

**STRATEGIC CONTEXTS,
KNOWLEDGE FLOWS, AND
THE COMPETITIVENESS OF MNCs:
A PROCEDURAL JUSTICE APPROACH**

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Abstract

This paper analyzes five characteristics associated with the overall decision-making process that are necessary to achieve a high degree of perceived procedural justice within four strategic contexts of focal subsidiaries. Strategic contexts are based on the role of subsidiaries as defined by the flow of knowledge between these subsidiaries and the global network of MNCs. Propositions are developed that relate the five characteristics, the four strategic contexts, and high perceived procedural justice. The propositions represent a template for managers and researchers interested in the successful implementation of global strategic decisions and the improvement of the performance of individual subsidiaries as well as the global competitiveness of multinational corporations.

**Strategic Contexts, Knowledge Flows,
and the Competitiveness of MNCs: A
Procedural Justice Approach**

Throughout the 1980s, US-based multinational corporations rapidly expanded into overseas markets in an effort to develop scale and scope economies and establish new customer bases. While initially successful, many of these MNCs experienced an erosion in global competitiveness in the 1990s (Hoskisson & Hitt, 1994; Miles & Snow, 1994). Thus, a critical question becomes: How can US-based MNCs rebuild and then maintain competitive advantages in the increasingly global marketplace?

Research in global strategic management has followed a similar pattern. Early efforts focused on identifying the key components of effective worldwide strategies (e.g., Hamel & Prahalad, 1985; Hout, Porter & Rudden, 1982; Levitt, 1983; Yip, 1989); coaligning strategy and organizational structure within multinational corporations (Egelhoff, 1982; Habib & Victor, 1991; Porter, 1980) which built on the basic strategy-structure paradigm first introduced by Chandler (1962) and championed by Stopford and Well (1972); and developing coordination and control through various forms of interorganizational relationships (e.g., Bartlett & Ghoshal, 1986; Doz & Prahalad, 1981; Ghoshal & Bartlett, 1990; Hamel, Doz & Prahalad, 1989).

However, in hopes of better understanding sources of competitive advantages in MNCs, some researchers have recognized the need to view individual

subsidiaries within the firm's global network as the unit of analysis (Gupta & Govindarajan, 1991,1994; Ghoshal & Nohria, 1989). Along with these studies, other strategic management researchers have been emphasizing the resource-based theory of the firm (Barney, 1991; Peteraf, 1993; Wernerfelt, 1984) and the notion of dynamic capabilities (Teece, Pisano & Shuen, 1997) -- both of which focus on building unique organizational and resource competencies that are difficult to imitate and replicate as cornerstones to competitive advantage.

Building on these studies, an emerging stream of current literature on international management focuses on strategic decision-making and the importance of knowledge management across and within the global networks of MNCs. Of particular interest has been research on the transfer of firm-specific technological knowledge and capabilities across firms engaging in strategic alliances (Mowery, Oxley & Silverman, 1996), on knowledge sharing patterns among firms in various industry and country contexts (Appleyard, 1996), and on factors influencing subsidiary initiative and its contribution to firm-specific advantages of MNCs (Birkinshaw, Hood & Jonsson, 1998).

While understanding that the content of global strategies, the coalignment of strategy and structure, and the role of interorganizational relationships in pursuing these global strategies are all important issues, the question of how to simultaneously formulate and execute these strategic decisions has not been directly addressed until recently. To alleviate this

gap in the literature, recent works by Kim and Mauborgne (1991, 1993a, 1993b, 1993c, 1995 and 1996) investigate the manner in which these worldwide strategies are developed. More specifically, their work focuses on "the dynamics of the global strategy making process" (Kim and Mauborgne, 1991) in an effort to identify potential implementation related advantages for the multinational corporation. The arguments derived from this stream of research draw heavily on justice-based research in general and the perceived procedural justice of a process in particular (e.g., Thibaut & Walker, 1975; Lind & Tyler, 1988). The concept of procedural justice used in this context can be defined as the extent to which those affected individuals view the decision-making process to be procedurally just and fair.

The global environment in which MNCs operate is evolving rapidly as the marketplace changes and the level of interorganizational relationships increases. These changes suggest a greater need to carefully analyze the effectiveness of focal subsidiaries within a global network of MNCs in carrying out actions dictated by the global strategic decision-making process. In order to achieve this global strategic objective, MNCs must create an environment that leads to high levels of perceived procedural justice among its focal subsidiaries. To the extent that a "fit" exists between perceived procedural justice characteristics and the strategic context of subsidiaries, knowledge can be created within the MNCs. According to Barney's (1991) and Grant's (1996) discussions of the resource-based view of the firm, any knowledge created and shared with the

firm's global network that is unique, valuable, and non-reproducible represents the source of sustainable advantages that can enhance the firm's competitiveness in the global marketplace.

