ORGANIZATIONAL JUSTICE, PARENTAL CONTROL AND TEAM COMMITMENT AND THEIR IMPACTS ON STRATEGIC PERFORMANCE

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ORGANIZATIONAL JUSTICE, PARENTAL CONTROL AND TEAM COMMITMENT AND THEIR IMPACTS ON STRATEGIC PERFORMANCE

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ABSTRAK

Penyelidikan ini menguji perhubungan di antara persepsi berkaitan kerja (keadilan prosedur, keadilan pengagihan, dan kawalan strategik firma induk), sikap (komitmen organisasi pada pelbagai pihak dan komitmen menjalankan strategi), hasil gelagat (pencapaian organisasi dalam usahasama antarabangsa). Kajian ini mengunapakai keadilan organisasi dan kawalan firma induk sebagai pembolehubah tak bersandar dan komitmen terhadap organisasi pada pelbagai pihak (iaitu: komitmen terhadap usahasama antarabangsa sendiri, komitmen terhadap firma induk asing, dan komitmen terhadap firma induk tempatan) serta komitmen pasukan menjalankan strategi sebagai pembolehubah pencelah.

Terutamanya, kajian ini bertujuan untuk menjawab persoalan: Model apakah yang tepat sekali bagi menjawab perhubungan di antara keadilan prosedur, keadilan pengagihan, kawalan firma induk, komitmen organisasi pasukan pada pelbagai pihak, komitmen pasukan untuk menjalankan strategi, dan pencapaian strategi. Model kajian ini dianalisa mengunakan regrassi hierarki berganda, mengunakan pasukan pengurusan atasan sebagai unit analisa dari usahasama antarabangsa yang beroperasi di Indonesia (n=113). Penemuan utama ialah: (1) keadilan prosedur, kawalan firma induk, dan keadilan pengagihan mempunyai perhubungan yang signifikan dengan komitmen pasukan pada usahasama antarabangsa itu sendiri, firma induk asing, dan firma induk tempatan. Walaubagaimanapun, kawalan firma induk mempunyai perhubungan negatif. Di antara pembolehubah tidak bersandar,

didapati keadilan prosedur mempunyai kesan yang paling kuat ke atas komitmen pasukan pada pelbagai pihak; (2) keadilan prosedur, kawalan firma induk, dan keadilan pengagihan mempunyai perhubungan yang signifikan terhadap komitmen firma untuk menjalankan strategi; (3) komitmen pasukan pengurusan pada pelbagai pihak mempunyai perhubungan yang signifikan ke atas komitmen pasukan untuk menjalankan strategi; (4) komitmen pasukan untuk menjalankan strategi mempunyai perhubungan yang signifikan pada pencapaian strategi; (5) komitmen pasukan pengurusan pada usahasama antarabangsa dan firma induk asing bertindak sebagai pencelah pada perhubungan di antara keadilan prosedur, kawalan firma induk, dan keadilan pengagihan dengan komitmen pasukan untuk menjalankan strategi; (6) komitmen pasukan untuk menjalankan strategi bertindak sebagai pencelah dalam perhubungan di antara komitmen pasukan pengurusan pada pelbagai pihak dan pencapaian strategi. Kajian ini boleh ahli akademik, pengasas usahasama antarabangsa, dan pengurus untuk lebih memahami bagaimana cara meningkatkan pencapaian strategi dalam usahasama antarabangsa. Implikasi teori dan praktikal serta cadangan untuk kajian hadapan juga dibincangkan.

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ABSTRACT

The present research examines relationships among work-related perceptions in term of procedural justice, distributive justice, and parental control, attitude (organizational commitment to multiple parties and team's commitment to implementing strategy) and behavioral outcomes (organizational performance) in IJV organization. The study utilizes organizational commitment to multiple parties (commitment to IJV itself, commitment to foreign parent, commitment to local parent) and commitment to implementing strategy as mediators, and organizational justice and parents control as independent variable. Specifically, the study aimed to answer the question: What model can accurately describes the relationship among procedural justice, distributive justice, parental control, teams organizational commitment to multiple parties, team's commitment to implementing strategy and strategic performance? The model is evaluated using hierarchical multiple regression analysis, and using top management team as unit of analysis, from IJV operating in Indonesia (n=113). The main findings are (1) procedural justice, parental control, and distributive justice have significant relationship on teams commitment to IJV itself, the foreign parent and the local parent. Among these independent variables, procedural justice has the strongest effect on team's commitment to multiple parties: (2) procedural justice, parental control, and distributive justice have significant relationship on team's commitment to implementing strategy: (3) the management team's commitment to multiple parties has a significant

relationship on team's commitment to implementing strategy: (4) team's commitment to implementing strategy has significant relationship on strategic performance: (5) the management team's commitment to IJV itself and foreign parent has mediating role on the relationship between procedural justice, parental control, and distributive justice with team's commitment to implementing strategy. (6) team's commitment to implementing strategy has a mediating role on the relationship between management teams' commitment to multiple parties and strategic performance. This study can provide insights to scholars, founders of IJV, and managers to better understand how to enhance strategic performance in IJV. Theoretical and practical implications as well as suggestions for futures studies also are discussed in this study.

CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter introduces the research agenda of this study. A brief background is provided followed by the problem statement, research questions, objectives and benefits of this study, significance, and scope of the study. In addition, the chapter also contains a section on describing the key terminologies used as well as the organization of the remaining chapters.

1.2 Background to Study

Indonesia is the third largest country in Asia after the Republic of China and India. This country had a population of about 224 million in 2005. During 1998, this country has undergone a serious economic crisis indicated by the negative growth level of 13.8 percent and the high inflation rate of 73 percent, whereas since 2001 till 2005, Indonesia's economy showed a growth rate of 4.5 percent - 5.6 percent per year (Indonesia Statistical Bureau, 2006). In spite of the on-going turmoil, it is argued that Indonesia is still an attractive location for investors, particularly of foreign investors. This may be seen from the figures in Table 1.1.

Based on data provided in Table 1.1, it might be argued that the economic crisis faced by Indonesia did not influence the enthusiasm of foreign investors. Although the number of investment projects after the crisis period declined, the value of these investments still show an increase. Indeed, the value of foreign investment in 2000 is almost similar to that of 1996. The development of foreign and domestic investment in Indonesia during 1996-2003 can be seen in Table 1.1.

Table 1.1
Development of Foreign Investment (FI) and Domestic Investment (DI) From 1996-2003

Year	Foreign Investment		Domestic Investment	
	Project Number	**Value ($billion)**	**Project Number**	**Value ($ billion)**
1996	810	14.80	959	9.80
1997	718	20.10	790	11.50
1998	324	9.70	1035	7.60
1999	237	3.90	1164	11.80
2000	390	13.64	1318	11.74
2001	198	6.40	974	8.89
2002	324	9.80	1246	11.01
2003	273	10.60	1242	14.36

Source: Investment Coordinating Board of Indonesia (2004)

Recent development also shows a tendency toward internationalisation of business activities in Indonesia. This development, in turn, has triggered a more intense competition faced by the domestic companies in Indonesia. Indonesian companies are forced to maintain their competitive edge in facing the global competition. Hence, a firm's management has to be creative, innovative and competent in seeking for alternative strategies needed to face the turbulent business environment (Doz, & Prahalad, 1989; Hamel, 1991; Porter, 1987).

Lutfi (2005) as chairman of Indonesia Coordinating Investment Board expressed, in the Annual Report of Indonesia Investment 2005, that Indonesia during 2006- 2010 needs total investment US $ 600 billions. These investments are estimated to be able to support Indonesia's economic growth equal to 7 percent per year during 2006-2010. Sources of investment are expected to be obtained from foreign direct investment (FDI), because sources of domestic investment are unable to fulfil it. Moreover, when Indonesia seeks the funds through overseas loan, the level of Indonesia foreign debt is too high. This is shown by the ratio of debt to gross domestic product at 55 percent (Indonesia Central Bank, 2005). Indonesia's government issued some policies to promote foreign investment in Indonesia. Some policies were issued, such as simplifications of investment license, improvement of investment climate, revitalization of investment service organization, enhancement of investment cooperation with overseas countries, incentive for foreign direct investment, and protection and maintenance of existing investments in Indonesia (IIB Report, 2005).

The Government of Indonesia expects the international cooperative arrangements and multinational enterprise (MNE) to conduct their business to sustain Indonesian development planning. Additionally, the government expects MNE can collaborate with and empower the local company. Among several types of international cooperative arrangements, the international joint venture (IJV) is the most appropriate type. Joint venture uses complementary resources, competency, and skill possessed by different organizations which can create synergistic effects and strengthen a symbiotic interdependence (Yan & Luo, 2001).

