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THE CONSEQUENCES OF FAIRNESS FOR A SMALL PROFESSIONAL SERVICES FIRM

Tina L. Robbins
Clemson University
rtina@clemson.edu

Ben C. Jeffords
Erskine College
jeffords@erskine.edu

ABSTRACT

This paper distinguishes among client perceptions of outcome, procedural and interactional justice in professional services. We surveyed clients of a small accounting firm and focused specifically on fairness perceptions in income tax services. We predicted that procedural and interactional fairness would be more influential than distributive fairness on evaluations of the service. The results suggest that interactional fairness, the interpersonal treatment in the delivery of the service, is the most significant predictor of client perceptions of service quality, loyalty, and trust. Implications for managers of small businesses as well as sole practitioners that offer professional services are discussed.

INTRODUCTION

Fairness, or justice, has long been established as one of the most significant principles upon which people judge relationships and exchanges (e.g., Clemmer & Schneider, 1996). An abundance of research has been conducted in the area of organizational justice (see review by Greenberg, 1990), which addresses fairness in employee-employer exchanges. More recently, the importance of fairness in customer-service firm exchanges has received attention by researchers (see review by Clemmer, 1993). Much of this literature has established that fairness is judged on the basis of outcomes, procedures, and interactions received in the exchange (Clemmer and Schneider, 1996). These criteria appear to generalize across multiple contexts (employee-organization, citizen-legal authorities, customer-service firm) in which parties judge the fairness of the exchange (e.g., Clemmer & Schneider, 1996; Folger & Konovsky, 1989; Tyler, 1989; 1994).

The purpose of this study is to identify the distinct influences among client perceptions of outcome, procedural and interactional fairness in professional services offered by a small accounting firm. Accounting services, income tax preparation in particular, were chosen since these services reflect certain criteria suggested to be particularly vulnerable (Seiders & Berry, 1986) to influences from customer perceptions of fairness (Robbins, Jeffords & Summers, 2002). The application of these fairness categories to professional services, particularly income tax preparations is unique in that each fairness component is likely to be salient to the clients of this service. Prior research (Clemmer, 1993) has defined the distributive or outcome component in services as the technical quality or object of the service. The final outcome of the tax return services is the client's tax liability or the amount that the client owes the IRS or is due in refund. Procedural fairness, defined as the procedures followed in delivering the service, would best be represented by the CPAs' work, including the interpretations and judgments of ambiguities that vary by 'facts and circumstances'. Finally, interactional fairness, the interpersonal treatment that individuals received from service providers (Seiders & Berry, 1998) has also been established (e.g., Clemmer & Schneider, 1996) as an important, distinct, and independent component of justice in client-service firm exchanges. In the context of this study, the interpersonal treatment by the CPA in interactions with the client would represent this component of fairness.

Although a few larger businesses that provide professional services (e.g., medical, banking) have been the focus in some preliminary research (e.g., Clemmer, 1993), there has been little attempt to apply these fairness concepts to services that are commonly offered by small accounting firms. One previous study (Robbins, et al., 2002) attempted to identify the basis for which clients of small accounting firms define outcome, procedural, and interaction fairness in income tax services. The professional's knowledge and innovativeness are examples of criteria upon which clients base their perceptions of procedural fairness (i.e., CPA interpretations and judgments). The degree to which the CPA is accommodating and adequately explains decisions was cited most frequently as the basis for opinions regarding the fairness of interpersonal treatment in these services.

Although we have some preliminary knowledge of the criteria that clients use to define justice in professional services, many important potential consequences of fairness perceptions in small accounting firm-client exchanges have not been studied. For example, we do not know what fairness component is most influential on client evaluations of service quality, client loyalty, trust, and perceived competence.