This paper seeks to assess how the relationship among five characteristics on the decision-making process, four strategic contexts and high perceived procedural justice within multinational corporations and their global network of subsidiaries, can lead to global competitive advantages for the firm. Depending upon the role of the subsidiary as indicated by its strategic context, critical elements of the decision-making process will vary among the various units within a multinational corporation's global network. By managing the decision-making process in a way that creates high perceived procedural justice within each of the four major types of subsidiaries, a MNC will be able to generate firm-specific knowledge throughout its network of operating units. This knowledge creation and dissemination process should in turn lead to enhanced global competitiveness of the MNC. Understanding this relationship provides an unexplored path to the successful implementation of effective global strategies through the use of procedural justice theory and the resource-based view of the firm.

The next section reviews existing literature in the areas of the resource-based view of the firm, strategic contexts of subsidiaries, procedural justice, and global decision-making. Building on this literature, the following section contains the research model and related propositions. The final section provides a discussion of

the managerial and theoretical implications of utilizing procedural justice characteristics to create and diffuse knowledge within a MNC. These implications will not only enhance the competitiveness of firms but will also aid in our understanding of the global decision-making process.

Theoretical Background Knowledge and the Resource-based View of the Theory

Organizational knowledge or knowledge creation is regarded as one of the most sustainable sources of competitive advantage (Drucker, 1997), particularly for multinational corporations (Appleyard, 1996; Barkema & Vermeulen, 1998; Birkinshaw et al., 1998; Hitt, Hoskisson & Kim, 1997). For the purposes of this paper, knowledge involves not the mere reporting of financial and operating results, but instead the sharing of relevant-market related information, expertise, perceptions, and other types of know-how throughout the multinational corporation's global network. Moreover, knowledge-flows represent critical components of the multinational corporation's ability to launch competitive retaliations in multiple markets, to develop new products based on varying customer needs, and to increase overall market share and recognition across markets (Almeida, 1996; Birkinshaw et al., 1998). To the extent that this information transferred within the network results in competitive advantages for the multinational corporation, knowledge can be considered one of the most important

strategic resources and capabilities of the firm.

Furthermore, knowledge-flows can lead to enhanced global competitiveness when the strategic information, perceptions, and resources shared are unique, valuable, rare, inimitable, non-substitutable, and exploited (Barney, 1991; Peteraf, 1993). Thus, according to the resource-based view of the firm (which is highlighted above) and the newly emerging knowledge-based theory (Grant, 1996) of the firm (which also addresses issues such as coordination within the firm and allocation of managerial responsibilities), multinational corporations that effectively manage the decision-making process within their various types of subsidiaries will gain sustainable competitive advantages and experience enhanced global effectiveness.

Subsidiaries of multinational corporations play very different roles in knowledge creation and dissemination processes, which can be usefully delineated by strategic context (Egelhoff, 1982; Bartlett & Ghoshal, 1986; Kim & Mauborgne, 1993c). Each subsidiary's contribution to knowledge creation and dissemination within a multinational corporation's global network may be closely associated with subsidiary managers' perceptions of procedural justice in strategic decision-making. The specific characteristics useful in promoting high levels of procedural justice, and thus enhancing their role in knowledge creation, depend on the subsidiary's strategic context. Therefore, the extent to which multinational corporations tailor strategic decision characteristics to each of their focal subsidiaries as represented by

strategic contexts should enhance the knowledge creation and dissemination processes within their global networks, thereby providing a sustainable base for competitive advantage over rivals.

Strategic Contexts

Gupta and Govindarajan's studies (1984, 1991 and 1994) are especially relevant to understanding the various roles of subsidiaries within a MNC network. In both studies, these researchers focus on subsidiaries within a global network of the same multinational corporation, which relates directly to the across-subsidiary focus of this paper. Gupta and Govindarajan (1991) also provide a knowledge-flows-based framework, shown in Figure 1, to explain the variations in strategic contexts of subsidiaries. This framework consists of two dimensions: outflow of knowledge from the focal subsidiary to the multinational's global network and inflow of knowledge from the multinational's global network to the focal subsidiary. A brief discussion of the strategic contexts used in this paper follows (Gupta & Govindarajan, 1991).

