

## MAKING JUSTICE SENSE OF LOCAL-EXPATRIATE COMPENSATION DISPARITY: MITIGATION BY LOCAL REFERENTS, IDEOLOGICAL EXPLANATIONS, AND INTERPERSONAL SENSITIVITY IN CHINA-FOREIGN JOINT VENTURES

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**We examined how local employees of international joint ventures (IJVs) perceived disparity between their compensation and foreign expatriates' compensation from equity theory and social justice perspectives. Chinese locals perceived less fairness when comparing their compensation with expatriates' than when comparing it with other locals'. However, fairness vis-à-vis expatriates increased if the locals were compensated higher than their peers in other IJVs or endorsed ideological explanations for expatriates' advantage. Furthermore, expatriates' interpersonal sensitivity toward locals reduced the effect of disparity on perceived fairness. Finally, perceived compensation fairness was related positively to compensation satisfaction but negatively to intentions to quit.**

Distributive justice gains significance in today's globalized business world. As multinational companies operate across nations and continents at vastly different levels of economic development, disparity in employee compensation is unavoidable. This disparity is most salient in the remarkable gap between the compensation received by the local employees of international joint ventures (IJVs) in developing countries and foreign expatriates from developed countries.

To encourage employees from developed nations to work in nations where pay and living standards are significantly lower, United States-based multinational companies have offered generous compensation packages to expatriates (Reynolds, 1997). In addition to hardship allowances, a 15 percent overseas premium is common, plus other possible perquisites such as cars, club memberships, servants, and vacation homes (DeLisle & Chin, 1994). The average compensation packet of U.S. expatriates, according to Reynolds (1997), is two to five times as

much as that received by their home country counterparts and a great deal more than that received by the local nationals in the developing countries. Such disparity in multinational companies is similar to the two-tier wage systems of some companies in the United States, in which the pay scale is determined by tenure or date of hiring. Research has shown that low-tier workers are more likely to hold negative perceptions of pay equity than are high-tier workers, especially when workplace interactions between tiers are relatively frequent (Lee & Martin, 1991; Martin & Peterson, 1987; McFarlin & Frone, 1990).

In addition to the structural inequity between locals and expatriates within a company, structural inequity among employees of different companies results from the establishment of IJVs and the hiring of foreign expatriates. For instance, IJVs in developing countries on the average offer better employee compensation than do domestic companies in those countries. Furthermore, some IJVs offer better compensation than others as the foreign partners from different countries follow different reward and compensation systems.

These highly disparate reward systems within and between business operations in developing countries present interesting issues of distributive

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justice. For instance, how do local employees make “justice sense” of the structural inequity? Is there a sense of distributive injustice when locals compare their compensation with that of expatriates? With multiple diverse and salient referents, how does one set of comparisons affect the evaluation of other comparisons? Are there factors that mitigate or exacerbate potential negative reactions by locals toward the compensation disparity between them and expatriates? And finally, does the locals’ perception of distributive justice affect their attitudes toward their compensation and their organization?

Chinese-foreign IJVs are an appropriate setting in which to address the justice issues discussed above. Various characteristics of the setting suggest that several theories will offer relevant predictions. Expatriates in China earn 20 to 50 times what the local Chinese earn (Leung, Smith, Wang, & Sun, 1996) and, in some cases, the housing allowance of a foreign employee is more than the salary of a local employee of similar rank (DeLisle & Chin, 1994: 19). Chinese employees in IJVs have been found to use multiple social referents to evaluate the fairness of their compensation (Leung et al., 1996). Many IJVs in China justify the compensation advantages of expatriates ideologically (Chen, Meindl, & Hunt, 1997; Child, 1994). The local Chinese employees are sensitive to interpersonal treatment in social interactions, which affects their justice perceptions (Brockner, Chen, Mannix, Leung, & Skarlicki, 2000). Applying equity and social justice theories, in the current study we examined factors that affect Chinese IJV employees’ perceptions of distributive justice regarding local-expatriate compensation disparity and how such perceptions would affect compensation satisfaction and intentions to quit.

## THEORETICAL BACKGROUND AND HYPOTHESES

### Equity Theory and Social Comparisons

Equity theorists (e.g., Adams, 1965) posit that individuals evaluate organizational rewards such as pay and benefits by comparing the outcome/input ratios of themselves and social referents. Equal ratios lead to perceived fairness, but unequal ones may lead to perceived unfairness, as the comparer feels either under- or overcompensated. However, people generally have an egocentric bias, so the threshold for perceiving overcompensation as unfair is higher and perceptions of fairness are generally positively related to how favorable an outcome has been to the self. This effect is known as outcome favorability (Brockner & Wiesenfeld,

1996). Social comparison is essential for assessing distributive justice. Social comparison research has primarily focused on similar social referents (Kulik & Ambrose, 1992). Similarity typically refers to performing similar tasks at a similar level of the same organization (Goodman, 1974), but it can also refer to tenure, age, sex, race, and so forth (Major, 1994).