In organization-employee exchanges, the distinct influences of distributive and procedural fairness have been found to be dependent on the nature of the outcome itself (see review by McFarlin & Sweeney, 1992). In most cases (e.g., Folger & Konovsky, 1989), procedural fairness has been found to be more predictive than distributive fairness of attitudes and evaluations of companies and its representatives (e.g., organizational commitment, trust in supervisor), while distributive fairness has been more influential on satisfaction with a specific decision or outcome (e.g., pay raise). This same pattern has been found in research assessing the public's evaluation of service by legal and political authorities (see review by Folger and Konovsky, 1989). For example, procedural fairness has been more closely linked to global system or institutional evaluations, as well as attitudes about legal authorities and government leaders. On the other hand, distributive fairness has been found to be more closely linked to the evaluation or satisfaction with a specific outcome (e.g., satisfaction with a trial verdict).

Some researchers (Lind & Tyler, 1988) suspect that the distinct influence of procedural fairness is attributable to the long-term perspective that is reflected in broad, more stable attitudes about companies and their representatives versus the less stable evaluation of a specific outcome that results from more of a short-term perspective. As Folger and Konovsky explain, "as the issue moves from the level of personal satisfaction with present outcomes to higher-order issues regarding commitment to a system and trust in its authorities, these procedural concerns begin to loom larger than the distributive ones emphasized by equity theory" (1989: 126). Others (e.g., Sweeney & McFarlin, 1993) suggest that procedural issues uniquely determine the perceived capacity for fairness on the part of the company. The fairness of procedures as "means" to an end, are more influential on attitudes and evaluations that reflect "faith in the system."

There is reason to believe that this same pattern of distinct influences found in other contexts will occur with client evaluations of their exchanges with small businesses offering professional services. As reviewed by Clemmer (1993), Bowen and Schneider (1988) suggest that in service exchanges, customers' roles are similar to employees in that they provide essential inputs into the transformation process. The service provider-customer exchange relationship has been suggested to have much in common with organization-employee exchanges. "By extension then, those concepts that have proven useful in understanding employee reactions and behaviors in other settings may also be fruitful in comprehending customer reactions and behaviors in service encounters (Clemmer, 1993: 196)."

Consistent with the justice research in other contexts, we predict that certain categories of fairness will be more predictive of important reactions and attitudes regarding services provided by a small accounting firm. It is likely that the aspects of the service over which a firm and their CPAs have more internal control will be more influential on the evaluations of the business and their service professionals. Research on organizational fairness (e.g., Cropanzano & Folger, 1989) suggests that people are particularly sensitive to unfairness when it results from someone else's actions. Generalizing this finding to the context of professional services, income tax services more specifically, we would expect clients to react significantly to procedural quality problems and unfairness that result from the CPA's judgments and interpretations used in applying the tax code. Outcomes the clients attribute to the federal tax code, for example, should have less serious consequences. While the tax liability may be influenced in part by the CPA, it is an outcome over which the professional has only partial control. We therefore predict that the fairness of procedures will be a more significant predictor than will distributive or outcome fairness on client evaluations of service quality, client loyalty, trust, and perceived competence.

H1: Client perceptions of procedural fairness will be more influential than distributive fairness.

We also believe that relational concerns, specifically interpersonal treatment, are likely to be of utmost importance in professional service exchanges. Past researchers (Hoffman & Kelly, 2000) suggest certain contingencies (i.e., proximity of the relationship, degree of customization) that affect the relative importance of the different fairness components in service exchanges. Most professional services are conducted in close physical proximity, i.e., more likely face-to-face rather than long-distance, mail or electronic communication. Furthermore, interactional fairness is likely to be more important than distributive fairness to clients of income tax preparation because the service is customized and tailored to the customers' income, deductions, financial status, etc. Clients of services that are conducted in close proximity and those that are more customized are likely to expect more personal treatment and place greater weight on the relationship aspect (Hoffman & Kelly, 2000).

Related to the above contingencies is the notion of the customers' perceived type of exchange or implied contract (e.g., Rousseau & Parks, 1993). Due to the personalized nature of many professional services, clients are likely to perceive their exchanges at least in part, relational, rather than purely economic. Social or relational aspects of service relationships are particularly important in professional services where the relationships are more stable (Halinen, 1996). Furthermore, fair interpersonal treatment likely plays a key role in building the trust that is so important with "at risk exchanges," such as income tax returns (Robbins, et al., 2002) and services in which the outcomes are difficult to evaluate (Seiders & Berry, 1998). In sum, we believe fair interpersonal treatment will be a more significant predictor than will distributive justice on client attitudes about the firm and the professionals delivering the service.

