

## PROCEDURAL JUSTICE, STRATEGIC DECISION MAKING, AND THE KNOWLEDGE ECONOMY

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*Collective knowledge building is a key strategic task for firms' success today. But creating and sharing knowledge are intangible activities that can neither be supervised nor forced out of people. They happen only when individuals cooperate voluntarily. A key challenge facing strategic management is obtaining the voluntary cooperation of individuals as firms formulate and implement their strategic decisions. This essay draws on the rich body of procedural justice research to address this critical issue. We argue that when people feel their strategic decision-making processes are fair, they display a high level of voluntary cooperation based on their attitudes of trust and commitment. Conversely, when people feel that the processes are unfair, they refuse to cooperate by hoarding ideas and dragging their feet in conceiving and executing strategic decisions. We further develop this argument into team performance wherein the attitudinal and behavioral effects of procedural justice are corroborated with theory and initial evidence of their bottom-line performance consequences. We then build a theory, which we call intellectual and emotional recognition theory, that can explain why procedural justice invokes the side of human behavior that goes beyond outcome-driven self-interests and that is so critical in the knowledge economy. © 1998 John Wiley & Sons, Ltd.*

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In today's economy where the primary resource base is knowledge, collective knowledge building is a key strategic task for firms' success (Drucker, 1993). Land, labor, and capital—the economist's traditional factors of production—are still there, but they become secondary. Unlike the traditional factors of production, knowledge is a resource locked in the human mind. Creating and sharing knowledge are intangible activities that can neither be supervised nor forced out of people. They happen only when individuals cooperate voluntarily. Without individuals' voluntary will to cooperate, firms cannot effectively build their collective wisdom that is critical to succeed in

this knowledge economy. As the Nobel laureate economist Hayek (1945) argued, information possessed by individuals can be put to use *only* with their *active* cooperation.

Here, the distinction between compulsory and voluntary cooperation is important. The former is performing duties in line with rules, regulations, and acceptable standards of an organization so that formal role requirements are met. In contrast, the latter goes beyond the call of duty wherein individuals exert effort, energy, and initiative to the best of their abilities on behalf of the organization. This behavior entails involvement relations wherein individuals often subordinate their personal self-interests, recognize a sense of responsibility toward one another, and unrestrainedly pursue the superordinate objectives of the enterprise. Trust and commitment are essential attitudes here. In their absence, the behavior of voluntary cooperation is hardly obtainable.

Key words: procedural justice, strategic decision-making, knowledge economy, voluntary cooperation, knowledge sharing, teams

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As we reflect on the rapid pace of innovation and radical change of the knowledge economy (Drucker, 1993), voluntary cooperation is also key to the effective execution of strategic decisions. Without the creative initiatives and spontaneous actions of people—characteristics of voluntary cooperation—needed improvisation in implementing strategic decisions is not likely to happen in this moving environment. A central challenge facing strategic management in this knowledge economy is then obtaining that active or voluntary cooperation of individuals as firms formulate and implement their strategic decisions. While strategic management scholars can easily relate to the importance of achieving such cooperation, what is less well understood is how to do so. This is the issue this essay aims to address.

Increasingly, organizations are characterized by teams that often cut across boundaries of ownership, hierarchical levels, geographic regions, businesses, and functions which mitigate the effectiveness of traditional hierarchical control and monitoring capability. The strategic importance of teams has increased as firms have sought new ways of combining resources, especially knowledge resources in getting things done (Drucker, 1992). Teams often transcend the traditional boundaries of hierarchy. They vary from joint venture teams to cross-functional teams to process reengineering teams to corporate transformation teams to innovation teams to corporate management teams to strategic alliance teams to company-supplier teams. The strategic capability of organizations depends increasingly on the function of these teams as they serve as intra- and interorganizational strategic decision-making units. They have become essential units of organizational performance. Given the strategic importance of teams in today's knowledge economy, this essay uses teams as a focal strategic decision-making unit as we develop our arguments.

To date, the logic of economics has dominated the field of strategic management (Rumelt, Schendel, and Teece, 1991). Viewing organization man as an economic agent, the logic of economics works based on individual concerns of power, rational gain, and self-interest. According to the logic, individuals focus on outcomes that maximize their self-interest. Economic theories do a good job of explaining the utilitarian side of human behavior, but they fall short of explaining

the side of human behavior that goes beyond outcome-driven self-interest. They are poor at addressing questions such as why individuals can go the extra mile even at the expense of their own personal self-interest. We need a new theoretical perspective other than economics to answer these questions that have much to do with the behavior of voluntary cooperation. As well expressed by Rumelt *et al.* (1991) in the final section of their essay

Where organizational relationships turn on exchange and on individual incentives, various economic approaches will have much to say. Where the coordination and accumulation of knowledge is key, and where patterns of belief and attitudes are important, other disciplines [than economics] will have more to say.

But what are those new theoretical perspectives?

While multiple theoretical lenses may exist which can shed new light on our issue, here we argue for one, the academic discipline of procedural justice (cf. Thibaut and Walker, 1975; Lind and Tyler, 1988). The intellectual tradition of procedural justice grounded in the fields of social psychology and law has the potential of making important contributions to addressing our issue. Besides its emphasis on the quality of the processes by which strategic decisions are made and executed, it deals squarely with attitudinal and behavioral aspects of individuals relevant to our issue at the level of strategic decision-making units like teams.

In this essay, we reconceptualize the findings of procedural justice research and build a bridge between procedural justice and voluntary cooperation. We argue that when people feel their strategic decision-making processes are fair, they display a high level of voluntary cooperation based on their attitudes of trust and commitment. Conversely, when people feel that the processes are unfair, they refuse to cooperate by hoarding ideas and dragging their feet in conceiving and executing strategic decisions. We further develop this argument into team performance wherein the attitudinal and behavioral effects of procedural justice are corroborated with theory and initial evidence of their bottom-line, performance consequences. By making procedural justice speak directly to the consequentialist concerns of strategic management, its research would be brought closer to the practice of strategic management.

We then build a theory, which we call *intellectual and emotional recognition theory*, that can explain why procedural justice invokes the side of human behavior that goes beyond outcome-driven self-interest and that is so critical in the knowledge economy.

