



## An Investigation of Justice in supply chain relationships and their performance impact

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### ABSTRACT

Justice is important in improving performance of supply chain relationships. However, the role of justice in improving performance in supply chain relationships is an under-investigated subject in the literature. In studying the joint impact of justice dimensions, the traditional assumption is that the three forms of justice interact with each other in a multiplicative manner. However, this assumption creates a managerial problem as discussed in this paper. We outline a different view of how the justice dimensions interact with one another utilizing the constraining factor model (CFM). We show that the CFM resolves some of the problems arising from the choice of multiplicative interaction of justice measures on performance. Specifically, we demonstrate that an increase in procedural, distributive or interactional justice results in a significant and positive improvement in performance only if the specific justice dimension is the constraining factor in the relationship. Overall, our analysis suggests that all three dimensions are important and a high level of one of the justice elements will not compensate for a low level of another, a view that is put forward by a number of past research studies in justice. We discuss the theoretical and managerial implications of our findings.

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### 1. Introduction

Managing supplier resources effectively is an important aspect of a firm's ability to compete in the marketplace (Carr and Pearson, 1999; Choi and Hartley, 1996; Griffith et al., 2006). To leverage partner's capabilities, firms must establish a strong relationship, characterized by commitment, cooperation, and trust (e.g., Cannon et al., 2000; McIvor, 2009). Underlying these behaviors is the recognition that buyer–supplier relationships involve both economic and social interactions (Griffith et al., 2006). Supply chain relationships as social transactions require partners to behave in a just manner to be beneficial. Principles of justice (also referred to as *fairness*) are central in social exchange theory (SET). SET embeds the notion that the transacting parties in a relationship interact with each other based on expectations of rewards and avoidance of punishment (Emerson, 1976). SET is applicable to both material and non-material exchanges (Bottom et al., 2006). The concept of justice has importance in a buyer–supplier relationship due to

its economic and relational connotations. Several research studies have suggested that justice practices in dealings with suppliers are important in enhancing buyer–supplier relationship performance (Choi and Wu, 2009; Kumar et al., 1995). Studies have shown that unfair dealings with suppliers can result in poor relationship performance due to potential supplier opportunism (Anderson and Jap, 2005; Rossetti and Choi, 2005).

Despite the relevance of justice in supply chain relationships, investigation of its role in enhancing performance in buyer–supplier relationships is still nascent (e.g., Griffith et al., 2006; Narasimhan et al., 2009). While a number of studies have examined justice at the individual level (See for example Cropanzano et al., 2005; Loch and Wu, 2008), few have investigated the role of justice in a supply chain relationship (Griffith et al., 2006; Liu et al., 2012; Narasimhan et al., 2009). Griffith et al. (2006) note the lack of research on justice in the context of supply chain as surprising, given its importance in buyer–supplier contexts. Current literature on justice (at both individual and organizational levels) has examined justice via three dimensions; procedural justice (PJ), distributive justice (DJ) and interactional justice (IJ) (e.g., Colquitt et al., 2001; Cropanzano et al., 2007; Luo, 2007). PJ refers to fairness of the decision process; DJ refers to the equity of rewards commensurate with effort expended; and IJ focuses on aspects of the communication process that refer to the degree to which the partners perceive the exchange of information within

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the relationship as fair. Literature notes that all three dimensions of justice are important in realizing superior performance (e.g., Colquitt et al., 2001; Cropanzano et al., 2007; Luo, 2007). Our interactions with practitioners to assess the importance of justice dimensions in achieving superior performance in buyer–supplier relationships also suggested that all three dimensions were important. Of particular interest was that the executives considered all justice dimensions to be “equally” important. A senior executive from a major automotive firm, in emphasizing the equal importance of all three dimensions noted that: PJ was “important to sustainable interaction and mutual development, growth and benefit”; DJ was important because “receiving appropriate reward is key for continuation of unconstrained, future effort”; and IJ was important since “communication provided both parties the opportunity to gain appropriate insight into each other’s organizations and the individuals who were responsible for conducting business.” Another senior procurement executive from a leading producer of petroleum products noted that “all three are important in achieving a fair working relationship.”

In focusing on all three justice dimensions, an important question that arises is the nature of interactions among justice dimensions and how they affect performance. The dominant paradigm in current literature is that the three justice elements have a multiplicative influence on performance (Cropanzano et al., 2005; Luo, 2007). However, studies examining the multiplicative influence of the justice dimensions on performance have reached conflicting conclusions. For example, Luo (2007) finds that PJ and IJ interact positively, i.e., complement one another. In contrast, Ellis et al. (2009) finds that PJ and IJ interact negatively, i.e., compensate for one another. The multiplicative view creates theoretical inconsistencies at extreme levels of one of the justice dimensions. When the interaction between justice dimensions is compensatory, it would mean that focusing on developing high levels of one justice dimension might mitigate the effect of not focusing on a different dimension. Thus, one justice element can be favored at the expense of the other. When the interaction between justice dimensions is synergistic, it might mean that the presence of one justice dimension enhances the performance gains from the other, irrespective of the levels of other justice dimensions. Given these arguments, the question is which justice dimension should managers focus on?