**Foreign expatriates as social referents.** Equity theory both provides a foundation and raises certain questions for studying distributive justice in international contexts. To start with, are expatriates so different in background from local nationals that they may not be meaningful social referents to the latter? To be sure, the expatriates are dissimilar in many ways. Nevertheless, although similar others are preferred for social comparisons, dissimilar others can be used, provided they are “minimally relevant” and information about their compensation is available or accessible (Kulik & Ambrose, 1992: 219).

A global work environment may also stimulate social comparisons with otherwise dissimilar coworkers when employees from diverse social backgrounds interact with each other to perform joint tasks. In China, foreign expatriates are potential social referents for the local IJV Chinese for a number of reasons. First, although the expatriates may be dissimilar in nationality, race, and ethnicity, they are similar in that they work for the same joint venture and are regarded as partners and colleagues. Second, only a few local Chinese generally work with foreign expatriates, but those who do tend to have frequent interactions with their foreign colleagues. Third, local-expatriate pay disparity is widely known because it has had publicity in the press. Previous reports have shown that locals are aware and often resentful of the compensation advantages of expatriates (e.g., DeLisle & Chin, 1994).

**Social referents and compensation fairness perceptions.** According to both social comparison and outcome favorability arguments, a perception of distributive justice largely depends on the social referent chosen, as this choice determines the relative favorability of outcomes. As referents change, the same outcome becomes more or less favorable, leading to a stronger or weaker sense of fairness. Accordingly, as long as there are outcome differences among different social referents and between them and the comparer, different levels of perceived distributive justice will be associated with different social referents. In this research, we focused on perceived distributive justice regarding compensation relative to specific social referents.

For a joint venture Chinese who works regularly with foreign expatriates, there are three other

groups of social referents in addition to the expatriates: other local Chinese working in the same IJV (internal IJV locals), local Chinese from other similar IJVs (external IJV locals), and local Chinese from domestic companies in the same industry. On the average, Chinese employees of an international joint venture working with expatriates receive a great deal less compensation than the expatriates but significantly more than the average Chinese locals in and out of the IJV company. Although the magnitude of compensation disparity between a focal IJV Chinese employee and external IJV locals should be smaller than that with expatriates or domestic locals, there still exists some disparity owing to the different compensation systems of IJVs. In other words, the focal Chinese generally have a compensation disadvantage as compared with the expatriates but a compensation advantage over other locals. On the basis of the social comparison and outcome favorability arguments that using different social referents should lead to different levels of distributive justice, we hypothesize:

*Hypothesis 1. Local Chinese employees of international joint ventures will perceive less compensation fairness vis-à-vis foreign expatriates than vis-à-vis other local Chinese.*

Although the argument of outcome favorability suggests a straightforward prediction that the greater the compensation disadvantage as compared with an expatriate, the lower the perceived fairness, our interest here was to explore whether the negative impact of such a disadvantage on perceived fairness could be mitigated by other factors. Specifically, we explored three types of mitigators: compensation advantage over other locals, ideological explanations, and interpersonal sensitivity.

### **Mitigating the Effect of Compensation Disadvantage vis-à-vis Expatriates**

**Compensation advantage over other locals.** Local Chinese employees' remarkable compensation disadvantage vis-à-vis expatriates has the potential to generate great tension for the Chinese. According to equity theory, one way to reduce the tension of inequity from undercompensation without changing outcomes or inputs is to shift comparison to social referents for whom outcomes are similar or less favorable. However, very little is known about whether and how information about one referent affects the perceived fairness of one's rewards relative to those of a different referent. We suggest that this information about other referents moderates the relationship between compensation disparity with a previous referent and the perceived fairness

of compensation. Specifically, we believe the relative advantage over other local Chinese will help focal Chinese employees feel less negative about their relative disadvantage as compared with foreigners. The tactic of referent shifting is well known in Chinese folk psychology. A favorite Chinese saying for consoling those who feel deprived in comparison with those who are above you, you'll feel abundant if you compare with those who are below you" (*bi shang bu zu, bi xia you yu*). Thus, we hypothesize:

*Hypothesis 2. A compensation advantage over other local Chinese will reduce the negative effect of compensation disadvantage vis-à-vis expatriates on the compensation fairness perceptions of local Chinese IJV employees.*

**Ideological explanations.** Although unfavorable outcomes generally produce lower perceived fairness, to the extent that people find explanations reasonable and convincing, hence justifiable, the negative perceptions are mitigated (Brockner & Wiesenfeld, 1996). Greenberg (1993a) called attention to the role of social justice in affecting employee reactions to unfavorable decisions. Social justice consists of interpersonal justice, which refers to the interpersonal caring and sensitivity shown to recipients of negative outcomes or decisions, and informational justice, which refers to providing adequate explanations for a given outcome or decision. Explanations go beyond merely providing objective information. Bies's (1987) analysis of social accounts (that is, verbal strategies) showed that, in an attempt to justify negative or controversial decisions, managers use ideological social accounts, specifically, explaining outcomes within a framework of "moral reasoning."

