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THE ROLE OF JUSTICE THEORY
IN EXPLAINING ALLIANCE NEGOTIATIONS

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THE ROLE OF JUSTICE THEORY IN EXPLAINING ALLIANCE NEGOTIATIONS

Abstract

We report data from a revelatory qualitative case study of a failed attempt to negotiate an international joint venture agreement. We analyze issues of justice and the role that their occurrence in the course of the negotiations might have played in this outcome. These potential antecedents of the failure were derived from theories of organizational justice. The results support an argument that organizational justice theory, particularly interactional justice, can play an important role in explaining alliance negotiation outcomes.

Keywords: strategic alliances; alliance negotiations; justice theory.

THE ROLE OF JUSTICE THEORY IN EXPLAINING ALLIANCE NEGOTIATIONS

In the literature dealing with strategic alliances such as international joint ventures (IJV) there is a significant gap: evidence outlining the actual negotiation dynamics that take place between the parties. What informal processes are at work in this stage of strategic alliance evolution, and how they affect the outcomes of these negotiations, remains something of a “black box”. Moreover, a conceptual basis for exploring these dynamics –justice theory– has largely been ignored by those exploring the emergence of strategic alliances. In addition, among scholars who rely on justice theory to explore organizational phenomena an interesting debate has emerged about the relevance of interactional justice to procedural justice.

A case study of an attempt to negotiate an IJV agreement by a Spanish firm with an Argentine firm provides data for analyses of perceptions of fairness and their roles in explaining the outcome of the negotiations¹. Our objective is to develop new insights into this important initial phase of the evolutionary dynamics of alliances. Our findings support an argument that organizational justice theory plays a critical role in explaining negotiation outcomes and that *interactional* justice is as important in understanding outcomes in this context as *procedural* justice.

A number of sound theoretical grounds exist for exploring the role of fairness in the setting of alliance negotiations. Similarly, very practical reasons exist. For scholars, a better understanding of the dynamics of negotiations can shed light on initial deal making (and breaking) processes. The negotiations literature in general (e.g., Raiffa, 1982; Neale and Northcraft, 1991; Bazerman and Neale, 1992; Brett, Northcraft and Pinkley, 1999), and that stream of it used in exploring negotiations in alliance contexts (e.g., Gulati, Khanna and Noria, 1994), tend to focus on actions that might improve the processes of negotiations (see, e.g., Bazerman and Gillespie, 1999), but provide little empirical insight into why alliances fail to get past the negotiation stage. In addition, many, if not most, of the studies of organizational justice involve reliance on either laboratory experiments or surveys. Importantly, use of these approaches somewhat limits the ability of researchers to apply the results directly to the solution of problems that confront managers on a day-to-day basis. Finally, the ability to explore theories of justice in a setting outside the laboratory, or without

¹ Organizational justice scholars typically refer to justice in terms of people’s perceptions of fairness (Greenberg, 1987). We follow this convention in this paper.

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relying on survey methodology, provides additional insight into the on-going debate among some organizational scholars about the efficacy of distinguishing between *procedural and interactional* justice (see, e.g., Bies and Moag, 1986; Cropanzano and Greenberg, 1997).

Practically speaking, finding partners needed for an alliance and negotiating with them entails the commitment of significant personal and organizational resources. In addition to the direct costs that flow from negotiations (measured by money and managerial time), opportunity costs (organizational and individual) must be considered. BATNAs no longer may be attractive. Alternative partners (other than those associated with the BATNA) may no longer be available. Failure may also have an adverse impact on the reputations of the firms involved. Individual careers may be damaged.

One reason why we do not have much insight on the role that justice theory plays in alliance negotiation dynamics is that the literature that typically has been relied upon in exploring alliances is not terribly useful in explaining this kind of issue. Much of the literature on alliances is grounded in a number of economic theories (transaction cost economics, agency theory, resource-based theories of the firm) that tend to focus on issues related to the structure of an alliance, or on issues related to performance. Another reason is that relevant kinds of data are difficult to access and the work involved in doing so is time consuming.

We begin the paper by reviewing literatures related to justice theory and alliance processes. We then describe the research setting, and how our data were collected and analyzed, followed by a discussion of our findings. The paper concludes with a discussion of the implications of our findings for scholars and for managers contemplating strategic alliances.

Alliance Negotiations²

In this section we offer a very brief review of two theoretical perspectives and the insights they provide on alliance negotiations: alliance processes and justice theories.³ The former has made a major contribution to the alliance literature, but alliance researchers largely have ignored the justice perspective and we begin our literature review by addressing this stream of research.

Organizational Justice Perspectives⁴

Application of organizational justice theories to the study of strategic alliances, as we have indicated, has been very limited.⁵ Leung et al. (1996) use organizational justice analysis

² The literature on so-called strategic alliances is extensive (in excess of 2000 articles since 1995 in peer reviewed journals) and a comprehensive review of it is not essential to our arguments. Readers not familiar with the literature will find excellent reviews in Uzzi, 1997; Gulati and Singh, 1998; Powell et al., 1998; Das and Bing-Sheng, 2002; Rosenkopf et al., 2002.

³ We recognize, but do not employ, transaction cost theory (Williamson, 1985; Hennart, 1988), agency theory (Jensen and Mechling, 1976; Fama and Jensen, 1983), game theory (Parkhe, 1993), the resource based view of the firm (Eisenhardt and Schoonhoven, 1996), real options theory (Kogut, 1991), resource dependence (Pfeffer and Nowak, 1976), and relational and structural embeddedness perspectives (Gulati, 1995, 1998) as having contributed significantly to our understanding of alliance dynamics.

⁴ There is an enormous amount of conceptual and empirical work relying on justice theories. It is beyond the scope of this article to do justice to that body of work in our review. We assume that many of the readers of this article will be quite familiar with the work and the arguments underlying it. Our review is designed to introduce justice theory to researchers who have focused primarily on alliance dynamics.

⁵ In the alliance literature we have been able to find only seven instances of published work relying on justice theory (Kumar, 1996; Leung et al., 1996, 1997; Giacobbe-Miller, Miller, and Vistorov, 1997; Johnson, 1997, 1999; Johnson, Korsgaard, and Sapienza, 2002).

to explain job satisfaction of local employees of joint venture hotels in China. Johnson (1997) finds perceptions of *procedural* justice in strategic decision making have an influence on several aspects of managers' commitment to the joint venture. Despite the inter-organizational context of these studies, the use of justice theory is from an intra-organizational perspective. The authors in these and related studies were exploring dynamics within the joint venture, not the dynamics between the partners nor the dynamics of the negotiations that led to the formation of the joint venture.

Ring and Van de Ven (1994) were among the first to suggest that justice theory might be employed to explain a variety of the processes associated with alliances. Ariño, de la Torre and Ring (2001) take that argument one step further and advocate the application of justice theory to understanding the dynamics of inter-partner relationships. They suggest that *procedural* and *interactional* justice will have a stronger influence on the level of relational quality between partners than *distributive* justice. But they do not shed any light on how justice issues may influence alliance negotiations, other than suggesting that justice theories might bring new insights into our understanding of the efficacy of sense-making, understanding, and committing processes.

Scholars relying on justice theory argue that individuals' assessments of fairness are derived from their perceptions of *distributive* justice (Are outcome allocations perceived as being fair?), *procedural* justice (Are the procedures used to make allocations perceived as being fair?), and *interactional* justice (Is interpersonal treatment accorded individuals during the implementation of procedures perceived as being fair?). All three sets of perceptions appear to be relevant to the dynamics that occur in the course of negotiating an IJV.

Homans (1961) and Adams (1965) were among the first to argue that justice theories developed by philosophers and political scientists might be useful in understanding organizational behavior and dynamics, focusing on *distributive* justice. Cropanzano (1993) has asserted that within the framework of distributive justice theory, an individual's perceptions with regard to fairness are strongly influenced by the rules used to assess fairness (e.g., need, equity, equality, etc.). A recurring theme in the literature on *distributive* justice is the tension between efficiency, which requires directing resources to those who will use them most productively, and equality, which requires subsidizing the less productive (Messick, 1993). One would expect to find evidence of such tensions in IJV negotiations, especially if parties act (or are perceived to be acting) opportunistically.

Skarlicki and Folger (1997) found a three-way interaction among *distributive*, *procedural*, and *interactional* justice in a study of retaliation: the three kinds of fairness do not appear to be independent of each other in explaining retaliation. We might expect to find evidence that these interactive effects vary over the course of negotiating an IJV. Moreover, the likelihood of some form of retaliation for perceived unfairness in the course of a negotiation seems reasonable and has a sound theoretical foundation (Axelrod, 1984).

Studies of *procedural* justice initially were focused on the question of how individuals perceived the fairness of the formal procedures used by their organizations that affected the way they and others in the workplace were treated (Thibaut and Walker, 1975). Early researchers paid more attention to issues related to structure (e.g., were employees allowed to help make the rules that governed their work life?), than to what constituted *procedural* justice. Levinthal (1980) was one of the first to actually explore how *procedural* justice might be measured, employing variables such as accuracy, bias suppression, consistency, ethicality, correctability and/or representativeness.

Folger and Greenberg (1985) were among the first to empirically test these arguments in the work setting. Lind and Tyler (1988), strengthening this foundation, have argued that it is important to look at how employees perceive the fairness of the procedures used by their employers, independent of the outcomes produced by those procedures (and perceptions of fairness regarding those outcomes). However, most of these studies have been conducted at an individual level of analysis. Broader contexts such as industry or political conditions affecting the firms/organizations under study generally have been ignored (Mossholder, Bennett and Martin (1998) is an exception). Our study provides an excellent opportunity to shed light on this aspect of *procedural* justice.