Our essay is organized as follows. First, we outline the meaning of procedural justice. Next, we review procedural justice research relevant to strategic decision making and advance propositions regarding behavioral and performance consequences of procedural justice as teams formulate and carry out their strategic decisions. Based on an exploratory study involving two rounds of interviews in the field, we work towards building a theory of procedural justice to explain why procedural justice matters so centrally to the success of strategic decision-making units such as teams in the knowledge economy. We call this *intellectual and emotional recognition theory*. The last section traces the implications and comments on future research.

## THE MEANING OF PROCEDURAL JUSTICE

Procedural justice is the extent to which the dynamics of the decision process are judged to be fair (see Lind and Tyler, 1988). While the criteria recognized to lead to judgments of procedural justice have been found to vary across diverse settings, three criteria have been found to *consistently* capture the domain of procedural justice in business settings: engagement, explanation, and clarity of expectations (Kim and Mauborgne, 1997).

Engagement means involving individuals in decisions that affect them by both asking for their input and allowing them to refute the merits of one another's ideas and assumptions (e.g., Thibaut and Walker, 1975; Leventhal, 1980; Greenberg, 1986; Folger and Konovsky, 1989; Shepard and Lewicki, 1987). Explanation means that everyone involved and affected should understand why final decisions are made as they are and why individuals' ideas and inputs may have been overridden in ultimate decisions (e.g., Folger and Konovsky, 1989; Bies and Shapiro, 1987). Lastly, clarity of expectations requires that before, during, and after decisions are made managers have a firm understanding of what is expected of them

and what the new rules of the game are (e.g., Folger and Konovsky, 1989; Kim and Mauborgne, 1997). Taken together, these three criteria—engagement, explanation, and clarity of expectations—*collectively* capture the domain of procedural justice in strategic decision making. *Collectively* is important here as the concept of procedural justice is meaningful when it embraces all of the three criteria, not any subset of them. For this reason, procedural justice should not be confused with participative management.

## THE THEORETICAL HERITAGE OF PROCEDURAL JUSTICE RELEVANT TO STRATEGIC DECISION MAKING

The historical antecedents of procedural justice can be traced to the seminal works of Thibaut and Walker (Thibaut and Walker, 1975, 1978; Thibaut, Friedland and Walker, 1974; Walker *et al.*, 1974). The starting point of Thibaut and Walker's work was a concern with how the dynamics of the process by which decisions are reached exert a powerful influence on human cognition and behavior. The central contention of their work was that people care a great deal about the procedures by which decisions are arrived at and will react strongly to the presence or absence of fairness in these processes. Accordingly, the field of procedural justice was created by merging an interest in the psychology of justice with the study of process.

Thibaut and Walker first explored the concern for procedural justice in legal and judicial settings: few domains have granted as much attention to questions of processes as has the law. Based on experimental studies on methods involving dispute resolution, this research provided the first unambiguous demonstration that variations in procedural justice per se result in salutary attitudinal and behavioral consequences including satisfaction and better acceptance of resulting outcomes. This led Thibaut and Walker to conclude specifically that the exercise of procedural justice may well allow the legal process to 'bind up the social fabric and encourage the continuation of productive exchange relations between individuals,' and generally that the property of being fair may be an important requisite of any model of decision making.

Since the seminal work of Thibaut and Walker,

procedural justice literature has grown tremendously, especially in recent years. While Greenberg (1987a, 1990) and Lind and Tyler (1988) offer excellent overall reviews, two macro trends in the literature are particularly relevant here. One trend concerns the widening circle of contexts in which procedural justice has been studied. Following Thibaut and Walker's seminal work on dispute resolution processes, it stood to reason that the legal and political settings would quickly come to dominate studies on procedural justice. Studies provided unambiguous evidence of the importance individuals attach to issues of procedural justice in law and dispute resolution settings (e.g., Lind *et al.*, 1980; Tyler and Folger, 1980; Casper, Tyler, and Fisher, 1988; Tyler, 1988, 1990; Tyler and Caine, 1981; Tyler, Rasin-ski, and McGraw, 1985). As the theoretical work of Leventhal (Leventhal, 1980; Leventhal, Karuza, and Fry, 1980) brought to light, however, the scope of procedural justice as a psychological phenomenon is not limited to legal issues. The concept can be applied to procedures in nonlegal settings as well. This position, which was since echoed even more strongly in the work of Lind and Tyler (1988), provided an invaluable bridge between procedural justice and a breadth of social settings.

Inspired by Thibaut and Walker's work and Leventhal's assertion, procedural justice researchers soon began to migrate outside the legal domain. Procedural justice's impact on individuals' attitudes and behaviors was soon examined in social settings of diverse contexts including educational (e.g., Tyler and Caine, 1981) and interpersonal (e.g., Barrett-Howard and Tyler, 1986). Consistently, these works have found that concerns of procedural justice are central to individuals and have strong social psychological consequences. It was Greenberg and Folger (1983) and Folger and Greenberg (1985), however, who pushed the application of procedural justice beyond social settings as well. These scholars formally introduced procedural justice into the realm of the workplace of for-profit organizations. Questions of how employees react to organizational procedures represent the most recent domain to actively attract the attention of procedural justice researchers (Greenberg, 1987a).

For example, both Greenberg (1987b) and Folger and Konovsky (1989) applied the concept of procedural justice to the procedures used in

performance evaluations for promotions and pay raise decisions. In another study, Tyler (1989) traced the impact of procedural justice judgments on the reaction of 302 workers to conflict resolution processes. And in the study of Sheppard and Lewicki (1987), executives' perceptions of procedural fairness were assessed in seven distinct role domains of managerial activity. In addition, issues of procedural justice have been extended to personnel procedures (Folger and Greenberg, 1985; Alexander and Ruderman, 1987), organizational grievance systems (Fryxell and Gordon, 1989), layoff processes (Brockner *et al.*, 1987), and drug testing in the workplace (Konovsky and Cropanzano, 1991).