As the open-door policy and market-oriented economic reforms require major ideological justifications (Chen, 1995; Chen et al., 1997; Child, 1994), there have been conscientious efforts on the part of the reformists to legitimize the establishment of IJVs in China. For example, joint venturing and hiring foreign expatriates have been defended on the grounds that they are necessary for global market penetration, for technology transfer, and for learning advanced management techniques from the industrialized nations (Child, 1994). In addition, expatriates' compensation advantage can be defended in part by a common observation that foreign expatriates come from regions and countries in which the general living standards are higher and that they have to deal with many hardships, such as being far away from families and relatives.

The above explanations appeal to a collectivist and global way of thinking. That is, even if the contribution of particular individual expatriates may not match what they are compensated for, their collective participation in the Chinese economy is beneficial to China in a global business environment. Hence, to the extent that the local Chinese endorse the above explanations, the compensation disparity becomes more justifiable. Thus, we expected ideological explanations to moderate the relationship between compensation disadvantage as compared with expatriates and compensation fairness perceptions. Specifically, we hypothesized:

*Hypothesis 3. Ideological explanations will reduce the negative effect of compensation disadvantage vis-à-vis expatriates on the compensation fairness perceptions of local Chinese IJV employees.*

**Interpersonal sensitivity.** Interpersonal sensitivity refers to the care and sensitivity that managers show to employees in enacting organizational decisions (Bies & Moag, 1986). Research has demonstrated that when a decision maker is interpersonally sensitive, perceptions of decision fairness and acceptance increase (Greenberg, 1993a, 1993b, 1994). In this study, we were interested in whether the interpersonal sensitivity shown by expatriates affected local Chinese employees' perceptions of the fairness of their compensation in comparison with that of the expatriates. Our focus on interpersonal sensitivity differs from the typical focus in interactional justice research in two ways. First, the current study addresses the interpersonal sensitivity of expatriates who typically were not the makers of decisions about compensation allocations but instead, the beneficiaries of such decisions. Second, whereas justice researchers have usually examined interpersonal sensitivity within the context of particular decisions, we extended our examination to expatriates' daily interactions with local employees.

Research on social exchange relationships throws light on the mitigating effect of interpersonal sensitivity on the relationship between compensation disparity with expatriates and fairness perceptions. Interpersonal relationships in organizations are of two primary types: (1) social, and largely informal, relationships involving exchanging socioemotional resources and (2) economic, and largely formal, relationships restricted to the exchange of economic resources (Blau, 1964). Social exchange relationships are in general of higher quality in terms of trust than are economic exchange relationships. As a socioemotional re-

source, the interpersonal sensitivity shown by expatriates should facilitate the formulation of or indicate the existence of a social exchange relationship between themselves and the locals. One important implication of different exchange relationships is that they affect the salience and the interpretation of incoming information (Cropanzano, Rupp, Mohler, & Schminke, forthcoming; Schminke, Cropanzano, & Rupp, in press). Brockner and colleagues (2000) argued that the parties to relational or social exchanges tended to pay more attention to social and psychological aspects of the relationships, whereas the parties to transactional or economic exchanges tended to pay more attention to the economic aspects. These authors further demonstrated that members of collectivist cultures such as the Chinese were more likely to be affected by relational aspects than were members of individualist cultures.

In line with the above argumentation and findings, the interpersonal sensitivity of the expatriates should have a cumulative effect on the local Chinese. Those to whom expatriates have displayed higher interpersonal sensitivity should develop a more positive affect toward the expatriates. Accordingly, they will be less sensitive to the local-expatriate compensation disparity than those to whom expatriates have been less sensitive. In summary, niceness on the part of expatriates mutes Chinese concern about the compensation disparity, but meanness on their part exacerbates such concern. Hence:

*Hypothesis 4. Interpersonal sensitivity displayed by expatriates will reduce the negative effect of compensation disadvantage vis-à-vis expatriates on the compensation fairness perceptions of local Chinese IJV employees.*