- Global Innovators (high outflow, low inflow) are typically the subsidiaries possessing the greatest technological strength and thus serve as "the fountainhead of knowledge" (Gupta & Govindarajan, 1991) for the rest of the global network.
- Integrated players (high outflow, high inflow) are generally the subsidiaries that not only create knowledge to be utilized by others in the global network,

- but also require knowledge from the rest of the global network.
- Implementers (low outflow, high inflow) characterize subsidiaries that depend heavily on knowledge from the rest of the global network but create very limited knowledge of their own.
 - Local innovators (low outflow, low inflow) represent those subsidiaries that create all the knowledge necessary for their local markets but this knowledge is of little use to others in the global network.

Figure 1 - Intended Knowledge Flows within MNCs
(Adopted from Gupta and Govindarajan, 1991)

Outflow of knowledge from focal subsidiary to rest of global network	High	<i>Global Innovator</i>	<i>Integrated Player</i>
	Low	<i>Local Innovator</i>	<i>Implementor</i>
		Low	High
		Inflow of knowledge from rest of global network to focal subsidiary	

Procedural Justice

The seminal work of Thibaut and Walker (1975) provides the theoretical foundation upon which the procedural justice perspective rests. Building on social psychology and law, Thibaut and Walker (1975) examined the methods commonly used to resolve conflicts and the impact of procedural factors on the individual's perceptions of the fairness of the resulting resolution outcomes. In further defining procedural justice, Lind and Tyler (1988) emphasize the importance of the procedures (processes) by which the fairness of judgments are derived and not the outcomes in and of themselves. The major contribution of this work is its thorough review of existing theory and research on procedural justice and its application of procedural justice concepts beyond legal settings and political arenas and into work organizational environments.

Procedural Justice in International Management

Although numerous researchers have conducted studies that examine the impact of procedural justice on organizational attitudes and behavior (for review see Lind & Tyler, 1988), Kim and Mauborgne (1991) were the first to explore the role of procedural justice within the global strategic management field. One of the primary conclusions of their initial study centered on the fact "that the procedural justice of the global strategy generation process indeed affects commitment, trust and social harmony as

well as outcome satisfaction in subsidiary top management" (Kim & Mauborgne, 1991). Consequently, procedural justice can have a significant impact on the effectiveness of subsidiaries within a multinational corporation's global network.

Five Decision-making Characteristics

Focusing on the importance of exercising due process in the global strategy-making process, Kim and Mauborgne (1993b) identified five characteristics that not only define due process within the context of global strategic decision-making, but also serve as the designing principles of perceived procedural justice. These characteristics include (1) Bilateral Communications; (2) Ability to Refute Decisions; (3) Full Account of the Final Decisions; (4) Consistency in Decision-Making Process; and (5) Familiarity of Headquarters with Local Conditions.

A brief discussion of these five characteristics vital to the strategic decision-making process follows:

- Bilateral communications implies that individuals from headquarters and subsidiaries transfer and share perceptions, knowledge, expertise, and ideas that are critical to the formulation and implementation of strategic decisions within the multinational corporation's global network
- Ability to refute decisions refers to the extent to which a subsidiary can challenge or question the strategic views of headquarters personnel if its managers feel that incorrect

assumptions or misperceptions entered into the decision-making process.

- A full account of the final strategic decisions made at the headquarters level serves to inform subsidiaries of the process and critical factors considered when reaching these decisions.
- Consistency in the decision-making process implies the existence of a level playing field and absence of political favoritism which foster a cooperative spirit between headquarters and subsidiaries enabling the multinational corporation to achieve its global strategic objectives.
- Familiarity of headquarters with local conditions implies that those individuals at headquarters involved in strategic decision-making activities are knowledgeable and informed of the domestic environment in which a subsidiary operates.