Without exception, these studies have provided support for Leventhal's assertion concerning the generality of procedural justice concerns. People, be they managers or lower-level employees, care a great deal about the justice of the procedures by which organizational decisions were reached in the workplace. Hence, as procedural justice has developed, the contexts in which it has been explored have gradually migrated to the business setting.

The second trend that is particularly relevant here is the widening circle of attitudinal and behavioral effects examined and established in procedural justice research. In the classic work of Thibaut and Walker, and in many of the legal studies which followed, lower-order attitudes that are about individuals' affective response to particular decision outcomes were the primary dependent variables of interest. A central question of these earlier works was whether the exercise of procedural justice increased citizens' satisfaction with the resulting legal or courtroom decision. These studies found that increases in procedural justice judgments indeed result in heightened decision outcome satisfaction (Thibaut and Walker, 1975). This effect was both direct and indirect through procedural justice's effect on the perception of the outcome (Folger, 1977).

As the body of procedural justice research has multiplied, however, concern has gone beyond how procedural justice impacts lower-order attitudes concerning a particular decision outcome like outcome satisfaction to how it impacts higher-order attitudes that are long-term attitudes towards groups, institutions, and leaders. One factor influencing this shift was the discovery that perceptions of procedural justice positively

enhanced outcome satisfaction even when individuals received unfavorable decision outcomes. That is, the exercise of procedural justice positively enhanced individuals' satisfaction even when individuals lost in arbitration. Moreover, laboratory experiments revealed that this positive effect on satisfaction persisted even in situations in which individuals received negative outcomes in repeated instances (Paese, 1985). These findings, which flew in the face of utility calculations of maximizing personal gain, held a bold implication. They not only challenged the view of economic man motivated only by concerns of rational gain, but they also suggested that procedural justice's value extends beyond instrumental calculations.

Reasoning that the experience of procedural justice enhances individual cognitive confidence in the decision-making process and builds feelings of belonging and loyalty, researchers accordingly hypothesized and demonstrated that procedural justice judgments have positive effects on various higher-order attitudes including commitment (e.g., Alexander and Ruderman, 1987; Brockner *et al.*, 1987), trust (Greenberg, 1987a; Folger and Konovsky, 1989), and social harmony (Alexander and Ruderman, 1987; Tyler and Griffin, 1989).

It was Tyler (1990), however, who took the field to the level of action, conducting what is arguably the first major study on whether behavior is brought into line with these attitudes. His central proposition was that procedural justice would augment legitimacy, and through legitimacy, citizens' behavioral compliance with the law. Based on panel data, Tyler found unambiguous support for the hypothesized causal link between procedural justice and compliance, that is, the abidance of the law in accordance with formally prescribed guidelines. Since Tyler, several recent studies have provided additional support for procedural justice's impact on behavior (Fahr, Podsakoff, and Organ, 1990; Moorman, 1991; Moorman, Organ, and Niehoff, 1991; Niehoff and Moorman, 1993; Konovsky and Pugh, 1994). These studies have provided some evidence that procedural justice influences organizational citizenship behaviors such as sportsmanship and courtesy.

As the contextual application of procedural justice has expanded from legal to business decision making and its effect has been shown to reach to the level of behavioral action, its

relevance to strategic decision making becomes visible. Figure 1 depicts this dynamic progress of procedural justice research as the notion applies to corporate strategic decision making.

### **Procedural justice, strategic decision making, and voluntary cooperation**

As discussed above, one of the most significant and widespread findings of procedural justice research is the positive effect perceptions of procedural justice exert on individuals' higher-order attitudes of trust and commitment. If we reflect on the rich body of commitment literature, although hardly homogeneous, there is remarkable consistency in the underlying belief that individuals with a high sense of felt commitment to an organization or a decision identify with its goals and objectives and are likely to pursue them to the best of their abilities, in essence demonstrating a form of voluntary cooperation. As the work of O'Reilly and Chatman (1986) brought to light, commitment induces not only in-role behavior or the performing of duties in line with rules and regulations, but also extra-role behavior, or prosocial voluntary efforts on behalf of an organization.

Likewise, the trust engendered by perceptions of procedural justice can be expected to act as an antecedent to voluntary cooperation. When mutual trust exists, managers have heightened confidence in one another's intentions and actions. Trust shifts interactions from transactional to relational in nature wherein a form of kinship obligations replaces quid pro quo attitudes to exchange (Williamson, 1975; Blau, 1964). In Konovsky and Pugh's (1994) recent work, for example, procedural justice was found to be a significant predictor of trust, which in turn was found to be a predictor of higher-order citizenship behaviors including sportsmanship, conscientiousness, civic virtue, altruism, and courtesy. While not identical to voluntary cooperation, such organizational citizenship behaviors do demonstrate the ability of procedural justice to induce individuals' willingness to exert energy and override personal self-interest on behalf of the organization. As Katz (1964) argued, individuals with positive psychological feelings toward institutions that go beyond instrumental concerns such as trust and commitment will be motivated to perform their tasks in a spontaneous and creative way that goes beyond the call of duty.