There are several practical reasons why multinational enterprises choose the form of international joint venture (IJV) to operate in Indonesia. First, the formation of IJV is the outcome from government insistence. Similar to other developing countries, the Government of Indonesia acquires multinational companies to utilize equity international joint ventures (EIJV) form of rather than the wholly-owned subsidiaries enterprise. Alliance with a local private company or state-owned enterprise is required in order for foreign firm to enter Indonesia. Although the Indonesian government suggests that MNE establish their company framed to IJV, nevertheless the increase of wholly-owned foreign subsidiary is quite a recent phenomenon. The Indonesian foreign investment law issued in 1968 has not been amended till now. Nevertheless, practically, it has experienced adjustment several times through President's decree. The recent President decree was issued at the beginning of 2006, with the aim of improving the investment climate and competitiveness in Indonesia. IJVs with majority foreign ownership have been legally allowed since the outset of the policy.

Second, the formation of IJV allows the firm to tap outside resources to build competitive strength at significantly reduced cost with lower investment than when the firm develops it alone to achieve its goals. For instance, to gain access to new products developed by a joint partner permits a company to strengthen on its competitive products. Through IJV, the local partner can obtain access to a foreign partner's technology, enabling it to obtain benefit from the results of research and development, thus avoiding research and development costs. Besides that, IJV is an effective venture for enhancing company competitiveness in Indonesia.

Third, gaining access to international market has been a common rationale for local and foreign firms to establish joint ventures. This reason applies to both international and local firms. On the one hand, the benefit of a joint venture is that local partners gain access to the international market. On the other, foreign partners can access the Indonesian market. Lacking an understanding of conditions of the Indonesian market (distribution network, consumer belief and behaviour, government regulations, system of government and bureaucracy, intensity of local competition, and effectiveness of marketing practice), most foreign companies fail.

Forth, IJV is established between local and foreign partners in combining capital and other resources to gain a symbiotic collaborative advantage. By sharing capital or assets, two or more companies in Indonesia can develop a joint venture to achieve economies of scale, so as to enhance its competitiveness against larger competitors. Additionally, a joint venture also enables the use of complementary resources, competencies, and other intangible assets possessed by partners to create joint effect advantages (synergies). In cases of Indonesia, the large firms operate in the manufacturing and heavy industries which require large capital and high technology which can only be obtained through joint venture or IJV.

Fifth, risk sharing is also an important consideration for establishing IJV. It usually happens if the investment project financially too large and too risky when conducted by a single company. They may join and share the financial risk. In Indonesia most of the petroleum companies, the petrochemical industry, and the automotive industry practice firm collaboration as IJV. Other rationales for risk sharing, especially when the business environment in Indonesia is highly uncertain, or when the business is not friendly to a foreign company, joint venture with a local firm may be undertaken to share political risk and to defuse intolerant local reactions. One of the problems faced Government of Indonesia is highly political risk, the consequence foreign partner confuses come into Indonesia. Therefore, the present the Government is attempting to foster an investment climate to enhance the competitiveness of the country.

Based on the report of the Investment Coordinating Board of Indonesia 2004, since the issue of the Foreign Investment Law in 1968, more than 10,200 foreign companies have operated in Indonesia. Almost 75 percent are the IJV, with 30 percent of IJV conducted in the manufacturing sector. These businesses are expected to strengthen competitiveness and to manifest a new competence of IJVs. Their existence is not limited only to support the domestic and the global market but also to new products, new technology, and expertise in carrying out modern management in companies. From macro-economics point of view, the existence of IJV is expected to tighten the economic bases of national industries and encourage the development of the manufacturing sector in accordance with the development planning strategy of Indonesia. Moreover, IJVs are also expected to assist the domestic companies that collapsed due to serious economic crisis experienced by Indonesia within the last decade.

Kenichi Ohmae (1989, p. 144), argued that, "there is no company that can stay competitive in the world today single-handedly". For this reason, as a response to the high global business competition, large numbers of companies tend to form collaborations and strategic alliances. International collaboration was initially developed in the 1970s (Hegert & Moris, 1986). The most common co-operation founded is known as joint venture or mutual business. Within an international business context, the International Equity Joint Venture (IEJV) or International Joint Ventures (hereafter IJV) were the common ones (Harigan, 1985; Casseres, 1987). IJV has developed since the 1980s and representing one of a firm's strategy alternatives in facing harsh competition. Through mutual business firms can combine resources which are likely to strengthen their companies, especially in a more complex economic atmosphere.

The formation of IJV is intended to exploit the benefits from the change in the economic, political, and social environment as well as the resources possessed by a country. International companies from developed countries are ready to braid cooperation with domestic companies in Indonesia in order to get benefit from resources owned by Indonesia. Among these factors is the huge market potential. Since Indonesia is one of the most populous countries in the world, a diverse range of natural resources, cheap human resources, future economic growth prospect, as well as governmental support to enhance the foreign investment (RPJM RI, 2004).