Proposed Model and Hypotheses Development

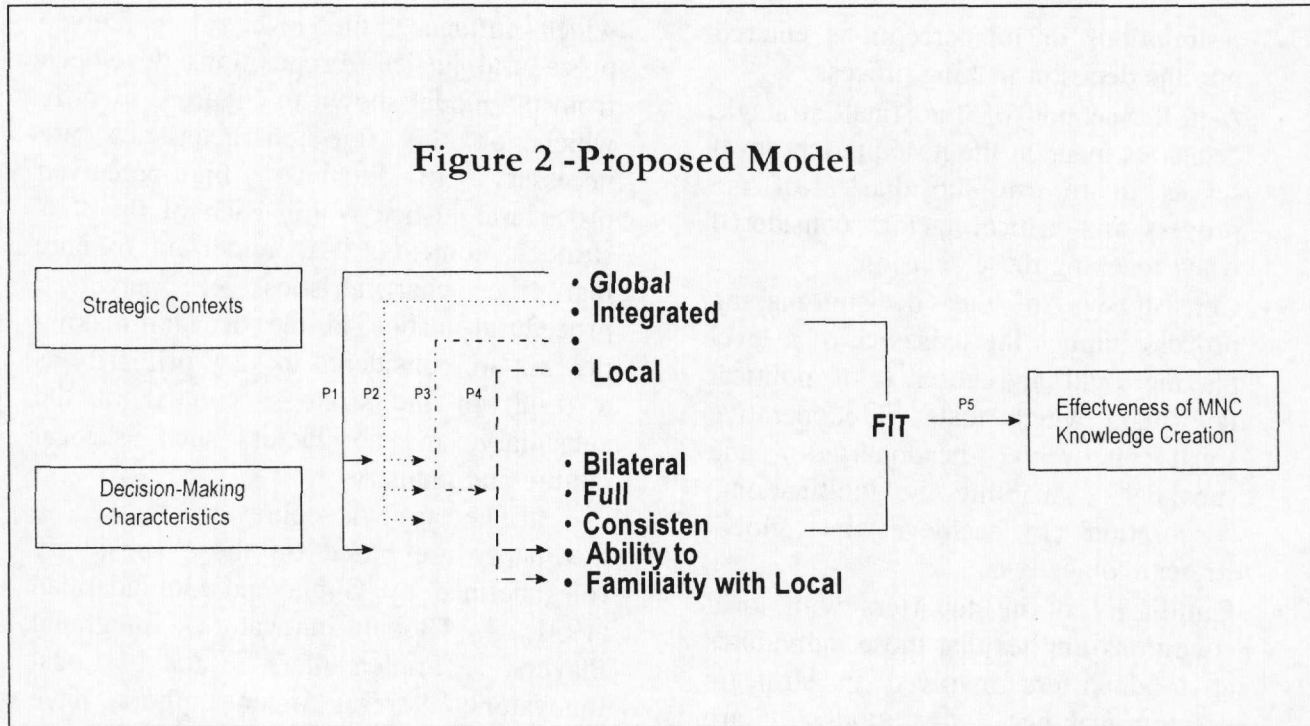
To the extent that each subsidiary is comfortable with its share of the global resource allocation as well as its overall strategic place within the global network of the MNC, the subsidiary will view the assignments as fair and procedurally just. Thus, the proposed procedural justice model for effectiveness of subsidiaries within a multinational corporation's global network incorporates strategic contexts as defined by Gupta and Govindarajan (1991) and five characteristics related to due process in decision-making as detailed by Kim and Mauborgne (1993b) as variables

which influence the level of perceived procedural justice. Propositions developed from the model shown in Figure 2 identify which of the five characteristics are necessary to achieve high-perceived procedural justice within each of the four strategic contexts. It is important to note that the characteristics of perceived procedural justice in the decision-making process are considered to vary primarily as a result of the strategic context of the subsidiary, and not factors such as local culture and industry.

The strategic contexts discussed in this paper are based on those subsidiary roles defined by Gupta and Govindarajan (1991) -- Global Innovators, Integrated Players, Implementers and Local Innovators. Several other authors have highlighted the fact that different subsidiaries in the global network of a multinational corporation have different roles, responsibilities, and strategic missions (Egelhoff, 1982; Bartlett & Ghoshal, 1986; Kim & Mauborgne, 1993c). The various subsidiaries will view their assignments as fair and procedurally just to the extent that they are comfortable with their share of the global resource allocation as well as their overall strategic place within the global network of the multinational corporation.

Because of the unique role and responsibilities assigned to each of the four strategic contexts, it is reasonable to observe that a different combination of decision-making characteristics will be necessary for each subsidiary type to achieve a high degree of perceived procedural justice and thus operate most

Figure 2 -Proposed Model



effectively within the multinational corporation's global network.

Global Innovators

Global innovators serve primarily as the fountainhead of knowledge within a multinational corporation's global network; therefore, it is important that this strategic context have a high level of autonomy balanced with mutual participation in the decision-making process. Moreover, subsidiaries that function as strategic leaders within the MNC must perceive themselves as legitimate partners who fully participate in developing and implementing strategic activities of the firm (Bartlett & Ghoshal, 1986; 1989). In order to facilitate both the coordination needed because of interdependence and the autonomy needed to create knowledge, subsidiaries within

this strategic context require high normative integration, moderate formalization, and low centralization (Ghoshal & Nohria, 1989).