H2: Client perceptions of interactional fairness will be more influential than distributive fairness.

METHOD

Survey questionnaires were mailed to 460 randomly selected clients of a small public accounting firm. Respondents were assured of anonymity since responses could not be individually identified. The firm had 12 partners, 39 staff employees, and had annual sales of $3.5 to $4 million at the time of the research, criteria consistent with the definition of a small business according to the U.S. Small Business Administration (SBA).

Measures

The specific items used for each measure can be found in the Appendix. For the entire questionnaire, the clients were instructed to refer to their last income tax service. Subjects were asked to indicate their degree of agreement with the statements about the CPA firm and/or CPA(s). A six-point scale (1 = Strongly Disagree; 2 = Disagree; 3 = Neutral; 4 = Agree; 5 = Strongly Agree; NA = Not Enough Information to Evaluate) was used for all measures unless indicated otherwise (i.e., duration of service relationship) in the Appendix. All items were mixed in presentation on the questionnaire in order to mitigate repetitiveness of those representing any one construct.

Predictor variables. In order to assess distributive, procedural, and interactional fairness, we used measures that were developed for use in this study, but chose wording based on measures used in past research. Perceptions within each component of fairness were measured with two items, tapping "fairness" and "appropriateness." Appropriateness has been used in past research (e.g., Greenberg, 1993) as alternative terminology for assessing fairness perceptions. Distributive fairness has been operationalized in past literature (e.g., Hoffman & Kelly, 2000) as the fairness of what is provided by the service, i.e., the core aspect of the service As stated earlier, we believe the analog in this context would best be represented by the tax liability resulting from the service (i.e., the balanced owed or due from the IRS). As shown in the appendix, one item measured the clients' degree of agreement that the tax liability associated with this income tax return service was appropriate; the second that the outcome (i.e., balance owed to or due from the IRS) of the tax return service was fair.

To measure procedural fairness, we used two items in which clients indicated their perceptions of the "fairness" and "appropriateness" of the interpretations and judgments made by the CPA when processing the return. Based on operationalizations in past research (e.g., Seiders & Berry, 1998), interactional fairness was measured by the client's perception of the fairness and appropriateness of his or her interpersonal treatment by the CPA during the delivery of the service.

Criterion variables. We measured two attitudes/evaluations of the firm, client loyalty and perceived quality of service provided. For both of these variables we used adaptations of measures used in prior service research (e.g., Behn, Carcello, Hermanson & Hermanson, 1997; Miller, Craighead & Karwan, 2000; Turner, Aldhizer & Shank, 1999). For perceptions of service quality, two items assessed clients' attitudes about the overall quality of the service provided and the firm's commitment to quality. Client loyalty was measured by clients indicating their level of agreement that they would "classify myself as a loyal client of this CPA firm."

Client evaluations and attitudes about the CPA representing the small firm were also measured. More specifically, the clients' trust in the CPA and perceptions of the CPA's competence were measured. The three items that were used to tap client perceptions of the CPA's competence were based on prior research addressing similar attitudes (Behn, et al., 1997; Crosby, Evans & Cowles, 1990). The clients indicated their degree of agreement with three statements; that the CPA had adequate training, knowledge, and experience in income tax preparation. Client trust in the CPA was measured with four items that were based on past research addressing trust in service professionals (Crosby, et al., 1990). These items measured the clients' attitudes regarding the CPA's sincerity, trustworthiness, integrity, etc.

Control variables. Income tax services are unique in that there are many external influences (i.e., federal tax laws) that may potentially confound justice evaluations of the CPA firm. Therefore, consistent with the procedure for measuring the classic justice constructs, two items were used to assess the clients' degree of agreement that the federal tax code procedures used in the service were fair and appropriate.