As research dealing with issues related to *procedural* justice evolved, scholars began to question the role that interpersonal dynamics might play in perceptions of *procedural* (and *distributive*) justice. Bies and Moag (1986) initially introduced researchers to the argument that individuals' fairness judgments also might be based on the nature of the interpersonal treatment they were accorded by those carrying out the organization's procedures, in addition to their perceptions of the fairness of the procedures being used by the organization, or perceptions of the fairness of the outcomes produced by those procedures. They described this new kind of justice as *interactional* justice.

A lively debate has arisen about the necessity for distinguishing between *interactional* and *procedural* justice. Many researchers argue that interactional elements impact *procedural* justice perceptions, just as structural elements do (e.g., Cropanzano and Greenberg, 1997). Tyler and Bies (1990) make the point that interpersonal and structural elements are inseparable. One of the reasons why there is a debate over the efficacy of interactional justice as a separate construct stems from the fact that much of the research using the concept apparently has been focused within a single organizational context where it may be harder to separate individual from organizational aspects of perceived fairness.

The literature that we have just described generally deals with cases in which rules that outline elements of *procedural* justice generally exist and either are, or are not, followed by those in an organization charged with adhering to them. Researchers then look at interactional justice and interactions of perceptions of *procedural* justice, *interactional* justice and *distributive* justice. But, cases in which no norms defining *procedural* justice exist, or in which the norms are being established, and the impact that this has on perceptions of justice, appear to have been outside the boundaries of this research. The inter-organizational nature of our study, involving as it does an attempt to negotiate an international joint venture, facilitates an investigation of the role of informal processes in establishing norms related to *procedural* and *interactional* justice and the impact that these processes might have on perceptions of, or outcomes related to, *distributive* justice.

Alliance Process Perspectives

In the last few years, increased research emphasis has been placed on the processes that drive alliance evolution. Although the importance of the negotiation process is recognized, little is said on how it unfolds. Zajac and Olsen (1993) place negotiations at the alliance initializing stage, during which perceptions of value and the parameters of exchange emerge. Doz (1996) explores how learning processes in alliances mediate between initial conditions –some of which are the outcome of negotiations– and alliance outcomes. Ariño and de la Torre (1998) suggest that initial conditions are the outcome of preliminary negotiation and commitment stages (relying on Ring and Van de Ven, 1994), which the parties accept provided they satisfy their objectives in an efficient and equitable manner. But

again, they take this as the starting point in their model of alliance evolution, remaining silent about what actually happens in these stages. Kumar and Nti (1998) develop a dynamic theory of alliances by examining outcome and process discrepancies that may emerge as the partners interact. How discrepancies emerge or operate while partners interact at the negotiation stage is not explained.

Despite the fact that the alliance process literature has focused on the alliance operational stage, some of its insights maybe useful to understand the alliance negotiation process. For instance, Ariño (2001) examines the effect that a firm's perception of its partner's behavior has on the firm's own behavior. She distinguishes between non-cooperative behavior by omission and by commission. A firm's response to its perception of the partner's behavior depends on the informational value of this behavior, which is stronger in the case of non-cooperation by commission than by omission.

In addition, Ariño et al. (2001) argue that alliance partners are not unitary actors. Consequently, there may be multifold agency problems in the management of alliances, and assuming otherwise may be fatal to the relationship. The informational value of perceptions about a partner's behavior, as well as the consequences of ignoring the fact that organizations are not monolithic entities, might also be relevant at the alliance negotiation stage.

Ariño, de la Torre and Ring (2001) characterize negotiation processes as one of the building blocks of relational quality, in this way highlighting their importance. Other than in the case of repeat alliances or other past business relations, the negotiation stage provides the first opportunity for the parties to form opinions about each other anchored in the reality of direct experience. The scope and intensity of search and deliberation processes may have direct impacts on the levels of relational quality that will result from negotiations, and indirect impacts on perceptions of fairness that emerge from the negotiations.

Ring and Van de Ven (1994) provided initial insights on the unfolding of negotiation processes. According to them, alliance development consists of a repetitive sequence of negotiation, commitment, and execution stages. In the negotiations stage the focus is on formal bargaining processes surrounding the logic of the business proposal underlying the proposed collaboration. Behind the more formal aspects of these early negotiating processes are informal social-psychological processes of sense making, in which organizational participants come to appreciate the potential for transacting (in which the focus turns to clarifying the actual terms and conditions of contracts) with others by reshaping or clarifying the identity of their own organization. They have suggested that the nature and sequences by which these informal processes emerge in the more formal negotiation stages of cooperative inter-organizational relationships may be critical to outcomes. Ring and Rands' (1989) investigation of the evolution of a collaborative effort between 3M and NASA provided support for these suppositions. But issues related to fairness were not specifically addressed in their study.

In a study of formation processes in 53 R&D consortia, Doz, Olk and Ring (2000) found that at least two different formation pathways could be identified, which they labeled emergent and engineered. Their data, however, shed no light on the role played by negotiations between the consortia members on subsequent formation processes, or whether perceptions of fair play influenced outcomes.

Each of the two streams of research just reviewed has the potential to make contributions to understanding alliances and the dynamic nature of the processes by which they are formed and evolve over time. As we have indicated, the inability to access

appropriate kinds of data generally has left the processes of negotiations inside the proverbial “black box.” Our analysis will shed new light on those processes as we integrate these streams of research in an effort to develop a more fine-grained framework for the study of negotiations than currently can be found in either of these literatures.

Methods

Research Setting⁶

Grupo Palomar (GP) was a Spanish distributor of medical equipment and related consumables for hospitals. Active in a number of segments including hematology, urology, gynecology, gastroenterology, anesthesiology, cardiology, diagnosis, etc., GP was number two in its industry. Consolidated turnover was about 9.8 billion pesetas (US\$75M), with 60% of this coming from sales of consumables. 272 employees worked for the group. GP relied heavily on a technical service department that had as its mission “to be close to the equipment.” A logistics and software unit was also a part of the group.

Laboratorios Australes (LA) was an Argentine company that manufactured and distributed chemical reactives for clinical analysis, and also distributed related equipment. Operating in an industry dominated by multinational companies, LA had 60 percent of the domestic market, and had proprietary technology. Overseas sales accounted for about 60 percent of total sales. LA had 140 employees. LA was founded in 1960 by Miguel Rusco and one other partner. The Rusco family had a majority position in the company, which could be considered as a family owned company with a few minority shareholders.

The negotiations to form an IJV between GP and LA constitute a revelatory case (Yin, 1994). Access to data on alliance negotiations is hard to obtain. If the negotiations are being conducted “secretly,” researchers will not know about them. If the negotiations move fast the researcher may not have enough time to gain entry before things are over; if there is advance notice and the researcher is interested, lawyers, investment bankers, partners, etc., may not be interested in having an “outsider” observing the events. Even harder is obtaining data on failed alliance negotiations. When researchers have an opportunity to observe and analyze a phenomenon previously inaccessible to other researchers, such conditions justify the use of a single-case study on the basis of its revelatory nature –even if the phenomenon is common as opposed to rare or unique (Yin, 1994).

Data Collection and Analysis

Because of the “black-box” surrounding alliance negotiations, we chose an inductive approach in our study of the role that fairness might play in negotiations. As we have indicated, we were fortunate enough to gain access to a negotiation between representatives of a Spanish and an Argentine firm, literally from “Day One.” And in a strange sort of way, we were fortunate that the negotiations did not succeed.

⁶ The names of the firms that took place in the negotiations have been disguised, as have the names of the participants in the negotiations.

One of the authors, whose native language is Spanish, had the opportunity to serve as an observer in the initial negotiation round in Argentina. This author also took notes of informal conversations and details related to the initial meetings. The native Spanish-speaking author transcribed all of the formal discussions –which were in Spanish– of these meetings. Wolfgang Knief, one of the principals involved in the negotiations reviewed the transcript, and praised its accuracy.

Other data sources include archives, and interviews. Archival data include about 150 typed single-spaced pages, containing all written communications between GP and LA that took place during the nine months that negotiations lasted, as well as four drafts of a Letter of Intent (which in total exceed 100 pages), and internal communications from GP. Both authors translated these documents into English. The author whose native language was Spanish re-translated the Spanish to English translations of the native English-speaking author back into Spanish, and checked them against the original. The two authors then resolved any differences in the interpretation of the documents. Semi-structured interviews with Wolfgang Knief and Pablo Núñez, a business school professor and an advisor to GP who had brokered the initial meeting, provided additional insights into key phone conversations and subsequent meetings between the parties, and also served to triangulate the other two data sources (Eisenhardt, 1989). These interviews were translated into English by the native English-speaking author, and translated back into Spanish by the native Spanish-speaking author.

Relying on Miles and Huberman (1984), we employed data reduction techniques, initially preparing a chronology of the main negotiation events. We outline the chronology in Table 1 below. Eight events were considered to be “critical incident(s) when parties engage in actions related to the development of their relationship” (Ring and Van de Ven, 1994: 112). These critical events are outlined in bold in **Table 1**.

Initially, we constructed a series of information displays to handle data systematically. We created a string of conceptually clustered matrices ordered in a temporal sequence based on each communication document (N=82) in the original data set. Our purpose with this first cut at the data was to develop insights into the roles that sense-making, understanding, and commitment processes played in the course of the negotiations, relying on the work of Ring and Rands (1989) and Ring and Van de Ven (1994). The contents of each document were classified in categories reflecting these theoretical concepts. The matrices also kept track of who was communicating with whom (specific participants and their roles as principals or agents). One of the authors categorized the data, and the other one reviewed this categorization with almost complete agreement. Then the transcript from the initial negotiation round, and the 82 archival documents were analyzed in terms of justice categories. The operationalized indicators used are set forth in the Appendix. Each author classified the data independently using color and number codes and then together they reviewed their categorizations. In those instances in which there was disagreement, the native-Spanish author explained the nuances of the words until agreement was reached. We also focused our efforts on the issues that appeared to have a greater impact on the inter-partner relationship, again another judgment call based on the frequency of these issues and on their subsequent consequences. Finally, we compared the four drafts of the Letter of Intent with each other by building a matrix that displayed a summary of each clause, and whether there had been any modifications or additions to them in the subsequent versions of the Letter of Intent.