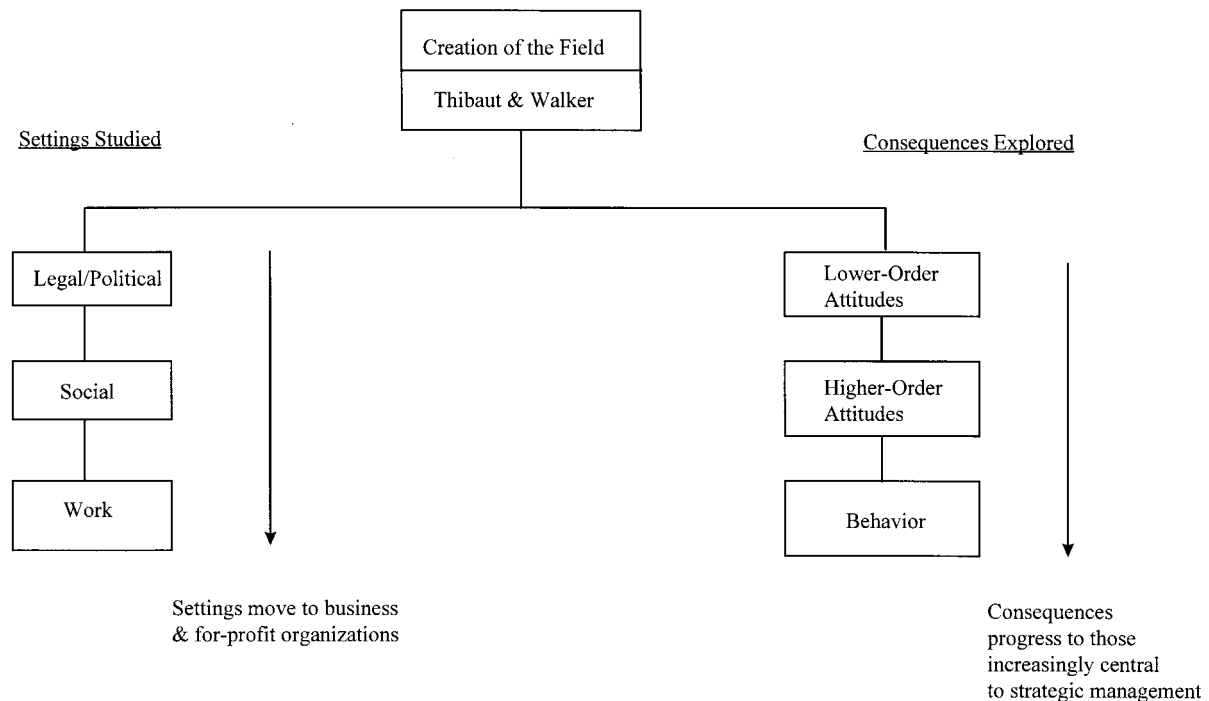


Figure 1. Two developments in procedural justice research relevant to strategic decision making

Several recent studies are relevant here. In the setting of multinationals' resource allocation process between head office and subsidiary top managers, Kim and Mauborgne (1991, 1993a, 1993b, 1993c, 1996) found that procedural justice positively enhances subsidiary top managers' commitment to support decisions, and through this attitude, their extra-role behavior in the execution of resource allocation decisions. Kim and Mauborgne conceptualized commitment to decisions as subsidiary top managers' willingness to support resource allocation decisions even in situations in which those decisions were viewed as not favorable to their subsidiary unit or are at odds with their perceptions of what is the strategically right decision for their unit. Viewed in this way, commitment to support decisions can be argued to reflect subsidiary top managers' commitment and trust in the decision process, and their willingness to exert energy and override personal self-interest on behalf of the organization. Likewise, in an executive development program, Korsgaard, Schweiger, and Sapienza (1995) found, using a role-playing case simulation, that the exercise of procedural justice had a positive effect on executive participants' reported levels of felt commitment and trust, which were

theorized to engender high levels of cooperation, especially concerning the implementation of resulting strategic decisions.

Collectively, the above discussions suggest that the exercise of fairness in the processes of strategic decision making of teams may well induce voluntary cooperation among their members. Accordingly:

*Proposition 1: The exercise of procedural justice in the strategic decision making of teams will have a positive effect on voluntary cooperation among their members via its positive effect on their attitudes of trust and commitment. This effect will be significant across the range of strategic decision making contexts including, but not limited to, joint venture, cross-functional integration, process reengineering, corporate transformation, innovation, corporate management, strategic alliances, and company-supplier relations.*

### Procedural justice, strategic decision making, and knowledge sharing

Beyond engaging in voluntary cooperation, active idea and knowledge sharing among individuals in

strategic decision making is key to succeeding in the knowledge economy. This is a main source of innovation and high value-creating approaches to the market. Two theoretical reasons can be put forth to expect a positive effect of procedural justice on active idea and knowledge sharing among team members of strategic decision-making units.

One is traceable to the link we previously argued between procedural justice and its higher-order attitudes and behavior. Innovative, high value-creating approaches to the market rest on the willingness of managers to actively share their insight, creative ideas, and expertise. But, think of the natural tendency managers have in sharing their knowledge and ideas. Knowledge and expertise are often viewed as sources of power and as such are not easily shared. This is all the more true in the knowledge economy where the premium and power attached to valuable ideas escalate, creating a heightened hesitancy in managers to share their best ideas with one another. Hence, at the precise moment when the sharing of ideas is most needed, it is also most difficult to expect, all else being equal. Of course, were it possible for individuals to 'sell' their knowledge and expertise to others, these problems might be overcome. However, this is often not feasible. As knowledge is largely an intangible asset its value to a 'purchaser' cannot be known until the purchaser has it, but once the knowledge is disclosed, the purchaser has acquired it without cost.

In the absence of natural economic incentives and with perceived power disincentives to diffuse knowledge and expertise, it follows that high-quality knowledge sharing will likely be stifled as long as quid pro quo attitudes toward cooperation prevail. Writing in a somewhat different but related context, Hayek (1945: 521–522) explains why voluntary cooperation acts as a strong catalyst for the creation and sharing of knowledge and expertise to occur:

practically every individual has some advantage over all others in that he possesses unique information of which beneficial use might be made, but of which use can only be made if the decisions depending on it are ... made with his active cooperation.

Hence, to the extent that procedural justice induces voluntary cooperation, the active exchange of knowledge and ideas can be expected

with procedural justice in strategic decision making.

The other theoretical reason to expect a positive effect of procedural justice on knowledge and idea sharing is traceable to the information-processing capabilities inherent in the underlying dimensions of procedural justice. As previously discussed, procedural justice literature provides guidelines for structuring decision-making processes to maximize fairness perceptions. If we reflect on the bedrock principles that lead to perceptions of procedural justice, namely engagement, explanation, and clarity of expectations, we discover that they have important implications for an organization's ability to gather, interpret, and synthesize information and hence to enhance knowledge and idea sharing.