### **Effects of Perceived Compensation Fairness on Attitudes**

To the extent that perceptions about how fair their compensation is as compared with that of expatriates are a real psychological experience of a joint venture's Chinese employees, these compensation fairness perceptions should affect employee attitudes such as compensation satisfaction and intentions to leave (turnover intentions). Previous organizational justice research has consistently shown that distributive justice perceptions significantly affect pay satisfaction (Folger & Konovsky, 1989; Sweeney & McFarlin, 1993) and turnover intentions (Alexander & Ruderman, 1987). Extending these results to our study, we hypothesized:

*Hypothesis 5. Compensation fairness as compared with expatriates will be positively related to satisfaction with compensation.*

*Hypothesis 6. Compensation fairness as compared with expatriates will be negatively related to turnover intentions.*

## METHODS

### Sample and Procedures

One hundred and sixty-one local Chinese employees of IJVs who had worked with foreign expatriates filled out our questionnaires. Sixty-two percent of them were men, and most (86%) were in their early 20s and 30s and college-educated (96%). Average tenure with the current employer was 4.5 years. Three percent were top managers; 18 percent, middle managers; 48 percent, professionals; and the rest were staff members. The respondents were from nine Sino-foreign joint venture companies in Jiangsu province (37%), Hunan province (16%), and Beijing (47%). The foreign parent companies were from Japan (29%), Europe (58%), and North America (13%), and most were in manufacturing or trading businesses.

Respondents were ensured that individual responses were anonymous and would not be available to their employing companies. All completed questionnaires were returned to us in sealed envelopes either directly or indirectly, through the human resource (HR) office of a participating IJV or the office of a municipal coordinator of joint venture companies. The response rate ranged from 60 to 80 percent.

### Measures

**Independent variables.** Compensation included salary, bonus, allowances, and various benefits, and all compensation comparisons were made between individuals with similar levels of education and similar job responsibilities. *Compensation disadvantage* vis-à-vis expatriates was measured by two items assessing by what multiple the expatriates compensation exceeded a respondent's (5–8, 9–12, 13–16, 17–20, 21–24, 25–28, 29 and above). *Compensation advantage* vis-à-vis other Chinese was also measured by two items, which asked the respondents to rate their compensation relative to each of the three groups of Chinese referents, with 1 being "very low" and 7 being "very high." We were unable to use a unified measure for compensation advantage and disadvantage because of the huge discrepancy in the magnitude of disparity. Compensation advantage over other locals could

range from zero to a small percentage of a focal respondent's pay, but disadvantage vis-à-vis expatriates ranged from 5 times to 30 or more times more than a respondent's pay.

Drawing on interviews conducted by the first author with ten Chinese employees and two HR managers working in IJVs in China, we identified *ideological explanations* for paying foreign expatriates high compensation and put them into five items with which respondents expressed their degree of agreement (1, "very much disagree"; 6, "very much agree"). *Interpersonal sensitivity* was assessed with five items developed by Niehoff and Moorman (1993) and using same response scale noted above. To increase the response ease and the accuracy of assessing interpersonal sensitivity, we asked respondents to think of one expatriate with whom they had the most frequent interaction or one with whom they had worked the longest time.

An exploratory factor analysis showed that all items loaded on the expected factors, except those measuring compensation advantage over other locals. Table 1 shows the results of this factor analysis. Advantage over the local Chinese employees of domestic companies was distinct from that over local Chinese employees of a respondent's own or another (an internal or external) IJV. In view of this empirical distinction and the conceptual internal-external distinction (Oldham, Kulik, Stepina, & Ambrose, 1986), we separated compensation advantage into three types in subsequent analyses. All of the factors showed reasonably high internal reliability coefficients (see Table 2, below, for reliabilities).

**Dependent variables.** *Perceived compensation fairness* was measured by one item asking respondents about the fairness of their compensation (1, "very unfair"; 6, "very fair") in reference to each of the four types of social referents. *Compensation satisfaction* (Sweeney & McFarlin, 1993) and *turnover intentions* (Wayne, Shore, & Liden, 1997) were both also measured on a six-point scale (1, "very much disagree"; 6, "very much agree"). The reliability coefficients were .92 and .83, respectively.

**Control variables.** We controlled for the individual demographic variables of sex, age, education, tenure, and job category, and the company variables of size, foreign parent, geographic region, and company-level compensation disparity with expatriates. Table 3, below, gives the coding schemes for these variables.

