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Are we on the same page? Justice agreement in international joint ventures

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ABSTRACT

This study examines the organizational and personal level conditions under which boundary spanners in an international joint venture (IJV) tend to disagree with each other regarding procedural justice. Nested within the logic of boundary spanning and building on the integrated justice theory and joint venture theory, this study develops an overarching framework explaining organizational- and individual-level factors impacting the level of disagreement. Our analysis of 182 IJVs in a large emerging market suggests that such disagreement increases with objective gap, ownership asymmetry, and environmental uncertainty but decreases with mutual familiarity between cross-cultural partner firms. Disagreement is also reduced when boundary spanners have more experience in managing IJVs and a longer period working together.

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Procedural justice (PJ) and its impact on business organizations have been extensively examined in the field of organizational justice, but largely neglected in the field of international business. Application of fairness theories to the study of cross-cultural inter-firm exchanges, such as international joint ventures (IJVs), has been very limited. Ring and Van de Ven (1994) were among the first to suggest that fairness might explain a variety of the processes associated with alliances. Arino, de la Torre, and Ring (2001) took that argument one step further and applied it to understanding the dynamics of inter-partner relationships. Johnson, Korsgaard, and Sapienza (2002) examined the impact of PJ in strategic decision-making on an IJV management team's commitment to the IJV and to the parent companies. More recently, Luo (2005) analyzed the role of PJ in IJVs and found that IJV performance is higher when both parties perceive high levels of PJ in the relationship as opposed to when their perceptions are asymmetrical, even if the

total level of shared fairness is the same. Merits of this study lie in extending justice research to a cross-cultural, inter-organizational setting, and in assessing justice from both partners' perspectives. A follow up study (Luo, 2007) explored the independent and combined effects of distributive, procedural, and interactional justice. The results show the joint effects between procedural and distributive justice and between procedural and interactional justice. In a setting of IJVs, defined as cross-border partnerships between two or more firms from different countries through agreed-upon proportions of equity, PJ is concerned with the extent to which an IJV's strategic decision-making procedures are impartial as perceived by the IJV's boundary spanners (i.e., top IJV executives who represent their parent firms in managing such IJVs and have participated in IJV negotiations).

It is already an established view that different partners may unequally perceive PJ in an IJV's decision processes. Therefore, a significant question is: Under what conditions do IJV partners, through their boundary spanners, perceive differently levels of procedural justice existing in the focal IJV? In other words, if shared perceptions of PJ are

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important to the development of IJVs as demonstrated by recent studies, then why do different parties view the level of PJ differently in the same venture? What are some powerful forces in a “black box” that propel asymmetrical views toward the level of fairness in procedures governing inter-partner exchange? Although they do not amount to actual conflicts, asymmetric perceptions of PJ can be a source of conflict. Thus, probing underlying determinants of justice agreements can provide a better picture of the role played by fairness in decision-making and joint governance procedures. The *ex ante* need to produce and agree on fairness in the procedural term is pronounced in the case of cross-cultural joint venture governance because it nurtures unity and sharing. Inter-partner disagreement on PJ may induce conflicts, hinder existing procedures, and increase coordination costs derived from excessive procedural adjustments. Identifying the antecedents of this disagreement helps IJV executives understand what sources of PJ disagreement are manageable and what are not, and what remedies or solutions they should use individually or collectively to alleviate the disagreement.

The present study uses a boundary-spanning lens to build an overarching framework that theorizes why disagreement over PJ occurs and how disagreement is influenced by several organizational and individual-level variables. As firms increasingly expand their organizational boundaries and operational presence through IJVs, boundary spanners maintain a central role in judging PJ. Boundary spanners have asymmetrical sources and capabilities of information gathering, scanning, analyzing, and interpreting. Such asymmetry, along with boundary spanners coming from different national and cultural environments, produces disagreement over PJ. Building on this lens, we develop hypotheses that propose both organizational- and individual-level factors which may affect the level of disagreement. We hope that this effort can advance our understanding of procedural fairness in IJVs and, more generally, organizational justice in international business.