Table 1. Negotiation Event Description

	<i>Event name</i>	<i>Dates</i>	<i>Event description</i>
1	Initial negotiation meetings	April 25-26	Wolfgang Knief (Owner/President) and César Freje (International VP) from Grupo Palomar (GP) of Barcelona, Spain visit Miguel Rusco (founder), Gustavo Rusco (son), Josefa Rusco (daughter), and Federico Rusco (son) of Laboratorio Australes (LA) in Rosario, Argentina to discuss business opportunities in Latin America. Accompanied by Pablo Núñez, a consultant, who brokered the meeting.
2	Gustavo takes charge	May 2	Gustavo, VP of LA, takes charge of negotiations for LA. César is designated contact person for GP.
3	Josefa takes charge	May 16	Gustavo informs César that his sister, Josefa Rusco, will take over negotiations while he is on a business trip. She is never formally relieved of these duties.
4	1st Letter of Intent sent	June 21	César sends first version of letter of intent to Gustavo.
5	Barcelona meeting	July 23	Owners/Managers of LA visit GP in Barcelona
6	2nd Letter of Intent sent	Sept. 18	César sends second version of letter of intent to Gustavo.
7	3rd Letter of Intent sent	Oct. 3-4	Gustavo sends third version of letter of intent to César.
8	1st CVI visit	Oct. 10-22	César visits Argentina. Initially meets with CVI (another firm in the healthcare industry), then attends two business conferences/fairs, ending up with a meeting with Gustavo and Josefa in Rosario.
9	César's trip to Argentina	Oct. 31	In communications with Josefa, César mentions another meeting with CVI during his next trip to Argentina in November.
10	4th Letter of Intent sent	Nov. 4- 10	César sends fourth version of letter of intent to Gustavo and then visits Argentina and meets with CVI representatives and with LA representatives after attending a business fair. Josefa does not meet with him as proposed at the business fair.
11	Düsseldorf meeting	Nov. 11-19	Gustavo and César try to set up a meeting in Germany while they are both there on business, César says that he can meet but cannot talk on key issues, but they do meet.
12	Negotiation break up	Dec. 5- Jan. 3	Letter from Pablo to Gustavo announcing the end of negotiations, followed by a response from Gustavo to Pablo, a letter from Josefa to César, a letter from Wolfgang to Gustavo, and a letter from César to Josefa.

Bold font indicates events considered as critical.

Findings from Issues Arising in the Evolution of the Negotiations⁷

Over the course of the negotiations, a number of issues arose triggered by the key events shown in Table 1. We will address those issues in more detail in the narrative set out below. We focus on the initial meetings in Rosario, the interface issue, the Letter of Intent issue, the CVI issue, the Düsseldorf meeting and the efforts by the parties to deal with the shadow of the future once it was clear that they could not reach an agreement on the IJV. Of the 82 communications, 57 were related to these issues. **Table 2** summarizes the frequency with which justice concerns arose in these communications between specific parties to the negotiations.

Table 2.

#	Parties						Indicators by Justice Type																					
	GP			LA			DJ									PJ					IJ							
	WK	CF	Os	MR	GR	JR	1	1	2	3	4	5	6	7	8	9	1	2	3	4	5							
1	●			→				2	2				1										3				1	
1	←				●																		3			1		
3	●				→								1										9	6	3	12		
2	←				●						1																3	
1			←	→	●		1			2	1																1	
1		●	←	→	●					1	1	1											2					
12		●	←	→	●					26	4	5	6	4	1								7				11	
6		←	→	●	→		1			12	2	4	3	5									4	3			8	
15		●	←	→	●	→				14	7	7	12	5									5	6			4	
9		●	←	→	●	→				12	3	3	3	1								1	2	3	6	4		
1	←	●	←	→	●	→				1		1	1															
1		●	→		(*)					2		1	1															
1			←	→	●							3	6	2	4	1	9					1	19	6	6			
1			●	→	●							19			15							1		12				
1		←	→	●	(**)					1		1	3	2								1				1		
1		●	→	●	(**)									7														
Σ= 57								5	2	73	21	49	40	21	17	9	1	38	37	28	51	0						

Legend:

= number of communications. Numbers in the first row designate justice indicators. Numbers in other cells designate how many times each justice indicator appears:

DJ = Distributive Justice: 1 = outcomes proportional to contributions

PJ = Procedural Justice: 1 = representativeness; 2 = timely feedback; 3 = using information for feedback; 4 = adequate justification for decisions; 5 = effective two-way communication; 6 = accuracy of information; 7 = full accounting; 8 = consistency of approach; 9 = principals and agents are on the same page

IJ = Interactional Justice: 1 = respect; 2 = blaming; 3 = ethicality; 4 = effective two-way communication; 5 = bias suppression

GP = Grupo Palomar; **LA** = Laboratorios Australes

CF = César; **GR** = Gustavo; **JR** = Josefa; **Os** = Others; **MR** = Miguel; **WK** = Wolfgang; (*) = to lawyer; (**) = to/from Pablo

⁷ As readers might assume, we have an enormous amount of data on these issues. To economize on space, we present only the highlights related to these six issues and only representative quotes from the meetings we observed or the written materials to which we had access.

The Initial Meeting: Governance Issues Surface

The negotiations between LA and GP began in Rosario, Argentina. The participants at this initial round of the negotiations included: Wolfgang Knief, César Freje (representing GP) Miguel, Gustavo, Federico and Josefa Rusco (representing LA). Pablo Núñez (the broker), Barto Mata and Manuel Planas (two of LA's top executives) also were present, as was one of the authors who served as an observer.

The initial meeting provided both parties with an opportunity to explore each other's mental models related to their approach to business, and they found much in common. Wolfgang Knief and César Freje initially explained that they had decided that bringing along a detailed proposal would be inappropriate. They preferred to hear from representatives of LA about the potential collaboration, its goals and objectives, etc. Wolfgang Knief explained: "So that there are no misunderstandings: we did not come to participate in your company. If you would permit us, we would have to study your proposition first. I do not believe that you are seeking this" (referring to any possible thought that GP might be interested in taking an equity position in LA).⁸ The representatives of GP were quite open about how they conducted their business in response to an inquiry from Miguel Rusco about "resources, structure of costs, etc." and outlined in great detail their cost structure, margins, cost of capital, etc. They explained the relationships that they had with suppliers of medical equipment whom they represented in Spain as well as the way that they dealt with customers. They also discussed their approach to the training of sales personnel.

The parties explored a wide range of issues that they would have to deal with if they wanted to collaborate. The founders provided insights into the history of their firms. Representatives of both firms talked about the nature of their businesses, and provided straightforward answers in response to questions from each other in efforts to be perceived as acting in *procedurally* fair ways. GP also outlined their approach to entering markets outside of Spain. LA provided initial insights into their capabilities as a partner offering entry into the Argentine and Latin American markets.

On the second day, conversations were directed towards the formal governance aspects of the proposed venture. Wolfgang Knief indicated that they ought to discuss "How to legally set it up; not that we have to resolve that here, we will do it with a consultant." For his part, Gustavo Rusco agreed, noting, however, that they did have to identify "the criteria that we will give to the consultant."

The parties initially focused on the possibility of creating a holding company owned by GP and LA, with GP holding a majority stake so as to be able to consolidate balance sheets. As Wolfgang Knief stated: "We want to have the majority in the JV. Not so that we do as we please, but with clauses that protect you and that keep us from doing anything that will harm you. Now there will be losses; we do not think that it is just that you will have to stand them. We propose that you have participation within the range of 30-49%."

LA expressed its concerns about the proposed split of ownership. Miguel Rusco replied: "There are aspects about the knowledge of the business that are yours. But a simpler version, so that we do not generate confusion on the subject of minority protection, is 50-50. What is to be discussed is the political power, not the economics." Wolfgang Knief

⁸ Unless otherwise indicated, all quotes reflect the statements of the parties as expressed in researcher notes, letters, faxes, etc.

acknowledged the need to deal with this: “The political matter is important. The problem with a 50-50 JV is that, if there are no formulas, it can become immobile. We know how to resolve it, we do not aspire to have the political power in the sense that we do as we please.”

The second day of the meeting produced a significant amount of sense making about conditions under which each side might consider entering into a joint venture. The discussions ought to have made it clear to both sides that they had very different views about the distribution of ownership shares in any joint venture.

The discussions at the initial meeting gave rise to a variety of organizational justice issues, as outlined in Table 3 below. Issues related to *distributive justice* surfaced almost immediately, and were dominant in day two of the meetings. The communications were very open and were two-way. This openness in communications between the parties quickly revealed a lack of agreement on the fundamental question of who would contribute what, who would get what, who would own what, issues related to *distributive justice*. The parties appeared aware of this fact, but not of the consequences that might evolve from failing to deal with it, at least initially, in these early rounds of the negotiation process.

Table 3.

	Indicators by Justice Type														
	DJ		PJ							IJ					
Party	1	1	2	3	4	5	6	7	8	9	1	2	3	4	5
GP															
Day 1	2				3	1		3			4	1	3	2	
Day 2	4			5	1	4					1		1	1	
LA															
Day 1	2	1			1			1			2				
Day 2	7		1	1	1	7	1							1	
PN															
Day 1	1	6		2							2				
Day 2	1			2											
TOTAL	17	7	1	10	6	12	1	4	0	0	9	1	4	4	0

Legend:

Numbers in the first row designate justice indicators. Numbers in other cells designate how many times each justice indicator appears:

DJ = Distributive Justice: 1 = outcomes proportional to contributions

PJ = Procedural Justice: 1 = representativeness; 2 = timely feedback; 3 = using information for feedback; 4 = adequate justification for decisions; 5 = effective two-way communication; 6 = accuracy of information; 7 = full accounting; ; 8 = consistency of approach; 9 = principals and agents are on the same page

IJ = Interactional Justice: 1 = respect; 2 = blaming; 3 = ethicality; 4 = effective two-way communication; 5 = bias suppression

GP = Grupo Palomar; **LA** = Laboratorios Australes; **PN** = Pablo Núñez

On Day 1 dinner was taken at a restaurant. On Day 2 dinner was taken at the home of the Ruscos. Because of the social nature of these two events, no notes were taken. There were, however, many occasions on which evidence of Codes IJ1 and IJ4 were observed.

