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From gain-sharing to gain-generation: The quest for distributive justice in international joint ventures

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ABSTRACT

This research investigates how distributive justice (DJ) affects cooperation-related outcomes in international joint ventures (IJVs) through several routes that intersect with reciprocal commitment, organizational attachment and contractual specification. Grounded in the convergent insights of IJV theory and justice theory, this study argues that DJ improves IJV performance through enhanced mutual commitment and interparty attachment, as well as through DJ's complementary role with IJV contract. The findings extend previous research by demonstrating that (1) DJ is an important variable affecting IJV stability via the mediation of interorganizational attachment and (2) DJ and IJV contract function as complements rather than substitutes in governing cooperation and improving IJV profitability and stability.

1. Introduction

There is a wealth of evidence that organizational justice is an important dimension affecting performance at the employee, group, subunit and organizational levels. Despite this evidence, our understanding of justice at the interorganizational level, especially the role of justice in affecting the outcome of cross-country interfirm cooperation, is still incomplete. It is even more so with respect to the importance of *distributive justice* (DJ); while procedural and interactional justice in cross-national IJVs have started to receive some attention (e.g., Johnson et al., 2002; Leung et al., 1996; Luo, 2005, 2006, 2008), DJ in relation to the macro-level cooperation outcomes in these IJVs has been rarely addressed. We think this is a critical gap because perceived fairness in gain-sharing in IJVs, and more broadly in all interfirm alliances, influences an individual party's behaviors and commitment to joint activities; such commitment has been demonstrated to be pivotal to joint success (Gulati et al., 1994; Gundlach et al., 1995; Reuer et al., 2002). Knowing the effect of perceived fairness in gain-sharing on joint gain-generation is relevant to managers too as it identifies an additional path or factor shaping joint venture performance. Due to the fact that IJVs are more prone to contextual influences, such as cross-cultural differences in norms, practices and orientations, perceived DJ can be even more significant in IJVs than in other types of alliances. It is recognized that perceived fairness in gain-sharing becomes more important as boundary-spanning exchanges are more complex and uncertain (Cook and Hegtvedt, 1983).

To address this gap, this study is designed to establish a possible link between DJ and international joint venture (IJV) performance by identifying (1) the specific process or channels through which DJ influences IJV performance and (2) the concurrent effect of DJ and the IJV contract, the two critical forces suppressing opportunism and governing interfirm exchange, in jointly improving cooperation outcomes. To this end, we assumed that boundary spanners (senior IJV executives representing the different investing parties) are the judges who perceive the fairness in outcome distribution or gain-sharing between parties; they further transform such fairness perceptions into actions that parent firms may take. Boundary spanners in an IJV are leading representatives of organizational constituencies and operate at the organization–organization interface. Their perceptions of DJ

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will be voiced to the decision-makers at their respective parent companies, who in turn deploy and manage resources assigned to IJV operations based on these DJ perceptions.

Our central premise is that gain-sharing (i.e., allocation of payoffs between cooperating parties) fairness can influence a new gain-generation such that heightened DJ as perceived by all boundary spanners will improve IJV performance through two main mediating channels — mutual commitment and mutual attachment. Heightened DJ improves the responsibility-right unity and contribution–return harmony, which in turn fosters each party's ongoing commitment to IJV development and encourages all parties to be more mutually attached. Mutual commitment and interparty attachment have already been shown to exert a positive influence on cooperation outcomes (e.g., Gulati et al., 1994; Levinthal and Fichman, 1988; Luo, 2001; Reuer et al., 2002). We also suggest that, because the IJV contract cannot pre-codify every term or clause specifying each party's ongoing commitment or joint activities, DJ perceptions also play a unique role in complementing the IJV contract in governing interparty exchanges and suppressing private desires for opportunism. The contract provides an *ex ante* institutional framework guiding the course of cooperation, while DJ provides an *ex post* ordering catalyst overcoming the adaptive limits of the contract and couching contractually unspecified behaviors in the principle of the contribution–return harmony.