1. Theory and hypotheses

1.1. Procedural justice in IJVs

PJ refers to the perceived fairness of formal procedures governing decisions involving the treatment and benefits of participating parties. The basic premise is that fair treatment determines a party's reactions to decisions and is therefore central to its behavior (Lind & Tyler, 1988). In an IJV setting, the procedures that require fairness involve an IJV's strategic decision-making process and those procedures that affect each party's gains and interests. “Fair” means that related procedures and criteria used in these decisions and the execution of these decisions are: (i) transparent, adjustable and correctable; (ii) unbiased, representative and non-discriminatory to each party; and (iii) in accordance with contractual specifications. These principles of fairness draw mainly on organizational justice research (e.g., Greenberg, 1987; Konovsky, 2000; Lind & Tyler, 1988) and studies on fairness in alliances and

mergers (Johnson et al., 2002; Meyer, 2001; Steensma & Milligen, 2003).¹ The major areas that require fairness include procedures used in: (1) building and structuring an IJV (i.e., board formation and decision-making, contract codification, and IJV formation); (2) organizing and managing an IJV (i.e., strategic planning, autonomy allocation, and routine management); (3) governing resource sharing (i.e., knowledge transfer, innovation, and resource contribution); and (4) executing IJV plans and decisions (i.e., clarity of execution procedures, contract-execution monitoring, and decision-execution monitoring). This suggests that PJ in IJVs can be diagnosed as an overall, multidimensional construct (as designed by this study), or further differentiated as a set of multiple constructs with unique area focuses or fairness criteria underlying each. Also note that the procedures should not be static, but must be flexible to accommodate new conditions. For this reason, the definition of PJ includes correctability and adjustability of such procedures. In the course of changing procedures it is important to comply with the principles of PJ, such as transparency, representation, and non-discrimination.

Justice is an important foundation for all economic exchanges, and is well depicted by boundary-spanning theory (e.g., Adams, 1976; Aldrich & Herker, 1977; Friedman & Podolny, 1992; Leifer & Huber, 1977). This theory predicts that boundary spanners can effectively facilitate organizational transactions. It notes that boundary spanners who represent these different organizations most often manage conflict or cooperation between them. Inter-organizational boundary-spanning tends to be complex because of the uncertainty of outcomes (Adams, 1976; Aldrich & Herker, 1977). To effectively perform the boundary-spanning function with the outsider (partner firm) under this uncertainty, fairness in boundary-spanning procedures is essential (Friedman & Podolny, 1992; Greenberg, 1987; Perry & Angle, 1979). Procedural fairness facilitates inter-organizational exchanges because the boundary spanner's behavior tends to be more cooperative and/or less opportunistic when fairness is present (Aldrich, 1971; Callister & Wall, 2001; Steadman, 1992). When boundary-spanning occurs in a cross-cultural setting, justice becomes even more important in the sense that justice can partly compensate for the hazards arising from conflicting cultures and managerial styles inherent in cross-cultural cooperation (Shenkar & Zeira, 1992). A boundary spanner not only represents his or her own organization when negotiating with another organization, but they also transmit information into his or her own

¹ The concept of “socio-emotional” leadership originates from sociology. Ridgeway and Johnson (1990) suggest that task agreements and disagreements are likely to cause an emotional reaction in the member who receives them. Socio-emotional leadership and behavior entails both positive elements (e.g., giving encouragement, paying the other a compliment, giving help, or showing enthusiasm for another's view) and negative ones (e.g., unfriendly behavior, emotionally tinged criticism, or self-assertion with a hostile tone). In boundary-spanning situations, socio-emotional behavior almost always accompanies task behavior and may often be an emotional overlay to ostensibly task-oriented behavior (Ridgeway & Johnson, 1990:1196).

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