Costs are also particularly important in professional services and should not be overlooked as an important influence on client evaluations of the service (Halinen, 1996). Client perceptions of the fairness of the charges assessed for services, particularly whether they are commensurate with the services rendered, have been shown to influence other aspects of outcome fairness (Clemmer & Schneider, 1993). We therefore controlled for this potential bias with the use of a measure that included two items assessing the clients' agreement that the charges for services rendered were fair and appropriate.

We also controlled for the duration of the relationship between the client and the firm, since prior research suggests this variable may influence perceptions of fairness (Clemmer, 1993; Coulter & Coulter, 2002; Hoffman & Kelly, 2000). One item, "How long have you been using this CPA's firm's services?" was anchored with four options; less than one year, two to five years, six to ten years, and more than ten years.

RESULTS

Seventy-five of the 460 questionnaires were returned, resulting in a response rate of 16 percent. This is a fairly low response rate, but one that is fairly common in this type of research (e.g., Turner, et al., 1999). Table I provides the descriptive statistics, reliabilities, and correlations among the primary variables in the study. In order to test the hypotheses, four regression analyses were conducted, each with the control variables (federal tax code, service cost, length of service with the firm) and the three components of fairness (tax bill, CPA's procedures and interactional fairness) entered as predictors of the dependent variables of interest (service quality, loyalty to firm, perceived competence of and trust in the CPA).

Table I – Sample Statistics

Variable	Mean	s,d	1	2	3	4	5	6	7	8	9	10
1. Duration as a client	3.46875	0.83512										
2. Service Cost	3.95313	0.81998	0.26439	(0.92)								
3. Tax Code	4.03125	0.76571	0.17531	0.52695	(0.77)							
4. Distributive Fairness	4.04688	0.69988	0.08402	0.59855	0.81175	(0.80)						
5. Procedural Fairness	4.49219	0.56689	0.14197	0.47726	0.47595	0.42101	(0.87)					
6. Inter. Fairness	4.50781	0.65763	0.05103	0.33184	0.38565	0.34406	0.72398	(0.98)				
7. Service Quality	4.46875	0.70640	0.09249	0.33312	0.37599	0.38828	0.71285	0.84620	(0.93)			
8. Loyalty	4.45313	0.75445	0.21178	0.39409	0.37351	0.33490	0.65789	0.79256	0.92049			
9. Compe.	4.63542	0.51338	0.09641	0.41124	0.41305	0.46064	0.74454	0.69029	0.66110	0.61088	(0.94)	
10. Trust	4.48047	0.67745	0.05852	0.21621	0.34162	0.23631	0.53691	0.82426	0.70354	0.67754	0.56491	(0.84)

Table II presents the results of the overall regression models as well as the results of each control variable and fairness predictor relevant to the hypotheses presented earlier. Also shown in Table II are the unique contributions of each predictor as determined by the squared semi-partial correlation (SR^2), which indicates the incremental change in R-squared for one predictor (i.e., fairness component) after the other predictors (e.g., control variables) have already entered the model. Confirmation of these findings with the examination of unique, independent variance when making comparisons among the predictors should mitigate problems with multicollinearity inherent in the regressions procedure, thus "providing more stringent test of the relationships in the context of single source data" (Korsgaard & Roberson, 1995; p. 663).

Table II - Results of Regression Analyses

	Service quality	Loyalty	Perceived competence	Trust
Model F Value	27.65***	18.94***	15.94***	21.85***
Model R^2	.72	.63	.59	.67
Control variables				
Duration as a client	.04	.13	.02	.02
Cost of services	-.05	.08	-.01	-.03
Tax code	.12	-.01	-.12	.18
Justice Variables				
Distributive Fairness	-.20	.00	.22* (.03)	-.16
Procedural Fairness	.27	.14 (ns)	.43*** (.09)	-.17
Interactional Fairness	.74*** (.23)	.78*** (.22)	.24* (.05)	.94*** (.39)

