feedback, peer evaluation, self-review evaluation, and direct supervisor feedback. 360-degree feedback is a process through which many sources—subordinates, peers, direct supervisors, customers, and even the individual under evaluation provide their feedback on an individual's job performance in an attempt to obtain a balanced and holistic view of the performance (Mondy, 2010). 360-degree appraisal minimizes bias and presents an appraisal technique that best conveys an employee's performance by allowing individuals closest to the employee to present an accurate reflection of his/her efforts and job performance; in addition, 360-degree feedback triggers positive outcomes in terms of employee behavior, openness, and trust (Rogers, Rogers, & Metlay, 2002). The issue of fairness and equity is especially pertinent in performance appraisal systems (Jawahar, 2007). Inequity during the evaluation process yields high levels of dissatisfaction and frustration among organizational members and the failure of the appraisal system as a whole (Palaiologos et al., 2011). An effective appraisal system needs to have a positive effect on the perceived justice in the organization. For employees to perceive a 360-degree feedback appraisal as fair, the system must be fair at all levels of the organization (Greenberg, 2000).

### 2.3. Organizational justice

Organizational justice is employees' perceptions of the degree of fairness with which organizational authorities treat them (Whitman, Caleo, Carpenter, Horner, & Bernerth, 2012). High levels of organizational justice can lead to an increase in positive work attitudes and behaviors, job satisfaction, and job commitment (Silva & Caetano, 2014). The absence of a fair work environment can have negative effects on employees' psychological well-being, stress, absenteeism, employee turnover, and retaliatory intentions (Silva & Caetano, 2014). Evidence suggests that "organizations should become platforms for individuals, as opposed to individuals becoming resources for organizations" (Patterson, 2001, p. 384).

Organizational justice comprises three main dimensions:

- *Distributive justice*: established primarily on the grounds of equity theory (Adams, 1965) and the perceived fairness of the outcome that the individual receives.
- *Procedural justice*: the perceived fairness of all the procedures used in decision-making (Lin & Hsieh, 2010).
- *Interactional justice*: related to the fairness of interactional communication and organizational procedures (Bies & Moag, 1986).

*Distributive justice* has its theoretical foundations in equity theory (Adams, 1965), which proposes that individuals generally anticipate receiving outcomes based on their efforts and contributions (Cropanzano & Randall, 1993; Rio-Lanza, Vazquez-Casielles, & Diaz-Martin, 2009). Employees assess fairness based on an evaluation of the relationship between inputs (e.g., effort, performance) and outcomes (e.g., salary, bonuses) (Whitman et al., 2012). Employee's satisfaction regarding work outcomes such as pay satisfaction directly influences those employees' perceptions of distributive justice (Folger & Konovsky, 1989). Employees also draw comparisons between their input and contribution to the company and the performance appraisal rating that they receive; based on the fairness of that rating, employees determine the levels of perceived distributive justice (Palaiologos et al., 2011). Perception of the distributive justice is higher when employees perceive that performance appraisals' design aims to supporting one's capabilities (Thurston & McNall, 2010).

**Hypothesis 1.** 360-degree feedback positively relates to distributive justice.

**Hypothesis 4.** Distributive justice positively relates to sustainability.

Procedural justice concerns the procedures that firms adopt for outcome distribution, and employee's reaction toward the fairness of those specific procedures (Tyler, 1987). Research examining procedural fairness follows a traditional performance-appraisal context. As employees perceive the feedback process to be just and fair, their satisfaction level concerning the outcomes increases, regardless of whether those outcomes are negative or positive. Evidence suggests that 360-degree feedback has a positive effect on employees' procedural justice (McDowall & Fletcher, 2004). However, cynicism and negative perceptions of procedural fairness play a major role in managers' adaption of 360-degree feedback appraisal (McCarthy & Garavan's, 2007). The following hypotheses aim to draw a more accurate link between the implementation of a 360-degree feedback system and the achievement of desirable levels of procedural justice within an organization.

**Hypothesis 2.** 360-degree feedback has a positive effect on procedural justice.

**Hypothesis 5.** Procedural justice has a positive effect on sustainability.

Interactional justice focuses on individuals' level of concern with the fairness of the interpersonal treatment and communication that they receive (Ambrose, 2002). Interactional justice also addresses the extent to which formal organizational figures of authority treat their subordinates fairly and employees' perception of those figures' decisions and actions within the organization as equitable (Palaiologos et al., 2011). Failing to apply the 360-degree feedback appraisal system, together with the lack of justification for decisions made, and an uncourteous and uncivil treatment of employees, results in the lack of interactional justice comprising interpersonal and informational experiences (Rowland & Hall, 2012). A direct relationship exists between interactional justice and