Regarding the achievement or the performance of mutual business strategy, there have been some studies investigating this issue. Yan and Luo (2001), for example, researching IJV efficacy in China, between a US company and a Sino company, found that the companies succeed significantly. Yoshino and Rangan (1995) noted that IJV can improve the success of a company through by the technology transfer process and a new expertise in addition to yielding new products. Another study by Glaister (2004) also proved that IJV can maximise the use of a company's internal sources. Parkhe (1993b) has investigated the experience of a US company in joint ventures overseas, in which its achievement had a significant improvement on business performance. Yan (2000) studied that Sino-foreign joint venture appear to have achieved a satisfactory performance in the Chinese economy in obtaining better profits and a larger market share. In addition, Chinese parent company concerned with the financial benefits offered by the IJVs, but they also would like to see a more substantial transfer of managerial and technical knowledge from their foreign partner (Yan & Luo, 2001). Harigan (1988), Doz and Hamel (1998) and Porter (1987) also state that strategic alliances, such as IJVs, enable a company to obtain new technology and markets, economies of scale, risks sharing, and an arena of transferring new knowledge and expertise.

1.3 Problem Statement

The abovementioned argument has shown that the importance of international strategic alliances among companies worldwide, particularly in the form of IJV. Although the IJV could be utilized as the driver in fostering the development of Indonesian economy following the economic crisis, the IJV form of organization might also has disadvantages. For instance, combining two or more companies from different countries with diverse cultural backgrounds will generate problems that might affects daily-management function in implementation strategy (Büchel et al., 1998; Contractor & Lorange, 1988; Geringer & Hebert, 1989; Lassarre, 1999; Inkpen, 1995).

Furthermore, Kanter (1994) argued that top management of IJV failed to paid attention on human aspect. Similar views also proposed by Child and Faulkner (1998) that IJV failure rests in the disparity shown by the top management that pays more attention to the forming process than managing the operational aspects of IJV itself. Additionally, IJV failure is mostly caused by the top management's low achievement, and little attention has been paid to the potential performance by parent companies and venture management (Harigan, 1986; Kanter, 1994; Li, Xin & Pilutla, 2002; Lorange & Ross, 1992; Luo & Park, 2004).

An IJV manager faces a duality in managing organisation since an IJV grows from two or more parent companies having shared ownership, resources, and strategic decision-making processes. This circumstance will make an IJV manager hesitant in making decisions (Beamish, 1988; Geringer, 1991; Kogut, 1988). Further, double ownership can also create a problem in assessing IJVs' achievement, as each partner owns different goals or has a disguised agenda in forming the IJV (Hamel, 1991; Harrigan, 1985).

The level of individual commitment to each party within the IJV organization is expected to vary, since commitment is the reflection an individual's identification with an organization that might create a greater sense of loyalty and commitment to organization (Kogut & Zander, 1996; Meyer & Allen, 1997). Therefore, the level of commitment by an IJV manager could influence by perception attributes of manager via organizational-related perceptions and attitudes of an IJV organization. Although the attitudes towards organizational commitment is usually viewed as an individual variable (Allen & Meyer, 1990), organizational commitment at the group, team or organizational level could be measured by aggregating individuals' scores on organizational commitment (Johnson et al., 2002). Reus and Ritchie III (2004) argued that within the last 25 years very few scholars studied the relationship between organizational commitment and fairness, and IJV's performance. The present study, therefore, is different from previous research on the issues of investigating the commitment at organisational level of IJV organization in an Indonesian context.

There are many factors that need to be considered in assessing IJV success, either external or internal. However, rendering to the uniqueness of IJV characteristics, it is very difficult to explain the factors making IJV succeed. Park and Ungson (1997) and Porter (1987) argued that the level of IJV efficacy is relatively low or not more than 50 percent. The failure is commonly caused by management's inability in handling the organisation's complexity, conflicting interest among partners, and lack of understanding about the elements influencing the company's success (Buchel et al., 1998; Yan & Luo, 2001).