## RESULTS

Table 2 presents descriptive statistics for the major variables in this study. The average compensa-

**TABLE 1**  
**Results of Factor Analysis for Independent Variables<sup>a</sup>**

| Factors and Items                                  | 1          | 2          | 3          | 4          | 5          |
|--|------------|------------|------------|------------|------------|
| 1. Interpersonal sensitivity                       |            |            |            |            |            |
| Kind and considerate                               | <b>.88</b> | .08        | .14        | .11        | .11        |
| Respects locals                                    | <b>.92</b> | .08        | .04        | .03        | .14        |
| Sensitive to locals' needs                         | <b>.92</b> | .09        | .03        | -.01       | .11        |
| Treats locals trustfully                           | <b>.89</b> | .16        | .04        | .02        | .16        |
| Cares for employment rights                        | <b>.77</b> | .13        | .16        | .07        | -.07       |
| 2. Compensation advantage over locals in           |            |            |            |            |            |
| Other IJVs, with similar responsibilities          | .04        | <b>.79</b> | .18        | -.20       | .14        |
| Other IJVs, with similar educational levels        | .15        | <b>.83</b> | .14        | -.23       | .03        |
| Same IJV, with similar responsibilities            | .12        | <b>.79</b> | .00        | .10        | .16        |
| Same IJV, with similar educational levels          | .14        | <b>.70</b> | .01        | .07        | .17        |
| 3. Ideological explanations                        |            |            |            |            |            |
| Hiring highly paid expatriates is beneficial for   |            |            |            |            |            |
| Absorbing advanced managerial experiences          | .14        | .02        | <b>.74</b> | .04        | .09        |
| Absorbing advanced technology                      | .19        | .04        | <b>.77</b> | -.02       | .01        |
| Developing markets at home and abroad              | .23        | -.04       | <b>.72</b> | -.11       | .02        |
| Expatriates' high pay compensates for              |            |            |            |            |            |
| Different living standards                         | -.15       | .15        | <b>.63</b> | .07        | .17        |
| Living away from family and friends                | -.05       | .13        | <b>.61</b> | .18        | .05        |
| 4. Compensation disadvantage vis-à-vis expatriates |            |            |            |            |            |
| With similar responsibilities                      | .13        | -.08       | .07        | <b>.95</b> | -.03       |
| With similar educational levels                    | .04        | -.09       | .07        | <b>.95</b> | -.03       |
| 5. Compensation advantage over locals in           |            |            |            |            |            |
| Domestic firms, with similar responsibilities      | .19        | .25        | .13        | -.04       | <b>.87</b> |
| Domestic firms, with similar educational levels    | .15        | .23        | .18        | -.03       | <b>.90</b> |
| Eigenvalues  | 5.30       | 2.73       | 2.27       | 1.63       | 1.18       |

<sup>a</sup> Significant loadings are shown in boldface type.

tion disadvantage as compared with expatriates was 3.67, which means that by the locals' estimate, the expatriates on the average were compensated about 15 times more than the locals in this study. The estimated average company-level gap was 3.74 (s.d. = 1.19), which is similar to the average compensation gap at the individual level.

The means and standard deviations of perceived compensation fairness vis-à-vis the four referent groups were as follows: 2.31 (1.03) for expatriates; 3.43 (0.92) for internal IJV locals; 3.03 (0.98) for external IJV locals; and 3.72 (0.97) for domestic firm locals. In a series of paired *t*-tests, we found that perceived compensation fairness as compared with expatriates was significantly lower than that vis-à-vis each of the three Chinese referent groups; local Chinese employees of the same IJV a respondent worked for (internal IJV locals,  $t = -12.04$ ,  $p < .001$ ); local Chinese employees of another IJV (external IJV locals,  $t = -9.66$ ,  $p < .001$ ); and local Chinese employees of a domestic firm (domestic firm locals,  $t = -14.89$ ,  $p < .001$ ). This pattern of values supports Hypothesis 1, which predicts that perceived compensation fairness vis-à-vis expatri-

ates will be lower than that vis-à-vis other local Chinese.

Results of hierarchical regression analyses on perceived compensation fairness are in Table 3. The control variables together did not significantly explain the variance in perceived compensation fairness. As can be seen in model 2, compensation advantages over domestic company locals and internal IJV locals were not significant predictors of perceived compensation fairness as compared with the expatriates. Disadvantage relative to expatriates had a marginally negative effect, whereas advantage over external IJV locals had a highly positive effect. Both ideological explanations and interpersonal sensitivity had significant, positive effects. In model 3, all of the interaction terms are presented. Hypothesis 2 was not supported, since none of the interactions with advantage over locals was significant. Hypothesis 3 was not supported either, because the moderating effect of ideological explanations did not reach a significant level.