There is also a clear sense in the language used and the topics discussed in this initial meeting that the parties sought to be fair in *procedural justice* terms. There was much discussion about the interests of the parties, reflecting an effort to demonstrate representativeness (Levinthal, 1980). These same discussions provided ample opportunities for direct feedback and reflected an effort to insure that decisions that were made at the meeting had adequate justification. Care was taken to provide accurate information (GP had brought along a substantial amount of written documentation which they shared with LA).

The initial meeting also provides evidence of a concern for *interactional justice*, i.e., the parties sought to establish a basis for perceiving each as dealing fairly with the other as individuals. There was a substantial effort in the discussions to establish respect for each other. The parties actively sought to suppress any *a priori* bias that they might have had about the capabilities of each other based on nationality or the location of their businesses; in particular, the two principals, Wolfgang Knief and Miguel Rusco, appeared to be getting along very well.

Towards the end of the second day the focus of the parties shifted again from concerns for *distributive* justice to efforts to further define norms of *procedural* justice. The parties agreed that enough progress had been made for them to be able to develop a timetable for action and a set of procedures about going forward that would include reaching agreement on the products that would be initially introduced in the Latin American marketplace, a search for a manager and a controller, sales personnel, the training of those individuals, all with a view to a February/March starting date. They also agreed that each side would designate an individual who would represent its interests in subsequent discussions. Finally, they agreed to meet in Barcelona so that the people from LA could get a first-hand look at GP and its operations.

There was no indication during the initial meeting, however, that they agreed to a clear order of priority on what needed to be done first. They also did not agree in the face-to-face meeting on who would conduct the subsequent negotiations for LA. This gives rise to the second major issue in the negotiations, one in which both *procedural* and *interactional* justice issues appear to be more prominent than *distributive* justice.

The Interface Issue

This issue emerged from communications that took place April 30th to May 20th. In **Table 4**, we provide data derived from these communications, separating them into judgments about *distributive*, *procedural* and *interactional* justice.

Upon returning to Barcelona, Wolfgang Knief sent a letter, dated April 30th, to Miguel Rusco in which he commented on the “high level of chemistry” that emerged from the meetings, referring to the compatibility of the two firms and of the individuals who had met in Rosario. On May 10th Miguel Rusco responded to Wolfgang Knief’s letter. He, too, noted the “friendly tenor of the meeting as being familiar, folksy and professional.” He “liked the way things have started.” He also confirmed Wolfgang’s perception that they and their two firms “had similar approaches to business and family.”

The comments of Wolfgang Knief and Miguel Rusco provide further support for our conclusion that the sense making that took place at the initial meeting had produced, at an *interactional* justice level, a belief by the principals that they had dealt fairly with each other. The principals of the firms were very personal in their salutations and closings and the substance of their communications was far less business-oriented than that contained in the

faxed communications of their agents. The parties were providing a significant amount of explanation to each other in their efforts to act fairly at an *interactional* justice level, consistent with the tenor set at their initial meetings in Rosario.

Table 4.

Date	Parties						Indicators by Justice Type														
	GP			LA			DJ		PJ									IJ			
	WK	CF	Os	MR	GR	JR	1	1	2	3	4	5	6	7	8	9	1	2	3	4	5
April 30	●				→			2	2			1					3			1	
May 2		●			→				1	1	1						2				
			←		●		1		2	1										1	
May 3		●			→				2			1	2				1				
			←		●				2	1	1	1					1			1	
May 10		●			→				4	1		2	1							1	
	←				●												3			1	
May 15		●			→				3	1		2									
		●			→						1	1	1	1							
May 16		←			●				1		1	1	3				1				
May 20			←			●				1	1						1				
TOTAL							1	2	18	6	4	9	7	1	0	0	12	0	1	4	0

Legend:

Numbers in the first row designate justice indicators. Numbers in other cells designate how many times each justice indicator appears:

DJ = Distributive Justice: 1 = outcomes proportional to contributions

PJ = Procedural Justice: 1 = representativeness; 2 = timely feedback; 3 = using information for feedback; 4 = adequate justification for decisions; 5 = effective two-way communication; 6 = accuracy of information; 7 = full accounting; 8 = consistency of approach; 9 = principals and agents are on the same page

IJ = Interactional Justice: 1 = respect; 2 = blaming; 3 = ethicality; 4 = effective two-way communication; 5 = bias suppression

GP = Grupo Palomar; LA = Laboratorios Australes

CF = César; GR = Gustavo; JR = Josefa; Os = Others; MR = Miguel; WK = Wolfgang

Most of the content of these communications that took place in this time frame, however, was designed to demonstrate that the parties were trying to live up to the informal agreements they had made in Rosario to provide each other with information deemed necessary to move things along. As no priorities regarding what ought to be done had been established in Rosario, the parties implicitly were left to establish norms of *procedural* fairness as they moved forward.

Moreover, these communications gave rise to an additional issue that was to play a role in the ultimate outcome of the negotiations. Towards the end of the initial negotiation meetings, Wolfgang Knief had designated César Freje as GP's lead negotiator, but LA had not appointed his counterpart.

César Freje sent a fax to Miguel Rusco on May 2nd asking for data on 15 different points that would be needed to begin developing a solid business plan for the proposed venture. He also asked that Miguel convey César's "warmest regards" to Miguel's sons and

daughters. Miguel Rusco responded to César later that day (Argentina time) informing him that LA had designated Gustavo Rusco as his counterpart in the negotiations. He also informed César that they would “get as much as possible” of the requested information.

In a May 3rd fax to Gustavo Rusco, César Freje asked for clarification about LA’s distribution capabilities, whether they employed direct sales representatives, what relationships they had with other firms for the provision of distribution, etc. Gustavo replied on May 3rd, informing César that LA had decided to go outside the firm for answers to some of the data questions that GP had asked. He explained to César that: “market data is hard to get in a reliable fashion.” In addition, he provided answers to some of the questions that were raised in César’s May 3rd fax.

Of necessity, sense making processes were passive in nature, taking the form of reports, memos, etc. Behind these reports, however, the parties were also engaged in active sense making as they undertook independent market research efforts. Not surprisingly, virtually all of the substantive content of the correspondence between the agents over this time frame related to each side providing the other with information and data that would be needed to reach agreements on what kinds of products would be distributed in Latin America, and who would be responsible for managing distribution efforts. Each side was quite specific as to the kinds of data they were seeking.

Between May 3rd and May 15th César sent Gustavo five additional communications. Gustavo’s first response came in a fax on May 16th indicating that he would be traveling the following week and in his absence his sister Josefa would assume the interface role - another signal of efforts to be perceived as providing explanation (Levinthal, 1980), an indicator of fairness in *procedural* justice terms. Gustavo mentioned that he would return by the 26th of May. On May 20th Josefa Rusco sent a fax to César indicating that Gustavo was in Venezuela and that she should be viewed as part of the team: “I will keep you informed of any changes at our end.” After coming back from his trip to Venezuela, Gustavo did not re-assume the interface role. Even when César wrote directly to him, Josefa was the one who answered back. Thereafter, Gustavo would get directly involved in communications and negotiations only after major conflicts arose.

The communications between César Freje and Gustavo and Josefa Rusco reveal the first cracks in the developing relationship between the individuals. It is possible that César Freje was not pleased with the way he had been treated by his counterpart Gustavo Rusco. He may have felt that he had been unfairly dealt with as an individual and that the brother and sister had violated an agreement their father had “signed-off” on in his May 2nd fax to Freje. As will be seen, this perceived “slight” would manifest itself in other ways in subsequent dealings between the two sides.

The Letter of Intent Issue

This issue arose from communications that were initiated in June. The issue was the most pronounced aspect of the negotiations between June and October. The major provisions of the Letter of Intent and the nature of major changes proposed in each draft are summarized in **Table 5**. The Table also reflects actions taken by the parties on these provisions during the course of the negotiations. These communications provide very clear evidence of the impact that fairness had on the negotiations during this time frame. These data are set forth in **Table 6** below.

Table 5.

Clause number and content		Date:	Prepared	6/21	9/18	10/3	11/4
				GP	GP	LA	GP
1	Parties' identity			PM		PM	PA
2	Joint venture purpose			PM		PA	
3	Laboratories Australes' functions			PM	PC	PM	PA
4	Grupo Palomar's functions			PM	PC	PC	PC
5.1	Monetary contributions			PM	PC	PC	PC
5.2	Geographic expansion			PM		PA	
5.3	Laboratories Australes' contributions			PM	PC	PC	PC
5.4	Grupo Palomar contributions			PM		PA	
6	Notification of changes			PM	PC	PA	
7.1	No negotiating with third parties while deal is open			PM		PA	
7.2	Transfer pricing				PM	PA	
8	No public announcements without prior consent			PM		PA	
9	Negotiation expenses			PM		PC	PC
10	Letter of intent validity			PM	PC	PA	
11.1	Controller position			PM		PC	PC
11.2	Other management positions			PM	PC	PA	
12	Transmission of equity shares			PM	PC	PC	PC

Legend:

Clauses in bold indicate those on which the parties never reached agreement

GP = Grupo Palomar; LA = Laboratorios Australes

PA = proposal accepted; PC = proposal changed; PM = proposal made

Table 6.