Research on IJV has been numerous, but most studies were conducted in developed countries, such as United States (i.e. Anderson, 1990; Geringer & Hebert, 1989; Hebert & Beamish, 1994; Johnson, 2000; Johnson et al., 2002; Killing, 1983), Europe (i.e. Brouthers & Bamossy, 1997; Buchel et al., 1998; Child & Markoczy, 1991), in East Asian countries (i.e. Adler, Brahm & Graham, 1992; Beamish, 1992; Child & Markoczy, 1991; Child, Yan & Lu, 1997; Choi & Beamish, 2004; Ding, 1997; Davidson, 1987; Isobe, Makino & Montgomery, 2000; Lee & Beamish, 1995; Luo & Park, 2004; Makino & Delios, 1996; Nyaw, 1993; Yan & Zeng 1999), and Malaysia (e.g. Sulaiman, Kechik, & Wafa 2000). In contrast, the studies on IJV in developing countries, such as Indonesia, are very rare and limited to identify the determinant factors of foreign ownership of MNEs in Indonesia (Aswicahyono & Hill, 1995).

The factors influencing IJV success in Indonesia might possibly different from that of developed countries, due to different external factors and the behaviour of managers. In line with the development of IJV in Indonesia, especially in manufacturing sector needs further study. The research aimed at providing significant information to all investors and management of IJV that operates in Indonesia. As such, the problem being investigated in this study is relationships among organizational-related perceptions (parental control, procedural justice and distributive justice), attitudes (organizational commitment to multiple parties), behavioural intentions (commitment to implementing strategy), and organizational performance in IJV organization.

1.4 Research Questions

On the basis of the background of study and problem statement, the research questions can be formulated as follows:

1. What is the relationship between the perception of procedural justice of strategic decision making process, parental strategic decision control, distributive justice of strategic resources allocation and top management team commitment to multiple parties' organization, namely commitment to IJV itself, to foreign parent, and to local parent?
2. What is the relationship between the perceptions of procedural justice of strategic decisions making, parental strategic decision control, and distributive justice of strategic resources allocation and management team's commitment to implementing strategy?
3. What is the relationship between management team to multiple parties' organization and team's commitment to implementing strategy?
4. What is the relationship between management teams' commitment to implementing strategy and IJV's strategic performance?
5. Do management team commitments to multiple parties' organization mediate the relationship between the perception of procedural justice of strategic decision making, parental strategic decision control, and distributive justice of strategic resources allocation with team's commitment to implementing strategy?
6. Does team's commitment to implementing strategy mediate the relationship management team commitment to multiple parties' organization and strategic performance?

1.5 Objectives of the Study

The broad objective of this study is to investigate the relationship of strategic decisions control of parent company, procedural justice, distributive justice, organizational commitment and implementing strategic decisions of manufacturing international joint ventures in Indonesia. The specific objectives are outlined as follows:

1. To investigate the relationship between the perceptions of procedural justice of strategic decisions making process, parental strategic decision control, distributive justice of strategic resources allocation and management team commitment to multiple parties' organization.
2. To investigate relationship between the perceptions of procedural justice of strategic decision making, parental strategic decision control, and distributive justice of strategic resources allocation with team's commitment to implementing strategy.
3. To investigate relationship between management team commitment to multiple parties' organization and team's commitment to implementing strategy.
4. To investigate the relationship between management team's commitment to implementing strategy and IJV's strategic performance.
5. To examine management team commitments to multiple parties' organization mediate the relationship between the perceptions of procedural justice of strategic decisions making, parental strategic decision control, and distributive justice of strategic resources allocation with team's commitment to implementing strategy.

6. To examine management team commitment to implementing strategy mediates the relationship management team commitment to multiple parties' organization and IJV's strategic performance.

1.6 Significance of the Study

The number of IJVs has dramatically increased world-wide in the past twenty five years. These IJV are part and parcel of the movement toward overseas expansion. Increasing joint ventures both in number and as strategic purpose in carrying out international business has continued throughout the 2000s.

Legally, economically and geographically, joint venture operate like stand-alone firms and have to engage in all the different types of regular business activities and external relationships that any independent firm has to undertake (Prevot & Xavier Meschi, 2006; Yan & Luo, 2001; Zeira & Shenkar, 1990). However, joint ventures are more complex than single organizations, as they involve multiple "internal" inter-organizational relationships: the relationship between partner firms, the relationship of venture management with the foreign and with local parent, and the relationship between the venture's manager nominated by different partners (Killing, 1983; Yan & Luo, 2001). Consequently, these relationships can be extremely complicated in managing IJV organization.

This study is expected to provide both theoretical and practical contributions. From a theoretical point of view, this study could be considered as an extension of the social exchange theory proposed by Blau (1964). Such theories have been developed into the theory of organizational justice and organizational commitment, and have been applied on International Strategic Alliances issues (especially those of IJV's organization). Social exchange theory could be considered as complementary to the transactional cost theory (i.e.

economic exchange theory). Such a theory serves as a basis in establishing and managing the IJV.