Interpersonal sensitivity showed a significant, moderating effect on the relationship between compensation disadvantage and perceived compensa-

**TABLE 2**  
**Correlation Matrix of Major Variables<sup>a</sup>**

| Variable  | Mean | s.d. | 1       | 2     | 3      | 4      | 5       | 6       | 7       | 8       | 9     |
|---|------|------|---------|-------|--------|--------|---------|---------|---------|---------|-------|
| 1. Perceived compensation fairness vis-à-vis expatriates          | 2.31 | 1.03 |         |       |        |        |         |         |         |         |       |
| 2. Compensation disadvantage vis-à-vis expatriates                | 3.67 | 2.00 | -.05    | (.95) |        |        |         |         |         |         |       |
| 3. Compensation advantage over locals employed by the same IJV    | 3.60 | 0.72 | .23**   | -.02  | (.77)  |        |         |         |         |         |       |
| 4. Compensation advantage over locals employed by another IJV     | 2.86 | 0.85 | .50***  | -.17* | .49*** | (.91)  |         |         |         |         |       |
| 5. Compensation advantage over locals employed by a domestic firm | 4.11 | 1.05 | .28***  | -.04  | .37*** | .32*** | (.89)   |         |         |         |       |
| 6. Ideological explanations                                       | 3.79 | 0.83 | .36***  | .09   | .15    | .24**  | .28***  | (.74)   |         |         |       |
| 7. Interpersonal sensitivity                                      | 3.64 | 1.01 | .42***  | .15   | .25**  | .22**  | .35***  | .21**   | (.94)   |         |       |
| 8. Compensation satisfaction                                      | 2.96 | 0.99 | .56***  | -.04  | .38*** | .55*** | .44***  | .34***  | .47***  | (.92)   |       |
| 9. Turnover intentions  | 3.21 | 1.02 | -.38*** | .00   | -.21** | -.21** | -.34*** | -.28*** | -.38*** | -.55*** | (.83) |

<sup>a</sup>  $n = 143$ . Reliability coefficients are in parentheses along the diagonal.

\*  $p < .05$

\*\*  $p < .01$

\*\*\*  $p < .001$

tion fairness as compared with the expatriates. We plotted the interaction by taking values one standard deviation above and below the mean of interpersonal sensitivity (Aiken & West, 1991). The form of the interaction showed that the negative effect of compensation disadvantage on perceived fairness was less pronounced for those locals who reported higher interpersonal sensitivity from the expatriates. (Interested readers can request the full interaction results from the first author.) This result supports Hypothesis 4, which predicts that interpersonal sensitivity will have such a mitigating effect.

Results of the hierarchical regression analyses on compensation satisfaction and turnover intentions showed some significant effects for the control variables. Older workers had higher compensation satisfaction ( $\beta = 0.18, p < .05$ ) and lower turnover intentions ( $\beta = -0.18, p < .05$ ) than did younger workers; employment at a Japanese firm had a negative effect on compensation satisfaction ( $\beta = -0.33, p < .001$ ); and respondents from Jiangsu and Hunan provinces had lower turnover intentions ( $\beta = -0.45, p < .01$ ;  $\beta = -0.33, p < .01$ ) than those from Beijing.

After we had controlled for individual and company background variables and other types of perceived compensation fairness, perceived compensation fairness vis-à-vis expatriates had a significant, positive effect on compensation satisfaction ( $\beta = 0.24, p < .001$ ) and a negative one on turnover intentions ( $\beta = -0.22, p < .01$ ). These findings support Hypotheses 5 and 6. It is worth noting that compensation fairness in relation to external IJV

locals also had significant effects on both compensation satisfaction ( $\beta = 0.29, p < .001$ ) and turnover intentions ( $\beta = -0.32, p < .01$ ). Perceived compensation fairness in relation to internal IJV locals and locals employed by domestic Chinese companies had a significant effect on compensation satisfaction ( $\beta = 0.26, p < .001$ ;  $\beta = 0.15, p < .05$ ) but not on turnover intentions.

## DISCUSSION AND CONCLUSION

We found that a local Chinese IJV employee's perceived compensation advantage over the local Chinese employees of other IJVs had a "main effect" on perceived compensation fairness vis-à-vis expatriates, although we hypothesized a moderating effect. The main effect indicates that, regardless of how large or small the disadvantage as compared with expatriates, greater advantage over external IJV locals led to higher fairness perceptions. In other words, the positive effect of perceiving a compensation advantage over external IJV locals seemed to have offset rather than merely moderated the negative effect of a compensation disadvantage in relation to expatriates.