For example, the ability to express one's ideas or bilateral communication, which is a key element of engagement, implies the opportunity to voice one's perceptions, knowledge, and ideas, and the need to hear opposite parties out. This increases the likelihood that a high rate of knowledge and expertise will be diffused and shared. Likewise, the other dimension of engagement, namely correctability or the ability to refute, checks individuals' inclination to crowd out alternative views. This helps to inject a restless, self-questioning atmosphere in a decision making unit which is critical to drawing out the creative and diverse ideas of decision making participants. Another component, explanation or the provision of account, grants individuals a more comprehensive understanding of the cognitive maps of decision-makers and serves as a feedback loop to inform and educate. Lastly, clarity of expectations sets a clear agenda of the knowledge and ideas that are sought, focusing individuals on defined areas and sharpening their discussions and idea sharing accordingly.

The information-processing richness of the procedural justice components leads us to expect that a positive relationship exists between procedural justice and knowledge and idea sharing. That procedural justice is embedded with rich information-processing characteristics is, in fact, well recognized in the procedural justice literature. Folger (1977) and Greenberg and Folger's (1983) theory of 'voice,' for example, argues that procedural justice is valued because it allows individuals to voice or articulate their views in the decision process, promoting active information

exchange. While their discussions centered around why this inspires the positive attitudinal effects of procedural justice, their theory explicitly recognized the underlying ability of individuals to share their knowledge, ideas, and opinions in the decision process (Kim and Mauborgne, 1995). Collectively, the above discussions on voluntary behavioral consequences and the information-processing implications of procedural justice suggest the following proposition.

*Proposition 2: The exercise of procedural justice in the strategic decision making of teams will have a positive effect on active idea and knowledge sharing among team members via its positive effect on members' voluntary cooperation and the information-processing capabilities of the process. This effect will be significant across the range of strategic decision making contexts including, but not limited to, joint venture, cross-functional integration, process reengineering, corporate transformation, innovation, corporate management, strategic alliances, and company-supplier relations.*

### **Procedural justice, strategic decision making, and team performance**

Taken to their logical conclusion, we reason that the exercise of procedural justice in strategic decision making may be a way not only to arrive at high-quality strategic decisions, but also to effectively execute those decisions to the best of one's abilities. The active exchange of knowledge and ideas inspired by the exercise of procedural justice, all else being equal, can be reasoned to lead to higher-quality decision outcomes. At the same time, the voluntary cooperation engendered by procedural justice, all else being equal, can be reasoned to lead to more forceful strategy execution. With a good strategy and its effective execution, teams are likely to perform well. This suggests that via its positive effect on idea and knowledge sharing or the content of decisions on the one hand, and on voluntary cooperation or effective execution on the other, the exercise of fairness in the processes of making the strategic decisions of teams can be expected to have a positive effect on their performance (see Figure 2). Hence:

*Proposition 3: The exercise of procedural*

*justice in the strategic decision making of teams will have a positive effect on their performance via its positive effect on voluntary cooperation and knowledge sharing among team members. This effect will be significant across the range of strategic decision making contexts including, but not limited to, joint venture, cross-functional integration, process reengineering, corporate transformation, innovation, corporate management, strategic alliances, and company-supplier relations.*

By explicitly addressing performance, the motivation for managers to explore the importance of procedural justice in their practices is significantly heightened. To date, economic theories have dominated managers' attention and action agendas largely because they speak the consequentialist, bottom-line language of managers while social psychological theories like procedural justice do not yet do so. Performance is critical because it is the central indicator managers are evaluated on. Attitudes and behaviors are important and managers do care about them, but given limited resources and time and the need to prioritize, managers' attention will often first gravitate to factors shown to impact performance. Hence, to bring procedural justice closer to the theory and practice of strategic management, the application of the theory to the practical consequences central to managers would be wise to be pursued. This is especially true as the world transits from a production-based to a knowledge-based economy where unlocking the mind and emotion of individuals, the domain of social psychology, is arguably at the heart of high performance. A recent work by Korine (1997) makes a seminal step in this direction. Using both deductive and inductive approaches, it examines the role of procedural justice in managing innovation teams. It shows that the exercise of procedural justice in innovation team dynamics enhances their performance, including time to market, development costs, customer satisfaction, and product quality. We need to see more of this type of research in the future.

### **TOWARDS A THEORY OF PROCEDURAL JUSTICE**

The above propositions suggest the important attitudinal, behavioral, and performance conse-



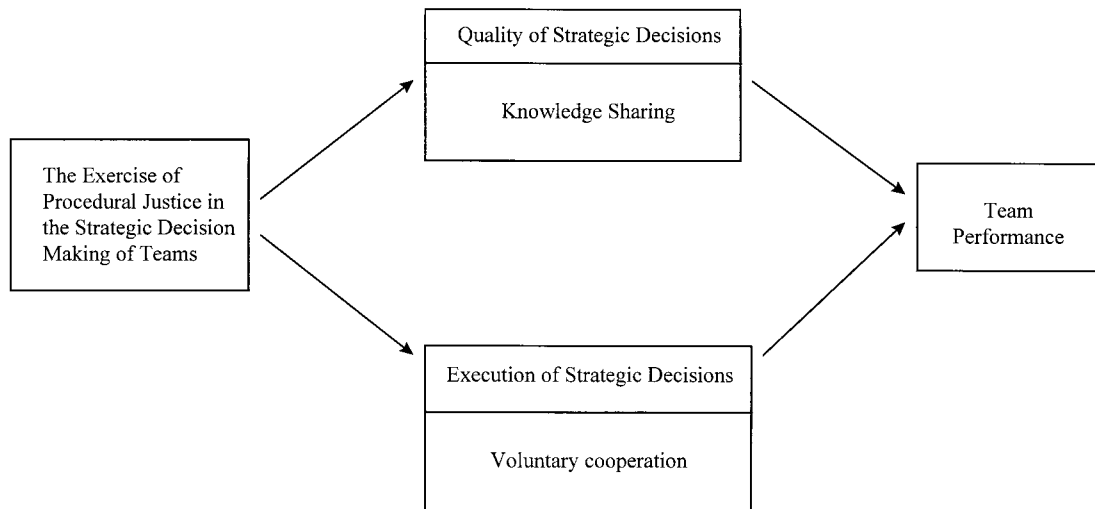


Figure 2. How procedural justice affects team performance

quences of procedural justice. But, what is the fundamental motive of individuals that makes them respond so strongly to procedural justice, especially as it relates to strategic decision making? Procedural justice research has been more concerned with demonstrating the effects and widespread applicability of procedural justice than with understanding how fair process works to produce these effects (Greenberg, 1990). While we have micro theories to hypothesize the relationships proposed herein, the literature lacks an overarching explanation of why procedural justice matters so centrally to individuals.