Date	Parties						Indicators by Justice Type															
	GP			LA			DJ					PJ					IJ					
	WK	CF	Os	MR	GR	JR	1	1	2	3	4	5	6	7	8	9	1	2	3	4	5	
June 20						●			2				1								2	
June 21				(*)					2		1	1										
									1		1	1										
									2	3		5										
June 25				(**)			1		1		1	3	2				1				1	
June 26												2	1				3				1	
July 1												1					1				1	
July 19						●			2		1	1					1				3	
TOTAL							1	0	10	3	4	14	4	0	0	0	6	0	0	8	0	

Legend:

Numbers in the first row designate justice indicators. Numbers in other cells designate how many times each justice indicator appears:

DJ = Distributive Justice: 1 = outcomes proportional to contributions

PJ = Procedural Justice: 1 = representativeness; 2 = timely feedback; 3 = using information for feedback; 4 = adequate justification for decisions; 5 = effective two-way communication; 6 = accuracy of information; 7 = full accounting; 8 = consistency of approach; 9 = principals and agents are on the same page

IJ = Interactional Justice: 1 = respect; 2 = blaming; 3 = ethicality; 4 = effective two-way communication; 5 = bias suppression

GP = Grupo Palomar; LA = Laboratorios Australes

CF = César; GR = Gustavo; JR = Josefa; Os = Others; MR = Miguel; WK = Wolfgang

(*) = to lawyer; (**) = to/from Pablo

On June 21st César sent Josefa an initial version of the proposed Letter of Intent, which had been prepared by GP's lawyers, and was intended to outline the terms of an equity joint venture. César had received the draft document earlier that month and had made a number of what he considered to be "minor changes." Prior to sending the proposal off to Josefa he notified GP's lawyers on the 21st, by fax, of the nature of his changes and also circulated an internal communication within GP to Wolfgang and his brother Juan (one of the owners of GP, and also a manager), also on the 21st, and forwarded a copy to Pablo Núñez.

In the fax that accompanied the draft Letter of Intent he indicated to Josefa that he would like her "to give me your comments ... and in principle it would be what we will sign" (in July during their visit to Barcelona) so that they could "move forward with our intentions and, immediately after the European summer, finally be able to hire, like we had agreed, the controller and commercial manager." César is clearly hoping to produce a commitment from LA to reach an early agreement on the governance of the IJV. But, his actions also reflect a lack of awareness that the initial meetings had not produced any mutual assent of the ownership split issue.

Interestingly, the proposed Letter of Intent was attached to a fax to Josefa from César, responding to her fax of the previous day in which she had asked for his views on what products might sell best in Argentina so that LA might begin working on the question of what would be required to meet government approvals for distribution. She also indicated that she would try to get more, and better, data on the Latin American markets for medical products, another indication of the on-going sense making efforts being undertaken by the parties. Similarly, these two communications reflected efforts by the parties to demonstrate that they were living up to their commitments in Rosario, communicating in clear and open ways with each other, providing feedback as quickly as possible (all indicators of a concern for *procedural* justice).

The same could not be said for the way in which the proposed Letter of Intent was received at LA. It came as a shock to them. They were surprised by the tone of the letter; one that was a significant departure from the tone of previous conversations and communications. They immediately got on the phone to Pablo Núñez. The 21st was a Friday and the following Monday –the 24th– was a holiday in Barcelona, so the fact that Núñez worked on a response over this long holiday weekend is an indication of how important he felt it would be to resolve any problems before they became too serious. His impression of the call was that they "were climbing the walls." Norms of both *procedural* and *interaccional* justice had been breached.

The strict deadlines it outlined were seen as moving away from the flexible approach GP had demonstrated in Rosario in April, a breach of *procedural* justice. And the proposal regarding the ownership split took them very much by surprise, in part because they thought that it had been clear when GP left Rosario that LA had serious concerns about any ownership split that was not 50-50 (an indication that César's sense making there had been inadequate).

Pablo Núñez immediately got in touch with Wolfgang Knief and explained how upset the people at LA were over both the substance of the proposed Letter of Intent and the way in which the message had been delivered. Pablo also faxed César on the 25th of June indicating "I do not like [the draft] written by the lawyers. We probably have not explained our project thoroughly and well enough to them [the lawyers]." He noted 5 points that needed to be revised and concluded that "As a whole, the letter must convey an amiable feeling, the same with which we initiated this deal. Let us not forget that we took the initiative by approaching them with the business proposal."

Wolfgang Knief responded on July 1st in a fax to Gustavo Rusco. “I have received, while away from the office, a copy of the rough draft of the Letter of Intent that César has sent you. As you can imagine, our lawyer has written this document and it is a typical ‘cold’ document that lawyers write. But it does not reflect what I would like to have sent to you, given our friendly relationship.” He indicated that the letter would have to be rewritten on a number of key points and that he would be in touch by phone and looked forward to seeing Gustavo in Barcelona. He closed by sending his “very warmest regards.” César sent a fax of a similar tone to Josefa. This series of communications appears to temporarily smooth ruffled feathers, and both sides agreed to continue conversations during the July trip to Barcelona.

In these communications we find evidence of a concern on the part of Wolfgang, Pablo and César to repair the breaches at the interactional justice level caused by César’s breach at a *procedural* justice level. The responses of Pablo Núñez (to Gustavo on June 24th) and Wolfgang Knief (to Gustavo on July 1st) clearly demonstrate their awareness of the problem that César’s fax had caused. Pablo’s memo to César of June 25th was designed to make the point to him that LA was justified in viewing his actions as a breach of *procedural* justice. César’s fax to Josefa on June 26th reflects that he got the message and was acting to minimize the damage and remedy perceptions of unfairness related to *interactional justice*.

The next communication between the parties occurred on July 19th nearly three weeks later. This was the longest period of time during which the two sides had not communicated with each other, although part of the gap was due to vacation time in Argentina. Here is a case in which actions appear to speak louder than words. The “blackout” in communications between July 2nd and July 19th might have signaled César and others at GP that LA was still upset about the way the initial draft of the Letter of Intent had been handled.

In the July 19th fax, Gustavo informed César that he and Manuel Planas would arrive in Barcelona on July 22nd. The July 19th fax had a decided chill to it. LA did not request that a GP representative meet them at the airport, or make hotel reservations for them (something they had done for GP on the visit to Rosario). They also made it clear that they had other business to accomplish while in Barcelona and proposed that GP meet with them from the 24th to the 26th, after which they would return to Argentina, and that they would call César upon their arrival in Barcelona.

The July meeting in Barcelona was all business, and focused primarily on a renewed discussion of the contents of the Letter of Intent. On September 18th, César sent a fax to Gustavo that included a significantly revised version of the Letter of Intent. César began by noting that he was “happy to enclose this letter, which I hope carries the spirit of what we discussed during your last stay in Barcelona.” Seeking to avoid any repetition of the misunderstanding that flowed from his initial draft, he observed that “There are some points that we have had to write just the way they appear because of legal issues, although we would like to comment on them in detail via the telephone so that they are not misinterpreted.” He also informed Gustavo that Wolfgang would be contacting him directly as well. They also discussed plans to meet face-to-face on these issues during an October visit to Argentina.

The meeting in Barcelona provided an opportunity for the parties to restore a sense of fair play. The ability to discuss issues related to the Letter of Intent face-to-face, and with the principals directly involved, appears to have gotten negotiations back on track. Virtually all of the key clauses in the original proposal were changed (see Table 5 above). The language in the September 18th fax from César to Gustavo, quoted above, provides evidence that the former was seeking to repair any lingering sense of unfairness in terms of *interactional justice*.

The CVI Issue: Hedging Bets

The Barcelona meeting occurred just before the traditional summer vacation period began in Spain. Consequently, very little communication occurred between that trip and the end of August. On August 28th Josefa Rusco faxed César Freje beginning a series of twenty-six communications leading up to the trip by César to Argentina in early October. Data related to justice issues derived from these communications are set forth below in **Table 7**.

Table 7.

Date	Parties						Indicators by Justice Type														
	GP			LA			DJ		PJ							IJ					
	WK	CF	Os	MR	GR	JR	1	1	2	3	4	5	6	7	8	9	1	2	3	4	5
Aug.28		←				●			2		1					1				1	
Aug.29		●				→			1	1			1				2			2	
Aug.30		●				→			1		1		1								
Sept. 4		●				→			1		1		1								
Sept. 4		←				●			2				2								
Sept. 5		●				→			1		1		1								
Sept.13		●				→			1												
Sept.17		←				●			2	1											
Sept.18		●				→			2	2											
Sept.30		●				→			2		2						1			3	
Sept.30		●				→			1												
Oct. 3		←				●			1		1										
Oct. 3		←				●					1										3
Oct. 4		●				→			1	1	1	1	1								
Oct. 7		←				●			1								1				
Oct. 7		←				●			1		1	1									
Oct. 8		●				→			1												1
Oct. 8		●				→			1												
Oct. 9		●				→			1												
Nov. 4		●				→															3
Nov. 4		●				→					4	4									
Nov. 4		●				→			2	1											
Nov. 4		●				→			1												
Nov. 6		←				●			2												3
Nov. 7		●				→			4												4
TOTAL							0	0	32	6	13	8	4	0	0	1	4	0	0	20	0

Legend:

Numbers in the first row designate justice indicators. Numbers in other cells designate how many times each justice indicator appears:

DJ = Distributive Justice: 1 = outcomes proportional to contributions

PJ = Procedural Justice: 1 = representativeness; 2 = timely feedback; 3 = using information for feedback; 4 = adequate justification for decisions; 5 = effective two-way communication; 6 = accuracy of information; 7 = full accounting; 8 = consistency of approach; 9 = principals and agents are on the same page

IJ = Interactional Justice: 1 = respect; 2 = blaming; 3 = ethicality; 4 = effective two-way communication; 5 = bias suppression

GP = Grupo Palomar; **LA** = Laboratorios Australes

CF = César; **GR** = Gustavo; **JR** = Josefa; **Os** = Others; **MR** = Miguel; **WK** = Wolfgang

The October trip was designed to provide further information on Latin American markets that the proposed joint venture would serve. A number of important congresses were scheduled for the fall in Argentina and both parties saw these as an opportunity for more active sense making. As we have indicated above, César and Gustavo also intended to continue their discussions on governance issues.