Both complementary and synergistic views appear to contradict the need to emphasize all three dimensions. Further, the multiplicative view of the interactions might not be consistent with real-life situations where focus is on all three justice dimensions. As another senior procurement executive from a leading furniture manufacturing firm noted (regarding the justice dimensions) during our interviews that: “all three being important aspects, any of the three could be considered most important depending on the relationship.” These arguments lead to important questions: (a) what is the nature of the interplay between the justice dimensions in enhancing performance in a buyer–supplier relationship? and (b) which justice dimension is the most important in a given situation? Accordingly, we focus on understanding how the justice dimensions in a buyer–supplier relationship interact and impact relationship performance.

In investigating this issue, the paper makes the following contributions. First, we articulate the constraining factor model (CFM) or “extreme complementarity” among the justice dimensions (cf., Siemsen et al., 2008), rather than the multiplicative view or “moderate complementarity.” Second, the CFM empirically demonstrates the importance of all three justice dimensions in realizing superior relationship performance. The CFM demonstrates that when one of the justice dimensions is poor relative to the others, working on the other two dimensions will not yield desired performance impact. From a theoretical perspective, the CFM suggests that buyer–supplier relationships can elicit

maximum performance gain by focusing on the justice dimension that is the weakest (or the constraining factor) and *not* any, or all, dimensions as suggested by the traditional multiplicative model of interaction. Third, we resolve the confusion surrounding the justice dimensions in the literature and the inconsistencies regarding their interaction effects. Thus, we offer CFM as an important empirical approach to studying the impact of justice dimensions on buyer–supplier relationship performance. In Section 2, we develop the theory and hypotheses. In Section 3, we describe our research methods. In Section 4 we describe our results. In Section 5 we discuss the implications of the results.

## 2. Theory development

### 2.1. Dimensions of inter-organizational justice

Justice is important in achieving superior performance in all economic exchanges, including buyer–supplier relationships (Griffith et al., 2006; Liu et al., 2012; Narasimhan et al., 2009). The first dimension of justice, PJ, is derived from the idea of instrumentality (Luo, 2007), and focuses on the consistency in decision making (Loch and Wu, 2007). PJ refers to the “extent to which the dynamics of the decision process are judged to be fair” (Kim and Mauborgne, 1998, p. 325). We define PJ as the degree of fairness with which governance decisions are taken in the exchange relationships. Thibaut and Walker (1975) note that the fairness of the decision process dynamics can significantly influence behavior. The key aspects of PJ are clarity of expectations, level of engagement and explanation of the process (Kim and Mauborgne, 1991, 1998). These aspects signify unbiasedness, consistency and ethical decision making (Kim and Mauborgne, 1998; Luo, 2007). In the context of buyer–supplier exchange relationships, it is important for the partners to have mechanisms that address disagreements within the relationship in a fair manner. Overall, procedurally fair process can help in providing “voice” to the stakeholders in the relationship and help in promoting superior performance (Folger, 1977).

The second dimension of justice, DJ, is drawn from the idea of equity. Equity theory proposes that rewards should be distributed equitably among the transacting parties in relation to their contribution (Adams, 1966). In the context of buyer–supplier relationships, the performance outcomes in the relationship are deemed as fair if investment in effort and resources compare favorably with outcomes. Accordingly, we define DJ as the fairness of rewards in the relationship based on the effort expended. Further, if the distribution of rewards is adequate for the efforts, the exchange partners are more likely to commit to one another even when uncertainty is high (Walker and Pettigrew, 1984). In addition, DJ reduces the possibility of opportunism in the relationship and engenders effort (Luo, 2007). Finally, inequity in effort allocation and reward distributions can lead to harmful consequences for the relationship that include lack of trust and increase in conflict resulting in an unstable partnership (Johnson et al., 2002).

The third dimension of justice, IJ, is anchored in the idea of social exchange (Luo, 2007). IJ focuses on aspects of fairness related to interactions and thus focuses on social aspects of information exchange (Ariño and Ring, 2010; Bies, 2001; Colquitt et al., 2001). Specifically, these relate to openness of relevant communication among the partners (Luo, 2007). Openness can also relate to higher sensitivity in managing conflicts and disagreements (Luo, 2006). Accordingly, in the context of buyer–supplier relationship, IJ is defined as the degree of openness shown by the transacting parties in communicating relationship relevant information and in managing conflicts. IJ, thus, promotes harmony, reduces conflict and increases collaboration in a supply chain relationship (Luo, 2006, 2007). We now discuss the multiplicative and the constraining factor models and motivate the hypotheses.

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