To date, there exist two perspectives aimed to provide a macro explanation (Lind and Tyler, 1988). One is the self-interest model whose origin can be found in the work of Thibaut and Walker and the other is Lind and Tyler's group-value model. According to the self-interest model, the exercise of procedural justice induces positive attitudes because it is perceived to promote process control and hence the self-interest of individuals involved in the decision process. Through the exercise of engagement, a prominent aspect of fair process, individuals involved in the decision process are perceived to enhance their control over the attainment of outcomes in line with their self-interest. The logic of this model is akin to that of economics. Group-value model, by contrast, begins by assuming that long-term group membership is a powerful aspect of social life. It argues that because people want to be treated as valued members of enduring groups, they are

concerned with procedural justice. Procedural justice is seen to build group solidarity and assure members' good standing in groups. In this way, procedural justice works to fulfill individuals' long-term affiliative needs. However, both models are viewed as partial explanations of the psychology of procedural justice as research evidence offers both some support for and some disconfirmation of them (cf. Lind and Tyler, 1988). This has led to a call in the literature for work in theory building (Greenberg, 1990).

Nowhere is the need for theory building clearer than in the strategic decision-making context in which both theoretical explanations seem to encounter some contextual limitations. In the strategic management setting, the relationship between decision outcomes and self-interest is not perfectly correlated as usual procedural justice contexts such as in court rulings, pay raise, and layoff decisions. Decision outcomes in the strategic management context are driven to achieve strategic success at the level of the organization which can vary with the self-interest of individuals involved in the process as, for instance, the strategic decision for one unit to cross-subsidize another unit to fend off a rising global competitor. However, as long as the managers of the 'sacrificing' unit are compensated financially or in stature (e.g., a promotion or company acclaim) for their unit's sacrificing behavior, the conflict with self-interest may be mitigated.

Moreover, strategic tasks of business organizations are increasingly dealt with by temporary

teams of managers that cut across boundaries of businesses, geographic regions, hierarchy, and even ownership. These teams are often one-shot, short-lived, non-enduring groups of action. Hence, group solidarity and long-term group considerations which are important elements of the group-value model have less relevance to individuals who belong to groups on a temporary basis.

In an attempt to understand why procedural justice matters in the context of strategic decision making, we conducted an exploratory field study on this. This fieldwork began in an inelegant fashion. We wrote to 10 companies soliciting interviews with their senior managers who had recently been involved in making and executing strategic decisions. We asked them to identify 5–10 of their senior managers for interviews. We have known these companies through their participation in our previous procedural justice research. Two of these companies expressed difficulty in participating, given major transformations they were undergoing at the time. In total, we were able to interview 48 senior managers of the eight participating companies. Our focus was to learn what motivated these managers to give their best or demotivated them to not share their knowledge nor voluntarily cooperate in making and executing strategic decisions.

As interviews progressed, we started to learn not only of the importance placed on the fairness of the process by which strategic decisions were reached, but also the cognitive and motivational processes underlying procedural justice. In discussing the importance of procedural justice, executives' comments had traces of both self-interest and group-value concerns. However, these concerns were overwhelmed by statements of another nature—intellectual and emotional recognition. Interviewees' comments suggested that procedural justice was valued not so much because it was perceived to enhance the favorability of decision outcomes (the self-interest model) or promote group solidarity or one's group status (the group-value model). Rather, procedural justice was valued because it echoed managers' fundamental belief in recognizing individuals for their intellectual and emotional worth *irrespective* of their particular hierarchical level and *even without regard* to the need for a feeling of identification with a particular group or concern about their status in that group.

Judging from this first round of interviews, an

overarching concern of individuals on procedural justice appeared to have to do with their drive to be valued and recognized as intelligent and worthwhile individuals. While this drive seemed to embrace concerns of self-interest and group-value—'it's nicer to be treated well than badly [self-interest]' and 'it makes one feel more respected and important among peers [group-value],' it also indicated another dimension of the psychology of procedural justice that has yet to be explored; that is, individuals' basic concern for proper human conduct—'It doesn't matter if it's me or someone else. Every individual deserves to be recognized for their worth.'

Consistently, managers' comments revealed that when they felt that their ideas and person were recognized through fair process, they were willing to share their knowledge and give their all to make and execute effective strategic decisions. However, when fair process was violated, they felt indignation and were predisposed to engage in negative counter-efforts. The potentially profound implications and intuitive appeal of this initial insight led us to pursue our exploratory theory building effort further.

Given the budget constraints we had, we randomly selected one-half of the 48 senior managers originally interviewed for a second round of more intensive interviews. We were able to interview 21 out of the 24 randomly chosen senior managers. The interviews were largely unstructured, spiritually following Glaser and Strauss's (1967) qualitative method of grounded theory. The focus in this second round of interviews was to gain further understanding on the cognitive and motivational processes underlying the importance of procedural justice. The qualitative comments made by executives were analyzed for patterns. Duplicating statements were combined and responses mentioned only once were dropped as idiosyncratic statements. In doing so, we looked for similarities and differences across the comments.