To summarize, this study envisages that distributive fairness as perceived by boundary spanners working at IJVs affects cooperation outcomes through its mediating forces and through its complementary role with IJV contracts in jointly guiding and governing interpartner exchanges. We view this effort as warranted not merely because DJ has not been systematically examined in the IJV context, but because DJ shapes organizational attitudes and behavior through boundary spanners who transform their gain-sharing equity judgments into organizational gain-generation actions. To verify the above arguments, we analyzed IJVs located in China, which presently boasts the world's highest concentration of IJVs. Overall, analysis supports our two arguments: (1) DJ has a positive effect on IJV stability through the mediation of interorganizational attachment and (2) DJ and the IJV contract complement in jointly improving IJV profitability and stability.

2. Theory and hypotheses

2.1. Conceptual background

Organizations establish an IJV in order to create and share synergistic gains. The question of how to share or divide such gains is one that falls squarely into the realm of distributive justice, primarily underpinned by Adam's (1965) equity theory. Broadly viewed, DJ is concerned with the distribution of benefits and harms, rewards and costs or other things that affect the well-being of the individual members of a group or community (Alexander and Ruderman, 1987; Cook and Hegtvedt, 1983; Deutsch, 1985). Depending on the group of individuals or entities emphasized, outcome items vary from individual-related outcomes such as pay raise, job security, promotion or layoffs, workplace retaliation, and organizational citizenship behavior to group-related outcomes such as subsidiary performance, partner commitment, profit-sharing in entrepreneur–investor relations, and resource allocation in mergers and acquisitions. The essential values of DJ are those values that foster effective cooperation to promote each member's well-being in economic, social, psychological and physiological areas. Three basic DJ principles, or distributive rules, are equity, equality and need. The relative importance of these principles depends upon the primary goal of the exchange members (Deutsch, 1985). For example, in cooperative relations in which economic productivity is a primary goal, equity is the dominant principle of DJ (Walster et al., 1978). Cook and Hegtvedt (1983: 223–227) state that factors influencing the effectiveness of DJ include (a) characteristics of the relationships among exchange members, (b) cognitive mediating factors, (c) number of relevant inputs, and (d) other situational, social or personal factors. Equity perceptions by IJV members affect or alter their attitudes, behaviors and commitments to ongoing mutual exchanges (Adams, 1965; Deutsch, 1985; Greenberg, 1987; McClintock and Keil, 1982). When a particular outcome is perceived to be unfair, it should affect the exchange member's emotions (Weiss et al., 1999), cognitions (Walster, et al., 1978) and ultimately its behavior and performance (Cohen-Charash and Spector, 2001).

We believe that greater advances in understanding the rules of distributive fairness in relation to exchange behavior will occur if we extend these rules into interdependent exchanges within IJVs. In the specific setting of IJVs, we define DJ as the extent to which interparty sharing of the rewards of cooperation is impartial in view of each party's contribution and commitment as well as its assumption of responsibility, risk and burden. Rewards can be monetary, such as profit and dividend, or nonmonetary, such as knowledge acquisition and reputation enhancement. Whether or not monetary and nonmonetary elements equally affect a party's behavior and commitment depends on its objectives underlying IJV formation. For instance, those aiming at quick cash inflows or financial returns may view monetary rewards more importantly than nonmonetary rewards. In this study we address the overall (first-order) DJ and thus did not separate between monetary and nonmonetary items (second-order). Generally, the parties are more likely to specify monetary reward-sharing rather than nonmonetary gain distribution in an IJV contract. Therefore, when a nonmonetary reward is considered, contract terms may be more ambiguous in stipulating gain-sharing, making the fairness in nonmonetary reward-sharing more perceptual in nature. This perception is fortified by the fact that the real contribution of each party to joint operations does not always coincide with ownership distribution or arrangement due to interparty differences in bargaining power and managerial control (Beamish and Banks, 1987; Inkpen and Beamish, 1997; Makino and Beamish, 1998; Yan and Luo, 2001). Fairness is generally perceived as the degree to which a party's real gains accord with its resource contribution (e.g., capital, technology, brand, machinery, and distribution), ongoing commitment to continuous cooperation, and risk or responsibility bearing throughout the course of the cooperative effort (Summers and DeNisi, 1990). In an IJV setting, the perception of DJ is usually compared with the internal referent (i.e., the partner firm) and the system referent (i.e., IJV policies) as portrayed by boundary spanners who serve as a bridge connecting DJ perceptions and interparty exchanges. These spanners are