Of the five procedural justice characteristics related to the decision-making process, bilateral communications and the ability to refute best address the issues faced by global innovators. As noted previously, bilateral communications are critical to establishing mutual respect, interdependence, and reliance among headquarters and subsidiaries. In addition, the ability to refute decisions not only eliminates headquarters' inclination to control the decision process, but also provides subsidiary managers with the confidence that strategic decisions are made in the best interest of the overall organization. As a result, subsidiary

managers are given the opportunity to share and express their strategic views, thus fostering an environment of high perceived procedural justice (Kim & Mauborgne, 1993b and 1995). Thus,

Proposition 1: Bilateral communications and the ability to refute decisions are the most important characteristics of the decision-making process needed to achieve high perceived procedural justice in Global Innovators.

Integrated Players

Integrated players are characterized by high levels of both outflows of knowledge from the local subsidiary to the global network and inflows of knowledge from the global network to the local subsidiary. According to Bartlett and Ghoshal (1986), headquarters must be careful not to inhibit the activities of subsidiaries filling this type of role for fear of losing distinctive competencies. Instead, an environment must be created that not only channels the special skills existing in these subsidiaries toward projects that benefit the entire global network of the firm, but also provides these subsidiaries with feedback that confirms their being a part of global operations (Bartlett & Ghoshal, 1989). Because of these issues involving subsidiaries that function as integrated players, bilateral communications, provision of account and consistency are all vital characteristics of the decision-making process.

For this strategic context to be effective, the establishing of respect within an organization via two-way communications has a positive influence on perceived procedural justice (Folger & Konovsky, 1989). Moreover, according to Kim and Mauborgne (1995), an atmosphere of mutual respect and reliance motivates headquarters and subsidiaries to maximize the quality and consistency of information used in formulating global strategic decisions. In addition, a full account of the final strategic decisions made at the headquarters level “serves as a feedback loop which perpetually informs and educates subsidiary managers and gradually alters their conceptual lens for subsequent interpretations of the environment” (Kim & Mauborgne, 1993c). Thus, the feedback process not only provides new collective insights by members within a coalition (Daft & Weick, 1984) but also leads to high perceived procedural justice among integrated players given the high levels of inflows and outflows of knowledge.

Proposition 2: Bilateral communications, full account of final decisions and consistency in decision-making, are necessary characteristics to achieve high-perceived procedural justice in Integrated Players.

Implementers

Implementers represent the strategic context that depends primarily on an inflow

of knowledge from the global network of a multinational corporation. Bartlett and Ghoshal (1986, 1989) suggest that most subsidiaries within a global network fill roles similar to that of an implementer. These authors further caution headquarters not to overlook these subsidiaries because of their limited contribution to strategic knowledge of the firm. Instead, they posit that implementers play a vital role in generating funds that support and underwrite the costs of innovative processes as well as providing opportunities to realize economies of scope and scale – both of which are critical to any multinational corporation's global strategy.

Because their heavy reliance on global network members for critical knowledge and resources is offset by their valuable contribution to the multinational corporation's value added-ness, it is important that implementers feel they are provided with rigorous explanations of not only why certain strategic decisions are made but also what rationale was used to make these decisions. Having a full account of the final decisions is the characteristic of decision-making that results in the subsidiary managers having a "comprehensive understanding of the cognitive maps of head office managers" (Kim & Mauborgne, 1995). Thus,

Proposition 3: Full account of final decisions is critical in achieving high-perceived procedural justice in Implementers.

Local Innovators

Unlike the other three strategic contexts, local innovators operate in an environment in which there are low inflows and outflows of knowledge between the local subsidiary and the rest of the global network. Because this strategic context is allowed to make decisions it deems necessary to meet the demands of its local markets, it is important not only that local innovators have the ability to refute decisions but also that headquarters is familiar with the local conditions under which subsidiaries operate. Bartlett and Ghoshal (1986, 1989) suggest that the role of this type of subsidiary in achieving strong local presence may be critical to the multinational corporation's overall global position. Furthermore, because many developments are geared toward exploiting competitive advantages in the domestic marketplace, local innovators must have autonomy in the decision-making process. In order to assess potential implications of local efforts on the firm's overall global strategy, headquarters should be aware of activities taking place in subsidiaries functioning as local innovators.