What emerged from this was two sets of factors, distinct yet interrelated. These factors both confirmed and deepened the insights we had learned in our first round of interviews. Since qualitative data can be destroyed through intensive coding, we present a representative sample of our qualitative data in the form of direct executive comments in Table 1. As the table shows, the data suggest two different dimensions

Table 1. Procedural justice and intellectual and emotional recognition

| Intellectual recognition   | Emotional recognition   |
|--|---|
| <p>If you want people to share their knowledge and expertise you have to treat people as though their knowledge and expertise are valued and worthwhile. People fundamentally do not accept but reject when others pay no respect to their intellectual worth; and that goes for every manager I know. Fair process provides that.</p> <p>When people ask for your ideas and input it signals that they think you've got something important to contribute—which makes you want to share your ideas. It's inspiring.</p> <p>If people don't ask for your input, they don't respect your thinking. And if they don't respect my thinking I'm not going to share my ideas or expertise.</p> <p>Giving people the right to refute ideas signals that no one's thinking is above anyone else's and that people's ideas and perspectives are respected. It gives people tremendous confidence in the confidence companies have in their expertise and knowledge. It inspires people to want to share their best thinking.</p> <p>It's an affront to my intelligence when people don't explain why final decisions are made as they are but just expect me to implement them. If a company wants its people to share their ideas and launch entrepreneurial actions then they have to treat you like they value your intellectual worth.</p> | <p>Fair process makes people feel treated with politeness and respect and hence makes them feel recognized as dignified human beings; it makes them committed.</p> <p>To build trust and make people give their all they need to be valued as individuals; they need to feel respected in the way they are treated in the decision processes that characterize their work lives.</p> <p>The exercise of fair process signals that organizations respect individuals as human beings. Fundamentally, every human being wants to feel recognized for their emotional worth, and when they are, their energy and inspiration lift to new heights.</p> <p>If I feel disrespected in the process, I am not going to be committed and do my best. Who is? People want to feel treated as if they are worthwhile. Money is not enough to make people committed to go out on a limb for you.</p> <p>Every person wants to feel valued and treated with dignity. Fair process does that.</p> |

of recognition: one intellectual, the other emotional. On the emotive axis, individuals seek recognition of their value not as 'labor', 'personnel', or 'human resources', but as human beings who are treated with full respect and dignity and appreciated for their individual worth regardless of hierarchical level. On the intellectual axis, individuals seek recognition that their ideas are sought after, given thoughtful reflection, and that others think enough of their intelligence to explain their thinking to them. Such frequently cited expressions seen in the table as 'that goes for everyone I know' or 'every person wants to feel' and constant references to 'people' and 'human beings' reinforce the point that managers see the nearly universal value in the intellectual and emotional recognition that procedural justice conveys beyond the specific context of a particular decision making unit or superior in the hierarchy. This supports our initial observation that the power of procedural justice reaches

beyond group-value and self-interest concerns to that of proper human conduct.

## INTELLECTUAL AND EMOTIONAL RECOGNITION THEORY

The exercise of procedural justice in strategic decision making appears to bear a strong cognitive link to both intellectual and emotional recognition. It proves through action that there is an eagerness to trust and cherish the individual as well as a deep-seated confidence in the individual's knowledge, talents, and expertise. When individuals feel recognized for their intellectual and emotional worth, they demonstrate a willingness to act out the new role demanded of them as entrepreneurs, to cooperate with others, and to give their all. They are inspired to engage in voluntary cooperation and active knowledge sharing essential to high performance. In short, while

companies today rightly claim that employees are their greatest assets, companies must treat them with intellectual and emotional recognition in decision-making processes. Such processes can reveal a company's willingness to trust people and to seek out their ideas—or they can signal the exact opposite.

What predictions would intellectual and emotional recognition theory make? Our observations on the pattern of human thought and behavior can be summarized as follows. When individuals are treated such that their intellectual worth is recognized, they are willing to share their knowledge—in fact, they feel inspired to impress and confirm the expectation of their intellectual worth, suggesting active idea and knowledge sharing. Likewise, when individuals are treated with emotional recognition, they feel emotionally tied and inspired to give their all. Indeed, in Herzberg's (1966) classic study on motivation, recognition was found to inspire strong intrinsic motivation causing people to work beyond an acceptable level and engage in voluntary cooperation. Hence, to the extent that procedural justice judgments convey intellectual and emotional recognition, individuals could be expected to better apply their knowledge and expertise and their voluntary efforts to cooperate for organizations' success.

However, there is a flip side to this which is deserving of equal, if not more, attention. That is, the violation of fair process and with it, the violation of recognizing individuals' intellectual and emotional worth. The pattern of thought and behavior observed here can be summarized as follows. If individuals are not treated as though their knowledge is valued they will feel intellectual discontent and will not share their knowledge or their ideas and expertise; rather they will hoard their best thinking and creative ideas, preventing new insights from seeing daylight. Likewise, to the extent that their emotional worth is not recognized, they will feel emotionally angered and not invest their heart and energy in actions; rather they will foot-drag and apply counter-efforts including sabotage. This suggests several new propositions:

*Proposition 4: The violation of fair process in the strategic decision making of teams will induce the emotional anger and intellectual discontent of team members. This effect will be significant across the range of strategic*

*decision making contexts including, but not limited to, joint venture, cross-functional integration, process reengineering, corporate transformation, innovation, corporate management, strategic alliances, and company-supplier relations.*

*Proposition 5: The violation of fair process in the strategic decision making of teams will induce the hoarding of ideas and foot-dragging and other counter-efforts of team members. This effect will be significant across the range of strategic decision making contexts including, but not limited to, joint venture, cross-functional integration, process reengineering, corporate transformation, innovation, corporate management, strategic alliances, and company-supplier relations.*

*Proposition 6: The violation of fair process in the strategic decision making of teams will have a negative effect on their performance via its negative effect on voluntary cooperation and knowledge sharing among team members. This effect will be significant across the range of strategic decision making contexts including, but not limited to, joint venture, cross-functional integration, process reengineering, corporate transformation, innovation, corporate management, strategic alliances, and company-supplier relations.*

Hence, if companies and managers cannot be convinced of the importance of fair process based on its positive attitudinal and behavioral consequences, the profound negative consequences associated with its violation can fast drive this point home. While our statement on intellectual and emotional recognition theory of procedural justice is rudimentary and based on preliminary exploratory field research, we would argue it has the potential to substantially advance our understanding of what makes procedural justice critical in the strategic management setting. It reflects an image of the individual who seeks recognition both in person and in mind. While this has traces of the self-interest model and the group-value model, it more strongly suggests an enlarged understanding of organizational members as deeply concerned with proper human conduct, broadening and enriching our current understanding on why procedural justice matters so keenly.