The management of an IJV needs to understand the importance of organizational justice factors (i.e. procedural justice of strategic decision making process and distributive justice of strategic resources allocation) in the formulation and implementation of the IJV's strategy. From the context of strategic management literature, this study lies at the crossroads (intersection) between organizational justice, organizational commitment, and strategic management process and implementation. Further, the abovementioned context could be explained as follows. First, this study is also aimed at examining the relationship of organizational justice (distributive justice of strategic allocation resources and procedural justice of strategic decision-making process), organizational commitment, and top management teams' commitment to implementing IJV's strategy. Second, this research intends to examine the relationship between parental strategic decision-control, management teams' commitment to multiparty, and team commitment to implementing strategy. Third, this study examines relationship between top management team's commitment to implementing strategy and strategic performance of IJV.

From a practical point of view in the process of managing IJV, the IJV's stakeholders need to understand the importance of organizational justice and organizational commitment in implementing strategies to achieve strategic performance. This view is reasonable since the IJV is more complex than the single organization. The relationships between the parties involved in IJV can be extremely complicated to managed since the parents in IJV are distinct to shareholders of public company and are visible, powerful and can and will disagree on just about anything (Killing, 1983; Yan & Luo, 2001). In addition, most IJV existences face unstable conditions in developing countries (Banerjee & Mukherjee, 2006).

1.7 Definitions of Key Terms

The following part will provide the definitions and descriptions of terminologies used in this study.

International joint venture (IJV). Following Harrigan (1985, 1986), Beamish and Bank (1987), and Newberry and Zeira (1997), international joint venture is defined as a cooperative business activity, formed by two or more separate organizations for strategic purposes, that creates an independent business entity and allocated ownership, operational responsibilities, and financial risk and rewards to each member, while preserving their separate identity and autonomy, at least one of which is headquartered in another country. The parent's ownership and equity stake represents an element of control on strategic formulation and control.

Organizational commitment (OC). Organizational commitment refers to the strength of an IJV's manager identification with, and involvement in, a particular organization as a result of his/her belief in, and acceptance of, organizational goals and values; a willingness to exert effort towards organizational goals accomplishment; and a strong desire to maintain organizational membership in an organization (Mowday, Porter & Steers, 1982). Within IJV, the concept of organizational commitment is made more complex by the presence of multi-organizations involvement (at least three organizations) to which the managers have to establish the commitments; those are the foreign parent company, Indonesian local parent, and the IJV itself.

Top management team. Top management team is composed of the top (key) managers in the IJV organization who are responsible for formulating and implementing the firm's strategy and make strategic decisions to achieve IJV strategic objectives (adopted from Hitt, Ireland, & Hoskisson, 2007).

Team's organizational commitment. Team's organizational commitment is the relative strength of an individual's identification with, and involvement in, a particular organization (team). It may be characterised by (a) a strong belief in, and acceptance of, the organization's (or team's) goals and values; (b) a willingness to exert considerable effort on behalf of the organization (or team); and (c) a strong desire to maintain membership in the organization (team). This definition is adopted from Mowday, Porter and Steer (1982) and Bishop and Scott (2000).

Procedural justice of strategic decision-making process. Procedural justice in work organizations is concerned with how individuals or a group views the process used to make decisions that affect them and, especially, whether they perceive the process to be fair in formulating and implementing corporate strategies in IJV (Kim & Mauborgne, 1991, 1993).

Distributive justice of strategic resources allocation. Distributive justice is concerned with two aspects of the exchange relationship, that is, (1) the amount of reward ("outcome") received by each party to the exchange, and (2) the contributions ("input") provided by each party. When each party perceives to the ratio of rewards equal to the ratio of contributions, the distribution of rewards is fair, just, or equitable (Adam, 1963, 1965; Lawler, 1971). Following this definition, this study examines the distributive justice in terms of strategic allocation of resources that accompany strategic decision-making in an IJV context. There are three perceptions of the IJV's manager in terms of distributive justice in IJV organization, namely (i) the distributive justice of strategic resources allocation from the foreign parent, (ii) the distributive justice of strategic resources allocation from the local parent, and (iii) the distributive justice of strategic resources allocation within the IJV organization (intra-management in IJV).