The correspondence between the parties in late August and early September reflects an effort by the parties to set the agenda for the October meeting, and to make sure that they were on the same page regarding outcomes of the visit, a sense making activity. Nonetheless, the parties still had not reached any agreement about what products would be handled by the proposed IJV, nor had they committed to doing so by any specific date.

On the 4th of October, César faxed Josefa to inform her that he would be arriving earlier than planned and that his wife would be accompanying him. More importantly, he also indicated –for the first time– that he intended to visit with Mr. Kermit W. Son of CVI, SA, of Buenos Aires. The visit was planned for either the afternoon of the 10th or the morning of the 11th. He told her in the fax that CVI was “very interested in doing business with the proposed JV.” CVI was a distributor of cardiology equipment.

Since one of the provisions of the draft Letter of Intent that the parties had agreed to honor prohibited either of the parties from negotiating with other parties while they were in negotiations with each other, the revelation was not well received by LA. Indeed, it was a serious breach of *procedural* justice.

On the 7th of October, Josefa responded indicating that Gustavo would like to be included in the meeting and suggested that they try to get together with representatives of CVI on the afternoon of the 10th. César responded on the 8th: “Without meaning to offend you, I really need to have the initial meeting with CVI alone.” He was concerned that the correspondence might have created a breach of *interactional* justice, which it clearly had. But the correspondence reveals that he also believed that GP and LA should get a proposal from CVI first before GP/LA responded to it. We view this as an effort to set new boundaries of a *procedural* justice nature, but ones that could not (and did not) override the seriousness of the breach he had already committed.

César met with the CVI representatives during his October meeting and scheduled a second meeting for his November visit to Argentina. Representatives from LA were not present, and the seriousness of the breach of *procedural* justice intensified. At the level of *interactional* justice, Gustavo and Josefa perceived the actions by César as a serious breach. He had demonstrated a lack of respect for them (and the interests of LA) and also a lack of ethicality.

The CVI issue next arises in the course of setting the agenda for the November visit by César to Argentina. In a fax to Josefa dated November 4th, César indicated that he still thought that a collaboration between the proposed IJV and CVI would make sense, although he understood that Gustavo and others at LA did not see it the same way. He also revealed that he would be meeting with an Argentine business school professor during this visit to explore a possible merger between CVI and the proposed IJV. But he again indicated that he wished to meet with these individuals alone, and only after that with Gustavo and Josefa. Gustavo responded on November 6th that the “CVI proposal worries me since I have been left out of the scope of negotiations once more” and that César “needs to be in Argentina to discuss this with me.” César answered “I have kept you [Gustavo] in the dark for your own good so I could be very specific about a proposal between CVI and the [proposed IJV].” He

added “since you were not too enthused, I thought it would be best for me to fully develop my thoughts on why the [proposed merger] makes sense.” César met with the people from CVI. Josefa, however, did not show up at his hotel or at the meetings with various exhibitors at the conference that she had arranged for him. He did meet with Gustavo to further discuss issues related to the November 4th draft Letter of Intent. As reflected in Table 7, a number of important issues remained unresolved and they agreed that they would continue their discussion of these issues, as well as continuing their discussions about the proposed IJV and the role that CVI might play, if any, in the IJV, in Düsseldorf, Germany in mid-November during a previously scheduled visit by Gustavo.

Düsseldorf: The End of the Beginning

Gustavo followed up with a fax on November 13th indicating a “need to talk about issues requiring immediate attention about which we talked during your last visit to Buenos Aires” and suggesting that they get together on the afternoon of the 19th of November. He also asked for a final draft of the Letter of Intent that dealt with changes on which they had agreed during the Buenos Aires visit. César responded on the 15th of November suggesting that they meet in his hotel in Düsseldorf on the 19th, and followed up later that day, indicating that he had just talked with Wolfgang Knief and Pablo Núñez, who had returned to Barcelona “from a full week trip”, explaining “I can’t meet with them until November 21st” so “we can’t move forward on our conversations in Düsseldorf” but I “still want to meet with you on the 19th around 6:00 pm and then have dinner.” In **Table 8** below we set out the frequency with which concerns for justice issues were raised.

Table 8.

Date	Parties						Indicators by Justice Type															
	GP			LA			DJ		PJ					IJ								
	WK	CF	Os	MR	GR	JR	1	1	2	3	4	5	6	7	8	9	1	2	3	4	5	
Nov. 11		←	→	→	→	→			1													
Nov. 13		←	→	→	→	→	1		4	1	1		2				1			1		
Nov. 15		•	→	→	→	→			4													
		•	→	→	→	→			1	1	2											
TOTAL							1	0	10	2	3	0	2	0	0	0	1	0	0	1	0	

Legend:

Numbers in the first row designate justice indicators. Numbers in other cells designate how many times each justice indicator appears:

DJ = Distributive Justice: 1 = outcomes proportional to contributions

PJ = Procedural Justice: 1 = representativeness; 2 = timely feedback; 3 = using information for feedback; 4 = adequate justification for decisions; 5 = effective two-way communication; 6 = accuracy of information; 7 = full accounting; 8 = consistency of approach; 9 = principals and agents are on the same page

IJ = Interactional Justice: 1 = respect; 2 = blaming; 3 = ethicality; 4 = effective two-way communication; 5 = bias suppression

GP = Grupo Palomar; **LA** = Laboratorios Australes

CF = César; **GR** = Gustavo; **JR** = Josefa; **Os** = Others; **MR** = Miguel; **WK** = Wolfgang

Dealing with the Shadow of the Future

Despite the fact that it ought to have been clear that the negotiations were at an end, the parties spent a good deal of time communicating with each other during the month of December. On December 5th Gustavo Rusco sent a fax to César indicating that he was

waiting for a call from César to pick up the discussion on issues, especially the unresolved issues surrounding the proposed Letter of Intent. LA was still very much interested in pursuing the IJV.

At GP, on the other hand, a decision had been made to bring the negotiations to an end. The executives at GP were wrestling with the question of how to let the people at LA know this, and in a manner that was designed to preserve, as much as possible, the good relationships that had been established between the owners/principals and between the agents. There was a clear concern for the shadow of the future that they might cast over their relationship. In **Table 9** below we provide evidence of the concern for justice related issues raised by the parties during these communications.

Table 9.

Date	Parties						Indicators by Justice Type															
	GP			LA			DJ		PJ							IJ						
	WK	CF	Os	MR	GR	JR	1	1	2	3	4	5	6	7	8	9	1	2	3	4	5	
Dec.5																						
	←																					
		●																				
Dec.10		●																				
Dec.16		●																				
Dec.20																						
	←																					
Dec.24	●																					
Jan. 3	●																					
		●																				
TOTAL							2	0	3	4	25	9	4	16	9	0	15	37	27	18	0	

Legend:

Numbers in the first row designate justice indicators. Numbers in other cells designate how many times each justice indicator appears:

DJ = Distributive Justice: 1 = outcomes proportional to contributions

PJ = Procedural Justice: 1 = representativeness; 2 = timely feedback; 3 = using information for feedback; 4 = adequate justification for decisions; 5 = effective two-way communication; 6 = accuracy of information; 7 = full accounting; 8 = consistency of approach; 9 = principals and agents are on the same page

IJ = Interactional Justice: 1 = respect; 2 = blaming; 3 = ethicality; 4 = effective two-way communication; 5 = bias suppression

GP = Grupo Palomar; LA = Laboratorios Australes

CF = César; GR = Gustavo; JR = Josefa; Os = Others; MR = Miguel; WK = Wolfgang

(*) = to/from Pablo

By the 10th of December, César was attempting to contact Pablo by phone indicating that he had been avoiding taking phone calls from LA because he did not know what to tell them. He was anxious that personal contact be made, and was willing to do so himself. He was told that Pablo was on a trip and would be back on the 12th.

On December 13th, Wolfgang Knief dictated a letter to Gustavo Rusco in which he indicated that GP was not going forward and that Pablo Núñez had sent him a letter outlining the reasons why this was so. He indicated that he “liked you and your family and trusted them from the start.” He went on to say that he wanted to thank them “very sincerely for the interest and affection you have always shown to us. Let’s stay in close personal contact and who knows what the future may bring in the way of new business opportunities. Please convey my warmest personal regards to your father and your brother and sister...” As of December 24th, the letter still had not been sent, apparently because Wolfgang’s secretary was waiting for his return from a business trip for a signature.

In the interim, Gustavo Rusco had sent a fax in letter form to Pablo Núñez. It was very formal in its style and tone, and quite detailed in presenting LA's views of where things stood. In a nutshell, Gustavo indicated that they had "gotten the news, that they didn't like it, can't agree with the decision and can't rationalize it." He also indicated that "at the strictly personal level I have not wanted to turn this response into a lot of reproaches".

Wolfgang Knief finally sent a letter to Gustavo on the 24th of December explaining why the December 13th draft letter had not been sent. He "personally" extended "thanks for the letter you sent to Pablo Núñez and [that it was] one more confirmation about your human qualities." He indicated that he, too, understood that these kinds of deals were very complex and that the two sides did not always end up seeing eye to eye, and closed by saying that "I am very sorry if our decision has been a disappointment to you and once again I want to assure you that we have great personal appreciation for your family" and hoped that they would once again have an opportunity to pursue new business deals in the future.