As shown in Figure 3, intellectual and emotional recognition theory is proposed to embrace the multiple sources of procedural justice's effects. These multiple sources explain why the exercise (violation) of procedural justice creates such important positive (negative) attitudinal and behavioral consequences. We would argue that procedural justice does not galvanize individuals because it reinforces one aspect of human needs but because it simultaneously responds to the complex, multifaceted needs of human beings from the basic concern for proper human conduct, to the need to feel socially accepted and valued in a group, to the rational and calculative need to protect and advance self-interests. Intellectual and emotional recognition works to fulfill these multidimensional needs.

## DISCUSSION AND CONCLUSIONS

As companies have increasing numbers of intra- and interorganizational teams to get things done in this fast-moving economy, teams have become essential units that conceive and execute corporate strategic missions. Successful teams demand their team members' active engagement in knowledge sharing and voluntary cooperation to produce decisions of high quality with effective execution. The issue is how to do so. In this essay, we argue that the discipline of procedural justice, which lies at the intersection of the individual and the decision process, may provide important insights into this issue.

The propositions advanced herein aim to show a way procedural justice can address the issue of how teams can arrive at both high-quality strategic decisions and their effective execution for high performance. In the process of further developing and testing these propositions, both

fields of procedural justice and strategic management would broaden their theoretical and empirical scopes. Korine's work (1997), which examines the performance impact of procedural justice in the innovation team context, is a good example of this. Korine argues that beyond within-team dynamics, the process dynamics between corporate management and innovation teams also matter. His work discusses the importance of 'objectivity' of procedural justice in this process dynamics.

While traditional approaches to strategic management have tended to treat the formulation and implementation of strategy as distinct and sequential activities (e.g., Andrews, 1971; Ansoff, 1965; Mintzberg 1990), this approach is increasingly recognized to be replete with hazards including slow and questionable implementation: a growing acceptance of the simultaneity of the two instead of a bifurcation is emerging in the literature. For as good strategy content in the absence of effective implementation means little, so too does effective execution of a less than satisfactory strategy. Hence, by organizing strategic decision-making processes around the principles of fair process, companies may greatly enhance their strategic capability as procedural justice can treat strategy content and execution simultaneously.

At a more macro level, while focused on strategic decision making here, this essay suggests the field of strategic management can be enriched by drawing on the field of social psychology. To date, we have abundant applications of various streams of economics to the analysis of the issues of strategic management. Yet, theories of social psychology and sociology, despite their powerful contribution potential as shown here, have scarcely been interplayed with the field. We argue for the need for building such an interdisciplinary

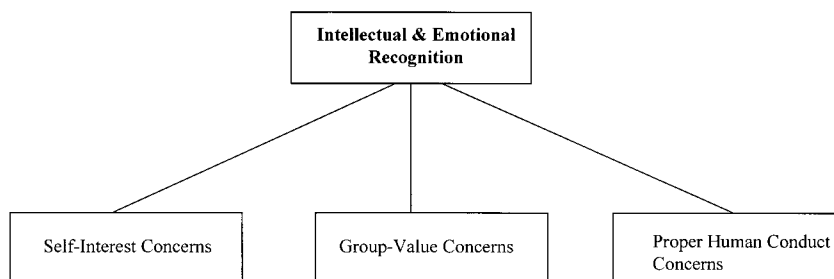


Figure 3. Intellectual and emotional recognition theory of procedural justice

approach as it can shed new light on the internal motive systems of individuals and processes which are increasingly important for strategic success in the knowledge economy.

This essay is not without its limitations. Both procedural justice and strategic management are rich fields, with many important studies shedding significant insights in both areas. In this essay, however, we have attempted to paint a broad-brush picture in an effort to set the stage for a productive dialogue and exchange between the two fields. In seeking patterns and simplicity out of diversity and richness, we have failed to bring out many significant differences and contributions of individual works.

A second limitation revolves around our proposed theory of procedural justice, which we call intellectual and emotional recognition theory. In an attempt to bridge theoretical perspective and managerial relevance, we went to the field to try to understand why managers in the strategic decision making context set great store on the importance of fair process. The qualitative data from our one study, however, raises questions about the validity and general applicability of our findings. Although Weick (1989) defined theory building as disciplined imagination in the absence of concise measures, a valid question is whether we exercised sufficient discipline in our attempt to make sense out of managers' interview comments.

These potential weaknesses and unanswered questions notwithstanding, intellectual and emotional recognition theory proposed herein not only has commonsense appeal but also provides a new way to explain why procedural justice matters that adds a distinctive dimension—proper human conduct—to the existing self-interest and the group-value models. The theory is well aligned with fundamental views of human nature and the new organizational requisites of voluntary cooperation so needed in this knowledge economy. An interesting avenue for future research here might be to explore in what conditions or contexts concerns for self-interest, group-value, or the proper human conduct of intellectual and emotional recognition best capture the cognitive and motivational processes underlying procedural justice and its attendant effects.

While old economics treated innovation as a 'black box', new economics (e.g., Romer, 1986) view innovation as a key endogenous variable

for future economic performance. In line with the theory of new economics, Drucker (1992, 1993) has argued that innovation is an organized discipline and the firms in the knowledge economy need to learn to innovate as a systematic process. He has further argued that the key to innovation is people who own the means of innovation—their knowledge—and that they are independent and mobile. Organizations in the knowledge economy are in constant competition for this critical resource. To attract and hold them, companies need to organize themselves to be the place where they feel most appreciated. To do so requires companies to understand and satisfy the multi-dimensional needs of human beings, especially those with high-quality ideas. Here, we argue that besides people's concerns with outcomes such as individual incentives, people's concerns with processes in which their intellectual and emotional worth can be recognized also need to be addressed in this knowledge economy. In this sense, fair process can serve as a key feature of a new social contract between organizations and their members that goes beyond a fair day's pay for a fair day's work. Although we limit our discussion here to the strategic decision making processes of teams, the concept of procedural justice, we believe, has strong application potential and relevance to various aspects of strategic management as the field is increasingly concerned with understanding the processes by which the firm's collective wisdom is built and executed.

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