We offer two possible explanations off this finding. First, compensation advantage over other Chinese locals employed by external IJVs confers higher status to a local Chinese employee, even though all locals are below the expatriates in status. To maintain their sense of elite status, those with greater compensation advantage over similar others were more likely to view use of differentials as a fair principle of compensation and thus to endorse

**TABLE 3**  
**Results of Regression Analyses for Perceived Compensation Fairness<sup>a</sup>**

| Predictors  | Model 1 | Model 2            | Model 3 |
|---|---------|--------------------|---------|
| Step 1: Control variables <sup>b</sup>                  |         |                    |         |
| Age   | 0.05    | 0.04               | 0.09    |
| Sex   | 0.06    | 0.04               | 0.03    |
| Education   | 0.00    | 0.03               | 0.06    |
| Tenure  | 0.01    | 0.03               | 0.03    |
| Professional job  | -0.09   | -0.04              | -0.02   |
| Middle management job                                   | -0.11   | -0.08              | -0.07   |
| Top management job                                      | -0.04   | -0.01              | -0.03   |
| Company size  | -0.12   | 0.00               | 0.09    |
| Japanese company  | -0.31** | 0.05               | 0.07    |
| Company disparity                                       | 0.22    | 0.32**             | 0.34*   |
| Jiangsu province  | -0.09   | -0.20              | -0.23   |
| Hunan province  | -0.18   | -0.15              | -0.11   |
| Step 2: Compensation disadvantage vis à vis expatriates |         |                    |         |
| Compensation advantage, internal IJV locals             |         | -0.16 <sup>†</sup> | -1.69** |
| Compensation advantage, external IJV locals             |         | -0.03              | -0.07   |
| Compensation advantage, domestic firm locals            |         | 0.48***            | 0.56*   |
| Ideological explanations                                |         | 0.00               | -0.05   |
| Interpersonal sensitivity                               |         | 0.16*              | 0.02    |
|   |         | 0.34***            | -0.09   |
| Step 4: Interactions                                    |         |                    |         |
| Compensation disadvantage × internal IJV locals         |         |                    | 0.25    |
| Compensation disadvantage × external IJV locals         |         |                    | -0.17   |
| Compensation disadvantage × domestic firm locals        |         |                    | 0.15    |
| Compensation disadvantage × ideological explanations    |         |                    | 0.50    |
| Compensation disadvantage × interpersonal sensitivity   |         |                    | 1.00**  |
| Change in <i>F</i>                                      | 1.30    | 14.28***           | 2.91**  |
| Change in adjusted <i>R</i> <sup>2</sup>                | .02     | .37                | .05     |
| <i>n</i>  | 143     | 143                | 143     |

<sup>a</sup> Regression coefficients are standardized.

<sup>b</sup> The coding scheme was as follows: age: 1 = 20s, 2 = 30s, 3 = 40s, and 4 = 50s and above; sex: 0 = woman, 1 = man; education: 1 = 9 years, 2 = 12 years, 3 = 14–15 years, 4 = 16 years, and 5 = 18 years or above; tenure: years with the current company; company size: 1 = fewer than 100 employees, 2 = 100 to 499, 3 = 500 to 1,000, and 4 = more than 1,000; job: the omitted category is staff members; Japanese company: Western parent companies are the omitted category; company disparity: the average score of all respondents from a company on the estimated average local-expatriate compensation gap within the company; and region: Beijing is the omitted region.

<sup>†</sup> *p* < .10

\* *p* < .05

\*\* *p* < .01

\*\*\* *p* < .001

both local-expatriate disparity and disparity among locals. Second, we speculate that the main effect of compensation advantage over external IJV employees was a result of the dominance of that group as the most influential referents for the people we studied. To explore this conjecture, we examined the relative impacts of all compensation comparisons (that is, advantage/disadvantage vis-à-vis every referent group) by running a series of regression analyses with perceived compensation fairness with a given referent group as the dependent variable and all compensation comparisons as the independent variables. We found that external IJV locals were the only group whose compensation information affected perceived compensation fairness vis-à-vis not only the designated group, but

also, all other referent groups. In other words, compensation advantage over the local employees of other IJVs had a positive effect on perceived fairness in relation to these external IJV locals and, in addition, the positive effect spilled over to positively influence perceived fairness in relation to each and every of the other three referent groups. Such a generalizing spillover effect is similar to past research findings regarding pay satisfaction. For example, Berkowitz and his colleagues (Berkowitz, Fraser, Treasure, & Cochran, 1987) found that employees' satisfaction with other aspects of their jobs, such as the jobs' intrinsic natures, generalized to pay satisfaction. We would like to add, though, that where there are multiple sources, spillover is more likely to originate from the most influential source, which in our



study of social referents happens to be the external IJV locals.

We also found that ideological explanations had a main effect on perceptions of the fairness of compensation as compared with that of expatriates, instead of the hypothesized moderating effect. This result suggests that ideological explanations for hiring highly compensated foreign expatriates might have significantly affected the perceptions of the local Chinese IJV employees about the contributions (inputs) made by foreign expatriates. The existing literature on justice has emphasized ideological explanations in light of their effects on procedural and interactional justice (e.g., Bies, 1987; Greenberg, 1990). The finding of this study shows that ideological explanations have a significant effect on distributive justice perceptions as well.