Parameter estimates (beta weights) are provided.
If significant, the unique variance contributions (SR^2) are shown parenthetically below.
*** p<.001
** p < .01
*p < .05

Hypothesis 1 predicted that procedural fairness would be more influential on client evaluations than would distributive justice. The results, as shown in Table II, are consistent with H1 in that procedural fairness significantly (b = .43; p <.001) influenced evaluations of the professional representing the firm (i.e., CPA competence). Even though distributive fairness also had a significant effect (b = .22; p <.05) on perceived competence of the CPA, the independent, unique variance (SR^2 = .09) attributable to CPA judgments and interpretations was much greater than that attributable to perceived fairness of the tax liability (SR^2 = .03).

As shown in Table II, the results support H2 in that interactional fairness significantly influenced all criteria, including service quality (b = .74; p <.001), loyalty to the firm (b = .78; p <.001), perceived competence of the CPA (b = .24; p <.05), as well as trust in the CPA (b = .94; p <.001). In fact, *only* interactional fairness (i.e., the CPA's interpersonal treatment) offered an independent, unique contribution to account for variation in perceptions of service quality, client loyalty to the firm, and trust (SR^2 = .23, .22, and .39 respectively). As was the case above, even though distributive fairness had a unique effect (SR^2 = .03) on perceived competence of the CPA, the independent contribution of interactional fairness in explaining this criterion was greater (SR^2 = .05).

DISCUSSION

The results of this study should provide useful and important information for small businesses offering professional services, particularly small accounting firms and sole practitioners offering income tax services. Although distributive justice, which is externally influenced to a great extent in this context, had a significant impact on the perceived competence of the CPA, it is fortunate that clients in this study did not let the federal tax code, over which the firm has no control, influence their judgments of service fairness. In contrast, fairness components with the most significant consequences were those over which accounting firms and CPAs have the most control. The appropriateness and fairness of the CPA's procedural interpretations and judgments was the most influential predictor of client perceptions of his or her competence. This is important in that prior research (Robbins, et al., 2002) suggests that clients may believe these judgments and interpretations are fairer when the CPA is aggressive, allows the client to assume some risk, is innovative, progressive, and original.

Clients' perceptions of interactional fairness, the way they were treated in interactions with their CPA, had the most significant influence on client perceptions of service quality, loyalty, and trust. The relationships between interactional justice, trust, and loyalty have significant implications for firms providing professional services. Past research (Coulter & Coulter, 2002) suggest that clients of services have an inherent need to trust, and treating the client with empathy and politeness should increase trust by reducing interpersonal barriers, raising comfort levels, and alleviating perceptions of risk. Service businesses are likely to derive substantial benefits from long term relationships that are characterized by trust and loyalty (e.g., Coulter & Coulter, 2002; Curasi and Kennedy, 2002). Loyal clients are more likely to communicate positive information word of mouth to potential clients and continue with the service provider in the future (Curasi & Kennedy, 2002). Building trust with clients is likely an instrumental step in developing the types of emotional bonds that characterize loyal customers. In this study, we gathered some additional data that made it possible to conduct a few post-hoc analyses of the relationships between trust, loyalty, word of mouth recommendations, and intention to remain as a client of the firm. In separate analyses, trust was regressed on loyalty, positive word of mouth likelihood, and intentions to remain as a client of the firm. (See Appendix for additional measures used in these analyses.) Trust was a significant ($p<.001$) predictor of all of these outcomes. Of course, the present study has some limitations, including the sampling of clients from a small business engaged in only one type of professional service. Future research should attempt to generalize these data to other types of services offered by small businesses and sole practitioners. These data might be subject to error because we relied primarily upon survey responses, the use of a common method for most measures. However, our analysis of unique, independent contributions should mitigate problems with common method variance among the predictors (Korsgaard & Roberson, 1995). Also, the pattern of results makes it unlikely the relationships are solely attributable to common methods since some were particularly strong, some more moderate, and others were nonexistent (i.e., not significant). However, future research on small professional service organizations using different methods to measure predictor and criterion variables would serve to further support our interpretations of these results.