The final piece of correspondence between the parties is a fax from César Freje to Josefa Rusco on January 3rd. Josefa had indicated in a fax to César, dated December 20th that she had had an intuition during his November visit that the project was coming to an end. He wanted to assure her that this was not the case; that he was still committed at that time. He also indicated that he thought that the reason why the deal fell through was that "the parties had never been able to sign a Letter of Intent because each had different reasons for not doing so." He closed by saying that "past is past and I wish you all kinds of success in your business" and hoped that he would be able to visit with them if he returned to Argentina.

Discussion and implications

An obvious question emerges from the foregoing discussion. Why were the parties unable to reach an agreement, particularly since they appeared to have gotten off to such a good start in Rosario? Our analysis of the data suggests three plausible scenarios.

First, over time it became increasingly clear to GP that LA would not provide the kinds of access to Latin American markets that they had initially anticipated as they left Rosario. LA had a hard time delivering market data on a timely basis, and even indicated that they were going to employ outside market researchers to develop some of the data that GP would require. Evidence of GP's growing concern can also be found in the decision to explore alternatives to LA, as revealed in the decision to talk with CVI during their October and November visits to Argentina. The negotiations failed because GP concluded there was no business logic to the deal. Any number of economic theories could be employed to explain this outcome. As our focus here is on justice, we leave it to others to explore their relevance here. We do note, however, that Ring and Van de Ven (1994) and Ariño and de la Torre (1998) have argued that successful alliances require that the parties meet both efficiency and equity objectives. Arguably, the parties satisfied neither in our case.

Second, the two sides had very different views about the governance of any IJV they might undertake, especially with regards to ownership, financial and human resource contributions (an issue related to *distributive* justice). Each side saw that this was the case at the first meetings in Rosario. Neither side was prepared to move from their starting position. Neither did over the intervening eight months. The negotiations failed because each side viewed the other as acting unfairly with regard to insuring that benefits gained would be proportional to contributions made.

Third, agents at both GP and LA got “hung-up” on issues related to *procedural* and *interactional* justice (the interface, Letter of Intent and CVI issues) that made it easier for them to ignore the need to deal with the more pressing and difficult issue of *distributive* justice (the governance issue). Over time, enthusiasm generated at the initial meeting in Rosario waned, and relationships between the parties slowly deteriorated.

In all likelihood, elements of all three scenarios were in play and in combination explain the failure to close the deal. What, then, does our study provide in the way of insight about the roles that justice theory can play in explaining alliance negotiations? Before we begin we remind our readers that the parties in our case had no prior experience in dealing with each other, and relatively little experience with alliances in general. More experienced parties may not have encountered some of the problems that arose in our case. In addition, some of the parties in this case were at times acting as principals and at other times as agents, and some of the agents played multiple roles over the course of the negotiations. In other settings, the roles of principals and agents might be more clearly delineated. In the propositions that follow, an implied assumption is that the parties are dealing with each other for the first time. In addition, they are all *ceteris paribus* propositions.

Initially, the principals at GP and LA made their views on the issue of *distributive* justice very clear. The discussion around the ownership split of the collaboration reflected serious concerns by both parties that their individual contributions would be dealt with fairly. The significant differences that did emerge could have been anticipated. Indeed, this appears to have been the case at GP which did not come to the meeting with a formal proposal regarding ownership even though it is clear from their statements at the meeting that they knew going in that they would be seeking a majority position in the proposed IJV.

The fact that GP did not arrive at the meeting with a fully developed proposal, however, can be taken as an indication that they were concerned with being perceived as acting fairly in *procedural* justice terms. Nonetheless, Wolfgang Knief and Miguel Rusco also left it to their agents to establish norms of *procedural* fairness, to identify what needed to be done and in what order of priority, as well as resolving the question of the ownership split.

If issues related to *distributive* and *procedural* justice were left unresolved by the principals during the initial meeting at Rosario, the same cannot be said for fairness considered in terms of *interactional* justice. We observed a lot of personal chemistry between the parties at the Rosario meeting. We believe that this was a result of the fact that the owners were of a similar age (as were their right-hand men). Both had built their businesses. They spoke the same language, and they appeared to think about business in the same way. They had had similar experiences in dealing with business relationships as Wolfgang Knief noted: “We understand you because we have been through the same process, but we were on the other side. I am not surprised what you are asking (referring to the 50/50 ownership split).”

As this was the first time that these parties had dealt with each other, their initial dealings were largely defined by their reactions to each other as persons. Both because of the personal chemistry that developed between them, and because of the trust that both parties had in Pablo Núñez, a solid level of inter-personal trust emerged from the beginning. By the end of the initial round of negotiations the principals discovered that they genuinely liked each other, and the same seemed to be true for their agents. They had been very open in their discussions. No questions were raised about treating the information that had been exchanged with confidentiality. No confidentiality agreements were employed, although they did agree that they would not disclose their discussions to third parties. Similarly, César Freje, Gustavo Rusco and Josefa Rusco appeared to have developed a liking for each other and an initial

sense that they would be able to work well together in behalf of their principals. Their backgrounds and experiences were generally similar. They spoke a common language and had spent their professional lives within similar business environments. And nothing in their conduct during the initial round of the negotiations appears to have given rise to any concerns that they could not trust each other.

A serious difference of opinion about *distributive* justice had surfaced during the active sense making that took place in Rosario, but was not recognized by the parties as such. In sum, it appears that at the initial meetings in Rosario efforts to be perceived as acting fairly in *interactional* and *procedural* terms may have “blinded” the parties to the discrepancies that had emerged in *distributive* justice terms. With this in mind, we offer the following propositions:

- Proposition 1a: If an alliance negotiation is to move forward, the *ex ante* expectations of principals regarding *distributive*, *procedural* and *interactional* justice, as well as agents’ *ex ante* expectations of *interactional* justice have to be met in the course of an initial round of the negotiations.
- Proposition 1b: A focal principal’s perception of *interactional* justice at the end of the initial alliance negotiation round is a function of her perceptions of *distributive* and *procedural* justice, of her counterpart principal’s personal factors, and of her counterpart’s behavior during the initial round of the negotiations.
- Proposition 1c: An overemphasis on *interactional* justice issues during the initial negotiation round diverts the attention of principals from *distributive* and *procedural* justice issues.
- Proposition 1d: A focal agent’s perception of *interactional* justice at the end of the initial alliance negotiation round is a function of her counterpart agent’s personal factors and behavior during the initial round of the negotiations.

Believing that the Rosario meeting had established a basis for going forward, the principals turned matters over to their agents. In this case, the two principals –Wolfgang Knief and Miguel Rusco– never really got involved in dealing directly with each other after Rosario. Resolving outcome discrepancies related to *distributive* justice issues, however, is not the work of agents, particularly in firms in which the founders are still actively involved in management. Clearly this was the case at GP, where César Freje, although a long-time confidant of Wolfgang Knief, was not a family member. Gustavo Rusco acted as if he was a principal during the course of the negotiations, but the fact remained that it was still his father’s business. Neither unilaterally, nor collectively, could these men make final decisions on the ownership split in the proposed joint venture.

The failure of the principals to even acknowledge that they had serious differences of opinions regarding the *distributive* justice issue also meant that their agents were left with virtually no guidance as to how the principals expected the issue to be resolved. Or by when! Although the resolution of issues related to establishing norms of *procedural* justice appears to be well within the range of an agent’s duties, how well those duties can be carried out is clearly a function of the guidance provided by principals. In this case, the principals offered very little insight to each other as to their thinking about how the negotiations should go forward and provided too little oversight, at critical times, of the actions of their agents (as reflected in the discussions of the interface and Letter of Intent issues). Thus, we offer the following propositions:

- Proposition 2a: Principals' failure to reach an agreement on *distributive* justice concerns will have a negative effect on agents' perceptions of *procedural* justice once alliance negotiations move beyond initial rounds.
- Proposition 2b: Principals' failure to reach an agreement on *procedural* justice concerns will have a negative effect on agents' perceptions of *procedural* justice once alliance negotiations move beyond initial rounds.
- Proposition 2c: Principals' failure to reach an agreement on *distributive* justice concerns will have a negative effect on agents' perceptions of *interactional* justice once alliance negotiations move beyond initial rounds.
- Proposition 2d: Principals' failure to reach an agreement on *procedural* justice concerns will have a negative effect on agents' perceptions of *interactional* justice once alliance negotiations move beyond initial rounds.
- Proposition 2e: Even if principals agree on *procedural* justice concerns, failure to assign priorities to them will have a negative effect on agents' perceptions of *procedural* justice once alliance negotiations move beyond initial rounds.

In the very early phases of this negotiation, outcomes appear to have been a function of which set of agents was dealing with each other. César was the primary agent for GP, but that role at LA shifted from time to time back and forth between Gustavo and Josefa Rusco. César assumed he was to deal with Gustavo, rightfully so in light of the actions of Miguel Rusco in his May 2nd fax to César indicating that Gustavo would be his counterpart. Gustavo apparently had other ideas, and passed the ball to his sister. Nonetheless, Josefa Rusco and César Freje initially dealt well with each other, in spite of what seemed like an important slight to César, both in terms of *interactional* and norms of *procedural* justice that were initially established in Rosario. The relationship improved until César breached the norms established at Rosario with the first draft of the proposed Letter of Intent. At this point, Gustavo reasserts his role as César's counterpart, and the two resume work towards reaching an agreement during the July meeting in Barcelona. At this point, Josefa resumes her role as César's counterpart as they plan for the October visit to Argentina. César again breaches norms of *procedural* justice by announcing that he will be talking with a potential third party partner during that visit. Gustavo indicates his displeasure, but indirectly through his sister.

The foregoing discussion leads us to offer the following propositions regarding the roles of agents in negotiation processes and the effect they have on perceptions of justice.