According to Kim and Mauborgne (1995) the ability to refute facilitates the inclusion of local perspectives into the decision-making process which results in greater perceived procedural justice in the decision-making process for local innovators. Moreover, if headquarters displays a thorough and deep knowledge and understanding of local environments with a more multidimensional view, then

subsidiary managers are likely to achieve higher procedural justice. Thus,

procedural justice among Local Innovators.

Proposition 4: *The ability to refute decisions and the familiarity of headquarters with local conditions are needed to achieve high-perceived*

Table 1, which indicates the decision-making characteristics needed to achieve high-perceived procedural justice within each of the four strategic contexts, serves to summarize the four propositions developed above.

Table 1 - Summary of Propositions
Characteristics Necessary for High Procedural Justice within Each Strategic Context

Characteristics of Perceived Procedural Justice	Global Innovators	Integrated Players	Implementers	Local Innovators
Bilateral Communications	X	X		
Provision of Account		X	X	
Consistency in Decision-making		X		
Ability to Refute Decisions	X			X
Familiarity of HQs with local conditions				X

Global Competitiveness

To the extent that perceived procedural justice is high within each of the strategic contexts identified above, the subsidiaries within the global network of the multinational corporation will be effective in terms of fulfilling their roles and responsibilities. Each subsidiary playing its appropriate role within the integrated network of subunits should lead to increased and optimal knowledge creation and dissemination within the multinational corporation as strategic information is being shared throughout the global network. When the flow of

knowledge, such as market expertise, technical know-how, and other information of strategic importance to the firm, represents a critical resource of the firm and further serves as a source of sustainable competitive advantage, the MNC should be able to carry out global strategic initiatives and be extremely competitive on a global basis. Thus,

Proposition 5: *A match between strategic context and perceptions of procedural justice in strategic decision-making will lead to effective MNC knowledge creation and,*

hence, global competitive advantage for the multinational corporation.

Implication and Conclusion

Building on the works of Gupta and Govindarajan (1991) and Kim and Mauborgne (1991, 1993a, 1993b, 1993c, 1995 and 1996), this paper focuses on the relationship between strategic contexts, characteristics of due process in decision-making, and perceived procedural justice within multinational corporations. Offering an initial framework to combine these constructs, this model can enhance our understanding of the sources of competitive advantage in today's MNCs. To the extent that MNCs maintain fit between strategic contexts and perceptions of procedural justice, knowledge created within the organization can lead to significant competitive advantages. In addition, this internally generated knowledge represents an invaluable and non-imitable resource that greatly enhances the global competitiveness of the multinational corporation in its network of subsidiaries.

This conceptual paper has several implications for practicing managers of MNCs. First, managers of MNCs should view their organizations as a global network of subunits. Moreover, MNC managers should clearly define and communicate the role of each subsidiary within the network, thus allowing the subunits to better understand how their actions contribute to the overall strategic objectives of the firm. Related to this issue, managers should establish flexible

structures and processes at the corporate level in order to differentiate its management practices based on the various subsidiary roles. Finally, managers should execute the firm's global strategic decision-making process in a way that provides the necessary bilateral communications, information sharing, consistency, autonomy, and familiarity with local conditions that will maximize the perceptions of procedural justice within each strategic context.

This paper makes several contributions to existing literature on knowledge flows in MNCs and procedural justice in international management. Building on the work of Gupta and Govindarajan (1991), this paper further specifies how to manage corporate-subsidiary relationships to produce the desired knowledge-flow patterns. In addition, the current line of research utilizes strategic contexts and the knowledge-flows they generate as contingency factors that influence which decision-making characteristics are necessary to achieve high perceived procedural justice within the interorganizational network of MNCs, thus extending the studies of Kim and Mauborgne (1991, 1993a, 1993b, 1993c, 1995 and 1996). To the extent that high-perceived procedural justice could be a key ingredient in a MNC's ability to build its transformative capacity and dynamic capabilities, this paper also contributes to our understanding of knowledge creation and its diffusion within the MNC's network of subunits.

The line of research presented in this paper is critical as MNCs expand their

interorganizational relationships across global markets. Control and coordination issues become increasingly more complex as the MNCs focus on identifying mechanisms to ensure the effectiveness of the different types of subsidiaries within their global networks. By ensuring that critical knowledge, expertise, perceptions, and ideas are transferred throughout the global interorganizational network, MNCs can more effectively implement their global strategic decisions and experience global competitive advantages. This can eventually lead to the achievement of long-term objectives and significantly improve performance at both the subsidiary and headquarters levels.

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