Parental strategic decision control. Since this study focuses on strategic decision making process in IJV, Parental strategic decision control refers to the extent to which the parents (foreign and local) have power over the strategic-making process in IJV an organization (Johnson, Korsgaard & Sapienza, 2002). This study utilizes parental strategic decision control and this control is implemented by a board of directors (executives' director) and a board of commissioners to lead the IJV's strategic management decisions.

Team's commitment to implementing strategy. Team commitment to implementing strategy in this study is defined as the commitment of the IJV top management team as a whole to implement the strategic decisions and commitment to the course of action set out by the IJV's organization for achieving strategic organizational performance (Woolridge & Floyd, 1990; Wentzel, 2002).

Strategic performance. For the purpose of this study, strategic performance of IJV is focused on organizational effectiveness that is concerned with the extent to which an organization is able to implement its strategy for the achievement of major strategic goals. IJV's managers play a key role in implementing (executing) the venture's strategy, therefore, strategy implementation effectiveness is assured by the top management team commitment to the course of action set out in IJV's strategy (Dooley, 2000; Woolridge & Floyd, 1990).

1.8 Organization of Chapter

This thesis is divided into six chapters. Chapter 1 is the introduction that presents the background of the study, the problem statement, research questions, and objectives of the study, significance of the study, and the definition and description of key terms. Chapter 2 focuses on a review of existing literature in relation to the research topic. The first part reviews the history and evolution of the management international strategic alliances, especially international joint venture. It is followed by an exploration of the history of IJV's theory: the economic theory of international business agreement, the transaction cost theory of IJV, the exchange theory and the IJV: the concept of organizational commitment, and organizational justice (distributive justice in strategic resources allocation and procedural justice in strategic decision-making process). This chapter will also discuss the role of parental strategic decision control. The chapter is closed by summary. Chapter 3 presents the theoretical framework and hypotheses. This chapter was developed based on the literature review provided in Chapter 2. Chapter 4 describes the research methodology used. This chapter is divided into several sections comprising of the sample frame and the sample size, the research instruments, data collection method and validity and reliability test of measures and statistical analysis. Chapter 5 focuses on the analyses and presentations of results of the study. Finally, Chapter 6 presents the discussion and conclusion of the study. This chapter includes discussion of the findings in line with the objectives of the study, implication of the study, limitations of study, and suggestions for future research.

CHAPTER 2

REVIEW OF THE LITERATURE

2.1 Introduction

This chapter discusses the literatures related to International Strategic Alliance (hereafter termed as ISA) and the international joint venture (hereafter termed as IJV) management from different perspectives, organizational types, and different context (i.e. countries). Some of the issues discussed in this chapter include the body of previous research, theoretical perspectives and their implication for IJVs strategic management. The chapter then presents a review of literature on the impact of strategic decision-making, organizational justice, organizational commitment on strategic implementation effectiveness, and IJV's strategic performance. Finally, in the last section the summary of key studies is presented.

2.2 History of International Joint Venture

Since the beginning 1980s, and perhaps even earlier, economic theories have been developed and enhanced to explain the existence of multi-national enterprises (MNEs) and their activities (Casson, 1982; Caves, 2000; Dunning, 1988; Rugman & Verbeke, 2003). In this regard, Contractor and Lorange (1988) argued that a common method of overseas expansion is to establish a wholly-owned subsidiary that is completely controlled by the parent company. However, wholly owned subsidiary is one of many modes of foreign direct investment. IJVs are the leading form of enterprise for international strategic alliance and multi-national cooperative arrangement in developing countries. IJVs also more common operate in developed countries (Beamish & Bank, 1987; Harrigan, 1985, Merchant, 2005; Newburry, Zeira & Yeheskel, 2003;

Reus & Ritchie III, 2004). The other forms of international cooperative arrangements in the literature include: the technical training and start-up assistance agreement, production-assembly-buyback agreement, licensing, franchising, management and marketing service agreement, non-equity cooperative arrangement, and other contractual relationships (Contractor & Lorange, 1988; Harigan, 1985, 1986).

There are two basic types of IJVs: non-equity and equity joint venture. A non-equity joint venture is one that is established by the partners (foreign and local) do not share ownership of capital resources for a fixed time period and, at the end of the period, it is ended. Equity joint ventures, within an international context, are legally and economically in which a foreign firm or MNE has an equity stake in a new entity which the foreign firm establishes with its partners that may be domiciled in the host country or overseas (Anderson, 1990; Hennart, 1988; Yan & Luo, 2001). The equity of IJV characterizes an element of ownership and has power over although the two are not equal. As such, Harigan (1985) suggested that JVs can take many forms and can be used for many different purposes. From the MNEs perspective, an equity JV can be constructed in the form of equal ownership, majority ownership, and minority ownership. From management perspective, an IJV is a quasi-independent organization, that established by the partnership of two or more parent companies. Joint ventures are hybrid in nature, but have their own identifiable structures, working procedures, economic transaction, and management personnel (Yan, 2000).