### Limitations

A number of limitations of the present study should be addressed in future research. First, compensation fairness as compared with expatriates was measured by one item, which may be susceptible to low reliability. Second, as we described in the methods section, compensation advantage was measured qualitatively, on a seven-point low-to-high Likert scale, whereas disadvantage was measured quantitatively, with seven categories of multiples. The qualitative scale allowed us to measure perceived advantage across different Chinese referent groups without having to develop different quantitative units for each group. Its drawback is a loss of precision. Furthermore, the qualitative anchors were inconsistent with the quantitative categories of disadvantage vis-à-vis the expatriates, making comparisons between the two less straightforward, especially if one is interested in the impact of compensation advantages and disadvantages in financial units.

A third limitation lies in the cross-sectional design and in measuring both independent and dependent variables by self-reports, raising the possibility of common method bias producing the results. Although this possibility cannot be entirely ruled out, we believe that it is unlikely. Common methods would have triggered significant correlations among the major variables. Yet, the major independent variable, compensation disadvantage in relation to expatriates, had insignificant correlations with most of other variables. The significant interactive effect it has with interpersonal sensitivity further increases our confidence in the validity of the findings.

### Theoretical and Research Implications

Our study is among the first to examine the role of social comparisons in an international context. Identifying relevant social referents in such a context is by no means straightforward because relevance seems to cut across objective criteria of similarity/dissimilarity in terms of organizational boundary and national citizenship. For example, judging from the impact of social referents on the dependent variables, it is the external, not the internal, IJV locals who were the most influential social referent group, and the perceived fairness of compensation as compared with expatriates' and external IJV locals' compensation had greater impacts on turnover intentions than did the comparison with the internal IJV locals and domestic company locals. It appears that managers and professionals who are exposed to cross-national interactions are emerging as a special group that is externally and globally oriented in their choice of social referents. This idea is consistent with Goodman's (1974) finding that the level of professionalism increases the likelihood of selecting referents outside the focal organization.

Second, how do employees perceive compensation fairness when compensation advantage, neutrality, and disadvantage vis à vis different social referents are present? Instead of the interaction that we hypothesized, we found a generalized spillover effect for the most influential referent, namely, the external IJV locals. We also speculated about a possible consequent rigid endorsement of the differentiation principle of compensation. Future studies could explicitly test for the effects of the relevance of various referent groups and the endorsement of various allocation principles.

The dominance of the external IJV locals does not negate the relevance of expatriates as social referents, as can be seen in the marginal main effect and significant interactive effect with interpersonal sensitivity. Had we found a more rigorous main effect for perceived compensation disadvantage in comparison with the expatriates, an additional significant, positive effect of advantage over locals would suggest an additive model—that is, that people sum up both advantage and disadvantage information to arrive at a fairness judgment. To fully explore interactive or additive effects of equally salient referents, researchers may want to study overall distributive justice perceptions instead of the referent-specific ones that we used in this study. The overall perceptions contain room in the dependent variable to allow different combinations of advantages and disadvantages associated with different social referents.

The third research implication lies in ideological explanations as applied to the international context. This study enriches notions of informational justice and social accounts. Whereas Greenberg's explanations (1993b, 1994) are more informational, we emphasize the ideological nature of explanations. In addition, we further expand individualized social accounts to collective explanations at the societal level; such explanations are particularly important for transformational changes in societies and organizations, changes that often call for different frameworks of entitlement and fairness (Sampson, 1989). Finally, although interpersonal sensitivity has previously been known primarily for its role in perceptions of interactional justice, our study shows an accumulative effect of general interpersonal sensitivity on social relationships in IJVs, affecting compensation fairness perceptions involving comparisons with dissimilar social referents.

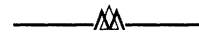
### Practical Implications

This research has important practical implications for IJVs. First, it brought social comparisons between expatriates and host nationals to the attention of international HR managers. Although it would be unrealistic or even unfair to eliminate local-expatriate disparity, the magnitude of such disparity could be reduced to some extent. For example, alternative nonfinancial incentives, such as a fast track to senior management, could be as effective in promoting global mobility (Reynolds, 1997). Furthermore, companies could improve locals' perceptions of distributive justice by developing reasonable explanations and justifications for structural inequity. Finally, a positive message to expatriate managers and professionals is that although compensation issues are largely out of their control, being caring and sensitive to locals goes a long way in cross-national interactions, not only toward obtaining cooperation from culturally different others, but also for remedying some of the hard feelings that result from the inherent and conspicuous disparities between expatriate and local employees of international joint ventures.

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