Given the cross-sectional nature of our study, we must consider the possibility for alternative causal explanations. Particularly in professional services, the relational bonds between the client and professional (e.g., attraction, trust, commitment) may influence perceptions of the service process and outcomes (Halinen, 1996). For example, it could be that the client's loyalty to the business and trust in the professional lead to more positive perceptions of fairness in the exchange. Past research suggests that loyal customers may be more inclined to forgive an intermittent or occasional mistake by the service provider (e.g., Bejou & Palmer, 1998; Miller et al., 2000) as long as they are treated fairly by the firm in subsequent responses or reactions (Robbins & Miller, in press). Loyal clients are more likely to allow minor difficulties in the exchange relationship to be overcome because they perceive the costs of switching to another service provider as too great (Bejou & Palmer, 1998).

Many accounting professionals, particularly those opening their own business, are probably unaware of the criticality of interpersonal or relational aspects of the service. Practically, managers of professional services should ensure that adequate attention is paid to interpersonal treatment (e.g., willingness to spend time with the client, addressing concerns, answering questions, assuring understanding, etc.) during service exchanges. Interactional fairness was the only significant predictor of perceptions of service quality, trust, and loyalty in this study. Although trust is very important for establishing loyal and long-term client relationships, it has not been studied extensively in small professional service operations (de Ruyter & Wetzels, 2000). Client loyalty is particularly critical for the survival of new small businesses. The benefits of customer loyalty (see Curasi and Kennedy [2002] and Rundle-Thiele & Mackay [2001] for reviews), including the link to profitability (e.g., Reichheld, 1996; Reichheld & Sasser, 1990; Tax & Brown, 1998), have been well established in past research.

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APPENDIX

Operational Measures of Construct

Justice Variables

Distributive Fairness

My tax liability associated with this income tax return service was appropriate.

The return outcome (i.e., balance owed to or due from the IRS) of this tax return service was fair.

Procedural Fairness

My CPA/CPA team's judgments and interpretations used to process this tax return were appropriate.

My CPA/CPA team's judgments and interpretations used to process this tax return were fair.

Interactional Fairness

My CPA/CPA team's treatment of me during this tax return service was appropriate.

My CPA/CPA team's treatment of me during this tax return service was fair.

Criterion Variables

Service Quality

I was satisfied with the overall quality of the service provided by this CPA firm.

This CPA firm had a strong commitment to quality.

Client Loyalty

I would classify myself as a loyal client of this CPA firm.

Perceived Competence

My CPA/CPA team had adequate training in tax return preparation.

My CPA/CPA team had adequate knowledge related to tax return preparation.

My CPA/CPA team had adequate experience in tax return preparation.

Trust

There are times when I found my CPA/CPA team to be a bit insincere. (reverse scored)

I found it necessary to be cautious in dealing with my CPA/CPA team. (reverse scored)

My CPA/CPA team could be relied upon to keep promises.

My CPA/CPA team was trustworthy.

Control Variables

Duration as a client

How long have you been using this CPA firm's services?

____	____	____	____
Less than one year	2-5 years	6-10 years	More than 10 years

Service Cost

The fees assessed for this income tax return service were appropriate.
The charges for this income tax return service were fair.

Tax Code

The IRS tax code procedures used in this income tax return service were appropriate.
The IRS tax code procedures used in this income tax return service were fair.

Trust Correlates used in Post-hoc analyses

Intention to Remain with the Firm

I am likely to continue to use this CPA firm for future accounting service needs.
I am likely to switch to another accounting firm for future accounting service needs.

Positive Word of Mouth

I would likely recommend this CPA firm to a friend/business associate.

Tina Robbins is an Associate Professor of Management at Clemson University, where she teaches organizational behavior. She received her Ph.D. in Business Administration from the University of South Carolina. Her current research focus is organizational justice.

Ben C. Jeffords is a C.P.A. and an Associate Professor of Accounting in the Department of Business Administration at Erskine College. He received his Masters of Accountancy at the University of South Carolina. His current research interest is client perceptions of fairness in accounting services.