2.2.1 The Economic Theory of International Business Arrangements

Economic theory assumes a model of perfect competition as characterized by the absence of barriers to entry, the presence of competition, the product is homogeneous, and the existence of efficient markets. In such a hypothesized model, the firm can obtain whatever and whenever it wants the product, at a set price through market transactions (Johnson, 1997; Williamson, 1981). Further, this model also assumed no transaction cost, and the firm is exposed to the certainty conditions. According to the international economics model, since in such a perfect world, there would be no need for multinational to be existent, the only possible form of international involvement would be international trade (merchandise export and import, most common international economic transaction) (Daniels, Radebough & Sullivan, 2004).

Some authors (Anderson & Gatignon, 1986; Glaister, 2004; Hennart, 1988, 2001; Rugman, 1996; Walker & Weber, 1984; Williamson, 1981) sought to explain the existence of the multinational enterprise in terms of transaction costs. When they are confronted with market imperfections in a foreign country that create the cost more than zero associated with market transactions, a firm may prefer to reduce these costs by using the integration strategy (vertical and/or horizontal) through foreign direct investment to internalise their business activities. The firm which initially has a monopolistic advantage in its national market, in the form of its entry to suitability technology has to deal with uncertainty when it wants to sell its technology and resources to foreign countries. As such, internalisation tolerates the firm to minimize the uncertainty cost, on condition that the cost of internalisation (hierarchy of organization cost) is not more than the uncertainty cost associated with the open market transactions. According to Hymer (1976), monopoly advantage can also be used to enlarge market power by locking out competition. In an effort that departs from the conventional economic justification of efficiency, as the major motivation of the multinational enterprise, furthermore, acknowledged that there are several issues other than pure economic efficiency as factors in the establishment of the international business arrangements. In this concern, economic theory cannot explain all actions taken to generate and sustain competitive advantage in international business context.

Dunning (1988) proposed an eclectic (choosing from various sources) paradigm which offers a composition of three sets of advantages as determinants of the extent, form, and pattern of international production. These three sets of advantage include: (a) ownership advantage resulting from the firm's internalisation of transactions, (b) location advantage which can also result from structural imperfections (such as government intervention), and (c) advantage from transactional imperfections (such as the reduction of exchange risk, or arbitrage opportunities). The market imperfections approach to foreign direct investment has been a noticeable departure from conventional economy, which assume economy is a static, profit maximizing and purely competitive in whitout transaction costs and information is perfect.

The imperfect market paradigm focuses on the institution making for the foreign direct investments rather than on the markets which provides a rationale of economic for the MNE because of internalisation theory. However, some proponents of the internalisation perspective argue that theory of internalisation as earliest applied to MNEs experienced a major limitation. It focuses on only one mode (wholly owned subsidiary) as an answer to imperfect market in overseas. Yet there is a range of other hierarchical modes available to the MNE, including licensing, management contracts, subcontracting, consortia, and joint ventures (Beamish & Bank, 1987). Firms can and do use hybrid arrangements within the same overseas market, involving a combination of shared equity, royalty earnings, and profit from transfer pricing of supplied components ((Borys & Jemison, 1989; Contractor, 1988; Rugman & Verbeke, 2003). If internalisation is to be accepted as a general theory of foreign direct investment, it must be able not only to explain the use of other hierarchical modes, but also to predict the circumstances under which a multi-national enterprise would have a preference one or other these alternatives to either using market transactions or establishing a wholly owned subsidiary (Johnson, 1997; Kogut, 1988; Yan & Luo, 2001).

2.2.2 Transaction Cost Theory and the International Joint Venture

Transaction costs economics is concerned with the cost effectiveness of organizing activities of international economic. The transaction costs paradigm attempts to account for the choice between conducting international business transactions via market exchange and conducting it via the internalization of production within a single hierarchically organized company (Yan, 2000). Anderson and Gatignon (1986), Williamson (1981, 1996), and Glaister (2004) argue that the choice of organizational form could be described by the relative cost of market transactions versus transactions within the firm for long term contracting (internalisation approach or resources based value). Williamson (1985) constructed the transaction costs theory on three basic assumptions, (a) people are opportunistic, (b) people have a limited capacity to process information (bounded rationality), and (c) markets are imperfect (uncertainty)