- Proposition 3a: A focal agent's lack of understanding that her counterparts may have different perceptions of *distributive*, *procedural*, and/or *interactional* justice will have a positive effect on the chances of alliance negotiation failure.
- Proposition 3b: A focal agent's lack of understanding of how her counterpart's principal/agent roles affect her counterpart's perceptions of *distributive*, *procedural*, and *interactional* justice may lead to misunderstandings that have a negative effect on the focal agent's perceptions of *interactional* justice.
- Proposition 3c: A focal agent's lack of understanding about the role played by her counterpart (whether that of a principal or of an agent) has a positive effect on the chances of alliance negotiation failure.

Proposition 3d: The effect that a focal agent's lack of understanding that her counterpart agents may have different perceptions of *distributive*, *procedural*, and/or *interactional* justice has on the chances of alliance negotiation failure is stronger than that of the focal agent's lack of understanding that her counterpart is acting as a principal or as an agent.

Proposition 3e: The effect that a focal agent's lack of understanding of how her counterpart's principal/agent roles affect the counterpart's perceptions of *distributive*, *procedural*, and *interactional* justice has on the chances of alliance negotiation failure is stronger than that of the focal agent's lack of understanding that her counterpart is acting as a principal or as an agent.

The parties' perceptions of *procedural* and *interactional* justice appear to have interacted in significant ways as the parties dealt with the issues that arose over the course of the negotiations. Perceptions related to *procedural* justice affected perceptions related to *interactional* justice as a result of the mishandling of the Letter of Intent. Perceptions related to *interactional* justice may have affected perceptions related to *procedural* justice in the interface issue. Perceptions of *interactional* justice may have affected perceptions of *procedural* justice leading up to and at the July Barcelona meeting. Perceptions of *interactional* justice may have affected perceptions of *procedural* justice leading up to and during the October trip to Argentina. Perceptions of *procedural* justice clearly affected perceptions of *interactional* justice on the CVI issue. The perceptions of the parties related to *interactional* justice may have affected their perceptions of *procedural* justice during the November Argentina meeting. Perceptions related to *procedural* justice probably messed -up the Düsseldorf meeting; as, perhaps, did perceptions of *interactional* justice. All the while, the issue of distributive justice seems to have had little or no impact on issues related to *procedural* and *interactional* justice (undoubtedly because the principals were not on centre stage).

In sum, we have evidence of a very complex set of interactions among forms of justice occurring over the course of the negotiations. Failure to deal with perceptions of unfairness in proposed ownership splits (*distributive* justice) appears to have been the dominant reason why the negotiations failed, but issues related to *procedural* and *interactional* justice may have provided a convenient rationale for not trying harder to deal with the differences between the parties' positions on the distribution of ownership in the IJV between the two parties. The evidence is also such that at an *interactional*, or *procedural*, or *distributive* justice level this negotiation could have floundered. Our data provide additional support for the findings of Skarlicki and Folger (1997) that three-way interactions of perceptions of justice do help to explain retaliatory behavior, and in contexts involving the actions of organizations (as represented by the actions of their agents). Our data suggest that the tit-for-tat kinds of retaliatory behavior predicted by game theory (Axelrod, 1984) in individual interactions, and supported by lab simulations, can also be found in the "real life" behavior of organizations.

Our data also suggest that the parties were aware of, and distinguished between, unfairness at all three levels. In this case, the issues related to *distributive* justice reflect organizational level phenomena. Some of the issues related to *procedural* justice were also organizationally centered, but many related to implicit procedures that agents had informally agreed to follow and whose breaches appear to have had more of an impact at the individual level –on matters related to *interactional* justice. Because these two firms were, relatively speaking, so much alike, we can only speculate on how fairness issues might play out at an inter-organizational level in negotiations between large, experienced MNEs embedded in different institutional settings. One thing does seem clear, however. The informal processes

we observed here, in all likelihood, would be less pronounced in their importance and their impact. The foregoing discussion leads us to conclude that:

Proposition 4a: Violations of norms of *procedural* and/or *interactional* justice will give rise to a complex set of retaliatory behavior producing further breaches of norms of *procedural* and *interactional* justice. A negative spiral of increasing perceptions of unfairness ultimately will lead to termination of negotiations. The pace of deterioration is likely to be accelerated in the face of perceived unfairness in *distributive* justice terms.

Proposition 4b: In early rounds of negotiations between firms, acts perceived as breaches of *procedural* justice can be viewed as independent of acts perceived as breaches of *interactional* justice. Perceptions of unfairness stemming from either will increase the probability of negotiation failure.

Thus, the negotiations emerged in a way that made it much harder for the parties to reach an agreement. The parties emerged from the Rosario meeting feeling that they had been fair with each other, but largely in *interactional* terms. Important discrepancy gaps related to *procedural* and *distributive* justice had been downplayed, if not ignored. In the intervening six months these gaps slowly widen as a result of “sins” of omission by the principals and sins of commission by the agents (Ariño, 2001). Although these “sins” lead to the parties concluding that they will not deal with each other this time around, they are aware that they may have to, or want to, deal with each other in the future and so they spend a significant amount of time during the end game attempting to shorten the shadow of the future that their actions have produced. The behaviors of the parties in this case lead us to suggest that:

Proposition 5a: Principals’ failure to reach an agreement on *distributive* justice issues throughout the negotiation process will eventually lead to alliance negotiation failure. The effect will be stronger when perceptions of interactional justice were primarily shaped by personal factors.

Proposition 5b: When an alliance negotiation fails, the extent to which parties focus on repairing their reputations is a positive function of the extent to which the initial negotiation round was centered on *interactional* justice issues.

In retrospect, it is easy to make an argument that these parties were not meant for each other. Objectively, LA did not have as much knowledge about, or access to, Latin American markets as GP needed. Neither GP, nor LA, fought hard to make the deal happen. And in the final analysis, both firms have survived in spite of not making the deal. Would they have been better off with a deal? That, of course, is the \$64,000 question.

In addition to the ways that the parties dealt with fairness issues, four other elements of the negotiations merit brief consideration. First, Ariño, de la Torre and Ring (2001) argue that relational quality can be an important predictor of success (or failure) in an alliance. Two ingredients of relational quality were present in our case. The initial conditions that existed with the two firms produced an early positive increase in the level of relational quality. There were many similarities between the founders and the firms. Their resources appeared to be complementary. Cultural and language barriers were lower than average for a proposed IJV. They came with good reputations, vouched for by a respected third party. And during the very early stages of the negotiations in Rosario, they added to the “reservoir” of relational quality brought to the table. As our data reveal, however, good relational quality does not (and generally should not) trump what in the end will be a bad business deal.

Second, much has been written about the role of interpersonal trust in alliances. Our data shed some light on this important topic. We found evidence in the language used that GP was acting with fairness in mind, and attempting to establish a basis for relying on interpersonal trust. The parties were very open with each other and demonstrated a willingness to be flexible. Wolfgang Knief indicated that what counted “is not only the [business] model, but also the theme of personal chemistry. There has to be mutual trust, otherwise it [the relationship] does not function. We did not want to bring a plan drawn up too far in advance that later would not be flexible and able to fit to your instincts.” Gustavo Rusco replied: “If it were not like this we would not be interested.” It was clear that both sides were working to keep options open and to demonstrate that they were willing to be flexible in their dealings with each other. The levels of inter-personal trust and relational quality that surfaced during the two-day Rosario meeting appeared to have been sufficient to prevent the parties from prematurely taking a positional bargaining approach to their developing relationship. But this feeling of goodwill that emerged, in our view, also blinded the parties to the discrepancy gap (Kumar and Nti, 1998) regarding the ownership split.

Third, an ability to rely on a trusted third party does not guarantee success in negotiations. Further, the fact that the principals to a negotiation develop interpersonal trust in each other does not mean that their agents will have the same success. In addition, even when the parties are able to develop some level of interpersonal trust in early stages of a negotiation, it is likely to produce only fragile trust (Ring, 1996). As we have seen in our case, that fragile trust can be damaged by relatively small matters, and destroyed by serious breaches of either *procedural* or *interactional* justice.

Fourth, although beyond the scope of this paper, our data appear to provide clear support for the important roles that the informal processes of sense making, understanding, and committing described by Ring and Van de Ven (1994) play in shaping perceptions of fairness. Thus, Blockner’s (2002) arguments on the role of sense making in understanding how perceptions of fairness emerge and change merit more attention in both intra- and inter-organizational settings.

Needless to say, generalizing from a single case –even if revelatory– is risky business. We believe that our research demonstrates that it is possible, and worthwhile, to get data on negotiations. Our data provide support for an argument that fairness can be a critical element to the success of negotiations, and that all three forms of justice can be found at play. We believe our data provide new insights into the debates on *distributive* and *interactional* justice and support those who argue that distinguishing between the two is useful. Our data also can be used to support an argument that fairness, relational quality and interpersonal trust all play roles in negotiation outcomes, independently and in combination. We hope that these initial efforts will encourage others to explore the conduct and processes of alliance negotiations in more detail, relying on both qualitative and quantitative techniques in the course of both inductive and deductive explorations of this important topic.

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Appendix

Indicators of Fairness Derived from Justice Theories

- **Distributive Justice**
 - Outcomes proportional to contributions (DJ1)

- **Procedural Justice**
 - Representativeness – are the interests of the parties being addressed? (PJ1)
 - Explanation
 - Timely feedback (PJ2)
 - Using information for feedback (PJ3)
 - Adequate justification for decisions (PJ4)
 - Effective two-way communication (open to challenging /refuting each other's views) (PJ5)
 - Accuracy of information (PJ6)
 - Full accounting (PJ7)
 - Consistency of Approach (PJ8)
 - Principals and agents are on the same page (not only well informed but speaking with one voice) (PJ9)

- **Interactional Justice**
 - Respect (IJ1)
 - Blaming (IJ2)
 - Ethicality (IJ3)
 - Effective two-way communication (IJ4)
 - Bias suppression (IJ5)